(Prepared for inclusion in this Prospectus)

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The Board of Directors
Metronic Global Berhad
650, Block A, Kelana Centre Point
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Dear Sirs

ACCOUNTANTS' REPORT ON METRONIC GLOBAL BERHAD

1. INTRODUCTION

This report has been prepared by Messrs Ernst & Young, an approved company auditor for inclusion in the Prospectus to be dated 30 April 2004 in connection with the proposed public issue of 71,000,000 new ordinary shares of RM0.10 each in Metronic Global Berhad ("MGB" or "the Company") at an issue price of RM0.21 per ordinary share and the listing and quotation for its entire enlarged issued and paid-up share capital of 283,540,000 ordinary shares of RM0.10 each on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("BMSB") (formerly known as Malaysia Securities Exchange Berhad).

2. LISTING SCHEME

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of MGB on the MESDAQ Market of the BMSB ('Proposed Listing"), the Company undertook the following schemes:

(i) On 17 March 2004, entered into a Share Sale Agreement for the acquisition of 3,000,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Metronic Engineering Sdn. Bhd. ("MESB") from Metronic Corporation Sdn. Bhd. ("MCSB") for a purchase consideration of RM21,253,998 which was fully satisfied by the issuance of 212,539,980 new MGB shares of RM0.10 each at par ("the Acquisition").

The transaction was completed on 18 March 2004 and effective from that date, the Company became the new holding company of MESB.

On 22 March 2004 MESB transferred to MGB the entire equity interest in its wholly-owned subsidiary company, Metronic Integrated System Sdn. Bhd. ("MISSB"), at book value for cash.

The purchase consideration of RM21,253,998 for the Acquisition was arrived at based on the adjusted audited aggregate net tangible assets ("NTA") of MESB and MISSB as at 31 August 2003 of RM21,253,998 after adjusting for interim dividends paid and payable for the financial year ended 31 December 2003 amounting to RM4,925,599 to MCSB, as follows:

	NTA RM
Audited NTA of MESB and MISSB as at 31 August 2003	RM26,179,597
Less: Dividends	(RM4,925,599)
Adjusted NTA	RM21,253,998

(ii) Public issue of 71,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.21 per ordinary share ("the Public Issue").

3. GENERAL INFORMATION

3.1 Background

MGB was incorporated as a public company on 22 October 2003 and its principal activity is that of an investment holding.

3.2 Share Capital

MGB was incorporated with an authorised share capital of RM100,000 comprising 1,000,000 ordinary shares of RM0.10 each, and issued and fully paid-up share capital of RM2 comprising 20 ordinary shares of RM0.10 each. Subsequent to the financial year ended 31 December 2003, MGB increased its:

(i) authorised share capital from RM100,000 to RM50,000,000 through the creation of 499,000,000 shares of RM0.10 each; and

(ii) issued and paid-up share capital from RM2 to RM21,254,000 by way of issuance of 212,539,980 new ordinary shares of RM0.10 each at par. The new ordinary shares rank pari passu in all respects with existing ordinary shares. The new ordinary shares were issued as purchase consideration to MCSB pursuant to the Acquisition.

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3.3 Subsidiary companies

Details of the subsidiary companies of MGB are as follows:-

Name of Company	Date/Place of Incorporation	Issued and Paid-up Share Capital as at 31 December 2003	Equity Interest	Principal Activities
MESB	20 August 1984 / Malaysia	RM3,000,000	100%	System integration specialising in the field of Intelligent Building Management System ("IBMS") and Integrated Security Management System ("ISMS"), expanding into e-project management of mechanical and electrical services, and supply of engineered systems.
MISSB	25 January 1995 / Malaysia	RM1,000	100%	Procurement of contracts in relation to engineering work specialising in the field of IBMS and ISMS, and sale of engineering equipment.

3.4 Basis of Accounting and Accounting Policies

This report is prepared based on the audited financial statements of MGB, MESB and MISSB ("MGB Group") which have been prepared in accordance with applicable Approved Accounting Standards issued in Malaysia and is presented on a basis consistent with the accounting policies normally adopted by MGB Group.

3.5 Financial Statements and Auditors

Ernst & Young were the auditors of MGB, MESB and MISSB for all the years/period under review, that is for the financial years/period ended 31 December 1999 to 31 December 2003. The financial statements of MGB, MESB and MISSB for the financial years/period have been reported on without any qualification.

4. DIVIDENDS

No dividends have been paid or declared by MGB and MISSB for the financial years/period under review.

MESB has declared:
(i) a tax exempt dividend of 466.67 sen per share amounting to RM7,000,000 in respect of financial year ended 31 December 2000, fully paid; and
(ii) a tax exempt dividend of 164.19 sen per share amounting to RM4,925,599 in respect of financial year ended 31 December 2003, of which RM3,389,220 has been paid.

5. SUMMARISED INCOME STATEMENTS

5.1 PROFORMA CONSOLIDATED INCOME STATEMENTS

The summarised proforma consolidated income statements for the past five (5) financial years/period ended 31 December have been prepared for illustrative purposes based on the audited financial statements of MGB, MESB and MISSB, after making all the inter-company adjustments.

	Financial year/period ended 31 December				
	1999 RM'000	**2000 RM'000**	**2001 RM'000**	**2002 RM'000 (Restated)**	**2003 RM'000**
Revenue	55,523	82,399	50,307	130,014	131,997
Cost of sales	(40,521)	(66,082)	(38,845)	(114,719)	(112,217)
Other income	-	18	112	218	1,112
Personnel costs	(3,686)	(3,827)	(4,209)	(5,149)	(7,627)
Depreciation	(153)	(198)	(597)	(674)	(707)
Other operating expenses	(3,662)	(2,927)	(176)	(1,280)	(5,290)
Profit from operation	7,501	9,383	6,592	8,410	7,268
Finance income	75	184	154	236	200
Finance cost	(51)	(20)	(194)	(141)	(188)
Profit before taxation	7,525	9,547	6,552	8,505	7,280
Taxation	(103)	(2,677)	(1,619)	(1,173)	(3,806)
Net profit for the year	7,422	6,870	4,933	7,332	3,474
Weighted average number of ordinary shares in issue ('000)	212,540	212,540	212,540	212,540	212,540
Net earnings per share (RM)	0.03	0.03	0.02	0.03	0.02

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Notes

(i) The proforma consolidated income statements are prepared by consolidating the audited financial statements of MGB, MESB and MISSB for the respective years/period on the basis that these companies constitute a group over the years/period under review.

MGB was consolidated for the period from the date of incorporation, 22 October 2003, to 31 December 2003.

Metronic Building Services Sdn. Bhd. ("MBSSB"), a subsidiary company of MESB has not been included in the proforma consolidated income statements as it has been disposed off on 20 October 2003.

(ii) The proforma consolidated income statements have been prepared under the acquisition method of accounting.

(iii) Year 2002 figures have been restated in compliance with the adoption of MASB 25- Income Taxes, which become effective from 1 January 2003.

(iv) All significant inter-company transactions have been eliminated from the proforma consolidated income statements.

(v) The net earnings per share is calculated based on the net profit and on the weighted average number of ordinary shares in issue at the end of each of the financial years/period. For this purpose, MGB shares of 212,540,000 ordinary shares (before the Public Issue) were assumed to be in issue for the whole of the five years.

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We set out below the audited results of the companies in the MGB Group for the relevant financial years under review.

MESB

	Financial year ended 31 December 1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000 (Restated)	2003 RM'000
Revenue	55,352	82,303	49,789	129,427	131,836
Cost of sales	(40,538)	(67,172)	(39,220)	(115,385)	(116,676)
Other income	-	18	126	238	853
Personnel costs	(3,686)	(2,701)	(2,228)	(2,587)	(3,882)
Depreciation	(153)	(198)	(597)	(674)	(707)
Other operating expenses	(3,526)	(3,021)	(1,696)	(3,155)	(4,419)
Profit from operation	7,449	9,229	6,174	7,864	7,005
Finance income	75	180	146	236	200
Finance cost	(51)	(20)	(194)	(141)	(188)
Profit before taxation	7,473	9,389	6,126	7,959	7,017
Taxation	(104)	(2,558)	(1,460)	(1,041)	(3,729)
Net profit for the year	7,369	6,831	4,666	6,918	3,288
Weighted average number of ordinary shares in issue ('000)	785	1,500	1,500	2,250	3,000
Net earnings per share (RM)	9.38	4.55	3.11	3.07	1.10

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Notes

(i) There was no tax charge for 1999, as tax on income, other than dividend income was waived in accordance with the Income Tax (Amendment) Act 1999.

(ii) Included in the tax charge for 2003 is an under provision for prior years amounting to approximately RM1,499,000.

(iii) There were no exceptional or extraordinary items for the financial years under review.

(iv) The net earnings per share is calculated based on the net profit and on the weighted average number of ordinary shares in issue at the end of each of the financial years.

(v) There has been no change in the company's accounting policies, which may materially affect its income and financial position for the financial years under review except for the following:

Adoption of MASB 25 - Income Taxes

During the year ended 31 December 2003, the company adopted the new MASB 25 – Income Taxes, which became effective from 1 January 2003, and accordingly modified the accounting policy for Deferred Tax. The change in accounting policy has been applied retrospectively and comparatives have been restated as follows:

	Previously stated as at 31.12.2002 RM	Adjustment RM	Restated as at 31.12.2002 RM
Deferred Tax Assets	-	1,300,000	1,300,000

(vi) In the year 1999, MESB's contract income from engineering works is recognised based on percentage of completion method. This is in compliance with MASB 7 – Construction Contracts which no longer permits recognition based on completed method.

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MISSB

	Financial year ended 31 December				
	1999	**2000**	**2001**	**2002**	**2003**
	RM'000	**RM'000**	**RM'000**	**RM'000 (Restated)**	**RM'000**
Revenue	1,014	2,272	3,519	4,396	4,762
Cost of sales	(828)	(276)	(411)	(462)	(143)
Other income	-	-	118	136	415
Personnel costs	-	(1,126)	(1,999)	(2,562)	(3,745)
Other operating expenses	(133)	(715)	(810)	(963)	(1,026)
Profit from operation	53	155	417	545	263
Finance income	-	3	8	1	-
Finance cost	-	-	-	-	-
Profit before taxation	53	158	425	546	263
Taxation	-	(119)	(158)	(132)	(77)
Net profit for the year	53	39	267	414	186
Number of ordinary shares in issue ('000)	1	1	1	1	1
Net earnings per share (RM)	53	39	267	414	186

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Notes:

(i) There was no tax charge for 1999 as tax on income, other than dividend income, was waived in accordance with the Income Tax (Amendment) Act 1999.

(ii) There were no exceptional or extraordinary items for the financial years under review.

(iii) The net earnings per share is calculated based on the net profit and on the number of ordinary shares in issue at the end of each of the financial years.

(iv) There has been no change in the company's accounting policies, which may materially affect its income and financial position for the financial years under review except for the following:

<u>Adoption of MASB 25 - Income Taxes</u>

During the year ended 31 December 2003, the company adopted the new MASB 25 – Income Taxes, which became effective from 1 January 2003, and accordingly modified the accounting policy for Deferred Tax. The change in accounting policy has been applied retrospectively and comparatives have been restated as follows:

	Previously stated as at 31.12.2002 RM	Adjustment RM	Restated as at 31.12.2002 RM
Deferred Tax Assets	-	56,000	56,000

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6. SUMMARISED BALANCE SHEETS

6.1 PROFORMA CONSOLIDATED BALANCE SHEETS

The summarised proforma consolidated balance sheets of MGB Group based on the respective audited financial statements of MGB, MESB and MISSB as at the end of the financial years/period under review are as follows:

	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000 (Restated)	2003 RM'000
Property, plant and equipment	1,245	5,691	6,156	6,150	6,278
Other Investments	-	250	297	139	139
Deferred taxation assets	-	-	-	1,356	970
Current assets	25,765	53,827	40,736	133,581	86,771
Less: Current liabilities	14,735	45,682	28,172	114,933	69,478
Net current assets	11,030	8,145	12,564	18,648	17,293
	12,275	14,086	19,017	26,293	24,680
Financed by:					
Share capital	1,500	1,500	1,500	3,000	21,254*
Retained profits/accumulated losses	10,641	10,511	15,444	21,276	(1)
	12,141	12,011	16,944	24,276	21,253
Reserve on consolidation	-	-	-	-	1,571
Hire purchase creditors	53	33	66	86	50
Term loan	81	2,042	2,007	1,931	1,806
	12,275	14,086	19,017	26,293	24,680

* RM21,254,000 comprising 212,540,000 ordinary shares of RM0.10 each assumed in issue as at 31 December 2003.

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Notes:

(i) The proforma consolidated balance sheets are prepared by consolidating the audited financial statements of MGB, MESB and MISSB for the respective years/period on the basis that these companies constitute a group over the years/period under review.

MGB was consolidated for the period from the date of incorporation, 22 October 2003, to 31 December 2003.

The 31 December 2003 group figures reflects the acquisition of the entire issued and paid-up share capital MESB, for a total consideration of RM21,253,998 satisfied by the issuance of 212,539,980 new MGB shares of RM0.10 each.

Thereafter MESB transferred to MGB the entire equity interest in its wholly-owned subsidiary, MISSB, at book value for cash.

The purchase consideration of RM21,253,998 was arrived at based on the net tangible assets of MESB and MISSB as at 31 August 2003 of RM26,179,597, and after adjusting for the dividends amounting to RM4,925,599 to Metronic Corporation Sdn. Bhd.

Reserve on consolidation of RM1,570,785 arises as a result of the excess of net tangible assets of MESB and MISSB as 31 December 2003 over the cost of acquisition as indicated in the preceding paragraph.

Metronic Building Services Sdn. Bhd. ("MBSSB"), a subsidiary company of MESB has not been included in the proforma consolidated balance sheets as it has been disposed off on 20 October 2003.

(ii) The proforma consolidated balance sheets have been prepared under the acquisition method of accounting.

(iii) All significant inter-company balances have been eliminated from the proforma consolidated balance sheets.

(iv) Year 2002 figures have been restated in compliance with the adoption of MASB 25- Income Taxes, which become effective from 1 January 2003.

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MESB

The audited balance sheets of MESB as at 31 December are as follows:

	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000 (Restated)	2003 RM'000
Property, plant and equipment	1,245	5,691	6,156	6,150	6,278
Investment in subsidiary company	-	216	216	216	216
Other investments	-	250	297	139	139
Deferred taxation assets	-	-	-	1,300	970
Current assets	25,756	53,558	39,852	133,078	86,572
Less: Current liabilities	14,728	45,670	27,812	115,312	70,401
Net current assets	11,028	7,888	12,040	17,766	16,171
	12,273	14,045	18,709	25,571	23,774
Financed by:					
Share capital	1,500	1,500	1,500	3,000	3,000
Retained profits	10,639	10,470	15,136	20,554	18,917
	12,139	11,970	16,636	23,554	21,917
Hire purchase creditors	53	33	66	86	50
Term loan	81	2,042	2,007	1,931	1,807
	12,273	14,045	18,709	25,571	23,774

Note:

(i) Year 2002 figures have been restated in compliance with the adoption of MASB 25- Income Taxes, which become effective from 1 January 2003.

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MISSB

The audited balance sheets of MISSB as at 31 December are as follows:

	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000 (Restated)	2003 RM'000
Current assets	1,357	1,215	959	1,704	1,324
Less: Current liabilities	1,139	958	435	766	200
Net current assets	218	257	524	938	1,124
	218	257	524	938	1,124
Financed by:					
Share capital	1	1	1	1	1
Retained profits	217	256	523	937	1,123
	218	257	524	938	1,124

Note:

(i) Year 2002 figures have been restated in compliance with the adoption of MASB 25-Income Taxes, which become effective from 1 January 2003.

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7. STATEMENT OF ASSETS AND LIABILITIES

The following is a detailed statement of assets and liabilities of proforma MGB Group provided for illustrative purposes only and are prepared based on the audited financial statements of MGB, MESB and MISSB as at 31 December 2003 and should be read in conjunction with the notes thereof.

	Note	MGB Audited at 31.12.2003 RM'000	Pro Forma I After Acquisition of MESB and MISSB RM'000	Pro Forma II After Public Issue RM'000	Pro Forma III After Utilisation of Proceeds RM'000
Non Current Assets					
Property, plant and equipment	8.2	-	6,278	6,278	8,878
Other investments	8.3	-	139	139	139
Deferred tax assets	8.4	-	970	970	970
		-	7,387	7,387	9,987
Current Assets					
Inventories	8.5	-	2,827	2,827	2,827
Trade receivables	8.6	-	71,795	71,795	71,795
Other receivables, deposits and prepayments		369	1,240	1,240	1,240
Fixed deposits	8.7	-	8,824	8,824	8,824
Cash and bank balances		-*	2,085	16,995	8,195
		369	86,771	101,681	92,881
Current Liabilities					
Trade payables	8.8	-	41,728	41,728	41,728
Other payables	8.9	370	12,840	12,840	12,840
Bank borrowings	8.10	-	9,579	9,579	4,579
Provision for taxation		-	5,331	5,331	5,331
		370	69,478	69,478	64,478
Net Current Assets		(1)	17,293	32,203	28,403
		(1)	24,680	39,590	38,390

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	Note	MGB Audited at 31.12.2003 RM'000	Pro Forma I After Acquisition of MESB and MISSB RM'000	Pro Forma II After Public Issue RM'000	Pro Forma III After Utilisation of Proceeds RM'000
Financed by:					
Share capital		-*	21,254	28,354	28,354
Share premium		-	-	7,810	6,610
Accumulated losses		(1)	(1)	(1)	(1)
Shareholders' (deficit)/equity		(1)	21,253	36,163	34,963
Reserve on consolidation		-	1,571	1,571	1,571
Hire purchase creditors	8.11	-	50	50	50
Term loan	8.12	-	1,806	1,806	1,806
		-	3,427	3,427	3,427
		(1)	24,680	39,590	38,390
Net tangible assets per share (sen)		N/a	10	13	12

* *RM2.00 comprising 20 ordinary shares of RM0.10 each on 31 December 2003*

(a) The detailed statement of assets and liabilities have been prepared for illustrative purposes only and is based on the audited balance sheet of MGB, MESB and MISSB as at 31 December 2003.

The proforma statement of assets and liabilities have been prepared on the assumption that the Listing Scheme of MGB as stated in Section 2 had been effective as of 31 December 2003 and should be read in conjunction with notes thereon.

(b) Proforma column I reflects the acquisition of the entire issued and paid-up share capital of MESB for a total consideration of RM21,253,998 satisfied by the issuance of 212,539,980 new MGB shares of RM0.10 each at par.

Thereafter MESB transferred to MGB the entire equity interest in its wholly-owned subsidiary, MISSB, at book value for cash.

The purchase consideration of RM21,253,998 was arrived at based on the net tangible assets of MESB and MISSB as at 31 August 2003 of RM26,179,597, and after adjusting for the dividends amounting to RM4,925,599 to Metronic Corporation Sdn. Bhd.

Reserve on consolidation of RM1,570,785 arises as a result of the excess of net tangible assets of MESB and MISSB as at 31 December 2003 over the cost of acquisition as indicated above.

(c) Proforma column II reflects the public issue of 71,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.21 per ordinary share ("the Public Issue"). This will give rise to a share premium of RM7,810,000.

(d) Proforma column III reflects the utilisation of the gross proceeds from the Public Issue as follows:

(i) The gross proceeds from the Public Issue will be utilised as follows:

	RM'000
Repayment of bank borrowings	5,000
Capital expenditure for office expansion	2,600
Listing expenses	1,200
Research and Development expenses	3,000
Working capital	3,110
	14,910

(ii) Listing expenses estimated to be at RM1,200,000 will be settled and applied against the share premium account.

(e) The proforma consolidated balance sheets of MGB and its subsidiary companies, MESB and MISSB, have been prepared under the acquisition method of accounting.

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8. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

8.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the proforma are prepared under the historical cost convention and comply with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards issued in Malaysia.

During the financial year ended 31 December 2003, the Group adopted the following MASB Standards for the first time:

MASB 25	Income Taxes
MASB 29	Employee Benefits

The adoption of MASB 29 has not given rise to any adjustments to the opening balances of retained profits of the prior and current year or to changes in comparatives.

(b) Basis of Consolidation

Subsidiary companies are those companies in which the Group has a long term equity interest and where it has the power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

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(c) Property, Plant and Equipment and Depreciation

All property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses are in accordance with Note 8.1(f).

Freehold land is not depreciated.

Depreciation on property, plant and equipment is calculated on the straight-line method to write off the cost of property, plant and equipment over their estimated useful lives of the assets concerned. The annual rates used for this purpose are as follows:

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

(d) 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, and other direct cost in bringing the equipment to its present location. Net realisable value represents the estimated selling price.

(e) Engineering Contracts

Where the outcome of an engineering contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. 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 estimated reliably, contract revenue is recognised only 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 costs incurred on engineering contracts plus recognised profits (less recognised losses) exceed 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 shown as amount due to customers on contracts.

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(f) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its 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. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(g) Investment in Subsidiary Companies

Investment in shares of subsidiary companies is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 8.1(f).

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

(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, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither 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 in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

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Prior to the adoption of MASB 25 Income Taxes on 1 January 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation. This change in accounting policy has been accounted for retrospectively.

(i) Foreign Currencies

Transactions in foreign currency are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange differences are taken to the income statement.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date are as follows:

	31.12.2003
United States Dollar	3.800
Great Britain Pound	6.533
Singapore Dollar	2.207

(j) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and at bank, deposits at call (and excludes deposits which are pledged), net of outstanding bank overdrafts.

(k) 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

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 Group'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 consistent with that for depreciable property, plant and equipment as described in Note 8.1(c).

(ii) Operating Leases

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

(l) Provisions for Defect Liabilities

Provisions for liabilities 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.

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 two years is specified in the contract.

(m) 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 balances, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(n) 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 8.1(e).

(ii) Maintenance services

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

(iii) Sale of goods

Sales of goods are recognised upon delivery of products and acceptance by customers.

(iv) Dividend income

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

(v) Interest income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

(o) 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) Other Non-Current Investments
Non-current investments other than investment in subsidiary companies are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 8.1(f).

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

(ii) Trade and Other Receivables
Receivables are carried at anticipated realisable values. Estimates for doubtful debts in the form of specific provisions are made when collection of the full amount of the debts is no longer probable. Bad debts are written off as and when determined.

(iii) Trade and Other 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, whether or not billed to the Group.

(iv) Interest-Bearing Borrowings
Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

All borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

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(v) 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.

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8.2 PROPERTY, PLANT AND EQUIPMENT

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Freehold land and buildings	3,473	149	3,324
Leasehold buildings	876	94	782
Motor vehicles	518	233	285
Furniture, fittings and equipment	3,943	2,228	1,715
Renovations	229	57	172
Before utilisation of proceed	9,039	2,761	6,278
Acquisition of property	2,600	-	2,600
After utilisation of proceed	11,639	2,761	8,878

The freehold land and buildings, and leasehold buildings are charged to licensed commercial 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 approximately RM196,000.

8.3 OTHER INVESTMENTS

	RM'000
Irredeemable convertible unsecured loan stocks ("ICULS"), at cost	257
Impairment loss	(118)
	139
Market value	130

The ICULS relate to issuance of ICULS by Berjaya Land Berhad (RM210,000) and Faber Group Berhad (RM47,000) for the settlement of outstanding trade receivables balances.

8.4 DEFERRED TAX ASSETS

	RM'000
Deferred tax assets	970

Deferred tax assets relate mainly to provision for defect liabilities (RM700,000) and receivables (RM270,000).

8.5 INVENTORIES

	RM'000
Building automation equipment and parts, at cost	2,827

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8.6 TRADE RECEIVABLES

	RM'000
Trade receivables	2,947
Progress billings receivable	45,117
Due from related companies	311
Due from customers on contracts	14,929
Retention sum on contracts	11,650
	74,954
Less: Allowance for doubtful debts	(3,159)
	71,795

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.

8.7 FIXED DEPOSITS

	RM'000
Fixed deposits with:	
Licensed commercial banks	8,798
Licensed finance company	26
	8,824

All the fixed deposits with licensed commercial bank and finance company of RM8,823,000 are pledged as security for banking facilities granted to the Group.

The weighted average effective interest rate and maturities of deposits at the balance sheet date are 2.6% and 1 month respectively.

8.8 TRADE PAYABLES

	RM'000
Trade payables	41,616
Due to a related company	112
Total trade payables	41,728

8.9 OTHER PAYABLES

	RM'000
Provision for defect liabilities	2,539
Hire purchase creditors (Note 8.11)	69
Advances received on contract	8,134
Due to a related company	1,536
Other payables and accruals	562
Total other payables	12,840

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8.10 BANK BORROWINGS

	RM'000
Bank overdraft	1,922
Bankers' Acceptances and trust receipts (secured)	7,531
Current portion of term loan (Note 8.12)	126
Before utilisation of proceeds	9,579
Repayment of bank borrowings	(5,000)
After utilisation of proceeds	4,579

The bank overdrafts, trust receipts and banker acceptances are secured on the leasehold buildings and the fixed deposits with licenced commercial bank and finance company of RM8,823,000 of the Group. The interest rates on these borrowings range between 3.95% to 7.5% per annum.

8.11 HIRE PURCHASE CREDITORS

	RM'000
Future minimum payments are as follows:	
Payable within one year	84
Payable between one and five years	51
	135
Less: Finance charges	(16)
	119
Representing hire purchase liabilities:	
Due within twelve months (Note 8.9)	69
Due after twelve months	50
	119

The hire purchase payables relate to purchase of motor vehicles through financing from licensed financial institutions.

8.12 TERM LOAN

	RM'000
Term loan (secured)	1,932
Due within twelve months (Note 8.10)	(126)
Due after twelve months	1,806

The commitment for the term loan is summarised as follows:

	RM'000
Amounts payable:	
Within 1 year	126
More than 1 year but not later than 2 years	135
More than 2 year but not later than 5 years	470
5 years or more	1,201
	1,932

The term loan is secured on the freehold land and building of the Group.

The term loan bears interest fixed at 6% per annum for years 2003 and 2004, and thereafter at a rate of 1.25% above the licensed commmercial bank's base lending rate per annum. The loan is repayable over 15 years with monthly instalments of RM21,828 each commencing 1 May 2002.

8.13 CONTINGENT LIABILITIES

	RM'000
Secured:	
Performance guarantee extended to third party, Agathis (M) Sdn. Bhd.	2,937

The Group is in the midst of withdrawing the above performance guarantee.

8.14 NUMBER OF EMPLOYEES

The number of employees excluding directors at balance sheet date is 221.

8.15 CAPITAL COMMITMENT

	RM'000
Approved and contracted for:	
- Investments in unquoted shares, outside Malaysia	798

8.16 PROFORMA NET TANGIBLE ASSETS

Based on the statement of assets and liabilities of the MGB Group as at 31 December 2003, the proforma net tangible assets per share after the acquisition of MESB and MISSB, Public Issue and utilization of proceeds, is calculated as follows:

Net tangible assets (RM'000)	34,963
Total number of ordinary shares of RM0.10 each in issue ('000)	283,540
Net tangible assets per ordinary share of RM0.10 each (RM)	0.12

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8.17 FINANCIAL INSTRUMENTS

Financial risk management objectives 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, liquidity and credit risks. The Group's policy is not to engage in speculative transactions.

Interest rate risk

The Group's primary interest rate risk relates to interest-bearing debt. The Group has no substantial long term interest-bearing assets as at 31 December 2003. 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 fixed deposits.

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.

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.

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.

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Fair Values

The aggregate net fair values of financial assets and financial liabilities which are not carried at fair value on the balance sheet of the Group as at the end of the financial year are as follows:

	Carrying Value RM'000	Fair Value RM'000
At 31 December 2003:		
Financial Assets		
Other investments	139	130
Amount due from a related company	311	#
Financial Liabilities		
Amount due to related companies	1,648	#
Term loan	1,932	##

It is not practical to estimate the fair values of amount due from/to related companies 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.

It is also not practical to estimate the fair values of the term loan without incurring additional cost. The Directors are of the opinion that the carrying amount recorded at the balance sheet date is not significantly different from the values that would eventually be 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.

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9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The following is a detailed proforma consolidated cash flow statement of MGB Group provided for illustrative purposes only and prepared based on the audited financial statements of MGB, MESB and MISSB as at 31 December 2003 on the assumption that the Listing Scheme as referred to in Section 2 and proceeds utilisation have taken place.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	7,280
Adjustments for:	
Profit on disposal of property, plant and equipment	(23)
Depreciation of property, plant and equipment	707
Allowance for doubtful debts	706
Write back of doubtful debts	(1,022)
Write back of provision for defect liabilities	(636)
Interest expense	188
Interest income	(200)
Operating profit before working capital changes	7,000
Changes in working capital:	
Inventories	1,291
Debtors	48,219
Creditors	(41,129)
Net cash generated from operations	15,381
Taxes paid	(1,946)
Interest paid	(188)
Interest received	200
Net cash generated from operating activities	13,447
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(3,435)
Proceeds from disposal of property, plant and equipment	23
Net cash used in investing activities	(3,412)

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CASH FLOWS FROM FINANCING ACTIVITIES

Fixed deposits under lien with licensed financial institutions	(3,054)
Repayment of bankers' acceptances and trust receipts	(87,604)
Drawdown of bankers' acceptances and trust receipts	78,687
Repayment of term loan	(141)
Repayment of hire purchase creditors	(48)
Proceeds from public issue (net of listing expenses)	13,710
Dividends paid	(3,389)
Net cash used in financing activities	(1,839)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,196
CASH AND CASH EQUIVALENTS AT 1 JANUARY	(1,923)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6,273

10. EVENTS DURING THE YEAR

(i) On 7 March 2003, MESB entered into a Memorandum of Understanding with Infocon Holdings (S) Pte. Ltd., a company incorporated in the Republic of Singapore, to acquire 634,950 shares of RMB1 each, representing 51% stake in Infocon (Beijing) Environment Control Technology Company Limited, a company incorporated in the Peoples' Republic of China, for a consideration of USD300,000.

As at 31 December 2003, MESB has paid a deposit of RM342,000. The remaining amount has been disclosed as a capital commitment in Note 8.15.

(ii) On 20 October 2003, MESB disposed of its wholly-owned subsidiary, Metronic Building Services Sdn. Bhd. to its existing holding company, Metronic Corporation Sdn. Bhd. for a cash consideration of RM2.

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11. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 12 April 2004, MESB entered into a Conditional Sales and Purchase Agreement with MH Projects Sdn. Bhd., a director-related company, to acquire a freehold land together with three-storey semi-detached factory for a cash consideration of RM2,600,000.

Other events are as disclosed in the Listing Scheme and Share Capital, as referred to in Sections 2 and 3.2 respectively.

Yours faithfully

Ernst & Young

Ernst & Young
AF: 0039
Chartered Accountants

Gloria Goh

Gloria Goh Ewe Gim
No. 1685/04/05(J)
Partner

Kuala Lumpur, Malaysia

12. DIRECTORS' REPORT

METRONIC

Metronic Global Berhad
(Company No. 632068-V)

No. 2, Jalan Astaka U8/83, Section U8
Bukit Jelutong, 40150 Shah Alam
Selangor Darul Ehsan, MALAYSIA

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mesb@metronic-group.com
www.metronic-group.com

Registered Office:

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

19 April 2004

The Shareholders of Metronic Global Berhad

Dear Sir / Madam,

On behalf of the Board of MGB, I report after due inquiry that during the period from 31 December 2003, being a date to which the last financial statements of the Company and its subsidiaries have been made up, to 19 April 2004, being a date not earlier than fourteen (14) days before the issue of this Prospectus:

(a) the business of the Company and its subsidiaries have, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Company and its subsidiaries which have adversely affected the trading or the value of the assets of the Company or its subsidiaries;

(c) the current assets of the Company and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in Section 9.4(iv) of this Prospectus, no contingent liabilities have arisen by reason of any guarantees given by the Company or its subsidiaries;

(e) there have been, since the last audited financial statements of the MGB Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and

(f) since the last audited financial statements of the Company and its subsidiaries, save as disclosed in the Proforma Consolidated Balance Sheets and the Accountants' Report as set out in Sections 9.11 and 11 of this Prospectus respectively, there have been no changes in published reserves nor any unusual factors affecting the profits of the Company and its subsidiaries.

Yours faithfully
For and on behalf of the Board of Directors
METRONIC GLOBAL BERHAD

DATO' ABD. GANI BIN YUSOF
Executive Vice-Chairman