

ENG TEKNOLOGI HOLDINGS BHD.

Company No. 234669 M
(Incorporated in Malaysia)

Interim Financial Report
31 December 2002

ENG TEKNOLOGI HOLDINGS BHD.
(Incorporated in Malaysia)

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 (The figures have not been audited)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As At 31 December 2002 RM'000	As At 31 December 2001 (As restated) RM'000
Non-Current Assets			
Property, plant and equipment	9	79,286	84,050
Investment in associate		41	36
Long-term receivables		2,439	2,524
Other investments	18	320	2,195
Goodwill on consolidation	26	8,667	23,904
		<u>90,753</u>	<u>112,709</u>
Current Assets			
Inventories		5,289	5,083
Trade receivables		24,703	27,360
Other receivables		11,319	8,610
Marketable securities	19	-	75
Cash and bank balances		21,338	31,915
		<u>62,649</u>	<u>73,043</u>
Current Liabilities			
Short term borrowings	21	2,030	2,289
Trade payables		9,910	8,578
Other payables		12,877	9,816
Taxation		751	2,412
		<u>25,568</u>	<u>23,095</u>
Net Current Assets		<u>37,081</u>	<u>49,948</u>
		<u>127,834</u>	<u>162,657</u>
Financed by:			
Share capital		80,977	80,127
Reserves		38,607	67,148
Shareholders' equity		<u>119,584</u>	<u>147,275</u>
Minority interests		1,684	8,364
		<u>121,268</u>	<u>155,639</u>
Long term borrowings	21	3,111	4,459
Deferred taxation		3,236	2,287
Other long term liabilities		219	272
		<u>6,566</u>	<u>7,018</u>
		<u>127,834</u>	<u>162,657</u>
Net tangible assets per share (RM)		1.37	1.54

The Condensed Consolidated Balance Sheet should be read in conjunction with the Group's Audited Financial Statements as at 31 December 2001. The accompanying notes are an integral part of this balance sheet.

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CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	3 months period ended 31 December		Year ended 31 December	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Revenue	8	27,426	31,370	103,011	167,820
Cost of sales		(23,436)	(24,054)	(88,532)	(133,530)
Gross profit		3,990	7,316	14,479	34,290
Operating expenses		(6,402)	(6,474)	(21,794)	(21,943)
Provision on goodwill impairment	26	-	-	(16,000)	-
Other operating income		1,649	2,079	5,082	3,664
Operating (loss)/profit	4	(763)	2,921	(18,233)	16,011
Interest expense		(99)	62	(443)	(883)
Interest income		112	339	606	1,088
(Loss)/profit before taxation		(750)	3,322	(18,070)	16,216
Taxation	17	(351)	546	(854)	(864)
(Loss)/profit after taxation		(1,101)	3,868	(18,924)	15,352
Less: Minority interests		-	(1,258)	(1,005)	(1,387)
Net (loss)/profit for the period		(1,101)	2,610	(19,929)	13,965
Basic earnings per share (sen)	25	(1.4)	3.3	(24.7)	17.4
Diluted earnings per share (sen)	25	(1.3)	3.2	(24.2)	17.2
* The cost of sales and operating expenses were arrived at after depreciation and amortisation of		4,066	3,883	16,516	15,521

The Condensed Consolidated Income Statement should be read in conjunction with the Group's Audited Financial Statements as at 31 December 2001. The accompanying notes are an integral part of this statement.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	← Reserve →					Total RM'000
	Share Capital RM'000	Share Premium RM'000	Translation Reserve RM'000	Capital Reserve RM'000	Distributable Retained Profits RM'000	
At 1 January 2002 as previously stated	80,127	3,399	(10,352)	7,561	58,527	139,262
Prior year adjustment (Note 1)	-	-	-	-	8,013	8,013
At 1 January 2002 as restated	80,127	3,399	(10,352)	7,561	66,540	147,275
Exercise of Options under ESOS	850	1,071	-	-	-	1,921
Final dividend paid (Note 7)	-	-	-	-	(8,097)	(8,097)
Net loss for the year	-	-	-	-	(19,929)	(19,929)
Currency translation differences, representing net losses not recognised in income statement	-	-	(1,586)	-	-	(1,586)
At 31 December 2002	80,977	4,470	(11,938)	7,561	38,514	119,584
At 1 January 2001 as previously stated	53,399	30,336	(7,391)	2,930	57,206	136,480
Prior year adjustment (Note 1)	-	-	-	-	6,408	6,408
At 1 January 2001 as restated	53,399	30,336	(7,391)	2,930	63,614	142,888
Bonus issue of 1 for 2	26,699	(26,699)	-	-	-	-
Exercise of Options under ESOS	29	36	-	-	-	65
Corporate exercise expenses	-	(274)	-	-	-	(274)
Final dividend paid (Note 7)	-	-	-	-	(6,408)	(6,408)
Net profit for the year	-	-	-	-	13,965	13,965
Currency translation differences, representing net losses not recognised in income statement	-	-	(2,961)	-	-	(2,961)
Transfer to/from capital reserve/retained profits	-	-	-	4,631	(4,631)	-
At 31 December 2001	80,127	3,399	(10,352)	7,561	66,540	147,275

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Group's Audited Financial Statements as at 31 December 2001. The accompanying notes are an integral part of this statement.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Year ended 2002 RM'000	Year ended 2001 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	18,388	33,390
Interest paid	(443)	(960)
Tax paid	(2,669)	(2,039)
Net cash generated from operating activities	<u>15,276</u>	<u>30,391</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used in disposal of equity interest in a subsidiary	-	(109)
Additional investment in subsidiaries	(8,901)	(46)
Sales of marketable securities and other investments	2,911	144
Sales of other investments	-	84
Acquisition of property, plant and equipment	(11,720)	(10,759)
Proceeds from disposal of property, plant and equipment	846	1,107
Interest received	925	1,259
Dividend received	-	59
Net cash used in investing activities	<u>(15,939)</u>	<u>(8,261)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	1,921	65
Expenditure on corporate exercise	-	(274)
Repayment of borrowings	(2,392)	(19,175)
Dividend paid	(8,097)	(6,408)
Dividend paid by a subsidiary to its minority shareholder	(487)	(774)
Net cash use in financing activities	<u>(9,055)</u>	<u>(26,566)</u>
FOREIGN EXCHANGE TRANSLATION EFFECT	(932)	(820)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,718)	(4,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>31,845</u>	<u>37,102</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>21,195</u>	<u>31,845</u>

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amount:

	As At 31 December 2002 RM'000	As At 31 December 2001 RM'000
Cash and bank balances	21,338	31,915
Bank overdraft	(114)	(41)
Effect of exchange rate on bank balances	(29)	(29)
	<u>21,195</u>	<u>31,845</u>

Certain fixed deposits of the Group amounting to RM1,956,561 (2001: RM1,441,494) have been pledged to the banks as collateral for banking facilities granted to certain subsidiaries.

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Group's Audited Financial Statements as at 31 December 2001. The accompanying notes are an integral part of this statement.

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PART A - DISCLOSURE NOTES AS REQUIRED UNDER MASB 26

1) Accounting Policies

This interim financial report is unaudited and has been prepared in compliance with MASB 26, Interim Financial Reporting and paragraph 9.22 of the Kuala Lumpur Stock Exchange Listing Requirements, and should be read in conjunction with the audited financial statements for the year ended 31 December 2001.

The accounting policies and presentation adopted for the interim financial report are consistent with those adopted for the audited financial report for the year ended 31 December 2001 except for the adoption of new applicable approved accounting standards set out as below:

- (a) Prospective application
 - (i) MASB 21 “Business Combinations”
 - (ii) MASB 23 “Impairment of Assets”
- (b) Retrospective application
 Comparative figures have been adjusted or extended to conform with changes in presentation due to the requirements of the following new MASB Standards that have been applied retrospectively:
 - (i) MASB 19 “Event After Balance Date”
 - (ii) MASB 20 “Provision, Contingent Liabilities and Contingent Assets”
 - (iii) MASB 22 “Segmental Reporting”

There are no changes in accounting policy that affect net profit for the period or shareholders’ equity as a result of the adoption of these standards in the interim financial report except as set out below:

Dividends

In previous year, dividends were accrued as a liability when proposed by Director. The Group has now changed this accounting policy to recognise dividends in shareholders’ equity in the period in which the obligation to pay is established in accordance with MASB 19.

Therefore, final dividends are now accrued as a liability after approval by shareholders of the Annual General Meeting.

As disclosed in the interim financial report for the year ended 31 December 2002, this change in accounting policy has been accounted for retrospectively.

The new accounting policy has the effect of decreasing retained profits for the year ended 31 December 2002 by RM8.013 million. The other effects of the change on the Group’s financial statements are as follows:

	As previously stated RM’000	Effect of changes in policy RM’000	As restated RM’000
At 31 December 2000			
- retained profits	57,206	6,408	63,614
- proposed dividends	6,408	(6,408)	-
At 31 December 2001			
- retained profits	58,527	8,013	66,540
- proposed dividends	8,013	(8,013)	-

2) Audit opinion

The audit report of the Group's preceding year financial statements was not qualified.

3) Seasonality or cyclical operations

The Group is subject to cyclical effects of the global technology industry.

4) Individually significant items

Individually significant items for the year ended 31 December 2002 are as follows:

	RM'000
Provision on goodwill impairment arising on consolidation	(16,000)
Gain on disposal of investment in Advantest-Eng (M) Sdn. Bhd.	862
Gratuity payment to an employee	(800)
Property, plant & equipment written off	(991)
Inventories written off	(441)
Technical consultancy	(1,135)

5) Material changes in estimates of amount reported

Not applicable.

6) Debt and equity securities

During the period, the Company issued 850,000 fully paid-up ordinary shares of RM1 each pursuant to the Employees' Share Option Scheme ("ESOS").

ESOS	Date granted	As at 1/1/2002	Grant	Exercise	Cancelled /lapsed	As at 31/12/2003	Subscription Price	Date of expiry
		'000	'000	'000	'000	'000	RM	
Option 1	23/10/01	5,583	-	850	-	4,733	2.26	22/10/11
Option 2	18/10/02	-	998	-	-	998	1.96	22/10/11

7) Dividends paid

	Year ended 31 December 2002 RM'000	Year ended 31 December 2001 RM'000
First and final tax exempt dividend of 10% (Period to date ended 31 December 2001: 12%)	8,097	6,408

There was no dividend paid during the current financial quarter.

8) Segmental Reporting

Segment information is presented in respect of the Group's geographical segments:

	Malaysia RM'000	Philippines RM'000	Hong Kong RM'000	Thailand RM'000	Amalga- mated Total RM'000	Elimi- nation RM'000	Consoli- dated Total RM'000
<u>Year ended 31</u>							
<u>December 2002</u>							
External revenue	41,573	19,407	28,380	13,651	103,011		103,011
Intersegment revenue	1,727	112	-	-	1,839	(1,839)	-
Total revenue	<u>43,300</u>	<u>19,519</u>	<u>28,380</u>	<u>13,651</u>	<u>104,850</u>	<u>(1,839)</u>	<u>103,011</u>
Segment result	(4,365)	(1,691)	3,497	(480)	(3,039)	969	(2,070)
Provision on goodwill impairment	-	-	-	-	-	-	(16,000)
Profit before taxation							<u>(18,070)</u>
<u>Year ended 31</u>							
<u>December 2001</u>							
External revenue	48,297	70,825	22,182	26,516	167,820	-	167,820
Intersegment revenue	1,944	265	-	-	2,209	(2,209)	-
Total revenue	<u>50,241</u>	<u>71,090</u>	<u>22,182</u>	<u>26,516</u>	<u>170,029</u>	<u>(2,209)</u>	<u>167,820</u>
Profit before taxation	11,622	9,805	981	1,932	24,340	(8,124)	16,216

The activities of the Group are primarily in manufacturing and as such segmented reporting by activities are not presented.

The directors are of the opinions that all inter-segment transfers have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. Those transfers are eliminated on consolidation.

9) Property, plant and equipment

The valuations of land and buildings have been brought forward, without amendment from the previous audited financial statements.

During the year, plant and equipment with carrying value of RM591,000 were written off because relocation of factories.

During the year, the acquisition and disposal of property, plant and equipment amounting to RM12,430,185 and RM369,711 respectively.

10) Material events subsequent to the balance sheet date

On 20 February 2003, the Company entered into a share sale agreement to dispose its entire equity interest in Engtek Precision Philippines Inc. (EPPI) to Engtek Philippines Inc. (ETPI), both incorporated in Philippines, for a purchase consideration of Peso435,600,000 (RM30,274,200). With this, EPPI become an indirect subsidiary of the Company.

11) Changes in composition of the Group

On 19 February 2002, ETHB had entered into an agreement to dispose its investment of 1,875,000 shares in Advantest-Eng (M) Sdn. Bhd. for a cash consideration of RM2,737,000.00.

On 13 March 2002, the Company entered into an agreement to acquire the balance 20% of equity interest in a subsidiary, Engtek Precision (Thailand) Co., Ltd (ETTH), for purchase consideration of RM1,056,000. With this, ETTH became a wholly owned subsidiary of the Company.

On 21 March 2002, ETHB entered into a share sale agreement to acquire 30% of equity interest in a subsidiary, Engtek International limited (ETIL), for purchase consideration of HK\$11,625,000. With this, the Company increased its equity interest in ETIL from 60% to 90%.

On 9 July 2002, ETHB entered into three (3) share sale agreements with Mr. Tan Tiong Eng, Mr. Teng Woei En and Mr. Teh Yeong Siang respectively for the acquisition of the remaining 20% equity interest in EPPI comprising 2,000,000 ordinary shares of Peso 1.00 each in EPPI for a total purchase consideration of RM2,112,000 to be wholly satisfied in cash. With this, EPPI became a wholly-owned subsidiary of ETHB.

The above acquisitions were all completed.

There is no other change in composition of the Group except for the above.

12) Contingent liabilities

The total contingent liabilities for the Company are corporate guarantees for credit facilities granted to subsidiaries have increased from RM7.4 million at 31 December 2001 to RM8.0 million at 31 December 2002.

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PART B – DISCLOSURE NOTES AS REQUIRED UNDER KLSE LISTING REQUIREMENTS

13) Review of the performance of the Company and its Principal subsidiaries

The Group revenue for the quarter was RM27.4 million with a loss before taxation of RM0.7 million. The total year revenue was RM103.0 million whilst the loss before taxation for the year was RM18.1 million.

The loss for the quarter included certain expenses incurred in anticipation for production up trend, inventory and assets write-off in the effort to right size the operations.

The loss for the year was mainly attributable to the goodwill impairment charge in quarter three, low demand for hard disk drive, certain inventory and assets write-off due to relocation of plants in Penang and Thailand.

14) Variation of results against preceding quarter

The Group's revenue for the current reporting quarter was RM27.4 million compared to RM20.7 million in the immediate preceding quarter. The increase was attributable to sales in China and Philippines.

The loss for the quarter has reduced significantly from quarter three by RM18.1 million as there was a goodwill impairment charge of RM16.0 million in quarter three. Operationally the loss had reduced by RM2.1 million as sales increased.

15) Current year prospects

The Group is confident that, barring unforeseen circumstances, its business and financial performance for financial year 2003 would be further improved. Such prospective outlook going forward is based on signs of recent increased demand trends, improved capacity utilisation rates, and realisation of new product and customer orders.

The Group has recently secured some substantial orders and contracts in the industrial product sector from an American Multinational and as such it is expected to contribute further to the revenue and profitability going forward.

16) Variance of actual profit from profit forecast

This note is not applicable for current quarter.

17) Taxation

	Note	3 months period ended 31 December 2002 RM'000	Year ended 31 December 2002 RM'000
Components of taxation:			
Income tax:			
Current period		383	815
Overprovision in prior year		(173)	(589)
Deferred tax:			
Current period		150	232
Underprovision in prior year		(9)	396
		351	854

There was a tax charge for the reporting quarter and total year eventhough the Group incurred a loss because of losses in subsidiaries under tax holiday whilst income was taxable in subsidiaries that made profits.

18) Unquoted investments and properties

During the year, the Company disposed its investment of 1,875,000 shares in Advantest-Eng (M) Sdn. Bhd. for a cash consideration of RM2,737,000. During the year there has been disposal of building with a net book value of RM84,835 with a consideration of RM80,000.00.

19) Marketable securities

	3 months period ended 31 December		Year ended 31 December	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Total purchase consideration	-	-	-	-
Total sales proceeds	-	42	73	62
Total loss on disposal	-	55	104	83

There was no investment in marketable securities as at 31 December 2002.

20) Status of corporate proposal

On 3 December 2002, Eng Teknologi Holdings Bhd. (ETHB) entered into share sale agreements (SSA) to:-

- i) dispose its entire equity interest in its wholly owned subsidiary Engtek Precision (Thailand) Co. Ltd. (ETTH) to Altum Precision Pte. Ltd. (Altum) for a total consideration of SG4.5 million to be satisfied through the issuance of 1,810,865 new ordinary shares of Altum representing 12.62% of the company's equity.
- ii) to acquire 47.38% equity interest of enlarged Altum (after incorporating ETTH) for cash consideration of SGD16.896 million from Ultro Technologies Limited (Ultro), a company incorporated in Singapore and listed in the Singapore Stock Exchange.

As part of the terms of the above agreements ETHB will enter into a put/call option agreement with Ultro on completion of SSA for the remaining 40% equity of Altum.:-

- proposed call option by Ultro to ETHB the right to acquire the 40% equity of enlarged Altum of 1.68 times the value of net tangible assets set forth in the last audited financial statement of Altum immediately prior to the Exercise Date of the call option, and
- proposed put option by ETHB to Ultro giving Ultro the right to require ETHB to purchase the remaining 40% equity of enlarged Altum of net tangible assets value of Altum as set forth in the last audited financial statement of Altum immediately prior to the exercise date of the put option.

The put/call option shall only be exercised after thirty months from the date of the said agreement.

21) Borrowings

Details of the Group's borrowings as at 31 December 2002 are as follows:

	Total borrowings as at 31/12/2002 (Unit'000) RM	Included in the total borrowings are amounts denominated in foreign currency (Unit'000) BAHT
Unsecured	5,027	-
Unsecured (Foreign currency)	114	1,303
	<u>5,141</u>	<u>1,303</u>
Short term	1,916	-
Short term (Foreign currency)	114	1,303
Long term	3,111	-
Long term (Foreign currency)	-	-
	<u>5,141</u>	<u>1,303</u>

22) Financial Instruments

(a) Forward foreign exchange contracts

Forward foreign exchange contracts are entered by the Company and its subsidiaries in currencies other than their functional currency to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. In general, the Group's policy is to hedge all excess amount of receivables against payables.

As at 18 February 2003, the Group's open forward contracts entered into as hedges of anticipated future transactions are as follows:

Hedged Items	Currency to be paid/ received	Contracted Amounts '000	RM equivalent RM'000	Fair Value RM'000
Future Sales Collection	USD	900	3,426	3,420
Future letter of credit settlement	Yen	90,100	2,797	2,845

The settlement dates of the above open forward contracts range between one and five months.

Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions. All other exchange gains and losses relating to hedge instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items. Gains and losses on contracts that are no longer designated as hedges are included in the income statement.

The above instruments are executed with creditworthy financial institutions in Malaysia and Hong Kong. The Directors are of the opinion that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

23) Material litigation

There was no pending litigation at the close of the report.

24) Dividend

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the current financial year ended 31 December 2002, of 3% on 80,977,038 ordinary shares, amounting to a total dividend of RM2,429,311 (3 sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2003.

25) Earnings per share

(a) Basic (loss)/earnings per share

	3 months ended 31 December		Year ended 31 December	
	2002	2001	2002	2001
Net (loss)/profit attributable to shareholders (RM'000)	(1,101)	2,610	(19,929)	13,965
Weighted average number of ordinary shares in issue ('000)	80,770	80,101	80,770	80,101
Basic (loss)/earning per share (sen)	(1.4)	3.3	(24.7)	17.4

(b) Diluted (loss)/earnings per share

Net (loss)/profit attributable to shareholders (RM'000)	(1,101)	2,610	(19,929)	13,965
Weighted average number of ordinary shares in issue ('000)	80,770	80,101	80,770	80,101
Adjusted for:				
Assumed exercise of ESOS	1,514	1,261	1,514	1,261
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	82,284	81,362	82,284	81,362
Diluted (loss)/earning per share (sen)	(1.3)	3.2	(24.2)	17.2

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PART C - ADDITIONAL DISCLOSURE

26) Goodwill on consolidation

The company made a provision on goodwill impairment amounting to RM16 million on consolidation arising from the acquisition of a subsidiary in 1999.

	RM'000
Goodwill	
At 1 January 2002	27,359
Addition	1,568
Amortisation	(3,570)
Provision on goodwill impairment	(16,000)
At 31 December 2002	<u>9,357</u>
Reserve	
At 1 January 2002	1,187
Adjustment on deferred taxation	(322)
Amortisation	(175)
At 31 December 2002	<u>(690)</u>
Net Goodwill	<u>8,667</u>

The provision on goodwill impairment was made to reduce the carrying value of the goodwill on consolidation of a subsidiary to the recoverable amount as a result of changes to that subsidiary's customer base. The recoverable amount is estimated by management based on its value in use, which is the estimated present value of the future cash flow expected to be realised for the subsidiary, based on its current condition after applying the appropriate discount rate.

27) Commitments

	31 December 2002 RM'000
Approved and contracted for:	
Operating lease-buildings and equipments	8,762
Information system	36
Construction of building	22
Plant and machinery	261
Professional fees	<u>735</u>
	31 December 2002 RM'000
Approved but not contracted for:	
Professional fees	<u>160</u>

28) Related party transactions

Nature of transaction	Interested related party	RM'000
Acquisition of 20% equity interest in Engtek Precision (Thailand) Co. Ltd. (ETTH)	Teh Yong Khoon*	528
Acquisition of 20% equity interest in Engtek Precision Philippines Inc. (EPPI)	Tan Tiong Eng**	1,056
Gratuity payment	Tan Tiong Eng**	800

*A director of the Company

** A person connected to a director of the Company by virtue of his family relationship

29) Authorisation for issue

On 25 February 2003, the Board of Directors authorised this interim report for issue.

By Order of the Board

Eng Teknologi Holdings Bhd (234669 M)

THUM SOOK FUN (MAICSA 7025619)

Secretary

25 February 2003