**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

## DIRECTORS' REPORT

The directors of **AKTIF LIFESTYLE CORPORATION BERHAD** hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 28 February 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company.

The principal activities of the subsidiary companies are as disclosed in Note 12 to the Financial Statements.

Consequential to the disposal and cessation of its core business activities in 2005, the Group became inactive and is currently involved in a proposed restructuring scheme as disclosed in Note 24 to the Financial Statements.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year.

## SIGNIFICANT EVENTS

(a) On 29 April 2005, the Company entered into a Memorandum of Understanding ("MOU") with Lee Sey Liang and Lim Siew Swan (collectively referred to as the "White Knights"), wherein the Company and the White Knights are desirous to propose a corporate restructuring scheme ("Proposed Restructuring Scheme I"). The MOU expired on 31 May 2005.

(b) On 31 May 2005, the Company entered into a conditional restructuring agreement ("Restructuring Agreement") with Integrated M&G Industries Berhad ("Newco"), (a company incorporated to facilitate the implementation of the Proposed Restructuring Scheme I) and Dato' Mohamed Bin Jamrah, Teh Li Li, Amarjit Singh A/L Kartar Singh, Balveer Kaur A/P Tahil Singh and Kiranjit Singh A/L Amarjit Singh (collectively, the "Vendors") to implement a restructuring scheme which seeks to regularise the financial condition of the Company and its subsidiaries ("ALCB Group") via inter-alia, injection of viable new businesses in order that the Company's operations are restored to a level that warrants its continued listing on Bursa Malaysia Securities Berhad ("Bursa Securities"). ("Proposed Restructuring Scheme II").

Newco has on 1 June 2005 also entered into two (2) conditional share sale agreements ("Share Sale Agreements") for the proposed acquisitions of 100% equity interest in Mahawira Sdn Bhd ("Proposed Mahawira Acquisition") and 54% equity interest in Citatah AMS Marble Sdn Bhd ("Proposed Citatah Acquisition") (collectively, the "Acquiree Companies") from the respective vendors.

The Acquiree Companies will be involved in the business of quarrying, manufacturing, trading of granite products as well as the supply and installation of marble and granite related products. This business is generally related to the property development and construction activities and specifically the high-end property sector. The Proposed Mahawira Acquisition and Proposed Citatah Acquisition are inter-conditional upon each other and collectively referred to as the "Proposed Acquisitions".

The Proposed Restructuring Scheme II comprises various sub-proposals which will involve, inter-alia, the following proposals:

(i) The proposed reduction of the issued and paid-up share capital of the Company of RM20.479 million comprising 20.479 million ordinary shares of RM1.00 each in the Company ("ALCB Shares") to RM8.1916 million comprising 20.479 million ordinary shares of RM0.40 each in the Company ("Reduced Shares") representing a capital reduction of 60 sen for every existing ALCB Share ("Proposed Capital Reduction").

(ii) The proposed consolidation of the Reduced Shares into 8.1916 million ALCB Shares ("Proposed Capital Consolidation").

(iii) The proposed exchange of 8.1916 million ALCB Shares with 8.1916 million Newco Shares on the basis of one (1) Newco Share with one (1) ALCB Share held after the Proposed Capital Reduction and Proposed Capital Consolidation ("Proposed Share Exchange").

(iv) This is followed by a restricted offer for sale by the vendor to the minority shareholder of ALCB for 1 Newco Share for every 1 ALCB share after the capital reduction.

(v) The proposed transfer of the listing status of the Company on the Official List of Bursa Securities to Newco ("Proposed Transfer of Listing Status").

(vi) Proposal for the ALCB Group to be disposed of to a third party to be identified or to be transferred to a special purpose company ("Proposed Disposal of ALCB").

(vii) The Proposed Restructuring Scheme II shall be conditional upon approvals from the following authorities:

(a) the Securities Commission (“SC”);

(b) the Foreign Investment Committee;

(c) Bursa Securities;

(d) the Ministry of International Trade and Industry (“MITI”);

(e) ALCB Shareholders at a general meeting for the Proposed Restructuring Scheme II;

(f) the High Court of Malaya for the sanction and confirmation of Proposed Restructuring Scheme II; and

(g) other relevant authorities.

The Company had announced the full details of the Proposed Restructuring Scheme II via its announcement on Bursa Securities dated 1 June 2005.

Subsequently, Bursa Securities approved the Company’s application for an extension of time to 16 August 2005 to submit its Restructuring Proposals to the relevant authorities for approval.

The Company obtained approval from the MITI on 30 September 2005 subject to the approval from SC and compliance with the Foreign Investment Committee Guideline on the Acquisition of Interest, Mergers and Takeovers by the Local and Foreign Interest. Further to the said approval, Mahawira Sdn. Bhd. is also required to comply with the equity condition stipulated in its manufacturing licence within three (3) years from the date of MITI’s approval letter.

The Company subsequently applied to Bursa Securities for a further extension of time after the expiry of the four (4) months from the date of submission of the Proposed Restructuring Scheme. Bursa Securities in its reply will await the outcome of the Company’s application to the relevant authority. Nevertherless, Bursa Securities decision is without prejudice to its right to proceed with de-listing of the securities of the Company from the official list of Bursa Securities in the event the Company fails to obtain any of the authorities’ approval necessary for the implementation of its regularisation plan.

SC rejected the Company’s Restructuring Scheme on 28 December 2005. The Company made an application for a review by SC of its decision under Paragraph 17.04 of the SC Policies and Guidelines on the Issue /Offer of securities on 27 January 2006.

**SUBSEQUENT EVENTS**

On 16 May 2006, the Company, Mahawira Sdn Bhd and Citatah AMS Marble Sdn Bhd have mutually decided not to proceed with the Proposed Restructuring Scheme II and, as such, have withdrawn the appeal to SC which was submitted on 27 January 2006.

On 8 June 2006, the Company was served a show cause notice by Bursa Securities, where the Company has been accorded 5 market days from 8 June 2006 to make a written representation to Bursa Securities as to why its securities should not be removed from the Official List of Bursa Securities.

Accordingly, the Company has entered into a restructuring agreement with Strandcom MSC Berhad (“Strandcom”) on 15 June 2006 for a new proposal which seeks to regularise the financial condition of the Company and its subsidiaries via, inter-alia:

(i) the proposed scheme of arrangement with the Company’s shareholders;

(ii) the proposed acquisition of the Strandcom group of companies in order that the Company’s operations are restored to a level that warrants its continued listing on Bursa Securities; and

(iii) the proposed transfer of listing status of the Company to a company to be identified as the listing vehicle.

(collectively referred to as the “Proposals”)

As set out in the Restructuring Agreement, the Proposals shall be conditional upon, inter-alia, the following:

(a) (i) the approval of Bursa Securities for, inter-alia, the following:

- an extension of time to allow the Company to make the necessary applications to the relevant authorities;

- the transfer of the Company’s listing status; and

- the admission of the company to be identified as the listing vehicle to the Official List of Bursa Securities and the listing of and quotation for its shares.

(ii) the approval of the SC;

(iii) the approval of the Foreign Investment Committee;

(iv) the approval of the MITI; and

(v) if required, the approval of any other relevant authorities in Malaysia or elsewhere.

(b) the approval of the shareholders of the Company of a general meeting;

(c) the sanction and confirmation by the High Court of Malaya of the Proposals as approved by the shareholders of the Company at a court convened meeting;

(d) the Company being reasonably satisfied with the results of the due diligence on the Strandcom Group;

(e) the promoters or vendors of Strandcom being satisfied with the results of the due diligence to be undertaken on the Company; and

(f) the agreement between the parties on the purchase consideration for Strandcom in relation to the proposed acquisition of the Strandcom Group pursuant to the Proposals ("Strandcom Purchase Consideration"), which shall be determined later on a willing-buyer willing-seller basis.

Pursuant to the above, the Company is seeking the following approvals from Bursa Securities:

(1) not to commence any de-listing procedures on the Company's securities from the Official List of Bursa Securities;

(2) to allow the Company until 30 June 2006 to make the full requisite announcement on the Proposals; and

(3) the extension of time of three (3) months from 30 June 2006 to 30 September 2006 for the Company to make the necessary applications to the relevant authorities.

## RESULTS OF OPERATIONS

The results of operations of the Group and of the Company for the financial year are as follows:

| | **The Group RM'000** | **The Company RM'000** |
|---|---|---|
| **Loss before tax** | (142) | (142) |
| **Income tax expense** | (3) | (3) |
| **Net loss for the year** | (145) | (145) |

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

**DIVIDENDS**

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors also do not recommend any dividend payment in respect of the current financial year.

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the Financial Statements.

**ISSUE OF SHARES AND DEBENTURES**

The Company has not issued any new shares or debentures during the financial year.

**SHARE OPTIONS**

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As at the end of the financial year, there were no unissued shares of the Company under options.

**OTHER FINANCIAL INFORMATION**

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that no known debts need to be written off and that no allowance for doubtful debts is required; and

(b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:

(a) which would require the writing off of bad debts or the setting up of allowance for doubtful debts in the financial statements of the Group and of the Company; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

(d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Company for the financial year in which this report is made.

**DIRECTORS**

The following directors served on the Board of the Company since the date of the last report:

Chan Teik Huat
Dato' Haji Man bin Haji Mat
Sharifah Noor binti Syed Abdul Rahman Al-Attas
Lim Siew Kim (appointed on 13.12.2005)
Faris bin Abdullah @ Patrick Chen Yee Ching (resigned on 13.12.2005)

In accordance with Article 82 of the Company's Articles of Association, Mr. Chan Teik Huat retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Madam Lim Siew Kim, who was appointed to the Board since the last Annual General Meeting, retires under Article 74 of the Company's Articles of Association and, being eligible, offers herself for re-election.

## DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

| | Number of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | **Balance as of 1.3.2005/ date of appointment** | **Bought** | **Sold** | **Balance as of 28.2.2006** |
| **Shares in the Company** | | | | |
| **Direct Interest** | | | | |
| Chan Teik Huat | 4,000 | - | (4,000) | - |
| Dato' Haji Man bin Haji Mat | 7,000 | - | - | 7,000 |
| Lim Siew Kim | 1,522,784 | - | - | 1,522,784 |
| **Indirect Interest** | | | | |
| Chan Teik Huat | 6,245,464 | - | - | 6,245,464 |
| Lim Siew Kim | 6,245,464 | - | - | 6,245,464 |

By virtue of their interests in the shares of the Company, all the above directors are deemed to have interest in the shares of all the subsidiary companies of the Company to the extent the directors have their interests.

The other directors in office at the end of the financial year did not hold shares or have beneficial interest in the shares of the Company during and at the end of the financial year.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by directors as disclosed in the Financial Statements or the fixed salary of a full-time employees of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**AUDITORS**

The auditors, Messrs. Deloitte KassimChan, have indicated their willingness to continue in office.

Signed on behalf of the Board
in accordance with a resolution of the Directors,

**CHAN TEIK HUAT**

**SHARIFAH NOOR BINTI SYED ABDUL RAHMAN AL-ATTAS**

Kuala Lumpur,
28 June 2006

**REPORT OF THE AUDITORS TO THE MEMBERS OF**
**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)

We have audited the accompanying balance sheets as of 28 February 2006 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:

  (i) the state of affairs of the Group and of the Company as of 28 February 2006 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and

  (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies have been properly kept in accordance with the provisions of the Act.

(Forward)

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and we have received satisfactory information and explanations as required by us for these purposes.

Our auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under sub-section (3) of Section 174 of the Act.

Without qualifying our opinion, we draw attention to Note 2 to the Financial Statements. The financial statements of the Group and of the Company have been prepared on the basis of accounting principles applicable to a going-concern despite the cessation of all business operations of the Group during the previous financial year as disclosed in Note 1 to the Financial Statements.

However, the validity of the going-concern basis used in the preparation of the financial statements of the Group and of the Company is dependent on the successful conclusion and implementation of the proposed restructuring scheme as disclosed in Note 24 to the Financial Statements and commencement of new business activities in the foreseeable future. Should these assumptions be negated, the basis of preparation of the financial statements on the going-concern basis may no longer be appropriate.

The financial statements of the Group and of the Company do not include any adjustments relating to the recoverability and the reclassification of recorded assets and liabilities that may be necessary if the Group and the Company are unable to continue as going-concerns.

The financial statements of the Group and the Company for the preceding financial year were audited by another firm of auditors and, after reclassification of certain comparative figures to conform with their current year's presentation, are presented here merely for comparative purposes.

**DELOITTE KASSIMCHAN**
**AF 0080**
**Chartered Accountants**

**LAI CAN YIEW**
**2179/09/07 (J)**
**Partner**

28 June 2006

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

## INCOME STATEMENTS
## FOR THE YEAR ENDED 28 FEBRUARY 2006

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note(s) | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Revenue | 4 & 6 | 104 | 36,639 | 104 | 79 |
| Cost of sales | 6 | - | (30,374) | - | - |
| Gross profit | | 104 | 6,265 | 104 | 79 |
| Other operating income | | 21 | 73,263 | 9 | - |
| Administrative expenses | | (267) | (16,322) | (255) | (209) |
| Distribution costs | | - | (1,586) | - | - |
| Other operating expenses | | - | (6,366) | - | (6,052) |
| Profit/(Loss) from operations | 7 | (142) | 55,254 | (142) | (6,182) |
| Finance costs | 8 | - | (620) | - | - |
| **Profit/(Loss) before tax** | | (142) | 54,634 | (142) | (6,182) |
| Income tax (expense)/credit | 9 | (3) | 57 | (3) | 57 |
| **Profit/(Loss) after tax** | | (145) | 54,691 | (145) | (6,125) |
| Minority interests | | - | - | - | - |
| **Net profit/(loss) for the year** | | (145) | 54,691 | (145) | (6,125) |
| **Earnings/(Loss) per ordinary share (sen)** | 10 | (0.71) | 267.06 | | |

The accompanying Notes form an integral part of the Financial Statements.

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

**BALANCE SHEETS**
**AS OF 28 FEBRUARY 2006**

| | Note | The Group 2006 RM'000 | The Group 2005 RM'000 | The Company 2006 RM'000 | The Company 2005 RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | 11 | 202 | 210 | 181 | 185 |
| Investments in subsidiary companies | 12 | - | - | - | - |
| Investments in associated companies | 13 | - | - | - | - |
| Other investments | 14 | 1,602 | 1,593 | 1,602 | 1,593 |
| **Current Assets** | | | | | |
| Other receivables and prepaid expenses | 15 | 19 | 3 | 19 | 2 |
| Amount owing by subsidiary companies | 16 | - | - | 1 | - |
| Amount owing by affiliated companies | 17 | 13 | 19 | - | - |
| Amount owing by associated companies | 18 | 1 | - | 1 | - |
| Fixed deposits with a licensed bank | | 316 | 411 | 316 | 411 |
| Cash and bank balances | | 90 | 143 | 29 | 1 |
| | | 439 | 576 | 366 | 414 |

(Forward)

| | Note | The Group 2006 RM'000 | The Group 2005 RM'000 | The Company 2006 RM'000 | The Company 2005 RM'000 |
|---|---|---|---|---|---|
| **Current Liabilities** | | | | | |
| Other payables and accrued expenses | 19 | 80 | 69 | 55 | 43 |
| Amount owing to affiliated companies | 17 | 26 | 26 | - | - |
| Amount owing to subsidiary company | 16 | - | - | 742 | 650 |
| Tax liabilities | | - | 2 | - | 2 |
| | | 106 | 97 | 797 | 695 |
| **Net Current Assets/(Liabilities)** | | 333 | 479 | (431) | (281) |
| **Net Assets** | | 2,137 | 2,282 | 1,352 | 1,497 |
| **Represented By:** | | | | | |
| Share capital | 20 | 20,479 | 20,479 | 20,479 | 20,479 |
| Reserves | 21 | (18,342) | (18,197) | (19,127) | (18,982) |
| **Shareholders' Equity** | | 2,137 | 2,282 | 1,352 | 1,497 |
| **Net tangible assets per share (sen)** | | 10.44 | 11.14 | | |

The accompanying Notes form an integral part of the Financial Statements.

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 28 FEBRUARY 2006**

| | | ← Non-distributable reserves → | | | | |
|---|---|---|---|---|---|---|
| **The Group** | **Issued capital RM'000** | **Share premium RM'000** | **Merger reserve RM'000** | **Reserve on consolidation RM'000** | **Accumulated loss RM'000** | **Total RM'000** |
| **Balance as of 1 March 2004** | 20,479 | 4,371 | 10,833 | 58 | (88,150) | (52,409) |
| Net profit for the year | - | - | - | - | 54,691 | 54,691 |
| Disposal of subsidiary companies | - | - | (10,833) | (56) | 10,889 | - |
| **Balance as of 28 February 2005** | 20,479 | 4,371 | - | 2 | (22,570) | 2,282 |
| Net loss for the year | - | - | - | - | (145) | (145) |
| **Balance as of 28 February 2006** | 20,479 | 4,371 | - | 2 | (22,715) | 2,137 |

(Forward)

| **The Company** | **Issued capital RM'000** | **Non-distributable reserve - Share premium RM'000** | **Accumulated loss RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Balance as of 1 March 2004** | 20,479 | 4,371 | (17,228) | 7,622 |
| Net loss for the year | - | - | (6,125) | (6,125) |
| **Balance as of 28 February 2005** | 20,479 | 4,371 | (23,353) | 1,497 |
| Net loss for the year | - | - | (145) | (145) |
| **Balance as of 28 February 2006** | 20,479 | 4,371 | (23,498) | 1,352 |

The accompanying Notes form an integral part of the Financial Statements.

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

**CASH FLOW STATEMENTS**
**FOR THE YEAR ENDED 28 FEBRUARY 2006**

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit/(Loss) before tax | (142) | 54,634 | (142) | (6,182) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 8 | 1,404 | 4 | 4 |
| Allowance for diminution in value no longer required | (9) | - | (9) | - |
| Waiver of amount owing by disposed subsidiary companies | - | 5,798 | - | 5,798 |
| Property, plant and equipment written off | - | 2,355 | - | - |
| Finance costs | - | 620 | - | - |
| Allowance for diminution in value of quoted shares | - | 201 | - | 201 |
| Inventories written off | - | 192 | - | - |
| Gain on disposal of subsidiary companies ** | - | (61,655) | - | - |
| (Gain)/Loss on disposal of property, plant and equipment | - | (295) | - | 6 |
| Writeback of accruals and provisions no longer required | - | (168) | - | - |

(Forward)

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Dividend income | (93) | (62) | (93) | (62) |
| Interest income | (11) | (17) | (11) | (17) |
| Operating Profit/(Loss) Before Working Capital Changes | (247) | 3,007 | (251) | (252) |
| (Increase)/Decrease in: | | | | |
| Inventories | - | (13,762) | - | - |
| Other receivables and prepaid expenses | 1 | (11,201) | - | 39 |
| Amount owing by subsidiary companies | - | - | (1) | - |
| Amount owing by affiliated companies | 6 | (19) | - | - |
| Amount owing by associated companies | (1) | - | (1) | - |
| Increase/(Decrease) in: | | | | |
| Other payables and accrued expenses | 11 | 22,381 | 12 | 385 |
| Amount owing to subsidiary companies | - | - | 92 | - |
| Cash Generated From/ (Used In) Operating Activities | (230) | 406 | (149) | 172 |
| Interest paid | - | (620) | - | - |
| Income tax paid | (22) | (22) | (22) | (13) |
| Net Cash From/(Used In) Operating Activities | (252) | (236) | (171) | 159 |

(Forward)

| | Note | The Group 2006 RM'000 | The Group 2005 RM'000 | The Company 2006 RM'000 | The Company 2005 RM'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Dividend received | | 93 | 62 | 93 | 62 |
| Interest received | | 11 | 17 | 11 | 17 |
| Proceeds from disposal of property, plant and equipment | | - | 390 | - | 53 |
| Disposal of subsidiary companies ** | | - | (1,335) | - | - |
| Purchase of property, plant and equipment | | - | (3,342) | - | (3) |
| Net Cash From/ (Used In) Investing Activities | | 104 | (4,208) | 104 | 129 |
| **NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS** | | (148) | (4,444) | (67) | 288 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 554 | 4,998 | 412 | 124 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 22 | 406 | 554 | 345 | 412 |

The accompanying Notes form an integral part of the Financial Statements.

** **Analysis of Disposal of Subsidiary Companies in 2005**

During the previous financial year, the Group disposed Aktif Lifestyle Stores Sdn. Bhd. and its subsidiary companies. The fair value of the assets disposed and the liabilities discharged are as follows:

| | **RM'000** |
|---|---|
| Property, plant and equipment | 8,359 |
| Inventories | 14,035 |
| Receivables | 18,023 |
| Cash and cash equivalents | 1,335 |
| Payables | (78,947) |
| Tax liabilities | (928) |
| Proposed dividend | (3,368) |
| Borrowings | (20,164) |
| Net liabilities disposed | (61,655) |
| Purchase consideration satisfied by cash | * |
| Gain on disposal to the Group | (61,655) |
| Net cash outflow arising on disposal: | |
| Cash consideration | * |
| Cash and cash equivalents of subsidiary companies disposed | (1,335) |
| Net cash outflow of the Group | (1,335) |

* Denotes RM1

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
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## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The principal activity of the Company is that of an investment holding company.

The principal activities of the subsidiary companies are as disclosed in Note 12.

Consequential to the disposal and cessation of its core business activities in 2005, the Group became inactive and is currently involved in a proposed restructuring scheme as disclosed in Note 24.

The total number of employees of the Group and of the Company at the end of financial year amounted to Nil (1 in 2005) and Nil (1 in 2005), respectively.

The registered office and place of business of the Company is located at Level 9, Wisma Equity, No. 150, Jalan Ampang, 50450 Kuala Lumpur.

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been approved by the Board of Directors for issuance on 28 June 2006.

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia.

As disclosed in Note 1, the Group ceased its business operations in 2005. However, as disclosed in Note 24, the Company entered into a Proposed Restructuring Scheme with Strandcom which contemplates inter-alia, a proposed scheme of arrangement with the Company's shareholders, the proposed acquisition of the Strandcom group of companies and the transfer of the Company's listing status. The ability of the Company to continue as a going-concern is dependent upon the successful completion of the said Proposed Restructuring Scheme and the plans of the eventual owner of the Company.

The factors referred to above raise substantial doubt and uncertainty on the ability of the Group and of the Company to continue as going-concerns. Notwithstanding, the directors have considered the application of the going-concern concept in the preparation of the financial statements to be appropriate in the circumstances, given the anticipation that upon completion of the Proposed Restructuring Scheme, the Company and its subsidiary companies will be able to meet their remaining obligations as and when they fall due.

The financial statements of the Group and of the Company do not include any adjustments relating to the recoverability and the reclassification of recorded assets and liabilities that may be necessary if the Group and the Company are unable to continue as going-concerns.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The financial statements have been prepared under the historical cost convention.

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and of all its subsidiary companies listed under Note 12 made up to the end of the financial year.

All significant intercompany balances and transactions are eliminated on consolidation.

Reserve arising on consolidation represents the excess of the Group's interest in the fair values attributable to the identifiable net assets of the subsidiary companies at the effective date of acquisition over the purchase consideration.

The results of subsidiary companies acquired or disposed of during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal, as applicable.

### Revenue

Revenue of the Company and of the Group represents dividend income and interest income.

Revenue of the Group and of the Company are recognised as follows:

| | | |
|---|---|---|
| Dividend income | - | when the shareholders' right to receive payment is established |
| Interest income | - | on an accrual basis |

All significant intercompany revenue are eliminated on consolidation. Group revenue do not include the applicable share of associated companies' revenue.

**Income Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the “liability” method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit.

The carrying amount of deferred tax assets, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

**Impairment of Assets**

The carrying amounts of property, plant and equipment, investment in subsidiary companies and investment in associated companies are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such an indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statements.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. All reversals are recognised in the income statements.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Depreciation of property, plant and equipment is computed on the straight-line method to write-off the cost of the various assets over their estimated useful lives at the following annual rates:

| | |
|---|---|
| Leasehold improvements | 8% - 15% |
| Plant and machinery | 10% |
| Furniture and equipment | 12% |
| Fixtures and fittings | 12% |
| Motor vehicles | 20% |
| Buildings | 2% |

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statement.

**Investment in Subsidiary Companies**

Investment in subsidiary companies, which are eliminated on consolidation, are stated at cost less pre-acquisition dividends received and any impairment losses. Subsidiary companies are those companies in which the Group owns, directly or indirectly, more than 50% of the equity share capital and has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

**Investment in Associated Companies**

An associated company is a non-subsidiary company in which the Group holds as long-term investment not less than 20% of the equity voting rights and in which the Group is in a position to exercise significant influence in its management.

Investment in associated companies in the consolidated financial statements is accounted for by the equity method of accounting based on the latest audited or management financial statements made up to the end of the financial year. Under this method of accounting, the Group’s equity in the earnings or losses of associated companies are included currently in the consolidated results while dividends received from associated companies are reflected as a reduction of the investment in the consolidated balance sheet. The carrying values of these investments approximate the underlying equities in the net assets of the associated companies.

**Other Investments**

Other investments, which consist of investment in quoted shares and unquoted shares, are stated at cost.

Allowance for diminution in value is made when, in the opinion of the directors, there is a decline, other than temporary, in the value of these investments.

**Inventories**

Inventories, which consist of trading merchandise, are stated at the lower of cost and net realisable value.

Cost comprises the weighted average cost of merchandise arrived at using the Retail Inventory method. Weighted average cost includes related charges incurred in purchasing such merchandise.

Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

**Receivables**

Other receivables are stated at book value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

**Employee Benefits**

(a) Short-term employee benefits

Wages, salaries, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and of the Company.

(b) Defined contribution plan

The Company makes contribution to the Employees' Provident Fund ("EPF"). The contributions to the EPF are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligation.

### Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

### Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

## 4. REVENUE

An analysis of revenues is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Operation of supermarkets and departmental stores and bakeries | - | 36,560 | - | - |
| Dividend income | 93 | 62 | 93 | 62 |
| Interest income | 11 | 17 | 11 | 17 |
| | 104 | 36,639 | 104 | 79 |

## 5. SEGMENT REPORTING

### Business segments

For management purposes, the Group is organised into the following operating divisions:

| | | |
|---|---|---|
| Retailing | - | Operation of supermarkets and departmental stores and bakeries and speciality retail stores |
| Investment holding | - | investment holding |

| **The Group 2006** | **Retailing RM'000** | **Investment holding RM'000** | **Eliminations RM'000** | **Consolidated RM'000** |
|---|---|---|---|---|
| **Revenue** | | | | |
| External sales | - | 104 | - | 104 |
| **Results** | | | | |
| Segment results | 3 | (145) | - | (142) |
| Loss from operations | | | | (142) |
| Income tax expense | | | | (3) |
| Loss after tax | | | | (145) |
| Minority interests | | | | - |
| Net loss for the year | | | | (145) |

(Forward)

| The Group<br>2006 | Retailing<br>RM'000 | Investment holding<br>RM'000 | Eliminations<br>RM'000 | Consolidated<br>RM'000 |
|---|---|---|---|---|
| **Other Information** | | | | |
| Depreciation of property, plant and equipment | 3 | 5 | - | 8 |
| Non-cash expenses other than depreciation, amortisation and impairment losses | (9) | - | - | (9) |
| **Consolidated Balance Sheet** | | | | |
| **Assets** | | | | |
| Segment assets | 94 | 2,132 | - | 2,226 |
| Unallocated corporate assets | | | | 17 |
| Consolidated total assets | | | | 2,243 |
| **Liabilities** | | | | |
| Segment liabilities | 51 | 797 | (742) | 106 |
| Consolidated total liabilities | | | | 106 |

(Forward)

| **The Group 2005** | **Retailing RM’000** | **Investment holding RM’000** | **Eliminations RM’000** | **Consolidated RM’000** |
|---|---|---|---|---|
| **Revenue** | | | | |
| External sales | 36,560 | 79 | - | 36,639 |
| **Results** | | | | |
| Segment results | (6,017) | (384) | - | (6,401) |
| Gain on disposal of subsidiary companies | | | | 61,655 |
| Profit from operations | | | | 55,254 |
| Finance costs | | | | (620) |
| Income tax expense | | | | 57 |
| Profit after tax | | | | 54,691 |
| Minority interests | | | | - |
| Net profit for the year | | | | 54,691 |

(Forward)

| The Group<br>2005 | Manufacturing and retailing<br>RM'000 | Investment holding<br>RM'000 | Eliminations<br>RM'000 | Consolidated<br>RM'000 |
|---|---|---|---|---|
| **Other Information** | | | | |
| Capital additions | 3,342 | - | - | 3,342 |
| Depreciation of property, plant and equipment | 1,404 | - | - | 1,404 |
| Non-cash expenses other than depreciation, amortisation and impairment losses | 192 | - | - | 192 |
| **Consolidated Balance Sheet** | | | | |
| **Assets** | | | | |
| Segment assets | 187 | 2,192 | - | 2,379 |
| Consolidated total assets | | | | 2,379 |
| **Liabilities** | | | | |
| Segment liabilities | 55 | 693 | (653) | 95 |
| Unallocated corporate liabilities | | | | 2 |
| Consolidated total liabilities | | | | 97 |

## 6. OPERATING COSTS APPLICABLE TO REVENUE

The operating costs, classified by nature, applicable to revenue are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Depreciation of property, plant and equipment (Note 11) | 8 | 1,404 | 4 | 4 |
| Staff costs | - | 2,628 | - | 11 |
| Directors' remuneration | - | 10 | - | 10 |
| Other operating costs | 259 | 50,606 | 251 | 6,236 |
| | 267 | 54,648 | 255 | 6,261 |

The cost of inventories of the Group recognised as an expense in 2005 amounted to RM30,374,105.

Staff costs consists of:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Wages and salaries | - | 2,269 | - | 10 |
| Pension costs - defined contribution plans | - | 270 | - | 1 |
| Social security cost | - | 36 | - | - |
| Termination expenses | - | 53 | - | - |
| | - | 2,628 | - | 11 |

Directors' remuneration consists of:

| | The Group and The Company | |
|---|---|---|
| | 2006 RM'000 | 2005 RM'000 |
| Non-Executive Directors: | | |
| Fee | - | 10 |
| Number of directors | 2 | 2 |

## 7. PROFIT/(LOSS) FROM OPERATIONS

This is arrived at:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM** | **RM** | **RM** | **RM** |
| **After charging:** | | | | |
| Audit fee | 23 | 39 | 18 | 30 |
| Waiver of amount owing by disposed subsidiary companies | - | 5,798 | - | 5,798 |
| Property, plant and equipment written off | - | 2,355 | - | - |
| Loss on disposal of property, plant and equipment | - | - | - | 6 |
| Allowance for diminution in value of quoted shares | - | 201 | - | 201 |
| Inventories written off | - | 192 | - | - |
| **And crediting:** | | | | |
| Bad debts recovered | 12 | - | - | - |
| Allowance for diminution in value no longer required | 9 | - | 9 | - |
| Writeback of accruals and provisions no longer required | - | 168 | - | - |
| Gain on disposal of property, plant and equipment | - | 295 | - | - |
| Rental of premises | - | 8,011 | - | - |
| Gain on disposal of subsidiary companies | - | 61,655 | - | - |

## 8. FINANCE COSTS

| | The Group | |
|---|---|---|
| | **2005** | **2004** |
| | **RM** | **RM** |
| Interest expense on: | | |
| Term loans | - | 611 |
| Hire purchase payables | - | 2 |
| Other bank charges | - | 7 |
| | - | 620 |

## 9. INCOME TAX EXPENSE/(CREDIT)

Income tax expense/(credit) of the Group and of the Company consists of:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Estimated current tax payable | 1 | - | 1 | - |
| Under/(Over) provision in prior years in respect of current tax | 2 | (57) | 2 | (57) |
| | 3 | (57) | 3 | (57) |

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to the income tax expense/(credit) at the effective income tax rate of the Group and of the Company is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Profit/(Loss) before tax | (142) | 54,634 | (142) | (6,182) |
| Tax at statutory tax rate of 28% | (40) | 15,298 | (40) | (1,731) |
| Tax effects of: | | | | |
| Non-deductible expenses | 41 | 4,735 | 41 | 1,731 |
| Non-taxable income | - | (20,062) | - | - |
| Realisation of deferred tax assets not recognised previously | - | (13) | - | - |
| Deferred tax assets not recognised | - | 42 | - | - |
| Under/(Over) provision in prior years in respect of current tax | 2 | (57) | 2 | (57) |
| | 3 | (57) | 3 | (57) |

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to deferred tax asset are recognised to the extent that is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of 28 February 2006, the amount of deferred tax asset of the Group, calculated at current tax rate which has not been recognised in the financial statements due to uncertainty of its realisation, is as follows:

| | The Group | |
|---|---|---|
| | **2006** **RM'000** | **2005** **RM'000** |
| Unused tax losses | 7,105 | 7,105 |

The unused tax losses are subject to agreement with the tax authorities.

As of 28 February 2006, the Company has tax-exempt income account amounting to approximately RM135,000 (2005: RM135,000) arising from tax payable on chargeable income waived in 1999 in accordance with the Income Tax (Amendment) Act, 1999. This tax-exempt income amount, which is subject to agreement with the tax authorities, is available for distribution of tax-exempt dividends to the shareholders of the Company.

## 10. EARNINGS/(LOSS) PER ORDINARY SHARE

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| Net (loss)/profit for the year (RM'000) | (145) | 54,691 |
| Number of ordinary shares in issue ('000) | 20,479 | 20,479 |
| (Loss)/Earnings per ordinary share (sen) | (0.71) | 267.06 |

## 11. PROPERTY, PLANT AND EQUIPMENT

| The Group | Furniture and Equipment RM'000 | Fixtures and Fittings RM'000 | Building RM'000 | Motor Vehicle RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning and end of year | 3 | 30 | 190 | - | 223 |
| **Accumulated Depreciation** | | | | | |
| At beginning of year | 3 | 6 | 4 | - | 13 |
| Charge for the year | - | 3 | 5 | - | 8 |
| As at the end of the year | 3 | 9 | 9 | - | 21 |
| **Net Book Value** | | | | | |
| At end of year | - | 21 | 181 | - | 202 |
| At beginning of year | - | 24 | 186 | - | 210 |
| **Depreciation charge for 2005** | 560 | 412 | 4 | 428 | 1,404 |

| The Company | Furniture and Equipment RM'000 | Fixtures and Fittings RM'000 | Building RM'000 | Motor Vehicle RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning and end of year | - | - | 190 | - | 190 |
| **Accumulated Depreciation** | | | | | |
| At beginning of year | - | - | 5 | - | 5 |
| Charge for the year | - | - | 4 | - | 4 |
| At the end of the year | - | - | 9 | - | 9 |
| **Net Book Value** | | | | | |
| At end of year | - | - | 181 | - | 181 |
| At beginning of year | - | - | 185 | - | 185 |
| **Depreciation charge for 2005** | - | - | 4 | - | 4 |

As of 28 February 2006, the title deed to the building of the Company with cost amounting to approximately RM190,000 (2005: RM190,000) is yet to be registered in the name of the Company.

## 12. INVESTMENT IN SUBSIDIARY COMPANIES

Investment in subsidiary companies consists of:

| | The Company | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| Unquoted shares - At cost | * | * |

* Denotes RM4

Details of subsidiary companies, all of which are incorporated in Malaysia, are as follows:

| Name of Company | Effective Ownership 2006 % | Effective Ownership 2005 % | Principal Activities |
|---|---|---|---|
| **Direct Subsidiary Company** | | | |
| Retail Commercio (M) Sdn. Bhd. | 100 | 100 | Dormant |
| Dolce Carlotta (M) Sdn. Bhd. | 80 | 80 | Dormant |
| Tioman Duty Free Sdn. Bhd. | 100 | 100 | Dormant |
| Aktif Lifestyle Duty Free Sdn. Bhd. | 100 | 100 | Dormant |

## 13. INVESTMENTS IN ASSOCIATED COMPANIES

Investment in associated companies consists of:

| | The Group and The Company | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| Unquoted shares at cost | * | * |

* Denotes RM1

Details of associated companies, all of which are incorporated in Malaysia, are as follows:

| **Name of Company** | **Effective Ownership 2006 %** | **Effective Ownership 2005 %** | **Principal Activities** |
|---|---|---|---|
| Hopemark (M) Sdn. Bhd. | 49 | 49 | Dormant |
| Aktif Lifestyle Promotion Sdn. Bhd. | 49 | 49 | Dormant |
| Poplar Textile Sdn. Bhd. | 49 | 49 | Dormant |

14. **OTHER INVESTMENTS**

Other investment consists of:

| | **The Group and The Company 2006 RM'000** | **The Group and The Company 2005 RM'000** |
|---|---|---|
| Quoted shares: | | |
| At cost | 1,650 | 1,650 |
| Allowance for diminution in value | (192) | (201) |
| | 1,458 | 1,449 |
| Unquoted shares: | | |
| At cost | 144 | 144 |
| Total | 1,602 | 1,593 |
| Market value of quoted shares | 2,386 | 2,028 |

## 15. OTHER RECEIVABLES ANS PREPAID EXPENSES

Other receivables and prepaid expenses consist of:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Refundable deposits | 1 | 1 | 1 | 1 |
| Other receivables | 1 | 2 | 1 | 1 |
| Tax recoverable | 17 | - | 17 | - |
| | 19 | 3 | 19 | 2 |

## 16. AMOUNT OWING BY/TO SUBSIDIARY COMPANIES

Amount owing by/to subsidiary companies, which arose mainly from payments on behalf, is unsecured, interest-free and has no fixed terms of repayment.

## 17. AMOUNT OWING BY/TO AFFILIATED COMPANIES

Amount owing by affiliated company, which arose mainly from advances and payments on behalf, is unsecured, interest-free and has no fixed terms of repayment.

Amount owing to affiliated companies, which arose mainly from trade transactions and payments on behalf, is unsecured, interest-free and has no fixed terms of repayment.

The financial statements of the Group and the Company reflect the following significant transactions with affiliated companies:

| | | The Group | |
|---|---|---|---|
| **Name of Company** | **Nature** | **2006 RM'000** | **2005 RM'000** |
| Metroplex Holdings Sdn. Bhd. | Rental payable | - | 2,766 |
| Legend Hotel | Sales of merchandise | - | 8,441 |

The directors of the Group and of the Company are of the opinion that the above transactions undertaken with affiliated companies have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

## 18. AMOUNT OWING BY ASSOCIATED COMPANIES

Amount owing by associated companies, which arose mainly from payment on behalf, is unsecured, interest-free and has no fixed terms of repayment.

## 19. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses consist of:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Other payables | 42 | 42 | 24 | 24 |
| Accrued expenses | 38 | 27 | 31 | 19 |
| | 80 | 69 | 55 | 43 |

## 20. SHARE CAPITAL

Share capital in 2006 and 2005 is represented by:

| | The Group and The Company | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| **Authorised** | | |
| Ordinary shares of RM1.00 each | 200,000 | 200,000 |
| **Issued and fully paid** | | |
| Ordinary shares of RM1.00 each | 20,479 | 20,479 |

## 21. RESERVES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Non-distributable reserve** | | | | |
| Share premium | 4,371 | 4,371 | 4,371 | 4,371 |
| Reserve arising on consolidation | 2 | 2 | - | - |
| | 4,373 | 4,373 | 4,371 | 4,371 |
| **Accumulated loss** | (22,715) | (22,570) | (23,498) | (23,353) |
| | (18,342) | (18,197) | (19,127) | (18,982) |

**Share premium**

Share premium arose from the following:

| | The Group and The Company | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| Issue of 1,584,000 ordinary shares at a premium of RM3.20 per ordinary share in 1996, net of share issue and listing expenses of approximately RM794,000 | 4,275 | 4,275 |
| Subscription of 480,000 ordinary shares at a premium of RM0.20 per ordinary share from 1999 to 2001 pursuant to the Employees Share Option Scheme | 96 | 96 |
| | 4,371 | 4,371 |

**Reserve arising on consolidation**

Reserve arising on consolidation represents the excess of the Group's interest in the fair values attributable to the identifiable net assets of certain subsidiary companies at their respective effective dates of acquisition over the purchase consideration.

## 22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Fixed deposits with a licensed bank | 316 | 411 | 316 | 411 |
| Cash and bank balances | 90 | 143 | 29 | 1 |
| | 406 | 554 | 345 | 412 |

The above deposits earned interest at 3.0% (3.2% in 2005) per annum. The maturity of fixed deposits of the Group and of the Company is 30 days (30 days in 2005).

## 23. SIGNIFICANT EVENTS

(a) On 29 April 2005, the Company entered into a Memorandum of Understanding ("MOU") with Lee Sey Liang and Lim Siew Swan (collectively referred to as the "White Knights"), wherein the Company and the White Knights are desirous to propose a corporate restructuring scheme ("Proposed Restructuring Scheme I"). The MOU expired on 31 May 2005.

(b) On 31 May 2005, the Company entered into a conditional restructuring agreement ("Restructuring Agreement") with Integrated M&G Industries Berhad ("Newco"), (a company incorporated to facilitate the implementation of the Proposed Restructuring Scheme I) and Dato' Mohamed Bin Jamrah, Teh Li Li, Amarjit Singh A/L Kartar Singh, Balveer Kaur A/P Tahil Singh and Kiranjit Singh A/L Amarjit Singh (collectively, the "Vendors") to implement a restructuring scheme which seeks to regularise the financial condition of the Company and its subsidiaries ("ALCB Group") via inter-alia, injection of viable new businesses in order that the Company's operations are restored to a level that warrants its continued listing on Bursa Securities. ("Proposed Restructuring Scheme II").

Newco has on 1 June 2005 also entered into two (2) conditional share sale agreements ("Share Sale Agreements") for the proposed acquisitions of 100% equity interest in Mahawira Sdn Bhd ("Proposed Mahawira Acquisition") and 54% equity interest in Citatah AMS Marble Sdn Bhd ("Proposed Citatah Acquisition") (collectively, the "Acquiree Companies") from the respective vendors.

The Acquiree Companies will be involved in the business of quarrying, manufacturing, trading of granite products as well as the supply and installation of marble and granite related products. This business is generally related to the property development and construction activities and specifically the high-end property sector. The Proposed Mahawira Acquisition and Proposed Citatah Acquisition are inter-conditional upon each other and collectively referred to as the "Proposed Acquisitions".

The Proposed Restructuring Scheme II comprises various sub-proposals which will involve, inter-alia, the following proposals:

(i) The proposed reduction of the issued and paid-up share capital of the Company of RM20.479 million comprising 20.479 million ordinary shares of RM1.00 each in the Company ("ALCB Shares") to RM8.1916 million comprising 20.479 million ordinary shares of RM0.40 each in the Company ("Reduced Shares") representing a capital reduction of 60 sen for every existing ALCB Share ("Proposed Capital Reduction").

(ii) The proposed consolidation of the Reduced Shares into 8.1916 million ALCB Shares ("Proposed Capital Consolidation").

(iii) The proposed exchange of 8.1916 million ALCB Shares with 8.1916 million Newco Shares on the basis of one (1) Newco Share with one (1) ALCB Share held after the Proposed Capital Reduction and Proposed Capital Consolidation ("Proposed Share Exchange").

(iv) This is followed by a restricted offer for sale by the vendor to the minority shareholder of ALCB for 1 Newco Share for every 1 ALCB share after the capital reduction.

(v) The proposed transfer of the listing status of the Company on the Official List of Bursa Securities to Newco ("Proposed Transfer of Listing Status").

(vi) Proposal for the ALCB Group to be disposed of to a third party to be identified or to be transferred to a special purpose company ("Proposed Disposal of ALCB").

(vii) The Proposed Restructuring Scheme shall be conditional upon approvals from the following authorities:

(a) the SC;

(b) the Foreign Investment Committee;

(c) Bursa Securities;

(d) the MITI;

(e) ALCB Shareholders at a general meeting for the Proposed Restructuring Scheme;

(f) the High Court of Malaya for the sanction and confirmation of Proposed Restructuring Scheme II; and

(g) other relevant authorities.

The Company had announced the full details of the Proposed Restructuring Scheme via its announcement on Bursa Securities dated 1 June 2005.

Subsequently, Bursa Securities approved the Company's application for an extension of time to 16 August 2005 to submit its Restructuring Proposals to the relevant authorities for approval.

The Company obtained approval from the MITI on 30 September 2005 subject to the approval from SC and compliance with the Foreign Investment Committee Guideline on the Acquisition of Interest, Mergers and Takeovers by the Local and Foreign Interest. Further to the said approval, Mahawira Sdn. Bhd. is also required to comply with the equity condition stipulated in its manufacturing licence within three (3) years from the date of MITI's approval letter.

The Company subsequently applied to Bursa Securities for a further extension of time after the expiry of the four (4) months from the date of submission of the Proposed Restructuring Scheme. Bursa Securities in its reply will await the outcome of the Company's application to the relevant authority. Nevertherless, Bursa Securities decision is without prejudice to its right to proceed with de-listing of the securities of the Company from the official list of Bursa Securities in the event the Company fails to obtain any of the authorities' approval necessary for the implementation of its regularisation plan.

SC rejected the Company's Restructuring Scheme on 28 December 2005. The Company made an application for a review by SC of its decision under Paragraph 17.04 of the SC Policies and Guidelines on the Issue/Offer of securities on 27 January 2006.

## 24. SUBSEQUENT EVENTS

On 16 May 2006, the Company, Mahawira Sdn Bhd and Citatah AMS Marble Sdn Bhd have mutually decided not to proceed with the Proposed Restructuring Scheme II and, as such, have withdrawn the appeal to SC which was submitted on 27 January 2006.

On 8 June 2006, the Company was served a show cause notice by Bursa Securities, where the Company has been accorded 5 market days from 8 June 2006 to make a written representation to Bursa Securities as to why its securities should not be removed from the Official List of Bursa Securities.

Accordingly, the Company has entered into a restructuring agreement with Strandcom MSC Berhad ("Strandcom") on 15 June 2006 for a new proposal which seeks to regularise the financial condition of the Company and its subsidiaries via, inter-alia:

(i) the proposed scheme of arrangement with the Company's shareholders;

(ii) the proposed acquisition of the Strandcom group of companies in order that the Company's operations are restored to a level that warrants its continued listing on Bursa Securities; and

(iii) the proposed transfer of listing status of the Company to a company to be identified as the listing vehicle.

(collectively referred to as the "Proposals")

As set out in the Restructuring Agreement, the Proposals shall be conditional upon, inter-alia, the following:

(a) (i) the approval of Bursa Securities for, inter alia, the following:

- an extension of time to allow the Company to make the necessary applications to the relevant authorities;

- the transfer of the Company's listing status; and

- the admission of the Company to be identified as the listing vehicle to the Official List of Bursa Securities and the listing of and quotation for its shares.

(ii) the approval of the SC

(iii) the approval of the Foreign Investment Committee;

(iv) the approval of the MITI; and

(v) if required, the approval of any other relevant authorities in Malaysia or elsewhere.

(b) the approval of the shareholders of the Company of a general meeting;

(c) the sanction and confirmation by the High Court of Malaya, of the Proposals as approved by the shareholders of the Company at a court convened meeting;

(d) the Company being reasonably satisfied with the results of the due diligence on the Strandcom Group;

(e) the promoters or vendors of Strandcom being satisfied with the results of the due diligence to be undertaken on the Company; and

(f) the agreement between the parties on the purchase consideration for Strandcom in relation to the proposed acquisition of the Strandcom Group pursuant to the Proposals ("Strandcom Purchase Consideration"), which shall be determined later on a willing-buyer willing-seller basis.

Pursuant to the above, the Company is seeking the following approval from Bursa Securities:

(1) not to commence any de-listing procedures on the Company's securities from the Official List of Bursa Securities;

(2) to allow the Company until 30 June 2006 to make the full requisite announcement on the Proposals; and

(3) the extension of time of three (3) months from 30 June 2006 to 30 September 2006 for the Company to make the necessary applications to the relevant authorities.

## 25. FINANCIAL INSTRUMENTS

### Financial Risk Management Objectives and Policies

The operations of the Group is subject to a variety of financial risks, including interest rate risk, credit risk, liquidity risk and cash flow risk. The Group has taken measures to minimise their exposure to risks and/or costs associated with the financing, investing and operating activities of the Group.

(i) **Interest rate risk**

The Group is exposed to interest rate risk through the impact of rate changes on fixed deposits.

The interest rate for the said fixed deposits of the Group is disclosed in Note 22.

It is the Group's policy to place cash deposits on a short-term basis and, therefore, allows the Group to respond to significant changes in interest rates promptly. This has minimised the Group's interest rate exposure on interest-bearing assets.

(ii) **Liquidity risk**

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and financial liabilities and to maintain sufficient cash flow for contingent funding requirement of working capital.

(iii) **Cash flow Risk**

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

**Financial Assets**

The principal financial assets of the Group are fixed deposits with a licensed bank, cash and bank balances, other investments, other receivables, amount owing by affiliated companies and amount owing by associated companies.

The principal financial assets of the Company also include amount owing by subsidiary companies.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

**Financial Liabilities and Equity Instruments**

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Significant financial liabilities of the Group include other payables and amount owing to affiliated companies, which are stated at their nominal values.

Significant financial liabilities of the Company also include amount owing to subsidiary company, which are stated at their nominal values.

Equity instruments are recorded at the proceeds received net of direct issue costs.

**Fair Values**

The carrying amounts of financial assets and financial liabilities of the Group and the Company approximate their fair values because of the short maturity period for these instruments except as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **The Group** | **Carrying Amount RM'000** | **Fair Value RM'000** | **Carrying Amount RM'000** | **Fair Value RM'000** |
| **Financial Assets** | | | | |
| Investments in quoted shares | 1,458 | 2,386 | 1,449 | 2,028 |
| Investment in unquoted shares | 144 | # | 144 | # |
| Amount owing by affiliated companies | 13 | * | 19 | * |
| Amount owing by associated companies | 1 | * | - | - |
| **Financial Liability** | | | | |
| Amount owing to affiliated companies | 26 | * | 26 | * |

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **The Company** | **Carrying Amount RM'000** | **Fair Value RM'000** | **Carrying Amount RM'000** | **Fair Value RM'000** |
| **Financial Assets** | | | | |
| Investments in quoted shares | 1,458 | 2,386 | 1,449 | 2,028 |
| Investment in unquoted shares | 144 | # | 144 | # |
| Amount owing by subsidiary company | 1 | * | - | - |
| Amount owing by associated companies | 1 | * | - | - |
| **Financial Liability** | | | | |
| Amount owing to subsidiary company | 742 | * | 650 | * |

* It is not practicable to estimate the fair values of amounts owing to/from subsidiary company, associated companies and affiliated companies due principally to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs.

# It is not practicable to estimate the fair value of the unquoted shares of the Group and of the Company because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

**Other investments - quoted shares**

The market value of quoted shares as at balance sheet date approximates their fair values.

## 26. CONTINGENT LIABILITY

As disclosed in the financial statements of the Group for the year ended 28 February 2002, Aktif Lifestyle Stores Sdn. Bhd. ("ALS"), a subsidiary company, is being sued for a total sum of RM9,170,000 for terminating a lease agreement. ALS's solicitors are of the opinion that the claim is without merit as the lease is void and/or deemed terminated by reason of frustration and/or misrepresentation by the landlord. The Plaintiff has issued an amended statement of claim to ALS for a revised total sum of RM19,483,000 and in response, ALS has filed its defence and counter-claim. The case is now pending hearing by the court on 23 to 27 June 2008.

The Company has disposed of ALS on 18 June 2004. However, pursuant to the sale and purchase of shares agreement with CP Properties Sdn. Bhd. ("CP"), the Company shall indemnify and keep CP indemnified against all costs, losses, damages, expenses, liabilities, penalties, actions, claims, proceedings and demands which CP and/or ALS may incur, suffer or sustain as a result of or in connection with any settlement or successful claims made by the Plaintiff.

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

## STATEMENT BY DIRECTORS

The directors of **AKTIF LIFESTYLE CORPORATION BERHAD** state that, in their opinion, the accompanying balance sheets and statements of income, cash flows and changes in equity are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 28 February 2006 and of the results of their businesses and the cash flows of the Group and of the Company for the year ended on that date.

Signed on behalf of the Board in accordance
with a resolution of the Directors,

**CHAN TEIK HUAT**

**SHARIFAH NOOR BINTI SYED**
**ABDUL RAHMAN AL-ATTAS**

Kuala Lumpur
28 June 2006

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

**DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF THE COMPANY**

I, **CHUA CHEE TIONG**, the Officer primarily responsible for the financial management of **AKTIF LIFESTYLE CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying balance sheets and statements of income, cash flows and changes in equity, are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**CHUA CHEE TIONG**

Subscribed and solemnly declared by the abovenamed **CHUA CHEE TIONG** at **KUALA LUMPUR** this 28th day of June 2006.

Before me,

**COMMISSIONER FOR OATHS**

**AKTIF LIFESTYLE CORPORATION BERHAD**
(Incorporated in Malaysia)
**AND ITS SUBSIDIARY COMPANIES**

## FINANCIAL STATEMENTS

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