

ENG TEKNOLOGI HOLDINGS BHD.

Company No. 234669 M
(Incorporated in Malaysia)

Interim Financial Statements
30 September 2006

ENG TEKNOLOGI HOLDINGS BHD.
(Incorporated in Malaysia)

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ENG TEKNOLOGI HOLDINGS BHD.
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CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	3 months period ended 30 September		9 months period ended 30 September	
		2006 RM'000	2005 RM'000 (restated)	2006 RM'000	2005 RM'000 (restated)
Revenue		102,493	84,615	277,571	242,240
Cost of sales		(89,205)	(62,828)	(226,156)	(182,009)
Gross profit		13,288	21,787	51,415	60,231
Other income		1,595	1,618	3,372	4,086
Administrative expenses		(6,299)	(7,218)	(19,774)	(21,262)
Selling and marketing expenses		(1,860)	(2,351)	(5,254)	(5,778)
Other expenses		(1,701)	(1,463)	(4,794)	(4,267)
Finance income		121	85	359	258
Finance costs		(1,222)	(652)	(3,315)	(1,880)
Net finance costs		(1,101)	(567)	(2,956)	(1,622)
Profit before tax		3,922	11,806	22,009	31,388
Income tax expense	20	973	(1,150)	(2,153)	(3,640)
Profit for the period		4,895	10,656	19,856	27,748
Attributable to:					
Equity holders of the parent		4,123	7,495	16,014	20,421
Minority interests		772	3,161	3,842	7,327
		4,895	10,656	19,856	27,748
Earnings per share attributable to equity holders of the parent:					
Basic, for profit for the period (sen)	28	3.5	6.4	13.5	17.3
Diluted, for profit for the period (sen)	28	3.4	6.3	13.3	17.1
The cost of sales, administrative expenses and other expenses were arrived at after:-					
(a) depreciation		(8,494)	(6,708)	(22,894)	(21,222)
(b) amortisation		(1)	(1,112)	(3)	(3,336)
Included in the finance costs was interest expense of					
		(757)	(336)	(1,963)	(1,070)

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.

ENG TEKNOLOGI HOLDINGS BHD.
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CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	As At 30 September 2006 RM'000	As At 31 December 2005 (restated) RM'000
ASSETS			
Non-current Assets			
Property, plant and equipment		167,006	113,744
Investment in an associate		34	34
Long-term receivable		2,552	2,459
Other investments		103	101
Intangible assets		28,681	26,586
		<u>198,376</u>	<u>142,924</u>
Current Assets			
Inventories		57,824	41,312
Trade receivables		93,628	77,253
Other receivables		20,449	10,348
Cash and bank balances		35,074	33,093
		<u>206,975</u>	<u>162,006</u>
TOTAL ASSETS		<u>405,351</u>	<u>304,930</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		119,050	118,543
Share premium		908	604
Other reserves		(3,988)	(3,975)
Retained earnings		60,524	59,969
		<u>176,494</u>	<u>175,141</u>
Minority interests		<u>17,156</u>	<u>19,500</u>
Total equity		<u>193,650</u>	<u>194,641</u>
Non-current Liabilities			
Borrowings	24	10,033	4,940
Deferred tax liabilities		4,572	5,669
		<u>14,605</u>	<u>10,609</u>
Current Liabilities			
Borrowings	24	64,724	25,021
Trade payables		56,289	36,975
Other payables		73,157	35,197
Tax payable		2,926	2,487
		<u>197,096</u>	<u>99,680</u>
Total liabilities		<u>211,701</u>	<u>110,289</u>
TOTAL EQUITY AND LIABILITIES		<u>405,351</u>	<u>304,930</u>
Net assets per share (RM)		1.63	1.64
Net assets per share attributable to ordinary equity holders of the parent (RM)		1.48	1.48

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Note	← Attributable to Equity Holders of the Parent →				Total	Minority Interests	Total Equity
	Share Capital	Share Premium	Other Reserves	Retained Earnings			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2006							
As previously stated	118,543	604	(3,731)	59,854	175,270	19,371	194,641
Prior year adjustments – effects of adopting:							
FRS 2	-	-	233	(233)	-	-	-
FRS 121	-	-	(477)	348	(129)	129	-
At 1 January 2006 (restated)	118,543	604	(3,975)	59,969	175,141	19,500	194,641
Foreign currency translation, representing net expense recognised directly in equity	-	-	(612)	-	(612)	-	(805)
Profit for the period	-	-	-	16,014	16,014	3,842	19,856
Total recognised income and expense for the period	-	-	(612)	16,014	15,402	3,649	19,051
Issue of ordinary shares pursuant to ESOS	507	299	-	-	806	-	806
Share-based payment under ESOS	-	-	604	-	604	26	630
Transfer from ESOS Reserve arising from exercise of ESOS	-	5	(5)	-	-	-	-
Subsidiaries' interim tax exempt dividend	-	-	-	-	-	(3,234)	(3,234)
Dividends	-	-	-	(15,459)	(15,459)	-	(15,459)
Purchase of additional shares in a subsidiary	-	-	-	-	-	(2,785)	(2,785)
At 30 September 2006	119,050	908	(3,988)	60,524	176,494	17,156	193,650

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Note	← Attributable to Equity Holders of the Parent →				Total	Minority Interests	Total Equity
	Share Capital	Share Premium	Other Reserves	Retained Earnings			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2005	83,860	7,873	(4,304)	72,196	159,625	21,822	181,447
Foreign currency translation, representing net expense recognised directly in equity, as previously stated	-	-	(1,522)	-	(1,522)	(452)	(1,974)
Effect of adopting FRS 121	-	-	140	-	140	-	140
Foreign currency translation, representing net expense recognised directly in equity, as restated	-	-	(1,382)	-	(1,382)	(452)	(1,834)
Profit for the period, as previously stated	-	-	-	20,538	20,538	7,385	27,923
Effect of adopting FRS 121	-	-	-	(84)	(84)	(56)	(140)
Effect of adopting FRS 2	-	-	-	(33)	(33)	(2)	(35)
Profit for the period, as restated	-	-	-	20,421	20,421	7,327	27,748
Total recognised income and expense for the period	-	-	(1,382)	20,421	19,039	6,875	25,914
Issue of ordinary shares pursuant to ESOS	667	375	-	-	1,042	-	1,042
Share-based payment under ESOS	-	-	33	-	33	2	35
Bonus issue	33,556	(7,911)	-	(25,645)	-	-	-
Subsidiaries' interim tax exempt dividend	-	-	-	-	-	(6,353)	(6,353)
Dividends	-	-	-	(17,695)	(17,695)	-	(17,695)
At 30 September 2005 (restated)	118,083	337	(5,653)	49,277	162,044	22,346	184,390

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CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	9 months period ended 30 September	
	2006 RM'000	2005 RM'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	22,009	31,388
Adjustments for non-cash items	31,049	25,419
Operating profit before working capital changes	53,058	56,807
Increase in inventories	(22,784)	(5,215)
Increase in receivables	(22,798)	(14,043)
Increase/ (decrease) in payables	22,725	(1,165)
(Increase)/ decrease in long-term receivable	(93)	7
Cash generated from operations	30,108	36,391
Tax refunded	-	942
Tax paid	(3,011)	(2,623)
Interest paid	(1,882)	(1,082)
Net cash generated from operating activities	25,215	33,628
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1,203	3,779
Interest received	509	448
Acquisition of property, plant and equipment	(47,049)	(18,960)
Purchase of additional shares in a subsidiary	(4,540)	-
Registration of trademark	(5)	-
Net cash used in investing activities	(49,882)	(14,733)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in bank borrowings	38,355	6,051
Drawdown of term loans	15,854	6,224
Proceeds from issuance of shares for ESOS exercised	806	1,042
Dividend paid by the Company	(11,888)	(11,791)
Repayment of term loans	(7,126)	(14,590)
Dividends paid by subsidiaries to minority shareholders	(4,118)	(6,413)
Repayment of lease and hire-purchase payables	(2,347)	(4,373)
Net cash generated from/ (used in) financing activities	29,536	(23,850)
FOREIGN EXCHANGE TRANSLATION EFFECT	(1,953)	(1,166)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,869	(4,955)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	29,745	29,543
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER	32,661	23,422

CASH AND CASH EQUIVALENTS

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

	As At 30 September	
	2006 RM'000	2005 RM'000
Cash and bank balances	35,074	25,506
Bank overdrafts	(2,413)	(2,084)
Effect of exchange rate on bank balances	-	-
	<u>32,661</u>	<u>23,422</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.

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PART A – DISCLOSURE NOTES AS REQUIRED UNDER FRS 134

1. Basis of Preparation

The interim financial statements have been prepared under the historical cost convention except for the revaluation of certain leasehold properties included in property, plant and equipment.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2005.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
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 Statements
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

The adoption of FRS 5, 102, 108, 110, 116, 127, 128, 131, 132, 133 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

(a) FRS 2: Share-based Payment

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

2. Changes in Accounting Policies (Contd.)

(a) FRS 2: Share-based Payment

The Company operates an equity-settled, share-based compensation plan for the employees of the Group, the Company's Employee Share Options Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised in profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using a binomial model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 December 2005 are restated and the opening balance of retained earnings as at 1 January 2006 has been adjusted, as disclosed in Note 3. The financial impact to the Group arising from this change in accounting policy is as follows:

	3 months ended		9 months ended	
	30 September 2006 RM'000	30 September 2005 RM'000	30 September 2006 RM'000	30 September 2005 RM'000
Decrease in profit for the period	167	35	630	35

(b) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets

The adoption of FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138.

The adoption of these new FRSs have resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 10 years. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006. The transitional provisions of FRS 3, however, have required the Group to eliminate at 1 January 2006 the carrying amount of the accumulated amortisation with a corresponding decrease in goodwill. The carrying amount of goodwill after eliminating accumulated amortisation and accumulated impairment losses as at 1 January 2006 of RM26,554,663 ceased to be amortised. This has the effect of reducing the amortisation charges by RM1,167,183 in the current quarter ended 30 September 2006 and RM3,501,549 for the period ended 30 September 2006 respectively.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in profit or loss. Prior to 1 January 2006, negative goodwill was amortised over the average useful life of 10 years.

2. Changes in Accounting Policies (Contd.)

(c) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after tax results of associates and other disclosures. In the consolidated balance sheet, 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 period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

(d) FRS 121: The Effects of Changes in Foreign Exchange Rates

Items included in the financial statements of each of the Group's entities 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, which is the Company's functional and presentation currency.

In the financial year ended 31 December 2005, a foreign subsidiary changed its functional currency from Singapore Dollar ("SGD") to United States Dollar ("USD"). This change in accounting policy has been accounted for retrospectively up to 1 January 2005, as disclosed in Note 3.

3. Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

	Previously stated RM'000	Adjustments		Restated RM'000
		FRS 2 (Note 2(a)) RM'000	FRS 121 (Note 2(d)) RM'000	
At 31 December 2005				
Retained earnings	59,854	(233)	348	59,969
Other reserves	(3,731)	233	(477)	(3,975)
Minority interests	19,371	-	129	19,500
3 months ended 30 September 2005				
Cost of Sales	(62,823)	(5)	-	(62,828)
Other income	1,593	-	25	1,618
Administrative expenses	(7,188)	(30)	-	(7,218)
Profit before tax	11,816	(35)	25	11,806
Income tax expense	(1,150)	-	-	(1,150)
Profit for the period	10,666	(35)	25	10,656
9 months ended 30 September 2005				
Cost of Sales	(182,004)	(5)	-	(182,009)
Other income	4,224	-	(138)	4,086
Administrative expenses	(21,232)	(30)	-	(21,262)
Profit before tax	31,561	(35)	(138)	31,388
Income tax expense	(3,638)	-	(2)	(3,640)
Profit for the period	27,923	(35)	(140)	27,748

4. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2005 was not qualified.

5. Segmental Information

Analysis by nature of business and geographical location:

9 months period ended 30 September 2006	← Manufacturing →		Trading	← Others →		Amalgamated RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
	Malaysia RM'000	Other Asia Pacific Countries RM'000	Other Asia Pacific Countries RM'000	Malaysia RM'000	Other Asia Pacific Countries RM'000			
Revenue								
External sales	45,453	154,838	77,088	-	-	277,379	-	277,379
Inter-segment sales	138,283	-	-	504	723	139,510	(139,510)	-
	183,736	154,838	77,088	504	723	416,889	(139,510)	277,379
Unallocated revenue								192
Total revenue								<u>277,571</u>
Results								
Segment results	15,536	8,368	2,023	295	163	26,385	-	26,385
Unallocated expenses								(1,420)
Net finance costs								(2,956)
Income tax expense								(2,153)
Profit for the period								<u>19,856</u>

5. Segmental Information (Cont'd)

9 months period ended 30 September 2005 (restated)	← Manufacturing →		Trading	← Others →		Amalgamated RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
	Malaysia RM'000	Other Asia Pacific Countries RM'000	Other Asia Pacific Countries RM'000	Malaysia RM'000	Other Asia Pacific Countries RM'000			
Revenue								
External sales	42,753	137,886	61,413	-	-	242,052	-	242,052
Inter-segment sales	87,981	(309)	-	502	309	88,483	(88,483)	-
	<u>130,734</u>	<u>137,577</u>	<u>61,413</u>	<u>502</u>	<u>309</u>	<u>330,535</u>	<u>(88,483)</u>	<u>242,052</u>
Unallocated revenue								188
Total revenue								<u>242,240</u>
Results								
Segment results	18,165	18,733	479	303	(18)	37,662	-	37,662
Unallocated expenses								(4,652)
Net finance costs								(1,622)
Income tax expense								<u>(3,640)</u>
Profit for the period								<u>27,748</u>

The directors are of the opinion 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.

6. Unusual Items due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial period ended 30 September 2006 except as disclosed in Note 2.

7. Changes in Estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group revised the estimated useful lives of certain plant and machineries from five to eight years with effect from 1 July 2006. The revisions were accounted arising from change in accounting estimates and as a result, the depreciation charges for the current quarter and the current financial period ended 30 September 2006 have been reduced by RM434,212.

There were no other changes in estimates that have had a material effect in the current quarter results.

8. Comments about Seasonal or Cyclical Factors

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

9. Dividends Paid

The amount of dividend paid during the financial period ended 30 September 2006 was as follows:

	RM'000
In respect of the financial year ended 31 December 2005 as reported in the directors' report of that year:	
Final tax exempt dividend of 10%, paid on 28 June 2006	11,888

10. Carrying Amount of Revalued Assets

The valuations of property, plant and equipment have been brought forward without amendment from the financial statements for the year ended 31 December 2005.

11. Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities except for the following:

(a) Employee Share Options Scheme ("ESOS")

During the financial period ended 30 September 2006, the Company issued 507,000 fully paid-up ordinary shares of RM1 each for cash pursuant to the Company's ESOS.

<u>ESOS</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>	<u>Option 5</u>	<u>Total</u>
Grant Date	23/10/2001	18/10/2002	23/05/2003	24/02/2004	15/08/2005	
Expiry Date	22/10/2011	22/10/2011	22/10/2011	22/10/2011	22/10/2011	
	('000)	('000)	('000)	('000)	('000)	('000)
As at 1/1/2006	1,843	223	850	595	4,890	8,401
Granted	-	-	-	-	-	-
Exercised	183	47	182	-	95	507
Foregone	-	-	-	8	-	8
As at 30/09/2006	<u>1,660</u>	<u>176</u>	<u>668</u>	<u>587</u>	<u>4,795</u>	<u>7,886</u>
Option price per Ordinary Share (RM)	1.62	1.40	1.48	2.90	1.84	

12. Changes in Composition of the Group

There were no changes in the composition of the Group except for the following:

- (a) On 20 March 2006, Eng Teknologi Holdings Bhd. further acquired 5% of equity interest in a subsidiary, Altum Precision Pte. Ltd. (“Altum”), for purchase consideration of USD1,221,913 pursuant to the Call Option granted by Ultro Technologies Limited to the Company in accordance to the Put and Call Option Agreement dated 31 October 2005. With this, the Company increased its equity interest in Altum from 70% to 75%.
- (b) On 23 May 2006, Eng Teknologi Holdings Bhd. had set up a wholly-owned subsidiary in Thailand, namely Engtek (Thailand) Co., Ltd. (“ETCL”) with a total issued and paid-up share capital of THB10,000,000. ETCL’s intended principal activities are manufacture and assembly of data storage and electronic components.

13. Commitments

The amount of commitments not provided for in the interim financial statements as at 30 September 2006 is as follows:

	As At 30 September 2006 RM’000
Approved and contracted for:	
Operating lease-buildings and equipment	19,298
Property, plant and equipment	5,126
Professional fee	406

14. Changes in Contingent Liabilities and Contingent Assets

The total contingent liabilities as at 30 September 2006 for the Company are corporate guarantees for credit facilities granted to subsidiaries of RM74.1 million (31 December 2005: RM25.5 million).

15. Subsequent Events

There were no material events subsequent to the end of the current quarter.

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**PART B – DISCLOSURE NOTES AS REQUIRED UNDER BURSA MALAYSIA SECURITIES
BERHAD LISTING REQUIREMENTS**

16. Performance Review

The Group achieved a record revenue of RM102.5 million for this reporting quarter. It was a significant increase of 21% compared to the RM84.6 million achieved in the corresponding quarter last year. This is the result of the capital investment put in place at the beginning of the year in anticipation of the expected expansion of the data storage global demand.

Nevertheless, whilst achieving a sharp revenue growth, profit before tax reduced to RM3.9 million from RM11.8 million in the corresponding quarter last year. The performance was affected by non-recurring production costs associated with the ramp of new projects and negative impact from products reaching end of life.

17. Material Change in Profit Before Tax Against Preceding Quarter

The Group revenue for the reporting quarter at RM102.5 million was an increase of over 17% compared to the preceding quarter. The profit before tax however decreased to RM3.9 million from RM6.8 million in the preceding quarter.

The drop of the profit before tax was due to reasons as mentioned above. The management has taken steps to stabilise the production costs within the next quarter.

18. Prospects

The Group expects a better performance for quarter four 2006 with stable demand and production cost. Performance for the full year 2006 is expected to be lower than 2005 as it was affected by the increase in raw material cost, additional costs associated with production ramp and impact from the reduced contribution of China operations due to customer consolidation. Going forward, the Group is confident of achieving substantial growth in 2007 with its increased installed capacity ready to fulfill anticipated customer demand.

19. Profit Forecast or Profit Guarantee

Not applicable.

20. Income Tax Expense

	3 months period ended 30 September		9 months period ended 30 September	
	2006 RM'000	2005 RM'000 (restated)	2006 RM'000	2005 RM'000 (restated)
Current tax:				
Malaysian income tax	254	703	1,055	1,862
Foreign tax	470	702	2,128	1,451
	<u>724</u>	<u>1,405</u>	<u>3,183</u>	<u>3,313</u>
(Over)/underprovision of income tax in prior year:				
Malaysian income tax	(44)	(137)	(44)	(137)
Foreign tax	-	-	6	-
	<u>(44)</u>	<u>(137)</u>	<u>(38)</u>	<u>(137)</u>
	<u>680</u>	<u>1,268</u>	<u>3,145</u>	<u>3,176</u>
Deferred tax	(617)	(287)	44	287
(Over)/underprovision of deferred tax in prior year	(1,036)	169	(1,036)	177
	<u>(1,653)</u>	<u>(118)</u>	<u>(992)</u>	<u>464</u>
Total income tax expense	<u>(973)</u>	<u>1,150</u>	<u>2,153</u>	<u>3,640</u>

The effective tax rate was lower than the statutory tax rate principally due to certain income not subject to tax and incentives enjoyed by the local subsidiaries under the Income Tax Act, 1967 and by foreign subsidiaries under their respective tax legislations.

21. Sales of Unquoted Investments and Properties

There were no sales of unquoted investments and properties during the financial period ended 30 September 2006.

22. Quoted Securities

There were no purchase or sales of quoted securities during the financial period ended 30 September 2006 and no investment in quoted securities as at 30 September 2006.

23. Corporate Proposals

There were no corporate proposals announced but not completed.

24. Borrowings

Details of the Group's borrowings as at 30 September 2006 are as follows:

	As At 30 September 2006 RM'000	As At 31 December 2005 RM'000
Short-term		
Secured	9,506	6,308
Unsecured	55,218	18,713
	<u>64,724</u>	<u>25,021</u>
Long-term		
Secured	6,123	4,940
Unsecured	3,910	-
	<u>10,033</u>	<u>4,940</u>
	<u>74,757</u>	<u>29,961</u>

Borrowings denominated in foreign currency:

	As At 30 September 2006		As At 31 December 2005	
	Foreign currency '000	RM'000 equivalent	Foreign currency '000	RM'000 equivalent
Short-term				
Secured	USD 1,383	5,098	USD 1,050	3,966
Secured	SGD 51	118	SGD 48	109
Secured	THB 229	22	THB 219	20
Unsecured	USD 4,805	17,701	-	-
Unsecured	-	-	HKD 3,955	1,926
Unsecured	SGD 271	629	SGD 176	400
Long-term				
Secured	USD 989	3,644	USD 1,138	4,297
Secured	-	-	SGD 8	19
Secured	THB 495	49	THB 668	62

25. Off Balance Sheet Financial Instruments

	Notional amount as at 2 November 2006 RM'000
Forward foreign exchange contracts:	
Within 1 year	104,224

Credit risk, or the risk of counterparties defaulting, is controlled by strictly limiting the Group's association to creditworthy financial institutions in Malaysia.

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Exposure to market risk may be reduced through offsetting on and off balance sheet positions.

There are no significant credit and market risks posed by the above off balance sheet financial instruments. The related accounting policies for the off balance sheet financial instruments are as disclosed in the financial statements for the year ended 31 December 2005.

26. Changes in Material Litigation

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

27. Dividend

- (a) An interim tax exempt dividend of 3% (3 sen per share) in respect of the financial year ending 31 December 2006 (2005: 5 sen per share tax exempt) was paid on 18 October 2006.
- (b) The total dividend per share to date for the current financial year is 3 sen tax exempt.

28. Earnings Per Share

(a) Basic

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	3 months period ended 30 September		9 months period ended 30 September	
	2006	2005 (restated)	2006	2005 (restated)
Profit attributable to ordinary equity holders of the parent (RM'000)	4,123	7,495	16,014	20,421
Weighted average number of ordinary shares in issue ('000)	118,823	117,759	118,823	117,759
Basic earnings per share (sen)	3.5	6.4	13.5	17.3

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period have been adjusted for the dilutive effects of share options granted to employees.

	3 months period ended 30 September		9 months period ended 30 September	
	2006	2005 (restated)	2006	2005 (restated)
Profit attributable to ordinary equity holders of the parent (RM'000)	4,123	7,495	16,014	20,421
Weighted average number of ordinary shares in issue ('000)	118,823	117,759	118,823	117,759
Effects of dilution:				
Share options	1,852	1,420	1,852	1,420
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	120,675	119,179	120,675	119,179
Diluted earnings per share (sen)	3.4	6.3	13.3	17.1

29. Authorisation for Issue

On 9 November 2006, the Board of Directors authorised the issue of these interim financial statements.

By Order of the Board
Eng Teknologi Holdings Bhd (234669 M)

THUM SOOK FUN (MAICSA 7025619)
Secretary
9 November 2006