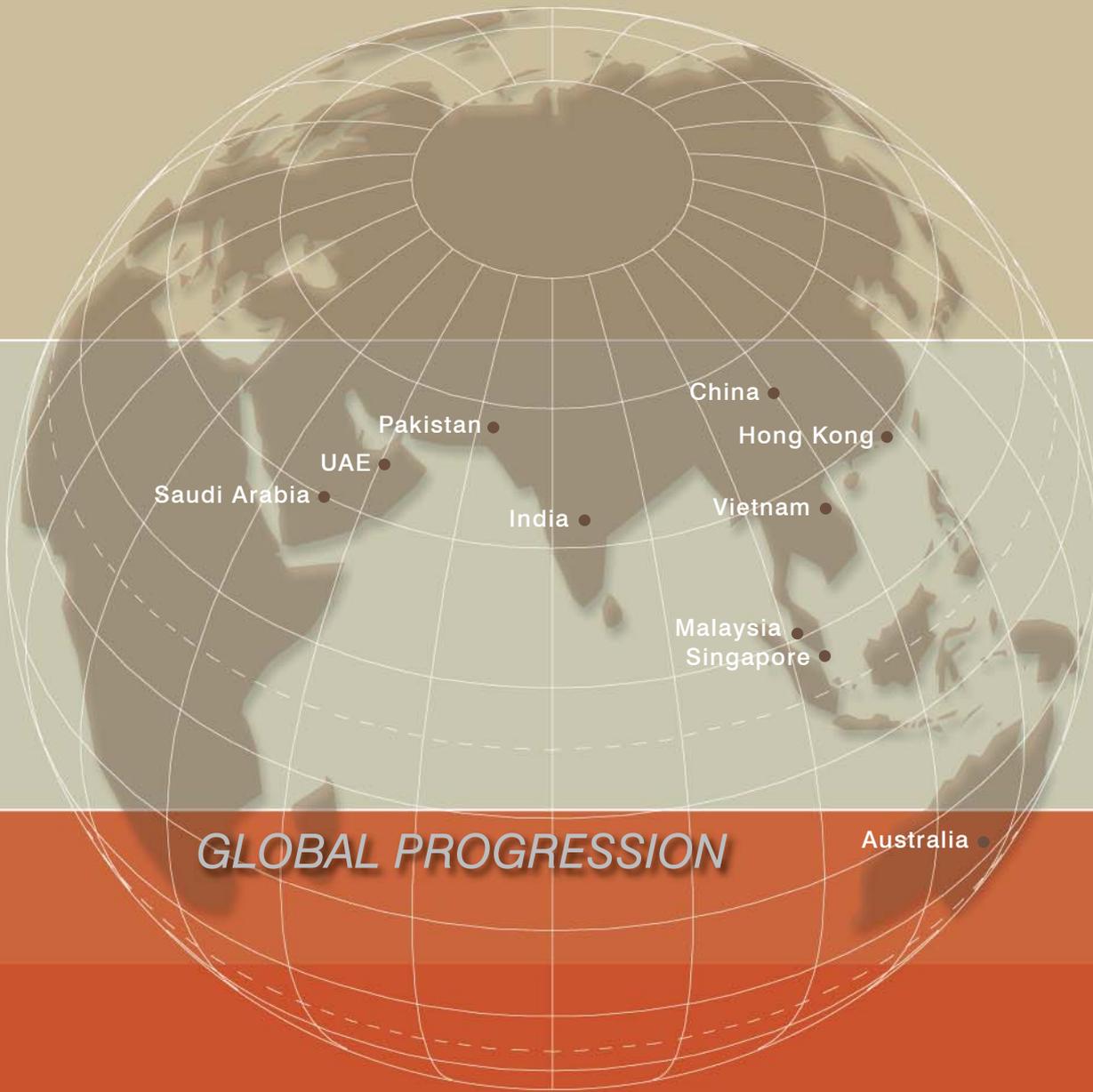


# Annual Report 2006



**GLOBAL PROGRESSION**



**METRONIC GLOBAL BERHAD**

(Company No.: 632068-V)  
(Incorporated in Malaysia)



# Vision

To be an internationally recognised leading engineering and technology total solution provider.

# Mission

- To apply our unique management style that incorporates our manpower resources, experience, expertise, innovation and creative approach.
- To continuously seek new technologies that meet our clients' requirements.
- To create a workplace that motivates our employees.
- To develop strategic relationships with partners who have skills that enhance and complement our own.
- To continually improve the effectiveness of the quality management system.
- To maximise value of our stakeholders.

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## Board of Directors

Tan Sri Dato' Kamaruzzaman bin Shariff  
*Executive Chairman*

Dato' Abd. Gani bin Yusof  
*Executive Vice-Chairman*

Dr Ng Tek Che  
*Group Managing Director*

Liew Chiap Hong  
*Executive Director*

Lee Fok Chong  
*Independent Non-Executive Director*

Datuk Subhi bin Hj Dziauddin  
*Independent Non-Executive Director*

Amirudin bin Mohd Baria  
*Independent Non-Executive Director*

Li Ji Chang  
*Non-Independent Non-Executive Director*



# Corporate Information

## Audit Committee

Lee Fok Chong  
Chairman

Datuk Subhi bin Hj Dziauddin  
Member

Amirudin bin Mohd Baria  
Member

Liew Chiap Hong  
Member

## Remuneration Committee

Lee Fok Chong  
Chairman

Datuk Subhi bin Hj Dziauddin  
Member

Amirudin bin Mohd Baria  
Member

Liew Chiap Hong  
Member

## Nomination Committee

Datuk Subhi bin Hj Dziauddin  
Chairman

Lee Fok Chong  
Member

Dr Ng Tek Che  
Member

## Company Secretary

Azlan Mohd Ariff (LS 0008402)

## Registered Office

650, Block A, Kelana Centre Point  
No. 3, Jalan SS 7/19, Kelana Jaya  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Tel: 03 - 7804 7076  
Fax: 03 - 7804 8039

## Registrar

PFA Registration Services Sdn Bhd (19234-W)  
Level 13, Uptown 1  
No. 1 Jalan SS 21/58,  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan  
Tel: 03 - 7725 4888  
Fax: 03 - 7722 2311

## Auditors

Ernst & Young (AF 0039)  
Chartered Accountants

## Sponsor

HWANGDBS Investment Bank Berhad (14389-U)  
*(formerly known as Hwang-DBS Investment Bank Berhad)*  
*(formerly known as Hwang-DBS Securities Berhad)*  
Suite 23A, 23A Floor  
Menara Keck Seng  
203 Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel: 03 - 2143 7888

## Solicitors

Messrs Bahari & Bahari  
Messrs Liow & Co  
Messrs Kamarudin & Partners

## Principal Bankers

Malayan Banking Berhad (3813-K)  
United Overseas Bank (Malaysia) Berhad (271809-K)  
HSBC Bank Malaysia Berhad (127776-V)

## Stock Exchange Listing

MESDAQ Market of Bursa Malaysia  
Securities Berhad  
Stock name: MTRONIC  
Stock code: 0043

# Corporate Profile

## COMPANY HISTORY AND DEVELOPMENT

### Background of Company

Metronic Global Berhad ("The Company" or "MGB") was incorporated in Malaysia under the Companies Act, 1965 on 22 October 2003. The Company was listed on MESDAQ Market of Bursa Malaysia Securities Berhad on 24 May 2004. MGB is principally an investment holding company. As at the date of this report, MGB Group consists of ten (10) subsidiaries and three (3) associate companies.

The MGB Group specialises in the system integration of intelligent building management system ("IBMS") and integrated security management system ("ISMS"). Fundamental to this success is the Group's mission to continually exceed customers' increasing expectations. MGB Group focuses on building and integrating world-class technology to the market and is committed to continuously improve its quality, service and productivity.

### The Evolution of the MGB Group

#### (a) The Origin – Building Automation

The origin of the MGB Group can be traced back more than two (2) decades when Metronic Engineering Sdn Bhd ("MESB") was incorporated in August 1984 to provide building automation services specialising in the field of IBMS and ISMS. MESB subsequently expanded its business activities to include e-project management of mechanical and electrical services and supply of engineered systems. MESB carried products by principals such as TAC Controls Pte Ltd and Honeywell Integrated Security, USA which is amongst the world's leading companies in IBMS and ISMS.

#### (b) The Early Years – Intelligent Buildings

In 1995, MISSB was incorporated to complement MESB's existing business activities. MISSB is principally engaged in the procurement of contracts in relation to engineering work specialising in the field of IBMS and ISMS, and sales of engineered system. During the early years, MISSB played a pivotal role in nation building by providing state-of-the-art e-project management and system integration services for hospitals, office buildings, shopping complexes, airports, oil refineries and manufacturing plants. Over the years, the Group has leveraged its expertise to develop unique and innovative IBMS and ISMS products, solutions and services, mainly in the areas of "intelligent buildings".

#### (c) The Evolution – Convergence of Technology

As technology progresses, intelligent buildings have evolved from mere stand-alone entities into interconnected hubs within the citywide infrastructure, known as "intelligent cities". With the convergence of technology, stand-alone buildings are slowly forming into smaller, ecosystems comprising a tightly integrated network of buildings that better enable the management and optimisation of systems and resources. The driving force of the evolution of intelligent cities is the ability to reduce cost, optimise manpower utilisation and enhance service levels through aggregation, service integration and process automation.

Driven by similar factors, the MGB Group has made bold steps in adopting new technologies and investing in R&D to realise its vision as an Intelligent City Management System ("ICMS") provider. In order to accelerate its involvement into ICMS, Metronic Microsystem (Beijing) Company Limited, China ("MMBCL") and Metronic Engineering Private Limited, India ("MEPL") were incorporated in January 2005 and June 2005 respectively to expand and penetrate its geographical markets.

#### (d) The Recent Years –

##### (i) Towards ICMS

In a move to diversify and complement its existing IBMS and ISMS activities, the Group established its ICMS division in 2006. There are 5 companies under this division, which are servicing vertical markets including healthcare, mobile-commerce, data network infrastructure and performance contracting business respectively:

Metronic iCares Sdn Bhd ("MICSB") was incorporated in March 2006 and is involved in the provision of a Third Party Administrator (TPA) & Managed Care Organisation (MCO) for healthcare sector via the connectivity applications & infrastructure for the exchange of transactional information through internet.

# Corporate Profile

FeelingK Malaysia Sdn Bhd ("FKSB") was incorporated in May 2006 to extend the Group's services as a mobile Internet service provider for the deployment of Card Notification Solutions, Bulk Short Message Services and Voice Short Message Services including related consultancy, implementation and operations.

Trend Gate Systems Sdn Bhd ("TRSSB") was incorporated in December 2006 to be the Research and Development division of the Group.

The Company had entered into an agreement in April 2007 to acquire 40% equity interest in Ariantec Sdn Bhd ("Ariantec"). Ariantec is a value-added provider of data network infrastructure and managed security systems and solutions.

The Company had entered into an agreement in April 2007 to acquire 60% equity interest in Adprima Sdn Bhd ("Adprima") to carry out the activities of a special projects management consultancy company and performance contracting business.

The establishment of these five (5) companies strengthens the Group's position in the value chain towards becoming an ICMS provider. By converging newer technologies with the JBCM™ platform, the Group is able to provide a value proposition for its customers by enhancing and expanding its product applications. Inline with the Group's plan to migrate as a provider of ICMS, these technologies will significantly enhance application security, manageability, reliability, and availability of any application while lowering the cost of operations for its customers.

## **(ii) Towards Global Progression**

For geographical expansion, MGB Group has embarked on a series of acquisition strategies in 2006 and 2007 to complement the local markets. As at todate, the Group has reached China, India, Australia, Singapore and Middle East region.

Metronic Australia Pty Limited ("MAPL"), an Australian company was incorporated in June 2006 to market and distribute automation and energy systems for the worldwide market.

The Company entered into a deed of partnership in June 2006 to set up a corporation in the Emirate of Dubai for the purpose of carrying out the business of intelligent building management system, integrated security management, e-project management of mechanical and electrical services and other related activities in the entire Middle-East and North African region.

The Company entered into agreements in August 2006 with Unilink Development Limited and Hong Kong Broadway Electronics Company Limited, both are Hong Kong investment holding companies with investments in Hangzhou Heng-Ai Electronics Co Ltd ("Heng-Ai") and Newtronics Hangzhou Co, Ltd ("Newtronics"). Newtronics is principally engaged in high volume printed circuit board assembly, cellular phone and other electronics products assembly and Heng-Ai is principally engaged in the assembly of mobile telecommunication component products. Upon completion of the proposed acquisitions, MGB will have an effective equity interest of 20% in both Heng-Ai and Newtronics. The proposed acquisitions of Unilink and HK Broadway, Heng-Ai and Newtronics will enable MGB to acquire a complementary manufacturing business and enable the Group to expand into upstream activities. MGB will be able to leverage on the manufacturing and research and development capabilities of Newtronics to manufacture industrial electronic modules which are inputs for the Group's building automation systems, thereby lowering the MGB Group's cost base for its building automation business activities. In addition, the proposed acquisitions will enable the MGB Group to penetrate the fast-growing telecommunications industry in China and to diversify and enhance its earnings base to include revenue from manufacturing activities in addition to its current contract-based revenue from its building automation projects.

The Company entered into an agreement in April 2007 to set up a joint venture company known as Securetrax Solutions Pte Ltd ("Securetrax") in Singapore. The business activity of the Securetrax shall be the development, distribution and marketing of a series of products relating to Home Land Security.

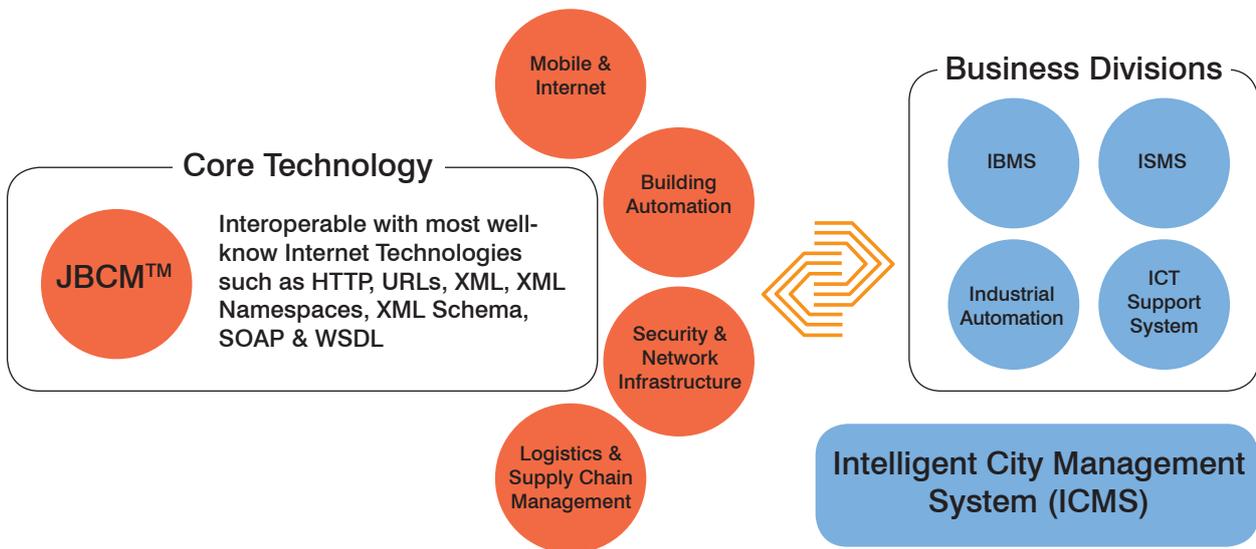
In addition, the Group also plans to expand vertically in the areas of hardware and software development, which is in line with its business focus and competencies. For hardware, the Group is currently developing a revolutionary compact and versatile digital Input/Output module and a high-tech low cost home automation and security system. For software, the Group is currently developing universal controls software to be used in conjunction with existing and future controls hardware.

# Corporate Profile

The MGB Group envisions itself to be an internationally recognised, leading engineering and technology solution provider with focus on ICMS. Foremost of the Group's corporate mission is to continuously seek new technologies to fulfil clients' needs and requirements, to develop strategic alliances with partners, which have the ability and technology to complement and enhance the Group's current expertise, and to improve the effectiveness of its quality management system.

MGB Group will continue to explore and identify new strategic alliances, joint-venture partners and other business partners that will give the Group wider market access, exposure to new technologies and new processes. The Group seeks prospects by participating and/or visiting trade exhibitions, workshops and technical presentations. By capitalising on potential strategic alliance partners, the Group aims to be a major provider of reliable and high quality IBMS and ISMS.

## PRINCIPAL ACTIVITIES, PRODUCTS AND SERVICES



Presently, the MGB Group, through its subsidiaries, specialises in IBMS and ISMS that encompasses hardware and software required for the control and management of an intelligent building with components including heating, ventilation and air conditioning, light, fire and security equipment.

The key drivers that are guiding the building/construction industry to adopt this technology are:

- the onset of the network convergence of the CCTV, computers, alarm system and access control with the advance technology of biometrics
- prevalent use of Internet and IP networking
- the efficiency of the system as it saves time and travel costs

The integration of the building/ industrial automation system and security system is becoming one of the most popular methods used by many corporations in converging their existing system into an all encompassing system. Two (2) of the main components of the IBMS and ISMS are the hardware and the software solutions. The hardware portion includes security devices such as CCTV, the video recording (either digital or analogue), access control and the intrusion devices. The software solution is an important feature which ensures that this equipment communicates and works coherently in a common personal computer-based environment.

# Corporate Profile

The Group is presently a key player in the IBMS and ISMS industry in Malaysia and with its expertise in system integration and knowledge of advanced technology, the Group aims to move beyond the field of intelligent building into a higher level of intelligent city. The Group has made bold steps in adopting new technologies and investing in R&D to realise its vision as an Intelligent City Management System ("ICMS") provider. The current business divisions of the MGB Group are highlighted as follows:

**(i) Intelligent Building Management System (IBMS) Division**

IBMS is an integration of Building Automation System, Access Control, Closed Circuit TV ("CCTV") System and Addressable Fire Control & Monitoring System into one single intelligent system. There are three sub-divisions listed as follows:

- Building Automation System ("BAS")
- Java Based Control & Monitoring Software ("JBCM")
- Smart Home

**(ii) Integrated Security Management System ("ISMS") Division**

ISMS provides a high level of security solutions by integrating all the individual security system like CCTV, Card Access, Perimeter Intrusion Detection System, Door Monitoring System, Guard Tour System and Asset Tracking System into one single intelligent device.

**(iii) e-Project Management Engineering Services ("e-PM") Division**

The Group is involved in the provision of engineering services specialising in the field of Mechanical & Electrical ("M&E") and medical equipments for the healthcare industry.

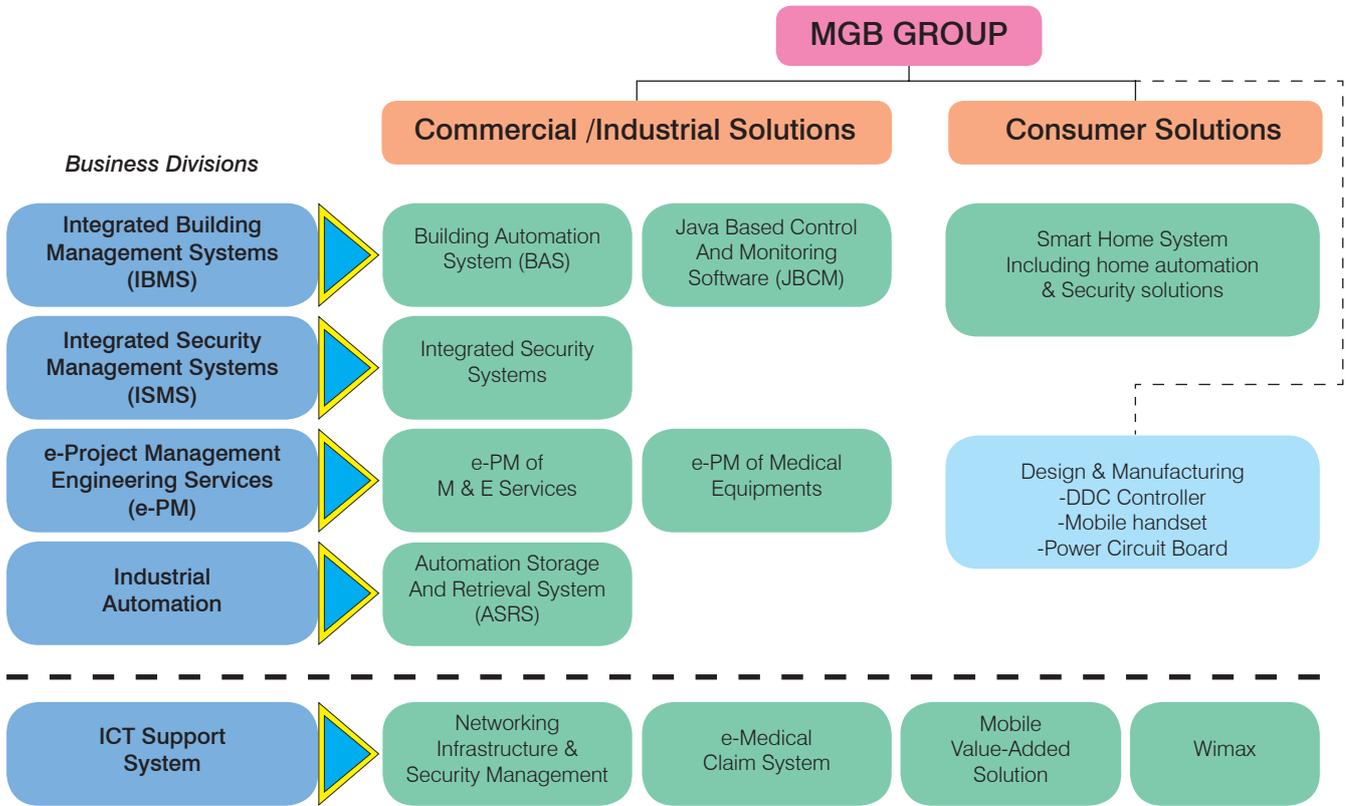
**(iv) Industrial Automaton Division**

The Group, through its strategic alliance with Muratec Machinery, Ltd is involved in the provision of industrial automation specialising in Automatic Storage and Retrieval Systems ("ASRS"). The logistic solutions offered by the Group focus on efficient storage of goods while preserving their quality and facilitate smooth retrieval as and when needed. Some of the solutions offered can help improve product quality during speedy inspection, perform multiple distribution centres with cross-docking facilities, enable the timely supply of large variety/high volume goods and demand can be ascertained in real time through the inventory control system.

**(v) Future Business Division - ICT Support System Division**

In order to diversify itself from automation businesses, ICT support system has been established to complement its existing business activities and to broaden the value-added services.

# Corporate Profile

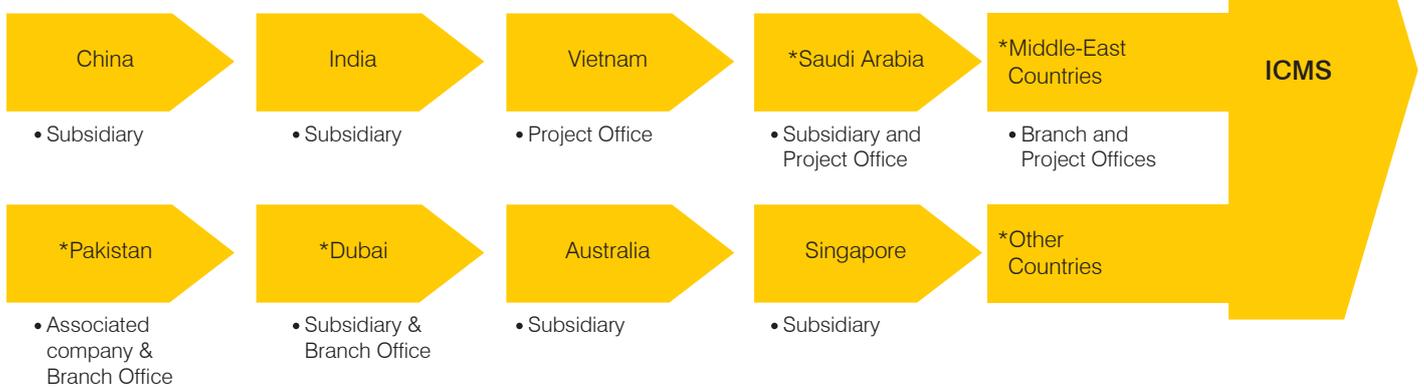


## FUTURE PLANS AND PROSPECTS

### Broader range of products and services



### Geographical Expansion



\* To be incorporated

### Broader Range of Value-added Services

MGB Group intends to diversify its range of products and services in the local and international market by providing additional value-added services. The following are list of value-added services that the Group intends to offer within the next three (3) years:

## **(a) Value-added IBMS and ISMS Products**

### **(i) DDL Controller for IBMS & ISMS**

The Group's enhanced DDL simplifies and standardises the presentation of intelligent device information for both automation suppliers and users worldwide. The DD Language enhancements have been incorporated into the HCF standard DDL tools - the Device Description Integrated Development Environment (DD-IDE) and also other products that runs on the Group's JBCM technology.

### **(ii) Network Controller for IBMS & ISMS**

Based on the vendor and platform, one may have varying options of what creates the graphics, including a single web server, multiple web servers, single or multiple network controllers with web services and web-enabled hardware servers. If reliability is an issue for an owner, options that offer multiple web servers or devices provide improved reliability over a single system.

### **(iii) Lon Controller**

LonWorks connects over its own low speed bus or over existing power wiring systems to Neuron embedded equipments, providing an end-to-end infrastructure for implementing interoperable systems. Because of the wide range of products with Neuron embedded chips offered by a broad range of manufacturers, LonWorks has been implemented not only in the building automation industry but across a number of assorted industries. MGB Group is in the midst of developing its own LonWork controller. The first version of MGB Group's LonWork controller is currently being used in Malaysia, Taiwan, Philippines and Australia. The advanced version is expected to commercialise in 2007.

### **(iii) BACnet**

BACnet is a communication protocol initially designed to address the interoperability issue of integrating HVAC components with other building controls. BACnet has now spread to address proprietary system issues as well as other intelligent building services including lighting, security and fire safety. The concept's purpose is to design a communication protocol to handle high and low speed networks as well as point to point communication, substituting each component's communication portion with a standard set of communication rules, thereby allowing the integration of different groups of control systems into one. The Group is developing its own BACnet controller in 2007.

## **(b) Mobile Value-added Solutions**

SMS notification is a mobile value-added solution which is under development. It is handled by the Group's subsidiary, FKSB. SMS notification service enables financial institution or telecommunication companies to provide value-added services to clients, namely card statement notification, transaction day notification, deposit/withdrawing list service along with premium service such as general news, securities news, entertainment, weather forecast and sports etc. This service is expected to commercialise in 2007.

## **(c) Key Lock Intelligent Security System**

As part of the product expansion strategy, MGB Group will venture into the development of key lock intelligent security system ("KLISS") through its Singapore subsidiary, Securetrax. KLISS is a security measure to ensure that all movement of documents and access keys are monitored and be able to facilitate investigations at all times. This web-enabled system assists users to maintain accountability and control over an organisation's key movement within a secure environment. It is also embedded with SMS notification features which remind users to return the key after certain preset time.

KLISS can be separated into two main parts, namely hardware and software. Hardware portion consists of main controller, LCD panel, keypad, key distribution interface, key unit, picture recorder, power supply & battery charger, cabinet, GSM modem, card reader and finger print reader. Software portion comprises embedded application/control software, which is used for system setting, configuration, monitoring and management.

## **(d) Network Infrastructure and Security System**

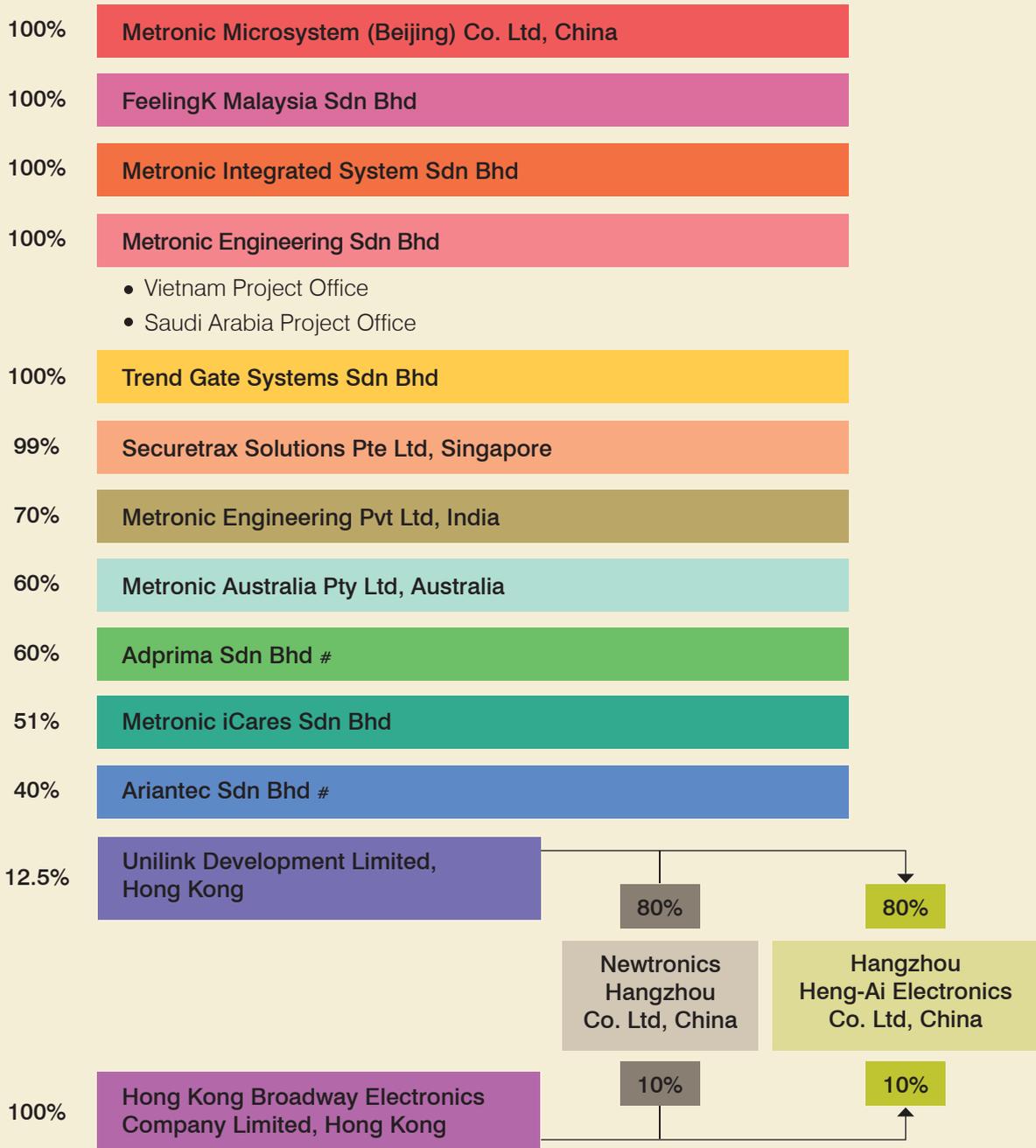
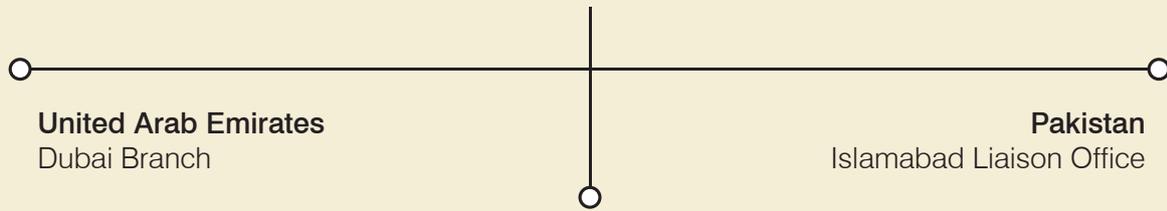
The network infrastructure and security system that developed by the Group's associate, Ariantec, is commonly known as the anti-spam system. Anti-spam system refers to software that is designed to stop spam emails from reaching the recipients. Generally, there are two (2) main functions in the anti-spam system, blocking and filtering. Anti-spam system rejects emails Internet sites known or likes to send spam. It also automatically analyse the content of email messages and weeding out those which resemble spam. All unwanted emails can be filtered at the desktop, the network email server or email gateway, or all three locations. The target market for this system is local and international IBMS and ISMS users.

# Corporate Structure

as at 22 May 2007



## METRONIC GLOBAL BERHAD



# Acquisition is pending completion

# Financial Highlights



	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000
Revenue	130,014	131,997	115,206	84,474	110,942
Profit before tax	8,505	7,280	14,556	12,781	12,561
Profit for the year	7,332	3,474	10,697	9,223	9,029
Profit attributable to equity holders of the Company	7,332	3,474	10,697	9,249	9,215
Net assets	24,276	21,253	44,844	52,952	62,558
Net earnings per share (sen)	3.45	1.63	5.07	3.26	3.25
Net assets per share (sen)	11.42	10.00	15.82	18.68	22.06

Note: The figures for the financial year ended 31 December 2002 to 31 December 2003 are provided on the proforma consolidated basis on the assumption that the existing group structure of MGB had been in existence throughout that period.

The figures for financial period ended 31 December 2004 are prepared from the date of effective formation of the Group on 18 March 2004 to 31 December 2004.

# Profile of Directors

## Tan Sri Dato' Kamaruzzaman bin Shariff

Executive Chairman

a Malaysian

aged 65

He was appointed as the Executive Chairman of the Company on 22 March 2004. He obtained a Bachelor of Arts degree from the University of Malaya in 1963, a Diploma of Public Administration from Carleton University, Canada in 1969 and a Masters in Public Administration from Syracuse University, USA in 1979. He served the Malaysian Civil Service for 38 years where he held various senior positions in the Federal and State Government, having served the last six (6) years as the Mayor of Kuala Lumpur from 1995 to 2001. His other postings include Secretary General of the Ministry of Defence from 1992 to 1995, Deputy Director General of the Public Services Department in 1992, Penang State Secretary from 1988 to 1992, Secretary in the Cabinet Division of the Prime Minister's Department from 1983 to 1987, Director of External Assistance and General Affairs in the Economic Planning Unit of the Prime Minister's Department from 1980 to 1983 and senior positions in the Public Services Department from 1972 to 1980 and the Ministry of Education from 1964 to 1972. He has vast administrative, strategic planning and management experience by virtue of his long service in the Malaysian Civil Service.

He currently sits as the Executive Chairman of Emas Kiara Industries Berhad and as the Non-Executive Chairman of Paragon Union Berhad, Bintai Kinden Corporation Berhad and Lereno Bio-Chem Ltd, Singapore. He is also a director of Kontena National Berhad.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He has no convictions of any offences in the past 10 years. He is a shareholder of the Company.

## Dato' Abd. Gani bin Yusof

Executive Vice-Chairman

a Malaysian

aged 52

He was appointed as the Executive Vice-Chairman of the Company on 22 March 2004. He graduated from Universiti Sains Malaysia with Bachelor of Science (Hons) in Housing, Building & Planning. His career began in 1981 with Peremba Bhd, a property development company which he left in 1988 as a Project Manager. He joined United Engineers (Malaysia) Bhd ("UEM") in 1988 as General Manager until 1991 where he was promoted to a Project Director. He was Managing Director of Linkedua (M) Bhd and Prolink Development Sdn Bhd, which are companies involved in the construction of the second link in Johor and development of the Nusajaya township from 1993 to 1995.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He has no convictions of any offences in the past 10 years. He is a major shareholder of the Company.

# Profile of Directors

## Dr Ng Tek Che

Group Managing Director

a Malaysian

aged 51

He was appointed as the Group Managing Director of the Company on 22 March 2004. He is also a member of the Nomination Committee. He is one of the founders of Metronic Engineering Sdn Bhd ("MESB"), which started as a partnership in 1986. He was conferred the Honorary Degree, Doctor of Philosophy in Business Management (Ph. D.) from Burkes University in September 2003. He holds a Master Degree in Business Administration from Charles Sturt University and a Diploma in Mechanical and Automotive Engineering from Tunku Abdul Rahman College. He started his career as a Design Engineer with a mechanical and engineering consulting firm in 1980. In 1981, he joined a Brunei based engineering company specialising in air-conditioning system. He gained his operational industrial experience during his employment with this company and was largely involved in project tendering, management and supervision of on-going projects. He returned to Malaysia after two (2) years and joined Entech Engineering Sdn Bhd as Sales Engineer, specialising in HVAC controls. Prior to setting up MESB in 1986, he was a Project Sales Engineer with George Kent (M) Berhad.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He had no convictions of any offences in the past 10 years. He is a major shareholder of the Company.

## Liew Chiap Hong

Executive Director

a Malaysian

aged 51

He was appointed as the Executive Director of the Company on 22 March 2004. He is also a members of the Audit Committee and Remuneration Committee. He graduated with a Bachelor of Engineering (Honours) degree from Universiti Malaya. He is a member of Institution of Engineers, Australia, MIE Aust. CP Eng (Chartered Professional Engineer). Upon graduation in 1979, he joined Jabatan Kerja Raya as a State Engineer in charge of projects and maintenance of mechanical building services in government building. In 1982, he joined Group Associated Engineers Sdn Bhd as a Design Engineer. In 1984, he joined Kejuruteraan Bintai Kindenko Sdn. Bhd. as a Mechanical Engineer. Thereafter in 1985, he joined GAE-Trane Sdn. Bhd. as a Marketing Executive and underwent six (6) months intensive training in Sales, HVAC and BAS course in Trane Co. Headquarters in La Crosse, Wisconsin, U.S.A. In 1987, he started a partnership in Benmarl Sdn Bhd to handle mechanical engineering projects. In 1989, he started a partnership in Quest Technology Sdn Bhd to design, supply and install filtration for indoor air quality and gas turbine, dust collection system and clean room system for electronics, pharmaceutical facilities and hospitals. He underwent air-filtration, dust collection and clean room technology courses conducted by the Farr Company in EL Segundo, California. With his vast experience in the electronics, commercial and industrial sectors, he was invited in October 2000 to participate in the growth of MESB in the fast growing high technology sector in the Asia Pacific region.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He had no convictions of any offences in the past 10 years. He is a major shareholder of the Company.

## Profile of Directors

### Lee Fok Chong

Independent Non-Executive Director

a Malaysian

aged 56

He was appointed as the Independent Non-Executive Director of the Company on 7 April 2004. He is also the Chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee. He has more than twenty (20) years of working experience in Finance, Accounting & Administration and has held various senior positions in a number of large organisations. He is a Fellow Member of the Chartered Institute of Management Accountants, United Kingdom, a Member of Malaysian Institute of Accountants and a Member of the Chartered Institute of Marketing, United Kingdom. He has been a regular speaker for various institute of training including The National Productivity Centre, The Malaysian Institute of Management and The Malaysian Institute of Accountants. During 1991 to 1996, he had also lectured in Finance and Accounting for the MBA Distance Learning Programme of The University Strathclyde, Glassgow, UK. He was a visiting lecturer in 2002-2003 for a distance learning MBA programme in the People's Republic of China, and has lectured in Tianjin, Shenzhen and Guangzhou. He is the founder and Chief Executive Officer of Applied Intellect Management Training Sdn Bhd, a company in operation since 1997 and providing quality and practical training courses for both the private as well as the public sectors.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He had no convictions of any offences in the past 10 years. He does not hold any shares in the Company.

### Datuk Subhi bin Hj Dziauddin

Independent Non-Executive Director

a Malaysian

aged 43

He was appointed as the Independent Non-Executive Director of the Company on 22 March 2004. He is also the Chairman of Nomination Committee and members of Audit Committee and Remuneration Committee. He graduated with a Bachelor of Science Degree in Engineering Physics from the University of Texas, El Paso, Texas, USA. Upon graduation in 1988, he started his career as a Pilot Trainer with the Royal Malaysian Air Force Flying School in Kepala Batas, Alor Setar, Kedah with the rank of Lieutenant. After spending a few years in the air-force, he left the air-force for the corporate world in 1994 when he joined Indah Water Konsortium Sdn Bhd ("IWK") as the Senior Manager, Entrepreneur Development Program Department. In November 1995, he left IWK to join Puncak Niaga (M) Sdn Bhd as the General Manager, Special Projects and subsequently resigned in 2003. He was directly involved and played a vital role in the successful listing of Puncak Niaga Holdings Berhad ("Puncak Niaga") on the Main Board of BMSB in 1997. He later joined Malaysian Resources Corporation Berhad ("MRCB") in February 1999 as the Director, Special Projects. He left MRCB in January 2000 for Puncak Niaga and was appointed as a Director in Puncak Niaga Overseas Capital Sdn Bhd, a subsidiary of Puncak Niaga.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He had no convictions of any offences in the past 10 years. He does not hold any shares in the Company.

## Profile of Directors

### Amirudin bin Mohd Baria

Independent Non-Executive Director

a Malaysian

aged 49

He was appointed as the Independent Non-Executive Director of the Company on 6 August 2004. He is also members of Audit Committee and Remuneration Committee. He graduated with a Bachelor of Business Administration majoring in Marketing from the University of Wisconsin, USA. Upon graduation in 1987, he started his career as a marketing and credit officer with Arab Malaysia Credit Berhad. After spending a few years in the banking industry, he joined Zenith Corporation as a marketing manager. In 1994, he joined Nam Consultant as manager. During the period from February 1997 to December 1999, he was appointed as the private secretary to YB. Dato' Sri Mohd Najib bin Tun Abd Razak. In December 1999, he returned to Nam Consultant.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He had no convictions of any offences in the past 10 years. He does not hold any shares in the Company.

### Li Ji Chang

Non-Independent Non-Executive Director

a citizen of People's Republic of China

aged 45

He was appointed as the Independent Non-Executive Director of the Company on 28 December 2004 and redesignated to Non-Independent Non-Executive Director on 29 April 2005. He graduated with a MBA in management from Shan Dong University, China. He started his career as an officer at Qing Dao State Government. After spending a few years in the state government, he left for the corporate world in 1995 and joined Siemens Building System, Germany as the regional Manager in China. In 1998, he joined Siebe Environmental Controls, USA as the regional manager in China. In 2000, he joined Infocon (Beijing) Environment Technology Controls Company Limited as the regional manager in China. In 2001, he joined Tridium Inc, USA as Vice President and Chief Representative for China.

He does not hold any other directorship in other public company.

He has no family relationships with any of the directors and/or major shareholders of the Company and its subsidiaries. He does not have any conflict of interest with the Company other than the disclosures made under Related Party Transactions which appear on Note 29 to the Financial Statements. He had no convictions of any offences in the past 10 years. He does not hold any shares in the Company.

# Chairman's Statement

On behalf of the Board of Directors of Metronic Global Berhad ("MGB" or "the Company"), I am pleased to present to you the Annual Report and Audited Financial Statements for the financial year ended 31 December 2006.

Tan Sri Dato' Kamaruzzaman Bin Shariff  
Executive Chairman



## Industry Overview and Development

The Malaysian ICT industry has shown signs of recovery from the economic downturn that has been affecting its performance since the contagious effect spread to the country in 1998. Market billings have stabilised and are expected to grow higher in tandem with the economic revival in a number of service-centric sectors.

Rapid advancement in technology and the integration of information technology and Internet technologies are constantly redefining market needs and the role of IBMS and ISMS players. Modern technology is changing rapidly due to the increasing computer processing power and new technological discoveries.

Building owners and managers are looking more for automated system or a piece of equipment with a pre-defined service support agreement. Building owners and managers today want an integrated building automated system with appropriate maintenance, back-up and training agreements to maximise their return on assets. Building owners are also looking at integrating the separate systems and services within their premises into a real interoperable cohesive solution. The traditional relationship between customers and suppliers, which exist for the term of the project or the duration of the service contract, is no longer viable. Building owners and managers are switching to performance contracts for value-added services and a long term relationship with their suppliers as opposed to just a system or a piece of equipment, changing the traditional role of the plain product and system supplier of building automation and security systems to a complete solution provider and integrator.

To remain competitive, the MGB Group has realigned their focus from being system and equipment providers to enhancing customer service and long-term support capabilities by developing their solutions and service businesses aimed at improving customers' productivity, competitiveness and overall building performance. The development of integrated products and services by the MGB Group is crucial in the identification of trends, problems and potential areas of improvement for their clients. Successful identification will lead to an overall improvement of building performance and profitability for building owners and managers.

# Chairman's Statement

## Corporate Developments

### Proposed Acquisition of Unilink; Proposed Acquisition of HK Broadway; Proposed Call Option; Proposed Private Placement; Proposed Bonus Issue; Proposed IASC; Proposed M&A Amendments; and Proposed Transfer ("the Proposals")

On 14 August 2006, the Company had, via its advisor, HWANGDBS Investment Bank Berhad (formerly known as Hwang-DBS Investment Bank Berhad) (formerly known as Hwang-DBS Securities Berhad) ("HWANGDBS") announced the following proposals:

- (i) Proposed acquisition of 125 ordinary shares of Hong Kong Dollar ("HK\$") 1.00 each in Unilink Development Limited ("Unilink") ("Unilink Shares") representing 12.5% equity interest in Unilink for a purchase consideration of Renminbi ("RMB") 15,000,000 (equivalent to approximately RM6,912,442 at a foreign exchange rate of RM1.00:RMB2.17) to be satisfied by the issuance of 23,041,474 new ordinary shares of RM0.10 each in MGB ("MGB Shares") at an issue price of RM0.30 per MGB Share ("Proposed Acquisition of Unilink");
- (ii) Proposed acquisition of 10,000 ordinary shares of HK\$1.00 each in HK Broadway Electronics Company Limited ("HK Broadway") ("HK Broadway Shares") representing 100% equity interest in HK Broadway for a purchase consideration of RMB15,000,000 (equivalent to approximately RM6,912,442 at a foreign exchange rate of RM1.00:RMB2.17) to be satisfied by the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share ("Proposed Acquisition of HK Broadway");
- (iii) Proposed call option arrangement between MGB and Zonemax whereby Zonemax has granted MGB a call option to acquire 563 Unilink Shares representing approximately 56.25% equity interest in Unilink for a purchase consideration of RMB67,500,000 ("Call Option") which shall be satisfied by the issuance of up to 103,686,636 new MGB Shares at an issue price of RM0.30 and/or cash payment to be mutually agreed upon by Zonemax and MGB or, if the Proposed Bonus Issue (as defined hereinafter) is implemented, 182,976,416 new MGB Shares at an issue price of RM0.17 per MGB Share and/or cash payment to be mutually agreed by Zonemax and MGB ("Proposed Call Option");
- (iv) Proposed private placement of up to 42,531,000 new MGB Shares ("Placement Shares") representing fifteen percent (15%) of the existing issued and paid-up share capital of MGB at an issue price to be determined based on a discount of not more than ten percent (10%) on the five (5) day volume weighted average market price of Company's Shares ("VWAMP") ("Proposed Private Placement");
- (v) Proposed bonus issue of up to 318,989,098 new Company's Shares ("Bonus Shares") to be credited as fully paid-up on the basis of six (6) Bonus Shares for every seven (7) MGB Shares held ("Proposed Bonus Issue");
- (vi) Proposed increase in the authorised share capital of MGB from RM50,000,000 comprising 500,000,000 MGB Shares to RM100,000,000 comprising 1,000,000,000 Company's Shares ("Proposed IASC");
- (vii) Proposed amendments to the Memorandum and Articles of Association ("M&A") of Company's ("Proposed M&A Amendments"); and
- (viii) Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of the Company from the MESDAQ Market to the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Transfer").

# Chairman's Statement

On 6 November 2006, the Company, via its advisor further announced that the Securities Commission ("SC") (Securities Issues Department and Equity Compliance Unit), had, vide its letter dated 3 November 2006, approved the above Proposals, subject to the conditions as stated in the said announcement. On 24 January 2007, the Company's advisor further announced that SC had vide its letter dated 19 January 2007 approved a revision to certain terms and conditions of the above Proposals.

On 26 February 2007, the Company's advisor further announced that Bank Negara Malaysia ("BNM") had, vide its letter dated 14 February 2007 approved the investment abroad to be made by MGB for the Proposed Acquisition of Unilink and the Proposed Call Option subject to certain conditions. The Proposed Acquisition of HK Broadway has been registered with BNM.

All the above proposals have been approved by the shareholders of MGB at the Extraordinary General Meeting held on 23 April 2007.

On 7 May 2007, the Company, via HWANGDBS announced that Bursa Malaysia Securities Berhad had, vide its letters dated 4 May 2007 granted its approval for the listing and quotation of new MGB shares to be issued pursuant to the Proposed Bonus Issue, Proposed Private Placement, Proposed Acquisitions and Proposed Call Option; and transfer of the Company's entire enlarged issued and paid-up share capital from the MESDAQ Market to the Main Board of Bursa Securities, under the "Technology" sector on a "Ready" basis pursuant to the Rules of Bursa Securities

On 11 May 2007, HWANGDBS announced that on 10 May 2007, MGB had entered into a Supplemental Call Option Agreement with Zonemax to vary the Call Option Agreement entered into between MGB and Zonemax dated 14 August 2006 ("Proposed Variation to Call Option"). On even date, HWANGDBS also announced that MGB proposes to vary the conditionality of the Proposals ("Proposed Variation to Conditionality"). The details of Proposed Variation to Call Option and Proposed Variation to Conditionality are stated in the said announcement. An application was submitted to the Securities Commission on 14 May 2007 in respect of the Proposed Variation to Call Option and Proposed Variation to Conditionality.

Barring any unforeseen circumstances, the Proposals are expected to be completed by the third quarter of year 2007.

## Other Corporate Developments

1. On 14 April 2006, the Company signed a Joint Venture cum Shareholders' Agreement with iCare Health Services Pte Ltd to co-operate and collaborate on health care services via a joint venture company known as Metronic iCares Sdn Bhd (formerly known as Success Knowledge Sdn Bhd) ("MiCares") which was incorporated on 20 March 2006. The Company holds 51% equity interest in MiCares via an acquisition of 51 ordinary shares of RM1 each in MiCares for a cash consideration of RM51. MiCares further increased its paid up share capital from 100 ordinary shares to 2,704,100 ordinary shares at RM1 each at par during the period. The Company subscribed to 1,379,000 of the said ordinary shares at RM1 each for a cash consideration of RM1,379,000, thus maintaining its 51% equity interest in MiCares.
2. On 5 June 2006, the Company incorporated a foreign subsidiary in Australia via a subscription of 60 ordinary shares of Australian Dollar ("A\$")1 each representing 60% equity interest in Metronic Australia Pty Ltd for a cash consideration of A\$60.
3. On 17 May 2006, the Company entered into a binding Heads of Agreement with FEELingK Co., Ltd ("FEELingK") to set up a joint venture company, FEELingK Malaysia Sdn Bhd ("FKSB"), with the primary objective of deploying card notification solution, bulk short message services, voice SMS and related consultancy, implementation and operations in Malaysia, Pakistan, India, United Arab Emirates, Saudi Arabia, Qatar, Australia, New Zealand and any other countries to be mutually agreed by the Company and FEELingK ("Joint Venture Agreement"). The

# Chairman's Statement

shareholdings of the respective joint venture partners shall be the Company (60%) and FEELingK (40%). On 6 July 2006, the Company acquired 100 ordinary shares of RM1 each in FKSB representing 100% of its issued and paid-up share capital for a total cash consideration of RM100. During the period, FKSB further increased its ordinary issued and paid up share capital from 100 to 10,000 by allotment of 9,900 ordinary shares of RM1 each. The Company subscribed all the allotted ordinary shares for a cash consideration of RM9,900, thus maintaining 100% equity interest in FKSB. At the date of this report, a new agreement is in the midst of being finalised to replace the said Joint Venture Agreement. Under the new agreement, the Company will acquire 100% equity interest in FKSB and FEELingK will charge FKSB licensing fee for solution provided.

4. On 11 June 2006, the Company entered into a deed of partnership with Tariq Mohammed Saeed Abdulla Al Jassmi ("Tariq"), a UAE national and Khalid Abdul Karim Faris ("Khalid"), a Jordanian national (collectively known as the Parties) for the purpose of carrying out the business of intelligent building management system, integrated security management, e-project management of mechanical and electrical services and other related activities in the entire Middle-East and North African region. The partners intend to incorporate a company with limited liability in the Emirate of Dubai under the proposed name of "Metronic Global Berhad LLC" ("the JVC") subject to the approvals of the relevant authorities. The shareholdings of the respective partners in the JVC shall be the Company (50%), Tariq (25%) and Khalid (25%). As at the date of this report, an initial approval to set up a Limited Liability Company ("LLC") has been obtained from the Department of Economic Development, Dubai and the LLC is in the midst of being set up.
5. On 22 December 2006, MGB acquired 2 ordinary shares of RM1.00 each in Trend Gate Systems Sdn Bhd ("TRSSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.
6. On 17 April 2007, the Company had entered into a Share Sale Agreement with the shareholders of Ariantec Sdn Bhd ("Ariantec"), to acquire 600,000 ordinary shares of RM1.00 each in Ariantec representing 40% equity interest in Ariantec for cash consideration of RM5,400,000. MGB had on the even date also entered into a Put Option Agreement with the Vendors whereby MGB has the option to sell the 600,000 Ariantec Shares back to the Vendors for a cash consideration of RM5,400,000 in the event that the Vendors do not fulfill the profit guarantee provided under the Share Sale Agreement. Ariantec is a value-added provider of data network infrastructure and managed security systems and solutions. As at the date of this report, the acquisition is pending (i) completion of the financial and legal due diligence by MGB on Ariantec and the results of the said due diligence being satisfactory to MGB; and (ii) balance payment of purchase consideration of RM5,130,000.
7. On 23 April 2007, the Company entered into a Shareholders' Agreement with Daniel Lim Kim Chuan, Dominica Avril Miji and Adprima Sdn Bhd ("Adprima") to carry out the activities of a special projects management consultancy company, performance contracting business and to participate in certain business which may from time to time agree. The Company shall subscribe for up to 120,000 new ordinary shares of RM1.00 each in Adprima for a total cash consideration of RM162,500, representing a 60% equity interest in Adprima.
8. On 27 April 2007, the Company entered into a Shareholders' Agreement with Kok Min Har a Singaporean investor, to set up a joint venture company known as Securetrax Solutions Pte Ltd ("Securetrax"). The business activity of the Securetrax shall be the development, distribution and marketing of a series of products relating to Home Land Security. The Company shall subscribe for up to 495,000 new ordinary shares of Singapore Dollar ("S\$") 1.00 each in Securetrax for a total cash consideration of S\$495,000, representing a 99% equity interest in Securetrax.

# Chairman's Statement

## Financial Review

For the financial year ended 31 December 2006, the Group recorded a revenue of RM110.94 million and profit after tax of RM9.03 million. The Group recorded net earnings per share of 3.25 sen for the year.

The Group's revenue for the current financial year 2006 is RM26.47 million or 31% higher than the revenue of RM84.47 million reported in the previous financial year, while the profit before taxation is reported at RM12.56 million compared to the previous year of RM12.78 million. The marginal drop in profit before tax as opposed to the increase in revenue was attributable to higher billings from projects of lower profit margin.

## Research and Development ("R&D")

During the financial year ended 31 December 2006, the Group spent RM1.57 million on R&D.

In year 2006, the Group has diversified its R&D activity through signing a Power Line Communication ("PLC") Products Development Agreement with Planet System Co. Ltd ("Planet"), a Korean company involved in the research and development of PLC technology and in the production of the PLC transceiver and Home Network solutions, to jointly develop PLC products.

In the same year, the Group through its 51% owned subsidiary, Metronic iCares Sdn Bhd where an integrated e-healthcare infrastructure that enables healthcare information, transactions and processes be seamlessly shared across various healthcare service providers, insurance companies, multinational corporation as well as government ministries was commercialized and managed to secure contracts from 4 anchor insurance corporations in Malaysia.

For the ensuing years, the Group will continuously develop application, products and system which comprise the following:

- Development of enhanced Direct Digital Controller. When programmed using JBCM software, or loaded with a pre-engineered application, these controllers provide control for air-conditioning packaged units, heat pumps, air handling units, fan coils, unit ventilators, and similar applications. Controllers feature Sensor Link support, LED indication, screw terminal blocks, as well as DIN rail or panel mounting ability. These controllers can function in either standalone mode or as part of a LON WORKS, BACNet or MODBUS communications network.
- Development of PLC technology and in the production of the PLC transceiver and Home Network solutions for the PLC products.

## Prospects for 2007

Over the past few years, the Group has been actively embarking on product diversification and geographical expansion strategies through its continuous research and development effort by working closely with its strategic partners.

In view of the above and the existing order book, as well as the potential projects the Group is currently pursuing, coupled with the acquisition of companies the Group is currently implementing, both locally and overseas, the Directors are of the opinion that the Group should be able to maintain its performance in accordance to expectations for the next financial year ending 31 December 2007.

# Chairman's Statement

## Appreciation and acknowledgement

On behalf of the Board, I would like to record my sincere appreciation to all our valued customers, business associates, financial institutions and relevant government authorities for their assistance, continued support and confidence.

My sincere thanks to my fellow board members for their invaluable contribution and heartfelt appreciation to the management and staff for their unwavering dedication and hardwork.

## On behalf of the Board

**Tan Sri Dato' Kamaruzzaman Bin Shariff**  
Executive Chairman

# Statement on Corporate Governance

The Board of Directors ("the Board") of Metronic Global Berhad ("MGB or the Company") and its subsidiaries ("the Group") is committed in ensuring that the highest standards of corporate governance are observed and consistently practiced throughout the group as a fundamental part of discharging its responsibility to protect and enhance shareholders value and financial performance of the Group.

The Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") require a listed company to apply the Principles and Best Practices of the Malaysia Code on Corporate Governance ("the Code") to raise standards of corporate governance. Measures to implement and adopt the principles and best practices in conjunction with the listing requirements are continuously being carried out.

The Board confirms that the Group has applied the principles in Part 1 of the Code, as well as the best practices set out in Part 2 of the Code with regards to the financial year under review.

The following statement describes how the principles of best practices have been applied.

## A. The Board of Directors

### 1. Duties of the Board

An experienced Board leads and maintains full and effective control over the Group's activities. It guides the Group on its short and long term goals, setting objectives and directions, reviewing and adopting strategic plans, overseeing the conduct of the business and managing the Group.

All board members participate fully in decisions on key issues involving the group which include approval of major investments, financial decisions, annual budgets and in establishing key policies and procedures.

### 2. Composition of the Board

The Board of MGB currently consists of eight (8) members, of whom three (3) members of the Board are Independent Non-Executive Directors.

The Board has within it professionals drawn from varied backgrounds bringing in considerable knowledge and expertise to the Group. The Board is assured of balance and independent view at all board deliberation due to the presence of its Independent Non-Executive Directors who are independent of the management and substantial shareholders of the Company and are free from any dealings or relationships which could interfere with the exercise of their independent judgement.

The composition of the Board shall be reviewed on an annual basis by the Nomination Committee to ensure the Board has the required mix of skills, expertise, attributes and core competencies to discharge its duties effectively.

There is clear division of responsibility between the Executive Chairman, the Group Managing Director and Executive Director to ensure there is a balance of power and authority.

# Statement on Corporate Governance

## 3. Board Meeting and Supply of Information

Board meetings are scheduled at quarterly intervals with additional meetings convened as and when necessary.

During the year under review six (6) board meetings were held and the respective attendance are as follows:

Directors	Designation	Attendance of Board Meeting 2006					Total	
		17/1/06	27/2/06	26/4/06	29/5/06	28/8/06		27/11/06
Tan Sri Dato' Kamaruzzaman bin Shariff	Executive Chairman	o	o	o	o	o	o	6
Dato' Abd Gani bin Yusof	Executive Vice Chairman	o	o	o	o	o	o	6
Dr. Ng Tek Che	Group Managing Director	o	o	o	o	o	o	6
Liew Chiap Hong	Executive Director	o	o	o	o	o	o	6
Lee Fok Chong	Independent Non-Executive Director	o	o	*	o	o	o	5
Datuk Subhi bin Hj Dziauddin	Independent Non-Executive Director	o	o	*	*	o	*	3
Amirudin bin Mohd Baria	Independent Non-Executive Director	o	*	o	*	o	o	4
Li Ji Chang Non- Executive Director	Non-Independent Director	*	o	*	*	*	o	2

o -Present      \* - Absent with apologies      N/A - Not applicable

The Board is provided with agendas and board papers prior to board meetings. The Board papers includes minutes of previous meeting, quarterly financial results, progress reports of Group businesses, strategic proposals, regulatory and audit report for the Board's review and approval.

These documents are issued in advance to enable the Board to seek clarifications from the management to enable effective discharge of it duties.

The Board Members have access to the advice and services of the Company Secretary and other professionals and all informations in relation to the Group to assist in the furtherance of their duties.

## 4. Board Committee

The Board has established the following committees which operate within clearly defined terms of reference to assist the Board in executing its duties and responsibilities. The committees are:

### i. Audit Committee

The Audit Committee was established on 8 April 2004 to review and monitor the Group's financial results and system of internal controls.

The Committee currently comprises four (4) members of whom three (3) are Independent Non-Executive Directors. The members are:

# Statement on Corporate Governance

The members are:

<b>Members</b>	<b>Designation</b>
Lee Fok Chong (Chairman)	Independent Non-Executive Director
Datuk Subhi bin Hj Dziyauddin	Independent Non-Executive Director
Amirudin bin Mohd Baria	Independent Non-Executive Director
Liew Chiap Hong	Executive Director

Details of the functions and activities of the committee are set out on pages 31 to 34 of the Annual Report.

## ii. Nomination Committee

The Nomination Committee was established on 11 June 2004 with primary responsibility of ensuring that the Board has appropriate balance and size and the required mix of skills, experience and other core competencies and for recommending the appointment of new directors to the Board.

The Committee currently comprises three (3) members, two (2) of whom are Independent Non-Executive Directors. The members are:

<b>Members</b>	<b>Designation</b>
Datuk Subhi bin Hj Dziyauddin (Chairman)	Independent Non-Executive Director
Lee Fok Chong	Independent Non-Executive Director
Dr. Ng Tek Che	Group Managing Director

During the financial year under review, the committee met once with all members present.

## iii. Remuneration Committee

The Remuneration Committee was established on 11 June 2004 to review and recommend to the Board the remuneration package of Executive Directors of the Group with main objective of recommending the level of remuneration attractive enough to attract and retain them to run the Group successfully.

The Group Human Resource and Administration provides comparative remuneration market survey information to the committee and the committee makes recommendation to the Board. The Board as a whole determine their remuneration. No director is allowed to be present in the discussion and voting on his or her own remuneration.

Presently the committee comprises four (4) members, three (3) of whom are Independent Non-Executive Directors. The members are:

# Statement on Corporate Governance

Members	Designation
Lee Fok Chong (Chairman)	Independent Non-Executive Director
Datuk Subhi bin Hj Dzyiauddin	Independent Non-Executive Director
Amirudin bin Mohd Baria	Independent Non-Executive Director
Liew Chiap Hong	Executive Director

During the financial year under review the committee met once attended by all members.

#### iv. Risk Management Committee

A risk management committee was established on 27 December 2005 by the Board to undertake the responsibilities of overseeing the formulation of an effective and efficient risk management framework and policies for the Company and its subsidiaries of which the key element is to ensure correct balancing of risk and control.

The committee is under the purview of the Board. The committee comprises members from amongst the Board and the senior management and is headed by the Group Managing Director, Dr Ng Tek Che.

Details of the functions and activities of the committee are set out on pages 35 to 37 of the Annual Report.

#### 5. Directors' Training

All Directors have successfully completed the Mandatory Accreditation Programme conducted by Bursa Malaysia Training Berhad in compliance with the Listing Requirement. The Board believes that Directors should receive continuous training from time to time and accordingly shall and has provided and encouraged them to attend training and participate in relevant education programme to keep abreast with new development.

#### 6. Retirement and Re-election

In accordance with the Articles of Association all Directors are subject to election by shareholders at the first opportunity following their appointment by the Board.

The Articles also provide that all Directors, shall retire by rotation so that each shall retire from office at least once in every three (3) years.

Directors who are seventy years of age are required to submit themselves for re-appointment annually in accordance to Section 129(6) of the Companies Act 1965.

At the forthcoming Annual General Meeting the following Directors who retire in accordance with the Company's Articles of Association, and being eligible have offered themselves for re-election.

- i) Tan Sri Dato' Kamaruzzaman bin Shariff
- ii) Dr Ng Tek Che

# Statement on Corporate Governance

## B. Directors' Remuneration

A summary of the remuneration of the Directors for the financial year under review, distinguishing between Executive and Non-Executive Directors in aggregate with categorization into appropriate components is set out below:

	Executive Directors	Non- Executive Directors	Total
*Fees (RM)	36,000	72,000	108,000
Salaries and Other Emoluments (RM)	745,850	-	745,850

*\* Directors' fees for the financial year is subject to shareholders' approval at the forthcoming Annual General Meeting.*

The number of Directors whose remuneration falls into the following bands are:

	Executive Directors	Non-Executive Directors
Below RM50,000	1	3
RM50,001 – RM100,000	-	-
RM100,001 – RM150,000	-	-
RM150,001 – RM200,000	1	-
RM200,001 – RM250,000	1	-
RM250,001 – RM300,000	-	-
RM300,001 – RM350,000	1	-

## C. Investor Relations and Shareholders Communication

The Group values dialogue with investors and analysts as a means of effective communication that enables the Board to convey information about latest development of the Group.

The Company's Annual General Meeting provides a vital platform for both private and institutional shareholders to share viewpoints and acquire information on issues relevant to the Group. At the Annual General Meeting, shareholders are encouraged to question resolutions proposed or the Group's business operations in general.

Apart from the above and the mandatory announcement of the group financial results and corporate developments to Bursa Malaysia Securities Berhad, the Group has also established a website ([www.metronic-group.com](http://www.metronic-group.com)) to allow public access to group's information, business activities and latest developments and for feedback.

# Statement on Corporate Governance

## D. Accountability and Audit

### 1. Financial Reporting

The Board has ensured that the financial statements have been prepared in accordance to applicable approved accounting standards, the requirements of the Companies Act 1965 and other regulatory provisions. In preparing the financial statements the Board has ascertained that reasonable prudent judgement and estimates have been consistently applied and accounting policies adopted have been complied with.

### 2. Internal Control

The Statement on Internal Control set out on pages 35 to 37 of the Annual Report provides an overview of the state of internal control within the Group.

### 3. Relationship with Auditors

Through the Audit Committee, the Board has established a transparent and appropriate relationship with the Group's external and internal auditors in seeking their professional advice and towards ensuring compliance with applicable accounting standards and statutory requirements.

The external and internal auditors do attend the Audit Committee meeting and the external auditors do report to members of the Company on their findings which are included as part of the Company's financial report in respect of the financial year.

### 4. Directorship Responsibility Statement for the Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit and loss of the Company and of the Group for the financial year.

In preparing those financial statements, the Directors are required to:-

- a) use appropriate accounting policies and consistently apply them;
- b) make judgements and estimates that are reasonable and prudent; and
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and to enable them to ensure that the accounts comply with the Companies Act, 1965.

The Directors are satisfied that in preparing the financial statements of the Group for the year ended 31 December 2006, the Group has used the appropriate accounting policies and applied them consistently and prudently. The Directors are of the opinion that all relevant approved accounting standards have been followed and confirm that the financial statements have been prepared to give a true and fair view of the financial state of affairs of the Group.

# Statement on Corporate Governance

## E. Other Information

The following information provided is in respect of the financial year ended 31 December 2006.

### Utilization of Proceeds

As at 31 December 2006, the status of utilization of the proceeds of RM14.91 million raised by the Company from its initial public offerings is as follows:-

Proposed of Proceeds	Proposed utilization RM'000	Amount utilized as at 31.12.2006 RM'000	Amount unutilized RM'000
Repayment of bank borrowings	5,000	5,000	-
Capital expenditure for office expansion	2,600	2,600	-
R&D expenditure	3,000	1,931	1,069
Working capital	3,110	3,110	-
Listing expenses	1,200	1,200	-
	14,910	13,841	1,069

Due to changes in some of the R&D projects of the Company and its subsidiaries, the Company will not be able to fully utilize the proceeds earmarked for R&D expenditure within three years from the date of listing on 24 May 2004. As such, the Company had, on 14 May 2007, announced its intention to extend the timeframe for the utilization of the balance proceeds by an additional six months to 24 November 2007. The proposed extension of time is subject to the approval of the Securities Commission. An application was submitted to the SC on 14 May 2007 for an extension of time for the utilisation of proceeds

### Share Buybacks

During the financial year, there were no share buybacks by the Company.

### Options, Warrants or Convertible Securities

During the financial year, no options, warrants or convertible securities were issued by the Company.

### American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme

During the financial year, the Company did not sponsor any ADR or GDR programme.

### Imposition of Sanctions/Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies.

### Non-audit Fees

The amount of non-audit fees paid to the external auditors by the Group for the financial year ended 31 December 2006 was RM100,000. The fee was related to the professional services rendered in respect of the Group's proposed corporate exercise in 2006.

# Statement on Corporate Governance

## **Variation in Results**

There is no material variance between the audited results and the previously announced unaudited results for the financial year ended 31 December 2006.

## **Profit Guarantees**

During the financial year, there were no profit guarantees given by the Company.

## **Material Contracts**

There were no material contracts involving the interest of the Directors and major shareholders of the Company other than those disclosed in the Related Party Transactions as disclosed in the Note 29 to the Financial Statements.

## **Contract Relating to Loans**

There were no contracts relating to loans by the Company.

## **Revaluation of Landed Properties**

The Group did not revalue its property, plant and equipment and does not have a policy on the revaluation of the landed properties.

## **Corporate Social Responsibility**

There were no corporate social responsibility activities undertaken by the Company and its subsidiaries for the financial year under review.

## **Recurrent Related Parties Transactions**

The Shareholders' of MGB had at the Third (3rd) Annual General Meeting held on 15 June 2006 granted their approval on the Shareholders' Mandate for recurrent related party transactions ("RRPTs") for MGB and its subsidiaries ("MGB Group") to enter into recurrent transactions of a revenue or trading nature, which are necessary for the day-to-day operations and in the ordinary course of business of the MGB Group, on terms not more favourable to the Related Parties than those generally available to the public, as set out in the Circular to Shareholders dated 22 May 2006.



# Statement on Corporate Governance

For the financial year ended 31 December 2006, the aggregate value of transactions conducted are as follows:

Companies within the MGB Group	Transacting Parties	Nature of Transactions	Related Parties	Nature of relationship	Aggregate Value of Transaction from January 2006 to December 2006(RM)
(i) MESB	MCSB	Rental of office space to MCSB on a monthly basis	<ul style="list-style-type: none"> <li>• Dato' Abd. Gani bin Yusof</li> <li>• Dr. Ng Tek Che</li> <li>• Liew Chiap Hong</li> <li>• MCSB</li> </ul>	Note (a)	12,000
(ii) MESB	Meditechnique	Rental of office space to Meditechnique on a monthly basis	<ul style="list-style-type: none"> <li>• Dr. Ng Tek Che</li> </ul>	Note (b)	12,000
(iii) MESB	ITG	Purchases of consumable parts from ITG	<ul style="list-style-type: none"> <li>• Liew Chiap Hong</li> </ul>	Note (c)	1,504,740
(iv) MESB	ITG	Rental of office space to ITG on a monthly basis	<ul style="list-style-type: none"> <li>• Liew Chiap Hong</li> </ul>	Note (c)	6,000
(v) MESB	ICSB	Contract fee payable to ICSB in respect of installation services	<ul style="list-style-type: none"> <li>• Dato' Abd. Gani bin Yusof</li> </ul>	Note (d)	14,475
(vi) MESB	ICSB	Maintenance revenue receivable from ICSB in respect of maintenance services	<ul style="list-style-type: none"> <li>• Dato' Abd. Gani bin Yusof</li> </ul>	Note (d)	20,550
(vii) MESB	MHP	Contract and maintenance revenue receivable from MHP in respect of e-project management of mechanical and electrical services for Sultan Ismail Hospital in Johor Bahru and Alor Setar Hospital in Kedah	<ul style="list-style-type: none"> <li>• Tan Sri Dato' Kamaruzzaman bin Shariff</li> <li>• Dato' Abd. Gani bin Yusof</li> </ul>	Note (e)	69,635,807
(viii) MISSB	MCSB	Provision of accountancy services to MCSB	<ul style="list-style-type: none"> <li>• Dato' Abd. Gani bin Yusof</li> <li>• Dr. Ng Tek Che</li> <li>• Liew Chiap Hong</li> <li>• MCSB</li> </ul>	Note (a)	60,000
(ix) MISSB	Meditechnique	Provision of accountancy services to Meditechnique	<ul style="list-style-type: none"> <li>• Dr. Ng Tek Che</li> </ul>	Note (b)	12,000

## Notes:

- (a) Metronic Corporation Sdn Bhd ("MCSB") is a Major Shareholder of MGB. Dato' Abd. Gani bin Yusof, Dr. Ng Tek Che and Liew Chiap Hong who are Directors of MGB, are also directors and shareholders of MCSB, with shareholdings of 58%, 22% and 20% respectively.
- (b) Dr. Ng Tek Che, who is a Director of MGB, is also a director and shareholder of Meditechnique Sdn Bhd ("Meditechnique") with a shareholding of 49%.
- (c) Liew Chiap Hong, who is a Director of MGB, is also a director of ITG Worldwide (M) Sdn Bhd ("ITG") with a shareholding of 51%.
- (d) Dato' Abd. Gani bin Yusof, who is a Director of MGB, is also a Director and shareholder of Integrated Commerce Sdn Bhd ("ICSB") with a shareholding of 51%.
- (e) Tan Sri Kamaruzzaman bin Shariff and Dato' Abd. Gani bin Yusof, who are Directors of MGB, are also directors of MH Projects Sdn Bhd ("MHP").

# Audit Committee Report

The Audit Committee of the Metronic Global Berhad ("MGB" or "the Company") and its subsidiaries ("the Group") was established by a resolution of the Board of Directors ("the Board") on 8 April 2004. The Committee, operating within a specific terms of reference, was established to assist the Board of the Group in the discharge of their duties and responsibility.

The Audit Committee meets regularly with the senior management and the internal auditors to review the Group's operations, financial report and the system of internal controls and compliance.

## A. MEMBERS

Members of the Audit Committee during the financial year ended 31 December 2006 are as follows:

Members	Designation
Lee Fok Chong (Chairman)	Independent Non-Executive Director
Datuk Subhi bin Hj Dziauddin	Independent Non-Executive Director
Amirudin bin Mohd Baria	Independent Non-Executive Director
Liew Chiap Hong	Executive Director

## B. TERMS OF REFERENCE

The terms of reference of the Audit Committee are as follows:-

### 1. Composition

The Audit Committee shall be appointed by the Board from amongst their members and shall comprise at least three directors, a majority of whom shall be Independent Directors. The Chairman who shall be elected from amongst members of the Committee shall be an Independent Non-Executive Director. At least one member of the Committee must be a member of the Malaysian Institute of Accountants. If he is not a member of Malaysian Institute of Accountants he must fulfill such other requirements as prescribed by Bursa Malaysia Securities Berhad.

No alternate director may be appointed as a member of the Committee.

In the event of any vacancy in the committee resulting in the number being reduced to below three, the Board shall within three months of that event fill the vacancy.

The Board will review the terms of office and the performance of the Audit Committee and its members at least once every 3 years.

# Audit Committee Report

## 2. Objective

The principal objective of the Committee is to assist the Board in discharging its statutory duties.

The Committee shall assist the Board in the following aspect:

- i) Review the adequacy and integrity of the Group's internal control systems, management information system including system of compliance with applicable laws, regulations, rules, directives and guidelines.
- ii) Ensure that the risk management framework to manage material risk is in place and adhered to.

## 3. Authority

The Committee shall have the authority to investigate any matter within its terms of reference with full and unrestricted access to all the Group's records, properties and personnel.

The Committee is authorized and shall be entitled to obtain independent professional or other advice to assist in executing its duties.

## 4. Meetings

The Committee shall meet at least four (4) times a year to coincide with the review of the quarterly and annual financial statement prior to presentation to the Board for approval. Additional meetings may be called as and when necessary at the discretion of the Chairman of the Committee.

In order to form a quorum the majority of members present must be independent.

Other members of the Board and senior management, internal and external auditors may attend meeting upon invitation by the Audit Committee.

## 5. Secretary

The Company Secretary shall be the secretary of the Committee and be responsible for drawing up agendas in consultation with the Chairman.

The agenda together with the relevant documents shall be circulated to the committee members, one week prior to each meeting.

The Company Secretary shall be responsible for recording attendance, keeping minutes of meetings and circulating to committee members and members of the Board.

## 6. Duties and Responsibilities

In fulfilling its primary objectives, the Committee shall undertake the following duties and responsibilities:

- i) Review with the external auditor, the audit scope and plan, including any changes to the planned scope of the audit plan.
- ii) Review the adequacy of the internal audit scope and plan, functions and resource of the internal audit function and that it has the necessary authority to carry out its work.

# Audit Committee Report

- iii) Review the external and internal audit reports to ensure that appropriate and prompt remedial actions are taken by the management on major deficiencies in controls or procedures that are identified.
- iv) Review the major audit findings and the management's responses during the year with management, external auditors and internal auditors, including the status of previous audit recommendations.
- v) Review the assistance given by the Group's employees to the auditors, and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
- vi) Review the independence and objectivity of the external auditors and their services, including non-audit services and the professional fees, so as to ensure a proper balance between objectivity and value for money.
- vii) Review the appointment and performance of external auditors, the audit fee and any question of resignation or dismissal before making recommendations to the Board.
- viii) Review the adequacy and integrity of internal control system, including enterprise risk management, management information system, and the internal auditor's evaluation of the said systems.
- ix) Direct and where appropriate monitor any special projects or investigation considered necessary, and review investigation report on any major defalcation, fraud and theft.
- x) Review the quarterly results and the year-end financial statements, prior to the approval by the Board focusing particularly on:
  - changes in or implementation of major accounting policy;
  - significant or unusual events;
  - significant adjustments from audit; and
  - compliance with accounting standards and other legal requirements.
- xi) Review any related party transaction and conflict of interest situation that may arise within the Company or the Group, including any transaction, procedure or course of conduct that raise questions on management integrity.
- xii) Monitor organizational compliance with statutory and Listing Requirements of Bursa Malaysia Securities Berhad.
- xiii) Any other activities, as authorized by the Board.



# Audit Committee Report

## C. SUMMARY OF AUDIT COMMITTEE'S ACTIVITIES

During the financial year ended 31 December 2006, the Audit Committee convened five (5) meetings. Details of the attendance of the committee members are as follows:

<b>Members</b>	<b>No. of meetings held during the year</b>	<b>No. of meetings attended</b>	<b>%</b>
Lee Fok Chong	5	5	100
Datuk Subhi bin Hj Dziauddin	5	3	60
Amirudin bin Mohd Baria	5	3	60
Liew Chiap Hong	5	5	100

The meetings were appropriately structured through the use of agendas and meetings papers, which were distributed to members with sufficient notice.

In line with the terms of reference, the following activities were carried out by the Audit Committee during the financial year under review:

- i) Review the group's quarterly, half yearly and year end results with the external auditors prior to submission to the Board for consideration and approval.
- ii) Review the audit plan presented by the external auditors prior to their annual audit as to their scope of work and strategy.
- iii) Review the annual audit plan prepared by the internal auditors to ensure adequate scope and coverage on their activities.
- iv) Review internal audit report prepared by the internal auditors especially with regards to issues raised, recommendations made and management's response to their recommendation.
- v) Review the risk assessment reports prepared by the internal auditor and the recommendations made.
- vi) Review the related party transactions as required to be disclosed by the Listing Requirements of Bursa Malaysia Securities Berhad.
- vii) Review the performance of the external auditors and recommendations made to the Board.

## D. INTERNAL AUDIT FUNCTION

The Group has appointed a professional firm of qualified accountants to undertake the internal audit function.

The role and responsibilities of the internal audit function are as follows:

- i) To undertake independent and regular reviews of the system of internal controls and give assurance that such system continues to operate satisfactorily and effectively.
- ii) To review the risk identification and evaluation process and ensure controls implemented by the management are consistent with the Group's risk management policy.

The Internal Auditors have carried out their duties in accordance with its terms of reference and the annual audit plan was approved by the Audit Committee and the Board.

# Statement on Internal Control

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and Group's assets. The Listing Requirements of Bursa Malaysia Securities Berhad require directors of public listed companies to include a statement on internal control in their annual reports.

The Board of Directors ("the Board") of Metronic Global Berhad is pleased to provide the following statement, which outlines the nature and scope of internal controls of the Group during the financial year ended 31 December 2006.



## 1. Board's Responsibility

The Board recognises the importance of sound internal controls and risk management practice for good corporate governance. The Board acknowledges that it is responsible for the Group's system of internal control ("the System") and for reviewing its adequacy and integrity.

It should be noted due to the inherent limitations, the System is designed to manage rather than eliminate the risk of failure to achieve Group's business objectives. Accordingly, the System can only provide reasonable and not absolute assurance against material misstatement and loss.

## 2. Risk Management Framework

The Board confirms that there is an on-going process of reviewing, identifying, evaluating and managing significant risks faced by the Group. To demonstrate the Group's commitment to risk management, a risk management committee ("RMC") was established during the year 2005 by the Board to undertake the responsibilities of overseeing the formulation of an effective and efficient risk management framework and policies for the Company and its subsidiaries of which the key element is to ensure correct balancing of risk and control. The committee, headed by the Group Managing Director, comprises members from amongst the Board and the senior management and is under the purview of the Board.

# Statement on Internal Control

The duties of the RMC cover but not limited to the following areas:-

- Oversee the overall management of all risks covering strategic risk, financial risk, operational and compliance risk.
- Establish risk management guidelines.
- Evaluate the structure for the Group risk management, process and support system.
- Carry risk evaluation on:-
  - i) any capital expenditure proposed by the Group
  - ii) all business ventures into new areas of business and any investment outside Malaysia
  - iii) any transaction which carries exceptional items, conditions or obligations including contingent obligations
- Review and approve action and contingency plans developed to mitigate key risks.
- Advise the Board on risk related issues and recommend strategies, policies, and risks tolerance for Board approval.

### 3. Internal Audit Function

The internal audit function is presently outsourced to a public accounting firm. The internal auditors prepare an annual audit plan, provide independent reviews on risk management and control processes implemented by the management and report to the Audit Committee which reviews the adequacy, integrity and effectiveness of the system of internal control.

During the year under review, the internal auditors have completed four (4) cycles of internal audit and the findings have been communicated to the management of the Group and the Audit Committee. The Audit Committee reviewed the reports from internal auditors and responses from the management before reporting the findings and making recommendations to the Board in strengthening the system of internal control.

### 4. Other Internal Control Processes

Apart from risk management and internal audit, the Group's other key internal control processes include the following:

- i) There is an organisation structure with well-defined reporting lines of responsibility and accountability and delegation of authority.
- ii) Documented policies and procedures are updated regularly to reflect changing operational risks. The Board approves appropriate responses or amendments in the Group's policies.
- iii) The Audit Committee comprises three (3) Independent Non-Executive Directors and one (1) Executive Director. The Audit Committee was established with a view to assist and to provide the Board with added focus in discharging its duties.
- iv) Quarterly results are reviewed by the Board and the Audit Committee before announcement to the Bursa Securities.
- v) There is regular management meetings attended by executive directors to discuss and report on operational performance, business strategy, key, operating statistics, legal and regulatory matters of each business unit.
- vi) An annual budgeting process is in place where each business unit is required to prepare its operating budget for the forthcoming year. The budgets are reviewed by the management and approved by the Board. Actual performance compared with the budget is prepared and reviewed by the management during the monthly management meeting.

# Statement on Internal Control

- vii) The Group's principal operating subsidiary, Metronic Engineering Sdn Bhd is ISO 9001:2000 accredited. Its employees are guided by the Quality Manual where standard operating procedures are to be followed. In addition to the periodic external ISO audit, internal audit is carried out on semi-annual basis where the findings or issues are documented and deliberated by the management team in the management review meetings.

## 5. Conclusion

There was no significant breakdown or weakness in the system of Internal Control of the Group that resulted in material losses or contingencies for the year under review. The Board and the management will continually review and improve the existing risk management processes and internal control system to ensure their adequacy and effectiveness in the dynamic business environment.



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# Directors' Report & Audited Financial Statements

31 December 2006

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# Directors' Report

## DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are procurement of contracts and system integration specialising in the field of intelligent building management system and integrated security management system; e-project management of mechanical and electrical services; and supply of engineering systems and engineering equipment.

During the year, the Company acquired four new subsidiaries, namely Metronic-iCares Sdn. Bhd., FeelingK Malaysia Sdn. Bhd., Trend Gate Systems Sdn. Bhd., and Metronic Australia Private Limited. The principal activities and intended principal activities of these new subsidiaries have been disclosed in Note 16 to the financial statements. With the exception of Metronic-iCares Sdn. Bhd., these newly acquired subsidiaries have not commenced operations as at 31 December 2006.

There have been no significant changes in the nature of the principal activities during the financial year, other than as disclosed above.

## RESULTS

	Group RM	Company RM
Profit for the year	9,028,575	15,021,969
Attributable to:		
Equity holders of the Company	9,214,592	15,021,969
Minority interests	(186,017)	-
	<u>9,028,575</u>	<u>15,021,969</u>

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than:

- (a) the effects arising from the changes in accounting policies due to the adoption of new and revised Financial Reporting Standards as disclosed in the Note 3 to the financial statements.
- (b) the effects arising from the acquisition of a subsidiary as disclosed in Note 16 to the financial statements.

## DIVIDENDS

The amount of dividends paid by the Company since 31 December 2005 was as follows:

	RM
Final dividend of 3% less 28% income tax in respect of the financial year ended 31 December 2005 as reported in the directors' report of that year, paid on 28 July 2006	<u>612,447</u>

The directors do not recommend the payment of any dividend in respect of the current financial year ended 31 December 2006.

# Directors' Report

## DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Dato' Kamaruzzaman bin Shariff  
Dato' Abd. Gani bin Yusof  
Datuk Subhi bin Hj Dzyiauddin  
Dr Ng Tek Che  
Liew Chiap Hong  
Lee Fok Chong  
Amirudin bin Mohd Baria  
Li Ji Chang

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest required to be disclosed by Section 169 (8) of the Companies Act, 1965, except for as disclosed in Note 29 to the financial statements.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

	Ordinary shares of RM0.10 each			As at 31.12.2006
	As at 1.1.2006	Bought During the year	Sold	
Direct Interest:				
Dato' Abd. Gani bin Yusof	64,682,450	24,242,670	-	88,925,120
Dr Ng Tek Che	24,397,765	9,144,165	-	33,541,930
Liew Chiap Hong	24,397,765	9,144,165	( 7,000,000)	26,541,930
Tan Sri Dato' Kamaruzzaman bin Shariff	-	500,000	-	500,000
Indirect Interest:				
Dato' Abd. Gani bin Yusof	85,062,000	-	( 42,531,000)	42,531,000
Dr Ng Tek Che	85,062,000	-	( 42,531,000)	42,531,000
Liew Chiap Hong	85,062,000	-	( 42,531,000)	42,531,000

By virtue of their interests in the shares of the Company, Dato' Abd. Gani bin Yusof, Dr Ng Tek Che and Liew Chiap Hong are also deemed to have an interest in the shares of all subsidiaries of the Company to the extent the Company has an interest.

None of the other directors holding office at 31 December 2006 had any interest in the ordinary shares in the Company or its related corporations during the financial year.

# Directors' Report

## OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts and satisfied themselves that there were no known bad debts and adequate provisions have been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or the amount of the provisions for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) 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 liabilities of any other person, or
  - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year except as disclosed in Note 33 (c) to the financial statements.
- (f) In the opinion of the directors:
- (i) no contingent liability 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 will or may affect the ability of the Group or of the Company to meet its obligations as and when they fall due; and
  - (ii) 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 the operations of the Group or of the Company for the financial year in which this report is made.

## SIGNIFICANT AND SUBSEQUENT EVENTS

Significant and subsequent events are disclosed in Note 32 and Note 33 to the financial statements respectively.

# Directors' Report

## **AUDITORS**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2007.

Dato' Abd. Gani bin Yusof  
Selangor Darul Ehsan

Dr Ng Tek Che

# Statement by Directors

Pursuant to section 169(15) of the Companies Act, 1965

We, Dato' Abd. Gani bin Yusof and Dr Ng Tek Che, being the directors of Metronic Global Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 46 to 84 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2007

Dato' Abd. Gani bin Yusof

Dr Ng Tek Che

Selangor Darul Ehsan

# Statutory Declaration

Pursuant to section 169(16) of the Companies Act, 1965

I, Dr Ng Tek Che, being the director primarily responsible for the financial management of Metronic Global Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 46 to 84 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.

Subscribed and solemnly declared by  
the abovementioned Dr Ng Tek Che  
at Petaling Jaya, Selangor Darul Ehsan  
on 26 April 2007

Dr Ng Tek Che

Before me,

# Report of the Auditors

to the members of Metronic Global Berhad  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 46 to 84. 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 the 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 to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' report thereon of a subsidiary of which we have not acted as auditors, as indicated in Note 16 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries 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 required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
26 April 2007

Gloria Goh Ewe Gim  
No. 1685/04/09 (J)  
Partner

# Income Statements

for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	5	110,941,715	84,473,902	21,600,000	3,000,000
Cost of sales	6	(87,649,693)	(60,928,651)	-	-
Gross profit		23,292,022	23,545,251	21,600,000	3,000,000
Other income	7	739,437	525,676	50,970	66,482
Administration expenses		(2,404,327)	(1,971,649)	(529,123)	(291,138)
Other expenses		(8,873,869)	(9,303,001)	(97,621)	(195,393)
Profit from operations		12,753,263	12,796,277	21,024,226	2,579,951
Finance costs	8	(192,595)	(15,077)	-	-
Profit before taxation	9	12,560,668	12,781,200	21,024,226	2,579,951
Income tax expense	10	(3,532,093)	(3,557,640)	(6,002,257)	(850,564)
Profit for the year		9,028,575	9,223,560	15,021,969	1,729,387
Attributable to:					
Equity holders of the Company		9,214,592	9,249,354	15,021,969	1,729,387
Minority interests		(186,017)	(25,794)	-	-
		9,028,575	9,223,560	15,021,969	1,729,387
Earnings per share (sen):					
Basic	11	3.25	3.26		
Diluted	11	3.25	3.26		

The accompanying notes form an integral part of the financial statements.

# Balance Sheets

as at 31 December 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	11,119,357	11,629,723	-	-
Investment properties	14	399,750	739,155	-	-
Intangible assets	15	3,195,231	937,934	-	-
Investment in subsidiaries	16	-	-	27,671,155	26,281,942
Other investments	17	546,482	414,149	-	-
Deferred tax assets	18	1,371,000	1,341,000	-	-
		<b>16,631,820</b>	<b>15,061,961</b>	<b>27,671,155</b>	<b>26,281,942</b>
<b>CURRENT ASSETS</b>					
Inventories	19	4,829,625	5,386,059	-	-
Trade receivables	20	101,684,285	68,274,772	-	-
Other receivables	20	4,195,478	1,656,177	21,190,098	5,606,882
Short term deposits	22	6,815,888	6,112,856	1,024,544	-
Cash and bank balances	23	4,148,718	5,243,920	227,302	3,282,366
		<b>121,673,994</b>	<b>86,673,784</b>	<b>22,441,944</b>	<b>8,889,248</b>
<b>TOTAL ASSETS</b>		<b>138,305,814</b>	<b>101,735,745</b>	<b>50,113,099</b>	<b>35,171,190</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	24	28,354,000	28,354,000	28,354,000	28,354,000
Share premium		6,406,222	6,406,222	6,406,222	6,406,222
Foreign currency translation reserve	25	(51,769)	83,729	-	-
Retained profit		26,710,304	18,108,159	14,787,680	378,158
		<b>61,418,757</b>	<b>52,952,110</b>	<b>49,547,902</b>	<b>35,138,380</b>
<b>Minority interest</b>		<b>1,139,138</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>62,557,895</b>	<b>52,952,110</b>	<b>49,547,902</b>	<b>35,138,380</b>
<b>NON CURRENT LIABILITIES</b>					
Hire purchase payables	26	107,037	-	-	-
<b>CURRENT LIABILITIES</b>					
Trade payables	27	66,216,200	39,835,089	-	-
Other payables	27	5,364,139	4,658,728	565,197	32,810
Bank borrowings	28	3,036,543	3,108,818	-	-
Provision for taxation		1,024,000	1,181,000	-	-
		<b>75,640,882</b>	<b>48,783,635</b>	<b>565,197</b>	<b>32,810</b>
<b>TOTAL LIABILITIES</b>		<b>75,747,919</b>	<b>48,783,635</b>	<b>565,197</b>	<b>32,810</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>138,305,814</b>	<b>101,735,745</b>	<b>50,113,099</b>	<b>35,171,190</b>

The accompanying notes form an integral part of the financial statements.

# Statements of Changes in Equity

for the year ended 31 December 2006

← Attributable to Equity Holders of the Parent →							
Note	Non-Distributable Reserve			Distributable Reserve		Minority Interest RM	Total Equity RM
	Share capital RM	Share premium RM	Foreign currency translation reserve RM	Retained profit RM	Total RM		
<b>Group</b>							
At 1 January 2005	28,354,000	6,406,222	-	10,083,699	44,843,921	-	44,843,921
Currency translation differences	-	-	83,729	-	83,729	-	83,729
Net profit for the year	-	-	-	9,249,354	9,249,354	-	9,249,354
Dividends	12	-	-	(1,224,894)	(1,224,894)	-	(1,224,894)
At 31 December 2005	28,354,000	6,406,222	83,729	18,108,159	52,952,110	-	52,952,110
At 1 January 2006	28,354,000	6,406,222	83,729	18,108,159	52,952,110	-	52,952,110
Currency translation differences	-	-	(135,498)	-	(135,498)	-	(135,498)
Acquisition and subscription of shares in subsidiaries by minority shareholders	-	-	-	-	-	1,325,155	1,325,155
Net profit for the year	-	-	-	9,214,592	9,214,592	(186,017)	9,028,575
Dividends	12	-	-	(612,447)	(612,447)	-	(612,447)
At 31 December 2006	28,354,000	6,406,222	(51,769)	26,710,304	61,418,757	1,139,138	62,557,895

Note	Non-Distributable Reserve		Distributable Reserve		Total Equity RM
	Share capital RM	Share premium RM	Retained profit RM		
<b>Company</b>					
At 1 January 2005		28,354,000	6,406,222	(126,335)	34,633,887
Net profit for the year		-	-	1,729,387	1,729,387
Dividends	12	-	-	(1,224,894)	(1,224,894)
At 31 December 2005		28,354,000	6,406,222	378,158	35,138,380
At 1 January 2006		28,354,000	6,406,222	378,158	35,138,380
Net profit for the year		-	-	15,021,969	15,021,969
Dividends	12	-	-	(612,447)	(612,447)
At 31 December 2006		28,354,000	6,406,222	14,787,680	49,547,902

The accompanying notes form an integral part of the financial statements.

# Cash Flow Statements

for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		12,560,668	12,781,200	21,024,226	2,579,951
Adjustments for:					
Gain on disposal of property, plant and equipment		(335,243)	(31,338)	-	-
Gain on disposal of quoted securities		-	(20,605)	-	-
Unrealised foreign exchange losses		238,748	-	-	-
Depreciation of property, plant and equipment		636,647	953,390	-	-
Depreciation of investment properties		11,188	11,188	-	-
Amortisation of intangible assets		197,939	140,494	-	-
Provision for doubtful debts		453,028	650,151	-	-
Write back of provision for doubtful debts (Reversal of impairment)/		(26,750)	(196,178)	-	-
impairment loss on quoted securities		(132,332)	737,279	-	-
Impairment loss on investment properties		328,217	-	-	-
Provision for defect liabilities		820,796	544,435	-	-
Inventories written off		84,562	133,593	-	-
Finance cost		192,595	15,077	-	-
Dividend income		-	-	(21,600,000)	(3,000,000)
Interest income		(263,918)	(281,338)	( 50,970)	( 66,482)
Operating profit before working capital changes		14,766,145	15,437,348	(626,744)	(486,531)
Changes in working capital:					
Inventories		471,872	(3,992,351)	-	-
Receivables		(36,389,313)	4,177,734	(15,531,818)	2,964,101
Payables		26,008,503	(12,493,713)	5 32,387	(29,341)
Net cash generated from operations carried forward		4,857,207	3,129,018	(15,626,175)	2,448,229
Taxes paid		(3,704,873)	(4,947,450)	(5,656)	(15,414)
Interest paid		(192,595)	(15,077)	-	-
Interest received		263,918	281,338	50,970	66,482
Net cash generated from/ (used in) operating activities		1,223,657	(1,552,171)	(15,580,861)	2,499,297
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of subsidiaries	16	-	2 ,673	(1,389,212)	(4,811,560)
Subscription of shares in subsidiaries by minority shareholder		1,325,155	23,121	-	-
Dividend received		-	-	15,552,000	2,160,000
Development costs		(2,455,236)	(458,179)	-	-
Purchase of property, plant and equipment		(552,432)	(4,791,423)	-	-
Purchase of intangible assets		-	( 60,000)	-	-
Proceeds from disposal of property, plant and equipment		596,374	77,210	-	-
Investment in marketable securities		-	(7,482,044)	-	-
Proceeds from disposal of marketable securities		-	6,570,605	-	-
Net cash used in investing activities		(1,086,139)	(6,118,037)	14,162,788	(2,651,560)

# Cash Flow Statements

for the year ended 31 December 2006

Note	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Placement of fixed deposits under lien with licensed bank	(703,031)	(137,243)	(1,024,544)	-
Repayment of bankers' acceptances	(6,549,593)	(4,011,000)	-	-
Drawdown of bankers' acceptances and trust receipts	6,363,780	5,094,500	-	-
Drawdown of short term loan	1,353,180	-	-	-
Dividend paid	(612,447)	(1,224,894)	(612,447)	(1,224,894)
Drawdown of hire purchase creditors	141,000	-	-	-
Repayment of hire purchase creditors	(15,489)	(40,576)	-	-
Net cash used in in financing activities	(22,600)	(319,213)	(1,636,991)	(1,224,894)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	114,918	(7,989,421)	(3,055,064)	(1,377,157)
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES</b>	29,522	83,729	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	3,731,602	11,637,294	3,282,366	4,659,523
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 23)</b>	3,876,042	3,731,602	227,302	3,282,366
Cash and cash equivalents at the balance sheet date comprise the following:				
Cash and bank balances	4,148,718	5,243,920	227,302	3,282,366
Bank overdraft (Note 28)	(272,676)	(1,512,318)	-	-
	3,876,042	3,731,602	227,302	3,282,366

The accompanying notes form an integral part of the financial statements.

# Notes to the Financial Statements

31 December 2006

## 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the MESDAQ Market of Bursa Malaysia Securities Berhad. The registered office is located at 650, Block A, Kelana Centre Point, No. 3, Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan.

The principal activities of the subsidiaries are procurement of contracts and system integration specialising in the field of intelligent building management system and integrated security management system; e-project management of mechanical and electrical services; and supply of engineering systems and engineering equipment.

During the year, the Company acquired four new subsidiaries, namely Metronic-iCares Sdn. Bhd., FeelingK Malaysia Sdn. Bhd., Trend Gate Systems Sdn. Bhd., and Metronic Australia Private Limited. The principal activities and intended principal activities of these new subsidiaries have been disclosed in Note 16 to the financial statements. With the exception of Metronic-iCares Sdn.Bhd., these newly acquired subsidiaries have not commenced operations as at 31 December 2006.

There have been no significant changes in the nature of the principal activities during the financial year, other than as disclosed above.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26 April 2007.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial statements of the Group and of the Company comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards issued in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described in Note 3.

The financial statements of the Group and Company have also been prepared on a historical basis.

The financial statements are presented in Ringgit Malaysia (RM).

### (b) Subsidiaries and Basis of Consolidation

#### (i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those entities over which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

#### (ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (b) Subsidiaries and Basis of Consolidation (Contd.)

#### (ii) Basis of Consolidation (Contd.)

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit and loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

### (c) Intangible Assets

#### (i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary.

Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but it is reviewed for impairment annually or more frequently whenever there is an indication that the carrying value may be impaired. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### (ii) Computer Software

Computer software acquired separately are measured on initial recognition at cost. Following the initial recognition, these assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Computer software is amortised at annual rate of 20% on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life.

Prior to 1 January 2006, computer software was classified under the Property, Plant and Equipment. The adoption of FRS 138 - Intangible Assets has resulted in a change in accounting policy and a reclassification of the computer software to Intangible Assets (Note 15). As the Company continues to apply amortisation of the cost of the assets as that in previous year when classified as Property, Plant and Equipment, there is no other financial implication upon such reclassification in the financial statements.

#### (iii) Other Intangible Assets

##### Research and development costs

All research costs are recognised in the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (c) Intangible Assets (Contd.)

#### (iii) Other Intangible Assets (Contd.)

##### Research and development costs (Contd.)

Development costs, considered to have finite useful lives, are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

Subsequent expenditure on capitalised intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### (d) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses in accordance with Note 2(g).

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation on other property, plant and equipment is provided on a straight line basis to write off the cost of each assets to its residual value over the estimated useful life at the following annual rates:

Freehold buildings	2%
Renovations	4%
Motor vehicles	20%
Furniture, fittings and equipment	20%

Leasehold buildings is depreciated over the estimated useful life of 50 years.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which is determined on a weighted average basis, includes cost of building automation equipment and parts, computer servers, and other direct cost in bringing the equipment to its present location. Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (f) Engineering Contracts

Where the outcome of an engineering contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of an engineering contract cannot be reliably estimated, contract revenue is recognised to the extent of the contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total costs incurred on engineering contracts, plus recognised profits (less recognised losses), exceeds progress billings, the balance is shown as amount due from customers on contracts. When progress billings exceed costs incurred plus recognised profit (less recognised losses), the balance is classified as amount due to customers on contracts.

### (g) Impairment of Non-Financial Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets other than engineering contract assets, inventories and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (h) 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. 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 accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised 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 the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

### (i) Foreign Currencies

#### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

#### (ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where the monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. Exchange differences arising from such non-monetary items are also recognized directly in equity.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (i) Foreign Currencies (Contd.)

#### (iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the period, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

### (j) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

#### (i) Finance Leases - the Group as the Lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(g).

#### (ii) Operating Leases - the Group as the Lessee

Operating lease payments are charged to the income statement on a straight-line basis over the term of the relevant lease.

### (k) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (k) Provisions (Contd.)

Provision for defect liability is provided by reference to the stage of completion of contract activity at balance sheet date, based on the performance bond amount or a fixed rate of the contract value as stipulated in the contract. The defect liability period of one to three years is specified in the contracts.

### (l) Employee Benefits

#### (i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### (ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

#### (iii) Termination Benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

### (m) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

#### (i) Contract revenue

Contract revenue is recognised based on the stage of completion method as described in Note 2(f).

#### (ii) Maintenance and services

Revenue from services rendered is recognised net of discounts as and when the services are performed.

#### (iii) Sale of goods

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### (iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (m) Revenue Recognition (Contd.)

#### (v) Interest income

Interest income is recognised on an accrued basis using the effective yield on the effective interest method.

### (n) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

#### (i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, and deposits at call (excludes deposits which are pledged), which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

#### (ii) Other Non-Current Investments

Non-current investments other than investment in subsidiaries and investment properties are stated at cost less impairment losses.

On disposal of an investment, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

#### (iii) Marketable Securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in profit or loss. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

#### (iv) Receivables

Receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date. Bad debts are written off when identified.

#### (v) Payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

#### (vi) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

# Notes to the Financial Statements

31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (n) Financial Instruments (Contd.)

#### (vii) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

### (o) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment loss. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g).

In the previous years, all investment properties were included in Property, Plant and Equipment. Following the adoption of FRS 140 - Investment Property, these assets are now classified into Investment Properties (Note 14). Depreciation on investment property is charged to the income statements on a straight line basis over their estimated useful life of 50 years. Freehold land is not depreciated.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the disposal of an investment property are recognised in profit and loss in the year in which they arise.

## 3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs

On 1 January 2006, the Group and the Company adopted the following FRSs which are relevant to the Group's and to the Company's operations and are mandatory for financial periods beginning on or after 1 January 2006:

FRS 2	Share-based Payments
FRS 3	Business Combinations
FRS 5	Non Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statement
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statement
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

# Notes to the Financial Statements

31 December 2006

## 3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (CONTD.)

The adoption of the above FRS does not have significant financial impact on the Group and on the Company for the current financial year except for the following:

### (a) FRS 101 : Presentation of Financial Statements

Prior to 1 January 2006, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interests.

### (b) FRS 138 : Intangible Assets

Prior to 1 January 2006, computer software was categorised as Property, Plant and Equipment. The adoption of FRS 138 has resulted in certain acquired computer software whereby computer software that is not integral part of the related hardware are treated as intangible assets. Such intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided for on a straight-line basis over the estimated useful life of the intangible assets.

The details of the accounting policy and the restatement of comparatives are disclosed in Note 2 (c) (ii) and Note 3 (d) respectively.

### (c) FRS 140 : Investment Property

Prior to 1 January 2006, properties held for capital gain or rental purposes are classified as Property, Plant and Equipment. Upon adoption of FRS 140, these assets were reclassified to Investment Properties. Because the Company continues to apply cost model, there is no other financial implication upon such reclassification in the financial statements. The details of the accounting policy and the restatement of comparatives are described in Note 2.2 (o) and Note 3 (d) respectively.

### (d) Restatement of comparatives

The following amounts of the Group as at 31 December 2005 have been reclassified as follows:

	Previously Stated RM	Reclassification RM	Restated RM
<b>Balance Sheet</b>			
Property, plant and equipment	12,848,633	(1,218,910)	11,629,723
Intangible assets (FRS 138)	458,179	479,755	937,934
Investment properties (FRS 140)	-	739,155	739,155
<b>Income Statement*</b>			
Other income	494,339	31,337	525,676
Other expenses	(9,271,664)	(31,337)	(9,303,001)

\* Income statement comparatives have been restated to conform with current year's presentation.

# Notes to the Financial Statements

31 December 2006

### 3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (CONTD.)

#### (e) Standards and Interpretations Issued but not yet Effective

At the date of authorisation of these financial statements, the following FRSs, amendments to FRS and Interpretations were issued but not yet effective and have not been applied by the Group and the Company:

FRS	Beginning on or after
FRS 117 - Leases	1 October 2006
FRS 124 - Related Party Transactions	1 October 2006
Amendment to FRS 119 <sub>2004</sub> - Employees	
Actuarial Gains and losses, Group Plans and Disclosure	1 January 2007
FRS 6 - Exploration for and Evaluation of Mineral Resources	1 January 2007
FRS 139 - Financial Instruments: Recognition and Measurement	Effective date deferred
Amendments to FRS 121: The Effects of Changes in	
Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1: Changes in Existing	
Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative	
Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from	
Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market	
- Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement	
Approach under FRS 129 <sub>2004</sub> - Financial Reporting	
in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

The above FRSs, amendments to FRS and Interpretations are expected to have no significant impact on the financial statements of the Company upon their initial application.

The Company is exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 117, FRS 124 and FRS 139.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

#### (a) Critical Judgments in Applying the Group's Accounting Policies

In the process of applying the Group's accounting policies, which are described in Note 3, management is of the opinion that there are no instances of judgment which are expected to have significant effect of the amounts recognised in the financial statements.

#### (b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### (i) Engineering Contracts

The Group recognises engineering contract revenue and expenses in the income statement by using the stage of completion method. The stage of completion is determined by the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Significant judgment is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs, as well as recoverability of the contract costs. In making the judgment, the Group evaluates based on past experience and by relying on the work of specialists.

# Notes to the Financial Statements

31 December 2006

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTD.)

### (b) Key Sources of Estimation Uncertainty (Contd.)

#### (i) Engineering Contracts (Contd.)

A 1% difference in the estimated total engineering contracts revenue or cost would result in approximately RM1 million variance in the Company's revenue and 1% variance in the Company's cost of sales.

#### (ii) Impairment of development costs

During the current financial year, the Group carried out impairment tests in respect of its subsidiaries development costs included within intangible assets, based on a variety of estimations including the value-in-use of the CGU to which the development costs are allocated. Estimating the value-in-use requires the Group to make an estimate of the future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of development costs of the Group as at 31 December 2006 are RM2,855,970 (2005: RM458,179).

If management's estimated gross margin had been lower by 10%, the development costs would continue to be unimpaired. If management's estimated pre-tax discount rate applied to the discounted cash-flows had been raised by 10%, the development costs would also continue to be unimpaired.

## 5. REVENUE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Contract work	103,674,035	79,736,214	-	-
Maintenance services	6,275,936	3,998,979	-	-
Sale of equipment	991,744	738,709	-	-
Dividend income	-	-	21,600,000	3,000,000
	<b>110,941,715</b>	<b>84,473,902</b>	<b>21,600,000</b>	<b>3,000,000</b>

## 6. COST OF SALES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Contract costs (Note 21)	85,598,661	59,296,149	-	-
Maintenance services	1,764,291	1,528,776	-	-
Cost of equipment sold	286,741	103,726	-	-
	<b>87,649,693</b>	<b>60,928,651</b>	<b>-</b>	<b>-</b>

## 7. OTHER INCOME

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Interest income	263,918	281,338	50,970	66,482
Gain on disposal of property, plant and equipment	335,243	31,338	-	-
Rental income	56,250	129,000	-	-
Miscellaneous	84,026	84,000	-	-
	<b>739,437</b>	<b>525,676</b>	<b>50,970</b>	<b>66,482</b>

# Notes to the Financial Statements

31 December 2006

## 8. FINANCE COSTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Interest expense on:				
Short term borrowing	30,649	-	-	-
Bank overdraft	76,696	5,306	-	-
Bankers' acceptances	82,756	4,446	-	-
Hire purchase	2,494	5,325	-	-
<b>Total interest expense</b>	<b>192,595</b>	<b>15,077</b>	<b>-</b>	<b>-</b>

## 9. PROFIT BEFORE TAXATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>(a) After charging/(crediting):</b>				
Staff costs (Note c)	7,894,951	7,814,922	-	-
Auditors' remuneration				
- statutory audits				
- parent auditors	128,025	72,000	43,000	32,000
- other auditors	30,412	16,400	-	-
Depreciation of				
property, plant and equipment	636,647	953,390	-	-
Amortisation of intangible assets				
(Note 15)	197,939	140,494	-	-
Directors' emoluments (Note b)	853,850	839,281	108,000	48,000
Office rental	82,301	70,634	12,000	12,000
Foreign exchange (gains)/losses				
- realised	(137,422)	(52,653)	-	-
- unrealised	238,748	(40,589)	-	-
Provision for doubtful debts	453,028	650,151	-	-
(Reversal of impairment)				
/impairment loss on				
quoted securities	(132,332)	737,279	-	-
Depreciation of				
investment properties (Note 14)	11,188	11,188	-	-
Impairment loss on				
investment properties (Note 14)	328,217	-	-	-
Provision for defect liabilities	820,796	544,435	-	-
Inventories written off	84,562	133,593	-	-
Interest income				
- short term deposit	(253,418)	(270,838)	(50,970)	(66,482)
- loan stocks	(10,500)	(10,500)	-	-
Gain on disposal of quoted securities	-	(20,605)	-	-
Gain on disposal of property, plant and				
equipment	(335,243)	(31,338)	-	-
Dividend income from subsidiaries	-	-	(21,600,000)	(3,000,000)
Write back of provision for doubtful debts	(26,750)	(196,178)	-	-

# Notes to the Financial Statements

31 December 2006

## 9. PROFIT BEFORE TAXATION (CONTD.)

### (b) Directors' remuneration:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
(i) Executive directors' remuneration				
Fees	36,000	36,000	36,000	-
Defined contribution benefit (EPF)	78,030	76,500	-	-
Other emoluments	667,820	654,781	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	781,850	767,281	36,000	-
Non-executive directors' remuneration				
Fees	72,000	72,000	72,000	48,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total directors' remuneration	853,850	839,281	108,000	48,000

The details of remuneration received by directors of the Company during the year are as follows:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
(ii) Director of the Company Executive:				
Defined contribution benefit (EPF)	78,030	76,500	-	-
Other emoluments	629,570	629,281	-	-
Fees	36,000	36,000	36,000	-
Bonuses	38,250	25,500	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	781,850	767,281	36,000	-
Non-Executive:				
Fees	72,000	48,000	72,000	48,000
	<hr/>	<hr/>	<hr/>	<hr/>
(iii) Director of subsidiaries				
Non-Executive:				
Fees	-	24,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	853,850	839,281	108,000	48,000

(iv) The numbers of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of Directors	
	2006	2005
Executive directors:		
Below RM50,000	1	1
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	1	1
RM200,001 - RM250,000	1	1
RM250,001 - RM350,000	1	1
Non-Executive directors:		
Below RM50,000	3	3

# Notes to the Financial Statements

31 December 2006

## 9. PROFIT BEFORE TAXATION (CONTD.)

### (c) Employee information

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Staff costs (excluding directors' emoluments)				
Salary, wages and bonus	6,390,872	6,118,472	-	-
Termination benefits	-	508,540	-	-
Defined contribution benefit (EPF)	680,849	692,762	-	-
Other staff related expenses	823,230	495,148	-	-
	<u>7,894,951</u>	<u>7,814,922</u>	<u>-</u>	<u>-</u>

## 10. INCOME TAX EXPENSE

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Malaysian taxation based on the results for the year:				
- Current	3,727,119	4,057,075	6,034,119	850,564
Over provision in prior years	(165,026)	(298,435)	(31,862)	-
Deferred tax (Note 18)				
- relating to origination and reversal of temporary differences	(66,759)	(201,000)	-	-
- Overprovision in prior year	(43,000)	-	-	-
- Relating to changes in tax rates	79,759	-	-	-
	<u>3,532,093</u>	<u>3,557,640</u>	<u>6,002,257</u>	<u>850,564</u>

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective tax rate of the Group and of the Company are as follows:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit before taxation	12,560,668	12,781,200	21,024,226	2,579,951
Taxation at the statutory tax rate of 28%	3,516,987	3,578,736	5,886,783	722,386
Effect of different tax rate in subsidiary	(40,000)	(22,930)	-	-
Effect of expenses not deductible for tax purposes	751,058	487,178	154,736	146,793
Effect of income not subject to tax	(656,420)	(186,909)	(7,400)	(18,615)
Overprovision of tax expense in prior years	(165,026)	(298,435)	(31,862)	-
Overprovision of deferred tax in prior year	(43,000)	-	-	-
Deferred tax assets not recognised	88,735	-	-	-
Deferred tax recognised at different tax rates	79,759	-	-	-
	<u>3,532,093</u>	<u>3,557,640</u>	<u>6,002,257</u>	<u>850,564</u>

# Notes to the Financial Statements

31 December 2006

## 11. EARNINGS PER SHARE

Both the basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year as there are no potential ordinary shares.

	2006	2005
Profit attributable to ordinary equity holders of the Company (RM)	9,214,592	9,249,354
Weighted average number of ordinary shares in issue	<u>283,540,000</u>	<u>283,540,000</u>
Basic/diluted earnings per share (sen)	<u>3.25</u>	<u>3.26</u>

## 12. DIVIDENDS

	← Dividends in respect of Year →			Dividends Recognised in Year	
	2006 RM	2005 RM	2004 RM	2006 RM	2005 RM
<b>Recognised during the year:</b>					
Final dividend for 2004: 3% less 28% taxation on 283,540,000 ordinary shares (0.22 sen per ordinary share)	-	-	612,447	-	612,447
Interim dividend for 2005: 3% less 28% taxation on 283,540,000 ordinary shares (0.22 sen per ordinary share)	-	612,447	-	-	612,447
Final dividend for 2005: 3% less 28% taxation on 283,540,000 ordinary shares (0.22 sen per ordinary share)	-	612,447	-	612,447	-
	<u>-</u>	<u>1,224,894</u>	<u>612,447</u>	<u>612,447</u>	<u>1,224,894</u>

The directors do not propose the payment of any dividend in respect of the current financial year ended 31 December 2006.

# Notes to the Financial Statements

31 December 2006

## 13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land RM	Freehold buildings RM	Leasehold building RM	Motor vehicles RM	Furniture, fittings and equipment RM	Renovations RM	Total RM
<b>COST</b>							
At 1 January 2006	1,223,566	4,440,919	4,678,352	191,281	2,029,114	576,703	13,139,935
Additions	-	-	-	169,178	373,767	9,487	552,432
Disposals	-	-	(265,113)	(53,940)	(13,381)	-	(332,434)
Exchange differences	-	-	(163,181)	-	(2,663)	(4,208)	(170,052)
At 31 December 2006	1,223,566	4,440,919	4,250,058	306,519	2,386,837	581,982	13,189,881
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
At 1 January 2006	-	156,914	52,258	132,328	1,130,496	38,216	1,510,212
Depreciation charge for the year	-	92,065	87,246	60,500	371,253	25,583	636,647
Disposals	-	-	(11,354)	(53,939)	(6,010)	-	(71,303)
Exchange differences	-	-	(4,179)	-	(665)	(188)	(5,032)
At 31 December 2006	-	248,979	123,971	138,889	1,495,074	63,611	2,070,524
<b>NET BOOK VALUE</b>							
As at 31 December 2006	1,223,566	4,191,940	4,126,087	167,630	891,763	518,371	11,119,357

The freehold land, freehold buildings, and leasehold buildings with a total net book value of RM5,815,255 (2005: RM3,970,858) are charged to licensed banks for banking facilities granted to the Group.

Included in motor vehicles are assets purchased under hire purchase contracts with an aggregate net book value of RM151,577 (2005: RM51,518).

### COST

At 1 January 2005	1,469,475	4,440,919	782,055	263,740	2,446,920	444,949	9,848,058
Transfer to investment properties (Note 14)	(245,909)	(179,644)	(362,979)	-	-	-	(788,532)
Transfer to intangible assets (Note 15)	-	-	-	-	(633,426)	-	(633,426)
Restated at 1 January 2005	1,223,566	4,261,275	419,076	263,740	1,813,494	444,949	8,426,100
Additions	-	-	4,438,920	-	220,936	131,567	4,791,423
Disposals	-	-	-	(72,459)	(5,129)	-	(77,588)
Reclassification	-	179,644	(179,644)	-	(187)	187	-
At 31 December 2005	1,223,566	4,440,919	4,678,352	191,281	2,029,114	576,703	13,139,935
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
At 1 January 2005	-	62,441	11,029	82,047	529,632	14,755	699,904
Transfer to investment properties (Note 14)	-	(32,177)	(6,012)	-	-	-	(38,189)
Transfer to intangible assets (Note 15)	-	-	-	-	(73,177)	-	(73,177)
Restated at 1 January 2005	-	30,264	5,017	82,047	456,455	14,755	588,538
Disposals	-	-	-	(28,539)	(3,177)	-	(31,716)
Depreciation charge for the year	-	100,970	72,921	78,820	677,339	23,340	953,390
Reclassification	-	25,680	(25,680)	-	(121)	121	-
At 31 December 2005	-	156,914	52,258	132,328	1,130,496	38,216	1,510,212
<b>NET BOOK VALUE</b>							
Restated as at 31 December 2005	1,223,566	4,284,005	4,626,094	58,953	898,618	538,487	11,629,723

# Notes to the Financial Statements

31 December 2006

## 14. INVESTMENT PROPERTIES

	Freehold Land RM	Freehold Building RM	Leasehold Building RM	Total RM
<b>COST</b>				
At 1 January 2006/				
At 31 December 2006	245,909	179,644	362,979	788,532
<b>ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES</b>				
At 1 January 2006	-	35,770	13,607	49,377
Depreciation charge	-	3,593	7,595	11,188
Impairment losses	95,909	-	232,308	328,217
At 31 December 2006	95,909	39,363	253,510	388,782
<b>NET CARRYING VALUE</b>				
At 31 December 2006	150,000	140,281	109,469	399,750
<b>COST</b>				
At 1 January 2005	-	-	-	-
Transfers from property, plant and equipment	245,909	179,644	362,979	788,532
At 31 December 2005	245,909	179,644	362,979	788,532
<b>ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES</b>				
At 1 January 2005	-	-	-	-
Transfers from property, plant and equipment	-	32,177	6,012	38,189
Depreciation charge	-	3,593	7,595	11,188
At 31 December 2005	-	35,770	13,607	49,377
<b>NET CARRYING VALUE</b>				
At 31 December 2005	245,909	143,874	349,372	739,155

The following investment property are held under lease terms:

	2006 RM	2005 RM
Leasehold building	109,469	349,372

All investment properties are pledged as securities for borrowings (Note 28).

# Notes to the Financial Statements

31 December 2006

## 15. INTANGIBLE ASSETS

GROUP	Software RM	Development Cost RM	Total RM
<b>COST</b>			
<b>At 1 January 2005</b>	-	-	-
Transfers from property, plant and equipment (Note 12)	633,426	-	633,426
Additions			
- internal development	-	458,179	458,179
- purchased	60,000	-	60,000
<b>At 31 December 2005 and 1 January 2006</b>	693,426	458,179	1,151,605
Additions - internal development	-	2,455,236	2,455,236
<b>As 31 December 2006</b>	693,426	2,913,415	3,606,841
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>			
<b>At 1 January 2005</b>	-	-	-
Transfers from property, plant and equipment (Note 12)	73,177	-	73,177
Amortisation for the year	140,494	-	140,494
<b>At 31 December 2005 and 1 January 2006</b>	213,671	-	213,671
Amortisation for the year	140,494	57,445	197,939
<b>At 31 December 2006</b>	354,165	57,445	411,610
<b>NET BOOK VALUE</b>			
As at 31 December 2005	479,755	458,179	937,934
<b>As at 31 December 2006</b>	339,261	2,855,970	3,195,231

The development costs relate to the development of Power Line Communication Controller for Smart Home Automation System and the MiCares e-Infrastructure System, where it is reasonably anticipated that the costs will be recovered through future commercial activity. The development costs for the Power Line Communication Controller were not amortised during the financial year as the product was in the stage of development.

## 16. INVESTMENT IN SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares, at cost	27,671,155	26,281,942

# Notes to the Financial Statements

31 December 2006

## 16. INVESTMENT IN SUBSIDIARIES (CONTD.)

Details of the subsidiaries are as follows:

Name of Company	Country of Incorporation	Equity Interest Held		Principal Activities
		2006 %	2005 %	
Metronic Engineering Sdn. Bhd.	Malaysia	100	100	System integration specialising in the field of intelligent building management systems and integrated security management systems; e-project management of mechanical and electrical services; and supply of engineering systems.
Metronic Integrated System Sdn. Bhd.	Malaysia	100	100	Procurement of contracts in relation to engineering work specialising in the field of intelligent building management systems, integrated security management systems, and sale of engineering equipment
Metronic Microsystem (Beijing) Company Limited**	China	100	100	Design, production and sale of engineering systems for the Information and Communication Technology Industry, specialising in intelligent building management systems and telecommunication systems.
Metronic Engineering Private Limited*	India	70	70	Design, production and sale of engineering systems for the Information and Communication Technology Industry, specialising in intelligent building management systems and integrated security management systems.
Metronic iCares Sdn. Bhd.	Malaysia	51	-	Third Party Administrator (TPA) & Managed Care Organisation (MCO) for healthcare sector via the connectivity applications & infrastructure for the exchange of transactional information through internet.
FeelingK Malaysia Sdn. Bhd.	Malaysia	100	-	Intended principal activities are provision of mobile internet service for deploying Card Notification Solutions, Bulk Short Message Services (SMS), Voice SMS including related consultancy and Implementation.
Trend Gate Systems Sdn. Bhd.	Malaysia	100	-	Intended principal activities are research, development, production and the marketing of building automation and security system products, modules and related parts.
Metronic Australia Pty Ltd	Australia	60	-	Intended principal activities are provision, marketing and distribution of automation and energy systems.

\* Audited by affiliate of Ernst & Young

\*\* Audited by a firm of auditors other than Ernst & Young

# Notes to the Financial Statements

31 December 2006

## 16. INVESTMENT IN SUBSIDIARIES (CONTD.)

(a) Acquisitions and incorporations of subsidiaries for the year ended 31 December 2006:

- (i) Effective on 14 April 2006, the Company holds a 51% equity interest in MiCares via an acquisition of 51 ordinary shares of RM1 each in MiCares for a cash consideration of RM51.

MiCares further increased its ordinary share capital from 100 to 2,704,100 ordinary shares via issuance of additional 2,704,000 ordinary shares at RM1 each at par for cash during the period. The Company subscribed to 1,379,000 of the said ordinary shares at RM1 each at par for a cash consideration of RM1,379,000, thus maintaining its 51% equity interest in MiCares.

- (ii) On 6 July 2006, the Company acquired 100 ordinary shares of RM1 each in FEELingK Sdn. Bhd. ("FKSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM100.

During the period, FKSB further increased its ordinary issued and paid up share capital from 100 ordinary shares to 10,000 ordinary shares by the allotment of 9,900 ordinary shares of RM1 each. The Company subscribed to all the allotted ordinary shares for a cash consideration of RM9,900, thus maintaining a 100% equity interest in FKSB.

- (iii) On 5 June 2006, the Company incorporated a foreign subsidiary in Australia via a subscription of 60 ordinary shares of Australian Dollar ("A\$")1.00 each for a cash consideration of A\$60, representing a 60% equity interest in Metronic Australia Pty Ltd.

- (iv) On 22 December 2006, the Company acquired 2 ordinary shares of RM1 each in Trend Gate Systems Sdn Bhd ("TRSSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.

Further details of these incorporations and acquisitions are disclosed in Note 32 to the financial statements.

The financial results of the subsidiaries acquired and included in the consolidated financial statements for the year ended 31 December 2006:

	<b>2006</b>	<b>Note (b)(i)</b>
<b>Income statement</b>	<b>RM</b>	<b>2005</b>
		<b>RM</b>
Revenue	-	-
Loss before taxation	(493,846)	(143,920)

The effect of acquisitions to the financial position of the Group at the dates of acquisition were not material to the Group. Accordingly, no disclosures are made.

(b) Acquisition of subsidiary for the year ended 31 December 2005:

- (i) The acquisition in 2005 is in relation to the acquisition of the 70% equity interest in Metronic Engineering Private Limited, a company incorporated in India, via a subscription of 100,000 shares of Rs10 each for a total cash consideration of RM60,185 (Indian Rupee 700,000).

# Notes to the Financial Statements

31 December 2006

## 16. INVESTMENT IN SUBSIDIARIES (CONTD.)

The fair values of the assets acquired and liabilities assumed from the date of acquisition of the subsidiary in the previous financial year is as follows:

	<b>Note (b)(i) 25.7.2005 RM</b>
Cash and bank balances	8,910
Net assets	8,910
Minority interest	(2,673)
Total purchase consideration to be satisfied by cash	<u>6,237</u>
Cash flow arising on acquisition:	
Purchase consideration satisfied by cash	(6,237)
Issuance of shares subscribed by a minority shareholder	23,121
Cash and cash equivalents of subsidiaries acquired	8,910
Net cash inflow to the Group	<u>25,794</u>

## 17. OTHER INVESTMENTS

	<b>Group</b>	
	<b>2006 RM</b>	<b>2005 RM</b>
Quoted securities in Malaysia:		
Quoted shares, at cost	979,165	979,165
Irredeemable convertible unsecured loan stocks, at cost	210,000	210,000
Impairment loss	(736,683)	(869,016)
Golf club membership	452,482	320,149
	94,000	94,000
	<u>546,482</u>	<u>414,149</u>
Market value of quoted securities	452,482	320,149

## 18. DEFERRED TAX

	<b>Group</b>		<b>Company</b>	
	<b>2006 RM</b>	<b>2005 RM</b>	<b>2006 RM</b>	<b>2005 RM</b>
At 1 January	1,341,000	1,140,000	-	-
Recognised in income statement (Note 10)	30,000	201,000	-	-
At 31 December	<u>1,371,000</u>	<u>1,341,000</u>	-	-
Presented after appropriate offsetting as follows:				
Deferred tax assets	1,550,000	1,551,000	-	-
Deferred tax liabilities	(179,000)	(210,000)	-	-
	<u>1,371,000</u>	<u>1,341,000</u>	-	-

# Notes to the Financial Statements

31 December 2006

## 18. DEFERRED TAX (CONTD.)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

### Deferred Tax Liabilities of the Group:

	<b>Property, plant and equipment RM</b>	<b>Total RM</b>
At 1 January 2006	210,000	210,000
Recognised in income statement	(31,000)	(31,000)
	179,000	179,000
At 31 December 2006	179,000	179,000
At 1 January 2005	380,000	380,000
Recognised in income statement	(170,000)	(170,000)
	210,000	210,000
At 31 December 2005	210,000	210,000

### Deferred Tax Assets of the Group:

	<b>Provision for Defect Liabilities RM</b>	<b>Receivables RM</b>	<b>Others RM</b>	<b>Total RM</b>
At 1 January 2006	802,000	498,000	251,000	1,551,000
Recognised in income statement	(52,000)	182,000	(131,000)	(1,000)
	750,000	680,000	120,000	1,550,000
At 31 December 2006	750,000	680,000	120,000	1,550,000
	850,000	450,000	220,000	1,520,000
At 1 January 2005	850,000	450,000	220,000	1,520,000
Recognised in income statement	(48,000)	48,000	31,000	31,000
	802,000	498,000	251,000	1,551,000
At 31 December 2005	802,000	498,000	251,000	1,551,000

Deferred tax assets have not been recognised in respect of the following items:

	<b>2006 RM</b>	<b>Group 2005 RM</b>
Unused tax losses	295,404	-
Unabsorbed capital allowances	21,506	-
	316,910	-
	316,910	-

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of a subsidiary is subject to no substantial changes in shareholding of the subsidiary under Section 44(5A) and (5B) of Income Tax Act, 1967.

# Notes to the Financial Statements

31 December 2006

## 19. INVENTORIES

	Group	
	2006 RM	2005 RM
At cost		
Building automation equipment and parts	1,510,356	1,940,113
Computer servers	3,319,269	3,445,946
	4,829,625	5,386,059

## 20. TRADE AND OTHER RECEIVABLES

### (A) TRADE RECEIVABLES:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Trade receivables	3,229,627	3,458,935	-	-
Progress billings receivable	78,951,058	52,253,653	-	-
Due from customers on contracts (Note 21)	9,730,019	5,435,479	-	-
Advances to sub contractors	-	-	-	-
Retention sums on contracts (Note 21)	15,661,215	12,588,061	-	-
	107,571,919	73,736,128	-	-
Provision for doubtful debts	(5,887,634)	(5,461,356)	-	-
	101,684,285	68,274,772	-	-

### (B) OTHER RECEIVABLES:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Due from subsidiaries	-	-	19,904,280	5,462,886
Deposits and prepayment	2,919,873	768,243	1,232,825	142,402
Sundry receivables	1,605,494	1,217,823	52,993	1,594
Provision for doubtful debts	(329,889)	(329,889)	-	-
	4,195,478	1,656,177	21,190,098	5,606,882

The Group's normal credit terms range from 60 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentrations of credit risk that may arise from exposures to a single debtor or groups of debtors other than a balance due from a debtor of RM52,894,585 (2005:RM30,622,806) in which certain Directors have interest.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Included in sundry receivables of the Group is an amount of RM697,756 (2005: RM1,005,414) being purchase consideration for the acquisition of 51% equity interest in Infocon (Beijing) Environmental Control Technology Company Limited ("IBEC"). An amount of RM491,388 has been refunded by the shareholder of IBEC subsequent to the balance sheet date while pending renegotiation and finalisation of the terms and conditions of the acquisition.

Included in deposits and prepayment of the Group and of the Company is an amount of RM1,001,982 (2005: Nil) being expenses paid for the corporate proposals as disclosed in Note 32 (e) to the financial statements.

# Notes to the Financial Statements

31 December 2006

## 21. DUE FROM/TO CUSTOMERS ON CONTRACTS

	Group	
	2006 RM	2005 RM
Contract costs incurred to date	209,776,930	131,553,144
Add: Attributable profits	36,098,202	20,453,653
	245,875,132	152,006,797
Less: Progress billings received and receivable	(241,603,698)	(150,088,826)
	4,271,434	1,917,971
Due from customers on contracts (Note 20)	9,730,019	5,435,479
Due to customers on contracts (Note 27)	(5,458,585)	(3,517,508)
	4,271,434	1,917,971
Retention sums on contracts, included within trade debtors (Note 20)	15,661,215	12,588,061
Advances received on contracts, included within trade payables (Note 27)	-	517,001
Contract costs recognised as an expense (Note 6)	85,598,661	59,296,149

Included in contract costs recognised as an expense is provision for defect liabilities of RM820,796 (2005: RM544,435) during the year.

## 22. SHORT TERM DEPOSITS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Fixed deposits with licensed banks	6,815,888	6,112,856	1,024,544	-

All the fixed deposits with licensed banks are pledged as security for banking facilities granted to the Group as disclosed in Note 28.

The weighted average effective interest rate and maturities of deposits at the balance sheet date are as follows:

	Interest rate		Maturity	
	2006 %	2005 %	2006 day	2005 day
Fixed deposits	3.01	2.83	30	30

## 23. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise the following as at the balance sheet date:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cash and bank balances	4,148,718	5,243,920	227,302	3,282,366
Bank overdrafts (Note 28)	(272,676)	(1,512,318)	-	-
Total cash and cash equivalents	3,876,042	3,731,602	227,302	3,282,366

# Notes to the Financial Statements

31 December 2006

## 24. SHARE CAPITAL

	Number of Ordinary Shares of RM0.10 Each		Amount	
	2006	2005	2006 RM	2005 RM
Authorised:				
At 1 January and at 31 December	500,000,000	500,000,000	50,000,000	50,000,000
Issued and fully paid:				
At 1 January and at 31 December	283,540,000	283,540,000	28,354,000	28,354,000

## 25. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operation, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

## 26. HIRE PURCHASE PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Amounts outstanding	130,274	4,762	-	-
Less: Due within twelve months (Note 27)	(23,237)	(4,762)	-	-
Due after twelve months	107,037	-	-	-

The commitment terms of more than one year under hire purchase agreements of the Group are summarised as follows:

	2006		2005	
	Minimum payments RM	Present value of liabilities RM	Minimum payments RM	Present value of liabilities RM
Gross amounts payable				
Not later than 1 year	27,744	23,237	5,378	4,762
More than 1 year but not later than 5 years	134,075	107,037	-	-
Less: Future finance charges	161,819 (31,545)	130,274 -	5,378 (616)	4,762 -
	130,274	130,274	4,762	4,762

# Notes to the Financial Statements

31 December 2006

## 27. TRADE AND OTHER PAYABLES

### (A) TRADE PAYABLES:

	2006 RM	2005 RM	2006 RM	2005 RM
Trade payables	60,757,615	35,800,580	-	-
Advances received on contracts (Note 21)	-	517,001	-	-
Due to customer on contracts (Note 21)	5,458,585	3,517,508	-	-
	66,216,200	39,835,089	-	-

### (B) OTHER PAYABLES:

	2006 RM	2005 RM	2006 RM	2005 RM
Other creditors and accruals	2,456,335	1,789,469	565,197	32,810
Provision for defect liability	2,884,567	2,864,497	-	-
Hire purchase creditors (Note 26)	23,237	4,762	-	-
	5,364,139	4,658,728	565,197	32,810

## 28. BANK BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Short term borrowings</b>				
Bank overdraft (secured) (Note 23)	272,676	1,512,318	-	-
Bankers' acceptances (secured)	1,410,687	1,596,500	-	-
Revolving credit (secured)	1,353,180	-	-	-
	3,036,543	3,108,818	-	-

The bank borrowings are secured on the freehold land and buildings, leasehold buildings and all the fixed deposits with licensed banks of RM6,815,888 (2005: RM6,112,856) of the Group. The interest rates on these borrowings range between 4.1% to 8.0% (2005: 3.8% to 7.5%) per annum.

# Notes to the Financial Statements

31 December 2006

## 29. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions and outstanding balances arising from related parties during the financial year:

	2006		2005	
	Transactions	Balance	Transactions	Balance
	RM	Outstanding	RM	Outstanding
		RM	RM	RM
<b>GROUP</b>				
Accounting fee received from Metronic Corporation Sdn. Bhd. ("MCSB") +	60,000	-	60,000	-
Rental received from MCSB +	12,000	-	12,000	-
Accounting fee received from Meditechnique Sdn. Bhd. ("Meditechnique") ^	12,000	-	24,000	-
Rental received from Meditechnique ^	12,000	-	24,000	-
Purchases from ITG Worldwide (M) Sdn. Bhd. ##	1,504,740	414,603	1,707,578	-
Rental received from ITG Worldwide (M) Sdn. Bhd. ##	6,000	-	-	-
Contract fee payable to Integrated Commerce Sdn. Bhd. *	14,475	14,475	-	4,514
Contract and maintenance services receivable from MH Projects Sdn. Bhd. ("MHP") #	69,635,807	52,894,585	44,346,895	30,622,806
Maintenance fee receivable from Integrated Commerce Sdn. Bhd.	20,550	20,550	-	-
Subcontractor fee payable to Ledtronics Sdn. Bhd. **	111,889	43,832	615,852	-
<b>COMPANY</b>				
Dividend income from subsidiaries	21,600,000	-	3,000,000	-
Office rental payable to a subsidiary	12,000	-	12,000	-

+ substantial shareholder of the Company where directors of the Company, Dato' Abd. Gani bin Yusof, Dr Ng Tek Che and Liew Chiap Hong have interest.

^ a company in which a director of the Company, Dr Ng Tek Che, has an interest

# a company in which the directors of the Company, Dato' Abd. Gani bin Yusof and Tan Sri Dato' Kamaruzzaman bin Shariff are also directors.

## a company in which a director of the Company, Liew Chiap Hong has an interest

\* a company in which a director of the Company, Dato' Abd. Gani bin Yusof has an interest

\*\* a company in which a director of the Company, Subhi bin Dziauddin is also director.

The directors of the Company are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

## 30. CAPITAL COMMITMENTS

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Approved and contracted for:				
- Research and development expenditure	367,915	475,422	-	-

# Notes to the Financial Statements

31 December 2006

## 31. CONTINGENT LIABILITIES

	Company	
	2006	2005
	RM	RM
(a) Unsecured: Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries	19,883,125	19,000,000

- (b) Lee Bee Leng & two (2) others vs (1) Metronic Engineering Sdn Bhd ("MESB") and (2) University Teknologi Petronas.

On 15 November 2005, MESB, being the first (1st) defendant was served with a Writ of Summons by Lee Bee Leng & two (2) others ("Plaintiffs") claiming for among others general damages and special damages due to the death of the 1st Plaintiff's husband and 2nd & 3rd Plaintiff's father. The maximum exposure to liabilities of MESB and University Teknologi Petronas ("UTP") is therefore estimated at RM903,550. A Statement of Defence had been filed with the High Court of Malaysia in Ipoh.

In the opinion of MESB's solicitors, MESB should have a good arguable case to go to court.

- (c) Cworks Systems Berhad ("Cworks") vs Metronic Global Berhad ("Company")

On 9 January 2007, the Company through its solicitors, received a Writ of Summons and Statement of Claim issued by CWorks claiming an outstanding amount of RM1,751,617.27 from the Company pursuant to a Software Development Agreement dated 9 May 2005 ("the Agreement") for the development and provision of a software. The maximum exposure to MGB is estimated at RM1,751,617.27. The Company's solicitors are of the opinion that CWorks' claims are premature in nature and in breach of its own actual obligations and that the prospect of defending the suit is good.

The Directors of the Company are of the opinion that the claims referred to above in (b) and (c) are not probable and therefore no provision has been made as at 31 December 2006.

## 32. OTHER SIGNIFICANT EVENTS

- (a) On 14 April 2006, the Company signed a Joint Venture cum Shareholders' Agreement with iCare Health Services Pte Ltd to co-operate and collaborate on health care services via a joint venture company known as Metronic iCares Sdn Bhd (formerly known as Success Knowledge Sdn Bhd) ("MiCares") which was incorporated on 20 March 2006. The Company holds 51% equity interest in MiCares via an acquisition of 51 ordinary shares of RM1 each in MiCares for a cash consideration of RM51. MiCares further increased its paid up share capital from 100 ordinary shares to 2,704,100 ordinary shares at RM1 each at par during the period. The Company subscribed to 1,379,000 of the said ordinary shares at RM1 each for a cash consideration of RM1,379,000, thus maintaining its 51% equity interest in MiCares.
- (b) On 5 June 2006, the Company incorporated a foreign subsidiary in Australia via a subscription of 60 ordinary shares of Australian Dollar ("A\$")1 each representing 60% equity interest in Metronic Australia Pty Ltd for a cash consideration of A\$60.
- (c) On 17 May 2006, the Company entered into a binding Heads of Agreement with FEELingK Co., Ltd ("FEELingK") to set up a joint venture company, FEELingK Malaysia Sdn Bhd ("FKSB"), with the primary objective of deploying card notification solution, bulk short message services, voice SMS and related consultancy, implementation and operations in Malaysia, Pakistan, India, United Arab Emirates, Saudi Arabia, Qatar, Australia, New Zealand and any other countries to be mutually agreed by the Company and FEELingK ("Joint Venture Agreement"). The shareholdings of the respective joint venture partners shall be the Company (60%) and FEELingK (40%).

On 6 July 2006, the Company acquired 100 ordinary shares of RM1 each in FKSB representing 100% of its issued and paid-up share capital for a total cash consideration of RM100. During the period, FKSB further increased its ordinary issued and paid up share capital from 100 to 10,000 by allotment of 9,900 ordinary shares of RM1 each. The Company subscribed all the allotted ordinary shares for a cash consideration of RM9,900, thus maintaining 100% equity interest in FKSB.

At the date of this report, a new agreement is in the midst of being finalised to replace the said Joint Venture Agreement. Under the new agreement, the Company will acquire 100% equity interest in FKSB and FEELingK will charge FKSB licensing fee for solution provided.

# Notes to the Financial Statements

31 December 2006

## 32. OTHER SIGNIFICANT EVENTS (CONTD.)

- (d) On 11 June 2006, the Company entered into a deed of partnership with Tariq Mohammed Saeed Abdulla Al Jassmi ("Tariq"), a UAE national and Khalid Abdul Karim Faris ("Khalid"), a Jordanian national (collectively known as the Parties) for the purpose of carrying out the business of intelligent building management system, integrated security management, e-project management of mechanical and electrical services and other related activities in the entire Middle-East and North African region. The partners intend to incorporate a company with limited liability in the Emirate of Dubai under the proposed name of "Metronic Global Berhad LLC" ("the JVC") subject to the approvals of the relevant authorities. The shareholdings of the respective partners in the JVC shall be the Company (50%), Tariq (25%) and Khalid (25%).

As at the date of the report, an initial approval to set up a Limited Liability Company ("LLC") has been obtained from the Department of Economic Development, Dubai and the LLC is in the midst of being set up.

- (e) On 3 November 2006, the Securities Commission ("SC") (Securities Issues Department and Equity Compliance Unit) approved the Company's following proposals, subject to the conditions as stated in the SC's letters dated 3 November 2006 and 19 January 2007:
- (i) Proposed acquisition of 125 ordinary shares of Hong Kong Dollar ("HK\$") 1.00 each in Unilink Development Limited ("Unilink") representing 12.5% equity interest in Unilink for a purchase consideration of Renminbi ("RMB") 15,000,000 (equivalent to approximately RM6,912,442 at a foreign exchange rate of RM1.00:RMB2.17) to be satisfied by the issuance of 23,041,474 new ordinary shares of RM0.10 each in MGB ("MGB Shares") at an issue price of RM0.30 per MGB Share;
  - (ii) Proposed acquisition of 10,000 ordinary shares of HK\$1.00 each in HK Broadway Electronics Company Limited ("HK Broadway") representing 100% equity interest in HK Broadway for a purchase consideration of RMB15,000,000 (equivalent to approximately RM6,912,442 at a foreign exchange rate of RM1.00:RMB2.17) to be satisfied by the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share;
  - (iii) Proposed call option arrangement between MGB and Zonemax Holdings Limited ("Zonemax") whereby Zonemax has granted MGB a call option to acquire 563 Unilink Shares representing approximately 56.25% equity interest in Unilink for a purchase consideration of RMB67,500,000 which shall be satisfied by the issuance of up to 103,686,636 new MGB Shares at an issue price of RM0.30 and/or cash payment to be mutually agreed upon by Zonemax and MGB or, if the Proposed Bonus Issue (as defined hereinafter) is implemented, 182,976,416 new MGB Shares at an issue price of RM0.17 per MGB Share and/or cash payment to be mutually agreed by Zonemax and MGB;
  - (iv) Proposed private placement of up to 42,531,000 new MGB Shares representing fifteen percent (15%) of the existing issued and paid-up share capital of MGB at an issue price to be determined based on a discount of not more than ten percent (10%) on the five (5) day volume weighted average market price of Company's Shares;
  - (v) Proposed bonus issue of up to 318,989,098 new Company's Shares ("Bonus Shares") to be credited as fully paid-up on the basis of six (6) Bonus Shares for every seven (7) MGB Shares held ("Proposed Bonus Issue");
  - (vi) Proposed increase in the authorised share capital of MGB from RM50,000,000 comprising 500,000,000 MGB Shares to RM100,000,000 comprising 1,000,000,000 Company's Shares;
  - (vii) Proposed amendments to the Memorandum and Articles of Association of Company's; and
  - (viii) Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of the Company from the MESDAQ Market to the Main Board of Bursa Malaysia Securities Berhad.
- All the proposals have been approved by the shareholders of the Company in the Extraordinary General Meeting held on 23 April 2007.
- (f) On 22 December 2006, the Company acquired 2 ordinary shares of RM1.00 each in Trend Gate Systems Sdn Bhd ("TRSSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.

# Notes to the Financial Statements

31 December 2006

## 33. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- (a) On 17 April 2007, the Company entered into a Share Sale Agreement with the shareholders of Ariantec Sdn Bhd ("Ariantec"), to acquire 600,000 ordinary shares of RM1.00 each in Ariantec representing 40% equity interest in Ariantec for a cash consideration of RM5,400,000. The Company had on the even date also entered into a Put Option Agreement with the shareholders of Ariantec. Ariantec is a value-added provider of data network infrastructure and managed security systems and solutions.
- (b) On 23 April 2007, the Company entered into a Shareholders' Agreement with Daniel Lim Kim Chuan, Dominica Avril Miji and Adprima Sdn Bhd ("Adprima") ("the Parties") to carry out the activities of a special projects management consultancy company, performance contracting business and to participate in certain business which the Parties may from time to time agree. The Company shall subscribe for up to 120,000 new ordinary shares of RM1.00 each in Adprima Sdn Bhd for a total cash consideration of RM162,500, representing a 60% equity interest in Adprima.
- (c) Subsequent to the financial year ended 31 December 2006, corporate guarantees amounting to RM31,500,000 were provided to a licensed bank for credit facilities granted to a subsidiary.

## 34. FINANCIAL INSTRUMENTS

### (a) Financial Risk Management Objective and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate (both fair value and cash flow), foreign currency risk, liquidity and credit risks. It is, and has been throughout the year under review, the Group's policy not to engage in speculative transactions.

### (b) Interest Rate Risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no substantial long term interest-bearing assets as at 31 December 2006, the investments in financial assets are mainly short term in nature and they are not held for speculative purposes, but have been mostly placed in short term deposits.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group constantly reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a retail level of protection against rates hikes. The Group does not have any exposure in off balance sheet instruments.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

### (c) Liquidity Risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash equivalents to meet its working capital requirements.

In addition, the Group also maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from financial institutions and prudently balances its portfolio with short term funding so as to achieve overall cost effectiveness.

# Notes to the Financial Statements

31 December 2006

## 34. FINANCIAL INSTRUMENTS (CONTD.)

### (d) Foreign Currency Risk

The Group incurs foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia. Exposure to foreign currency risks are monitored on an ongoing basis. Material foreign currency transaction exposures are hedged with derivative financial instruments such as forward foreign exchange contracts.

The unhedged financial liabilities of the Group that are not denominated in Ringgit Malaysia are as follows:

	United States Dollar RM	Great Pound RM	Britain Dollar RM	Singapore Total RM
<b>At 31 December 2006:</b>				
Trade payables	524,945	88,817	21,219	634,981
<b>At 31 December 2005:</b>				
Trade payables	1,802,621	166,744	28,006	1,997,371

### (e) Credit Risk

Credit risk are minimised and monitored via strictly limiting the Group's associations to business partners with reasonably high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.

The Group does not have any significant exposure to any individual customer nor does it have any major concentration of credit risk related to any financial instruments other than a balance due from a debtor of RM52,894,585 (2005: RM30,662,806).

### (f) Fair Values

The carrying amounts of financial assets and liabilities of the company at the balance sheet date approximated their fair values except for the following:

	Company Carrying Value RM	Fair Value RM
<b>At 31 December 2006:</b>		
Financial Assets		
Amount due from subsidiaries	19,904,280	#

# It is not practical to estimate the fair values of amount due from subsidiaries due principally to a lack of fixed repayment terms entered by the parties involved and without incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

#### (i) Cash and cash equivalents, receivables, payables and short term borrowings

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

#### (ii) Investments

The fair values of quoted securities is determined by reference to stock exchange quoted market prices at the close of the business on the balance sheet date.

# Notes to the Financial Statements

31 December 2006

## 35. SEGMENTAL REPORTING

### (a) Geographical segments

The primary segment reporting format is determined to be geographical as the Group's risks and rates of return are affected predominantly by the location of where revenue is generated. The operating businesses are organised and managed separately according to the geographical locations, where each segment represents a strategic business unit. The Group's geographical segments are divided into two categories.

#### (i) Malaysia

The operations in this area are intelligent building management systems, integrated security management systems, e-project management of mechanical and electrical services and supply of engineering systems.

#### (ii) Overseas

The Group has operations in Vietnam, India, The People's Republic of China and the Kingdom of Saudi Arabia. Contributions from operations in all these countries, with the exception of Vietnam, have been insignificant in the current financial year.

Comparatives have not been presented as all of the Group's revenue in the last financial year was generated within Malaysia.

### (b) Business segments

The Group's primary products are intelligent building management systems, integrated security management systems, e-project management of mechanical and electrical services and supply of engineering systems. Management considers these products to be integral and homogenous in nature. Revenues contributed during the financial year by other business segments other than the Groups primary products were not material. The secondary segmental reporting format is not prepared on this basis.

### Geographical Segments

The following table provides an analysis of the Group's revenue, results, assets and liabilities by geographical segment.

	Malaysia RM	Overseas RM	Elimination RM	Total RM
<b>31 December 2006</b>				
<b>Revenue</b>				
Sales to external customers	100,569,621	10,372,094	-	110,941,715
Inter-segment sales	1,252	16,081	(17,333)	-
Total Revenue	100,570,873	10,388,175	(17,333)	110,941,715
<b>Results</b>				
Segment result	11,812,016	941,247	-	12,753,263
Finance cost				(192,595)
Profit before tax				12,560,668
Income tax expense				(3,532,093)
Net profit for the year				9,028,575
<b>Assets</b>				
Segment assets	132,945,743	9,379,714	(4,019,643)	138,305,814

# Notes to the Financial Statements

31 December 2006

## 35. SEGMENTAL REPORTING (CONTD.)

	Malaysia RM	Overseas RM	Elimination RM	Total RM
<b>Liabilities</b>				
Segment liabilities	73,562,721	6,204,841	(4,019,643)	<u>75,747,919</u>
<b>Other segment information</b>				
Capital expenditure	2,953,567	54,101	-	3,007,668
Depreciation	538,134	109,701	-	647,835
Amortisation	197,939	-	-	197,939
Other significant non-cash expenses				
Provisions	990,580	256,494	-	1,247,074

# List of Properties

as at 31 December 2006

Location	Description/ Existing use	Land area sq. ft.	Built-up area sq. ft.	Date of certificate of fitness	Approximate age of building/ Tenure	Net book value As at 31.12.2006 RM'000	Last date of revaluation or if none, date of acquisition
<b>Metronic Engineering Sdn Bhd</b>							
No. 2 Jalan Astaka U8/83 Bukit Jelutong, Seksyen U8 40150 Shah Alam Selangor Darul Ehsan	3-storey semi- detached office cum factory	23,838	25,112	17 November 2000	6 years / Freehold	2,927	28 July 2000
No. 4 Jalan Astaka U8/83 Bukit Jelutong, Seksyen U8 40150 Shah Alam Selangor Darul Ehsan	3-storey semi- detached office cum factory	16,948	18,621	17 November 2000	6 years / Freehold	2,488	12 April 2004
Lot 1888, College Heights Garden Resort Nilai, Seremban	Vacant residential land	12,340	N/A	N/A	N/A / Freehold	150	28 February 2007
Unit no. 3F-47, 3rd Floor, Lot 1 JB Water Front City, Jalan Tun Sri Lanang 80000 Johor Bahru, Johor	Shop lot	N/A	475	23 February 2001	6 years/ Leasehold for 99 years expiring on 4 December 2095	109	28 February 2007
B-7-12, 7th Floor, Block B, Pearl Point Condominiums, Jalan Sepadu 3, Taman United, 58200 Kuala Lumpur	Apartment for investment purposes	N/A	1,076	22 January 1997	10 years/ Freehold	140	28 February 2007
<b>Metronic Microsystem (Beijing) Company Limited, China</b>							
No 18, Level 8, Top Fine International Centre, Dong San Huan Middle Road, Chao Yang District, Beijing, China.	Office	N/A	7,540 (700.53) square metres	28 November 2003	5 years/ Leasehold for 50 years expiring on 5 February 2052	4,126	15 March 2005

# Analysis of Shareholdings

as at 30 April 2007

Authorised Share Capital	:RM50,000,000 comprising 500,000,000 Ordinary Shares of RM0.10 each
Issued and Paid-up Share Capital	:RM28,354,000 comprising 283,540,000 Ordinary Shares of RM0.10 each
Class of Shares	:Ordinary Shares of RM0.10 each
Voting Rights	:One vote per ordinary share

## (I) DISTRIBUTION SCHEDULE OF SHAREHOLDERS

Size of holdings	No. of Shareholders	%	No. of Shares	%
1 - 99	3	0.101	70	0.000
100 - 1,000	103	3.473	82,600	0.029
1,001 - 10,000	1,416	47.757	9,423,950	3.323
10,001 - 100,000	1,213	40.910	46,471,800	16.389
100,001 - 14,176,999	227	7.655	87,827,130	30.975
14,177,000 AND ABOVE (*)	3	0.101	139,734,450	49.282
<b>Total</b>	<b>2,965</b>	<b>100.00</b>	<b>283,540,000</b>	<b>100.00</b>

**Note:** \* - 5% and above of issued shares

## (II) 30 LARGEST SHAREHOLDERS

No.	Name	Holdings	%
1	Abd.Gani Bin Yusof	74,925,120	26.424
2	Metronic Corporation Sdn Bhd	42,531,000	15.000
3	Ng Tek Che	22,278,330	7.857
4	Liew Chiap Hong	6,134,165	2.163
5	Liew Chiap Hong	4,144,165	1.461
6	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB For Khue Yen Lin (PB)	2,930,000	1.033
7	Promosi Unggul Sdn Bhd	2,377,200	0.838
8	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB For Super Leap Sdn Bhd (PB)	2,100,000	0.740
9	Kamaruzzaman Bin Shariff	2,000,000	0.705
10	Md Wira Dani Bin Abdul Daim	2,000,000	0.705
11	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB For Chan Lay Sing (PB)	1,990,000	0.701
12	Chong Yoke Meng	1,839,500	0.648
13	CIMSEC Nominees (Asing) Sdn Bhd CIMB For Delaware Heights Corporation (PB)	1,670,000	0.588
14	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheong Yek Ing (HLG)	1,440,000	0.507
15	Ng Swee Aun	1,400,000	0.493
16	Pee Kee Chiaw	1,173,800	0.413
17	Kok Ming-nee	1,031,000	0.363
18	CITIGROUP Nominees (Tempatan) Sdn Bhd CB Spore GW For Wong Yeng Mun	1,000,000	0.352
19	Tan Ching Cheo	1,000,000	0.352
20	Yeoh Li Li	1,000,000	0.352
21	Ng Zhi Cong	930,000	0.327

# Analysis of Shareholdings

as at 30 April 2007

No.	Name	Holdings	%
22	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Pee Kee Chiaw	875,000	0.308
23	AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tan Hoon Hoon	850,000	0.299
24	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Gilbert Wong U-bing (133AB8060)	800,000	0.282
25	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Eric Wong U-jin (E-KPG)	800,000	0.282
26	Sharon Voon Lee Peng	780,000	0.275
27	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Annabelle Wong Su Ching (E-KPG)	700,000	0.246
28	Yeoh Eng Hua	700,000	0.246
29	Tan Kin Choo	695,000	0.245
30	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB For Guan Swee Leong (PB)	693,000	0.244

**SUMMARY**

<b>TOTAL PERCENTAGE (%)</b>	<b>: 64.466</b>
<b>TOTAL HOLDINGS</b>	<b>: 182,787,280</b>
<b>TOTAL NO. OF HOLDERS</b>	<b>: 30</b>

**(III) SUBSTANTIAL SHAREHOLDERS**

Name of Substantial Shareholder	Direct Interest	%	Indirect Interest	Note	%
Metronic Corporation Sdn Bhd	42,531,000	15.00	-	-	-
Dato' Abd Gani bin Yusof	74,925,140	26.42	42,531,000	1	15.00
Dr Ng Tek Che	22,541,930	7.95	42,531,000	1	15.00
Liew Chiap Hong	10,541,930	3.72	42,531,000	1	15.00

*Note*

*1 Deemed interested by virtue of their interest in Metronic Corporation Sdn Bhd pursuant to Section 6A (4) of the Companies Act, 1965.*

**(IV) DIRECTORS' INTEREST IN SHARES OF THE COMPANY**

Name Directors	Direct Interest	%	Indirect Interest	Note	%
Tan Sri Dato' Kamaruzzaman bin Shariff	2,000,000	0.71	-	-	-
Dato' Abd Gani bin Yusof	74,925,140	22.81	42,531,000	1	15.00
Dr Ng Tek Che	22,541,930	7.95	42,531,000	1	15.00
Liew Chiap Hong	10,541,930	3.72	42,531,000	1	15.00
Lee Fok Chong	-	-	-	-	-
Datuk Subhi bin Hj Dziauddin	-	-	-	-	-
Amirudin bin Mohd Baria	-	-	-	-	-
Li Ji Chang	-	-	-	-	-

*Note*

*1 Deemed interested by virtue of their interest in Metronic Corporation Sdn Bhd pursuant to Section 6A (4) of the Companies Act, 1965.*

# Statement Accompanying The Notice Of The Fourth Annual General Meeting

Pursuant to the Appendix 9C of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market, appended hereunder are:-

## 1. THE NAMES OF THE DIRECTORS WHO ARE STANDING FOR RE-ELECTION:-

- i) Tan Sri Dato' Kamaruzzaman bin Shariff
- ii) Dr. Ng Tek Che

Further details of profile of Directors are set out in pages 12 and 15 of the Annual Report while their securities holdings are set out in page 87 of the Annual Report.

## 2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS:-

A total of six Board meetings were held during the financial year ended 31 December 2006. Details of attendance by Directors holding office at the end of the financial year are as follows:-

Name	Attendance
Tan Sri Dato' Kamaruzzaman bin Shariff	6/6
Dato' Abd Gani bin Yusof	6/6
Dr. Ng Tek Che	6/6
Liew Chiap Hong	6/6
Lee Fok Chong	5/6
Datuk Subhi bin Hj Dziauddin	3/6
Amirudin bin Mohd Baria	4/6
Li Ji Chang	2/6

## 3. DATE, TIME AND PLACE OF MEETING:-

Type of meeting : Fourth Annual General Meeting  
Date : Wednesday 27 June 2007  
Time : 10.00 am  
Place : Room Mauna Lani B, Holiday Inn Glenmarie Kuala Lumpur, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Fourth Annual General Meeting of Metronic Global Berhad will be held at Room Mauna Lani B, Holiday Inn Glenmarie Kuala Lumpur, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan on Wednesday 27 June 2007 at 10.00 a.m. for the following purposes:

## AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon. **Ordinary Resolution 1**
2. To re-elect the following Directors retiring in accordance with Article 86 of the Company's Articles of Association and who being eligible have offered themselves for re-election:
  - i) Tan Sri Dato' Kamaruzzaman Bin Shariff **Ordinary Resolution 2**
  - ii) Dr Ng Tek Che **Ordinary Resolution 3**
3. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2006. **Ordinary Resolution 4**
4. To re-appoint Messrs Ernst & Young as Auditors for the ensuing year and to authorize the Directors to fix their remuneration. **Ordinary Resolution 5**
5. **As Special Business:-**

To consider and, if thought, to pass the following Ordinary/Special Resolutions:-

- (a) **Authority to Issue Shares Pursuant to Section 132D of the Companies ACT, 1965**

"THAT pursuant to Section 132D of the Companies Act, 1965, and subject always to the approval of all the relevant regulatory authorities, the Board of Directors of the Company be and is hereby authorized to issue and allot from time to time such number of ordinary shares upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, PROVIDED ALWAYS THAT the aggregate number of ordinary shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being AND THAT the Directors are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad AND THAT such authority shall continue to be in force until the conclusion of the next Annual General Meeting ("AGM") of the Company or the expiration of the period within which the next AGM is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earliest."

**Ordinary Resolution 6**

- (b) **Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and New Shareholders' Mandate for Additional Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**

"THAT the mandate granted by the shareholders of the Company on 15 June 2006 pursuant to Paragraph 10.09 and Guidance Note 8/2006 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market authorising the Company and its subsidiaries ("MGB Group") to enter into the recurrent transactions of a revenue or trading nature as set out in Section 2.3.1 of the Circular to Shareholders dated 4 June 2007 ("the Circular") with the related parties mentioned therein, which are necessary for the MGB Group's day-to-day operations, be and is hereby renewed AND THAT a new mandate be and is hereby granted by the shareholders of the Company to apply to the additional recurrent transactions of a revenue or trading nature as set out in Section 2.3.2 of the Circular with the related parties mentioned therein, provided that:-

# Notice of Annual General Meeting

- (i) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
- (ii) disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year and in the annual reports for subsequent financial years during which the shareholders' mandate is in force based on the type of the recurrent transactions, the names of the related parties involved in each type of the recurrent transaction and their relationship with the Company;

AND THAT the authority conferred by such mandate shall continue to be in force until -

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless authority is renewed by a resolution passed at the next Annual General Meeting.
- (ii) the expiration of the period within which the next AGM is required to be held pursuant to Section 143(1) of the Companies Act 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act 1965), or
- (iii) revoked or varied by resolution passed by shareholders of the company in general meeting.

whichever is the earliest;

**AND THAT**, authority be and is hereby given to the Directors of the Company to complete and do all such acts and things (including executing such documents as may be required) to give effect to the proposed shareholders' mandate.

**AND THAT**, the estimates given on the recurrent related party transactions specified in Section 2.3.1 and 2.3.2 of the Circular being provisional in nature, the Directors and/or any of them be and are hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in Section 2.4 of the Circular".

**Ordinary Resolution 7**

**(c) Proposed Amendments to the Articles of Association of the company :**

"THAT approval be and is hereby given for the Articles of Association of the company to be amended as follows:

- (i) The following new Article 41A be inserted immediately after the existing Article 41:

**Article 41A : Transmission of Securities from Foreign Register**

Where:-

- (a) the securities of a company are listed on another stock exchange; and
- (b) such company is exempted from compliance with Section 14 of the Securities Industry (Central Depositories) Act, 1991 or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act, 1998, as the case may be, under the Rules of the Depository in respect of such securities.

Such company shall, upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the company in the jurisdiction of the other stock exchange, to the register of holders maintained by the registrar of the company in Malaysia and vice versa provided that there shall be no change in the ownership of such securities.

# Notice of Annual General Meeting

- ii) The following new Article 71A be inserted immediately after the existing Article 71 :

**Article 71A: Appointment of at least one proxy**

Where a member of the company is an authorized nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account.

- iii) The existing Article 136 be deleted in its entirety and be substituted with the following new Article 136:

**Article 136: Presentation of Accounts**

The director shall cause accounting records to be kept in accordance with the Act. The interval between the close of a financial year of the company and the issue of the annual audited accounts, the directors' and auditors' reports shall not exceed 4 months.

**AND THAT** the Directors and Secretary of the Company be and are hereby authorized to take all steps and do all acts, things and deeds which may be considered necessary or expedient in order to implement, finalize and give effect to the proposed amendments."

**Special Resolution**

6. **ANY OTHER BUSINESS**

To transact any other business for which due notice shall have been given.

By Order of the Board,

**AZLAN MOHD ARIFF** (LS 0008402)  
Company Secretary

Selangor Darul Ehsan  
4th June 2007

# Notice of Annual General Meeting

## NOTES

1. A member of the Company entitled to attend and vote at this Meeting is entitled to appoint a proxy or proxies to attend and vote on his behalf.
2. A proxy need not be a member of the Company and provision of Section 149(1) (b) of the Companies Act 1965 need not be complied with.
3. A member who is an authorized nominee as defined under Securities Industry (Central Depositories) Act 1991, is allowed to appoint at least one (1) proxy in respect of each securities accounts it holds with ordinary shares of the company standing to the credit of the said securities accounts.
4. Where the member of the Company appoints two or more proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy. Duplication of proxy form is allowed for appointment of additional proxy.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a corporation either under seal or under the hand of an official or attorney duly authorized.
6. The instrument appointing the proxy must be deposited at the Registered Office of the Company at 650, Block A, Kelana Centre Point, No. 3, Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the Meeting or adjourned Meeting.

## **EXPLANATORY NOTES ON SPECIAL BUSINESS**

### 1. **Ordinary Resolution 6**

#### **Resolution pursuant to Section 132D of the Companies Act, 1965**

The proposed Resolution 6, if passed, would empower the Directors to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for time being for such purpose as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

### 2. **Ordinary Resolution 7**

#### **Resolutions pertaining to renewal and new Shareholders' Mandate for the Recurrent Related Party Transactions**

The proposed Resolution 7, if passed, will enable the Company and each of its subsidiaries to enter into a recurrent related party transactions with the parties as set out in the Circular to Shareholders of the Company dated 4 June 2007, despatched together with the Annual Report. This authority, subject to renewal thereof, will expire at the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting of the Company is required to be held under the Companies Act 1965 (excluding any extension of such period as may be allowed under the Companies Act 1965) whichever is earlier, unless earlier revoked or varied by a resolution in a general meeting.

### 3. **Special Resolution**

The proposed amendments to the Articles of Association of the company will bring the Articles of Association of the company in line with the Listing Requirements of Bursa Malaysia Securities Berhad.

# Form of Proxy

I/We, \_\_\_\_\_ NRIC No. \_\_\_\_\_ being a member/members of METRONIC GLOBAL BERHAD hereby appoint \_\_\_\_\_ of \_\_\_\_\_ NRIC No. \_\_\_\_\_ or failing him/her, CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the Fourth Annual General Meeting of Metronic Global Berhad to be held at Room Mauna Lani B, Holiday Inn Glenmarie Kuala Lumpur, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan on Wednesday 27 June 2007 at 10.00 a.m and/or at any adjournment thereof.

No.	Ordinary Resolution	For	Against
1.	To receive the Audited Financial Statements and Reports for the year ended 31 December 2006		
2.	Re-election of Tan Sri Dato' Kamaruzzaman Bin Shariff as Director		
3.	Re-election of Dr Ng Tek Che as Director		
4.	To approve the payment of Directors' Fees		
5.	Re-appointment of Auditors		
6.	Grant of Authority Pursuant to Section 132D of the Companies Act, 1965.		
7.	Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and New Mandate for Additional Recurrent Related Party Transactions of A Revenue or Trading Nature		
	<b>Special Resolution</b>		
1.	Proposed Amendments to the Articles of Association of the Company		

Please indicate with an "X" in the space provided, how you wish your vote to be cast. If you do not do so, the proxy may vote or abstain at his/her discretion.

.....  
Signature / Common Seal

.....  
Date

NO. OF SHARES HELD

## Notes:

1. A member of the Company entitled to attend and vote at this Meeting is entitled to appoint a proxy or proxies to attend and vote on his behalf.
2. A proxy need not be a member of the Company and provision of Section 149(1) (b) of the Companies Act 1965 need not be complied with.
3. Where the member of the Company appoints two or more proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy. Duplication of proxy form is allowed for appointment of additional proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a corporation either under seal or under the hand of an official or attorney duly authorized.
5. The instrument appointing the proxy must be deposited at the Registered Office of the Company at 650, Block A, Kelana Centre Point, No. 3, Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the Meeting or adjourned Meeting.
6. If no name is inserted in the space provided for name of proxy, the Chairman of meeting shall act as proxy.
7. A member should insert the number of shares held in the box provided. If no number is inserted, the form of proxy will be deemed to relate to all shares held by the member.

Fold this for sealing

fold here

Affix  
Stamp  
Here



# Metronic Global Berhad

(Company No.: 632068-V)

650, Block A, Kelana Centre Point  
No. 3, Jalan SS 7/19, Kelana Jaya  
47301 Petaling Jaya  
Selangor Darul Ehsan

fold here

fold here



[www.metronic-group.com](http://www.metronic-group.com)

No.2 Jalan Astaka U8/83, Seksyen U8, Bukit Jelutong,  
40150 Shah Alam Selangor Darul Ehsan, Malaysia  
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Certificate No: 403813



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Celebrating Malaysia's  
Enterprising Spirit