

ENG TEKNOLOGI HOLDINGS BHD.

Company No. 234669 M
(Incorporated in Malaysia)

Interim Financial Statements
31 March 2007

ENG TEKNOLOGI HOLDINGS BHD.
(Incorporated in Malaysia)

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ENG TEKNOLOGI HOLDINGS BHD.
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	3 months period ended	
		31 March	
		2007	2006
		RM'000	RM'000
Revenue		107,551	87,921
Cost of sales		(103,110)	(66,710)
Gross profit		4,441	21,211
Other income		1,236	550
Administrative expenses		(6,632)	(6,823)
Selling and marketing expenses		(3,175)	(1,577)
Other expenses		(759)	(1,035)
Net foreign exchange gain/(loss)		3,777	(543)
Finance costs		(946)	(502)
Share of loss of associate		(4)	-
(Loss)/Profit before tax		(2,062)	11,281
Income tax expense	20	3,105	(1,856)
Profit for the period		1,043	9,425
Attributable to:			
Equity holders of the Company		452	7,368
Minority interests		591	2,057
		1,043	9,425
Earnings per share attributable to equity holders of the Company:			
Basic, for profit for the period (sen)	28	0.4	6.2
Diluted, for profit for the period (sen)	28	0.4	6.1
The cost of sales, administrative expenses and other expenses were arrived at after:			
(a) depreciation		(9,731)	(6,848)
(b) amortisation		(25)	(24)
Included in the finance costs were:			
(a) interest expense		(2,057)	(392)
(b) net foreign exchange gain arising from financing activities		1,244	64

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006 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 31 March 2007 RM'000	As At 31 December 2006 (restated) RM'000
ASSETS			
Non-current Assets			
Property, plant and equipment		155,372	159,021
Prepaid land lease payments		4,652	4,675
Intangible assets		28,222	28,579
Interest in an associate		2,522	2,532
Other investments		101	102
Retirement benefits plan asset		120	117
		<u>190,989</u>	<u>195,026</u>
Current Assets			
Inventories		57,757	58,864
Trade receivables		95,914	88,750
Other receivables		17,314	20,964
Cash and bank balances		44,735	44,473
		<u>215,720</u>	<u>213,051</u>
TOTAL ASSETS		<u>406,709</u>	<u>408,077</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		119,097	119,097
Share premium		963	963
Other reserves		(6,843)	(5,907)
Retained earnings		61,831	61,376
		<u>175,048</u>	<u>175,529</u>
Minority interests		<u>17,452</u>	<u>17,002</u>
Total equity		<u>192,500</u>	<u>192,531</u>
Non-current Liabilities			
Retirement benefits obligation		96	89
Borrowings	24	43,015	31,860
Deferred tax liabilities		1,510	5,581
		<u>44,621</u>	<u>37,530</u>
Current Liabilities			
Retirement benefits obligation		138	117
Borrowings	24	94,214	89,845
Trade payables		45,455	49,217
Other payables		28,684	37,820
Current tax payable		1,097	1,017
		<u>169,588</u>	<u>178,016</u>
Total liabilities		<u>214,209</u>	<u>215,546</u>
TOTAL EQUITY AND LIABILITIES		<u>406,709</u>	<u>408,077</u>
Net assets per share (RM)		1.62	1.62
Net assets per share attributable to ordinary equity holders of the Company (RM)		1.47	1.47

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the interim financial statements.

ENG TEKNOLOGI HOLDINGS BHD.
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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	← Attributable to Equity Holders of the Company →				Total RM'000	Minority Interests RM'000	Total Equity RM'000
	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Earnings RM'000			
At 1 January 2007	119,097	963	(5,907)	61,376	175,529	17,002	192,531
Foreign currency translation	-	-	(1,035)	-	(1,035)	(145)	(1,180)
Transfer from ESOS reserve, arising from forfeiture of vested ESOS	-	-	(3)	3	-	-	-
Net expense recognised directly in equity	-	-	(1,038)	3	(1,035)	(145)	(1,180)
Profit for the period	-	-	-	452	452	591	1,043
Total recognised income and expense for the period	-	-	(1,038)	455	(583)	446	(137)
Share-based payment under ESOS	-	-	102	-	102	4	106
At 31 March 2007	119,097	963	(6,843)	61,831	175,048	17,452	192,500
At 1 January 2006	118,543	604	(3,571)	59,686	175,262	19,379	194,641
Foreign currency translation, representing net expense recognised directly in equity	-	-	(1,449)	-	(1,449)	(96)	(1,545)
Profit for the period	-	-	-	7,368	7,368	2,057	9,425
Total recognised income and expense for the period	-	-	(1,449)	7,368	5,919	1,961	7,880
Issue of ordinary shares pursuant to ESOS	85	52	-	-	137	-	137
Share-based payment under ESOS	-	-	211	-	211	-	211
Purchase of additional shares in a subsidiary	-	-	-	-	-	(2,785)	(2,785)
At 31 March 2006	118,628	656	(4,809)	67,054	181,529	18,555	200,084

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	3 months period ended 31 March	
	2007	2006
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(2,062)	11,281
Adjustments for non-cash items	10,768	8,136
Operating profit before working capital changes	8,706	19,417
Increase in inventories	(2,842)	(5,276)
(Increase)/decrease in receivables	(5,453)	2,377
Decrease in payables	(2,582)	(11,408)
Decrease/(increase) in long term receivable	5	(52)
Cash generated from operations	(2,166)	5,058
Tax paid	(608)	(1,213)
Interest paid	(1,914)	(392)
Net cash (used in)/generated from operating activities	(4,688)	3,453
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(13,725)	(12,786)
Interest received	225	159
Proceeds from disposal of property, plant and equipment	48	322
Purchase of additional shares in a subsidiary	-	(4,531)
Registration of trademark	(2)	-
Net cash used in investing activities	(13,454)	(16,836)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid by subsidiaries to minority shareholders	-	(2,189)
Drawdown of term loans	16,115	4,012
Net change in bank borrowings	2,075	20,798
Proceeds from issuance of shares for ESOS exercised	-	137
Repayment of lease and hire-purchase payables	(312)	(1,113)
Repayment of term loans	(4,089)	(2,217)
Net cash generated from financing activities	13,789	19,428
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,353)	6,045
FOREIGN EXCHANGE TRANSLATION EFFECT	2,355	(1,271)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	42,184	29,745
CASH AND CASH EQUIVALENTS AS AT 31 MARCH	40,186	34,519

CASH AND CASH EQUIVALENTS

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

	As At 31 March	
	2007 RM'000	2006 RM'000
Cash and bank balances	44,735	35,996
Bank overdrafts	<u>(4,549)</u>	<u>(1,477)</u>
	<u>40,186</u>	<u>34,519</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 31 December 2006 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 2006. 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 2006.

Bank of Thailand had issued notices regarding the Rules and Practices on Currency Exchange in December 2006. Consequently, this has resulted in the Thai Baht being traded using different rates in on-shore and off-shore foreign exchange market. For subsidiaries in Thailand, transactions in foreign currencies are recorded and remeasured in the financial statements using Thai Baht on-shore rate. On consolidation, the Group translates the financial statements of subsidiaries in Thailand into Ringgit Malaysia using the published rates in Malaysia.

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 2006 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2007:

FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 117	Leases
Amendments to FRS 119 ₂₀₀₄	Employees Benefits-Actuarial Gains and Losses, Group Plans and Disclosures
FRS 124	Related Party Disclosures

FRS 6 is not relevant to the Group’s operations and the adoption of Amendment to FRS119₂₀₀₄ and FRS 124 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of FRS 117 are discussed below:

(a) FRS 117: Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The up-front payments made for the leasehold land represents prepaid lease payments and are amortised on a straight-line basis over the lease term. A lease of land and building is apportioned into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interest in the land element and the building element of the lease at the inception of the lease. Prior to 1 January 2007, leasehold land was classified as property, plant and equipment and was stated at cost or valuation less accumulated depreciation and any impairment losses. A leasehold land was last revalued in 1992.

Upon the adoption of the revised FRS 117 at 1 January 2007, the unamortised revalued amounts of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS117. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed in Note 3, certain comparative amounts as at 31 December 2006 has been restated.

3. Comparatives

The following comparative amounts have been restated due to the adoption of new/ revised FRS:

	Previously stated	Reclassification	Restated
	RM'000	FRS 117 (Note 2(a)) RM'000	RM'000
At 31 December 2006			
Property, plant and equipment	163,696	(4,675)	159,021
Prepaid land lease payments	-	4,675	4,675

4. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2006 was not qualified.

5. Segmental Information

Analysis by nature of business and geographical location:

3 months period ended 31 March 2007	← Manufacturing →		Trading	← Others →		Amalgamated	Elimination/ Adjustment	Consolidated
	Malaysia	Other Asia Pacific Countries	Other Asia Pacific Countries	Malaysia	Other Asia Pacific Countries			
	RM'000	RM'000	RM'000	RM'000	RM'000			
Revenue								
External sales	15,653	56,853	34,935	-	-	107,441	-	107,441
Inter-segment sales	61,171	-	-	173	244	61,588	(61,588)	-
	<u>76,824</u>	<u>56,853</u>	<u>34,935</u>	<u>173</u>	<u>244</u>	<u>169,029</u>	<u>(61,588)</u>	<u>107,441</u>
Unallocated revenue								110
Total revenue								<u>107,551</u>
Results								
Segment results	(935)	(1,805)	1,439	97	(23)	(1,227)	-	(1,227)
Unallocated expenses								115
Finance costs								(946)
Share of loss of associate								(4)
Loss before tax								<u>(2,062)</u>
Income tax expense								<u>3,105</u>
Profit for the period								<u>1,043</u>

5. Segmental Information (Cont'd)

3 months period ended 31 March 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	13,843	56,273	17,752	-	-	87,868	-	87,868
Inter-segment sales	38,990	-	-	168	242	39,400	(39,400)	-
	52,833	56,273	17,752	168	242	127,268	(39,400)	87,868
Unallocated revenue								53
Total revenue								<u>87,921</u>
Results								
Segment results	5,885	4,917	1,267	101	(23)	12,147	-	12,147
Unallocated expenses								(364)
Finance costs								(502)
Profit before tax								<u>11,281</u>
Income tax expense								(1,856)
Profit for the period								<u>9,425</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 31 March 2007 except as disclosed in Note 2.

7. Changes in Estimates

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

8. Comments about Seasonal or Cyclical Factors

The Group is subjected to the cyclical effects of the global technology industry and the fluctuations of the metal prices used as raw materials.

9. Dividend Paid

There were no dividend paid during the financial period ended 31 March 2007.

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 2006.

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")

There was no issuance of ordinary shares pursuant to the Company's ESOS during the financial period ended 31 March 2007.

<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 1/1/2007	1,660	176	668	587	4,748	7,839
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Foregone	-	-	-	9	88	97
As at 31/3/2007	<u>1,660</u>	<u>176</u>	<u>668</u>	<u>578</u>	<u>4,660</u>	<u>7,742</u>
Option price per Ordinary Share (RM)	<u>1.62</u>	<u>1.40</u>	<u>1.48</u>	<u>2.90</u>	<u>1.84</u>	

12. Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter.

13. Commitments

The amount of commitments not provided for in the interim financial statements as at 31 March 2007 is as follows:

	As At 31 March 2007 RM'000
Approved and contracted for:	
Operating lease-buildings and equipment	18,322
Property, plant and equipment	2,566
Professional fee	205

14. Changes in Contingent Liabilities and Contingent Assets

The total contingent liabilities as at 31 March 2007 for the Company are corporate guarantees for credit facilities granted to subsidiaries of RM106.0 million (31 December 2006: RM102.0 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's revenue for the reporting quarter was RM107.6 million. This was a 22% increase from RM87.9 million achieved in the corresponding quarter in 2006. The Group recorded a loss before tax of RM2.1 million for this reporting quarter. For the same quarter in 2006, the Group achieved RM11.3 million profit before tax.

The losses incurred for the reporting quarter was primarily attributed to the revenue shortfall of approximately 15% based on the Group's expanded capacity, the associated higher costs of production before economies of scale are attained, the start up costs of new subsidiary in Thailand and along with the temporary loss of contributions from Group's China operation due to realignment of its customer base.

17. Material Change in Profit Before Tax Against Preceding Quarter

The Group's revenue of RM107.6 million was about 4% higher than that achieved in the previous quarter of RM103.4 million. The Group had a loss before tax of RM2.1 million as a result of experiencing a first full quarter of product end of life in China and start up costs in new subsidiary in Thailand. In addition to that, slower than expected utilisation of expanded capacity for base plates operation also contributed to the loss. In the preceding quarter the Group achieved a profit before tax of RM1.9 million.

18. Prospects

The short term demand trend of the mainstream hard disk drive industry is anticipated to be seasonally lower but the overall demand outlook is still fairly stable for the financial year. As such, the Group expects that its performance for the upcoming quarters may not be entirely satisfactory.

The Group has set priorities in increasing the effective utilisations of its expanded capacity, effect cost improvements and realise new businesses in China and Thailand in order to overcome the short term unfavourable performance going forward.

19. Profit Forecast or Profit Guarantee

Not applicable.

20. Income Tax Expense

	3 months period ended 31 March	
	2007 RM'000	2006 RM'000
Current tax:		
Malaysian income tax	145	354
Foreign tax	458	1,047
	<u>603</u>	<u>1,401</u>
Deferred tax	(2,669)	455
Overprovision of deferred tax in prior year	(1,039)	-
	<u>(3,708)</u>	<u>455</u>
Total income tax expense	<u>(3,105)</u>	<u>1,856</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 31 March 2007.

22. Quoted Securities

There were no purchase or sales of quoted securities during the financial period ended 31 March 2007 and no investment in quoted securities as at 31 March 2007.

23. Corporate Proposals

There were no corporate proposals announced but not completed.

24. Borrowings

Details of the Group's borrowings as at 31 March 2007 are as follows:

	As At 31 March 2007 RM'000	As At 31 December 2006 RM'000
Short term		
Secured	18,321	19,005
Unsecured	75,893	70,840
	<u>94,214</u>	<u>89,845</u>
Long term		
Secured	40,342	28,626
Unsecured	2,673	3,234
	<u>43,015</u>	<u>31,860</u>
	<u>137,229</u>	<u>121,705</u>

24. Borrowings (Cont'd)

Borrowings denominated in foreign currency:

	As At 31 March 2007		As At 31 December 2006	
	Foreign currency '000	RM'000 equivalent	Foreign currency '000	RM'000 equivalent
Short term				
Secured	USD 3,197	11,035	USD 3,145	11,103
Secured	-	-	SGD 13	29
Secured	THB 433	46	THB 427	43
Unsecured	USD 2,720	9,375	USD 5,474	19,283
Unsecured	THB 14,015	1,492	-	-
Unsecured	SGD 357	812	SGD 106	243
Long term				
Secured	USD 10,470	36,114	USD 6,723	23,732
Secured	THB 717	76	THB 823	82

25. Off Balance Sheet Financial Instruments

Notional amount as at
10 May 2007
RM'000

Forward foreign exchange contracts:

 Within 1 year 40,031

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 2006.

26. Changes in Material Litigation

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

27. Dividend

The directors do not recommend any interim dividend for the financial period ended 31 March 2007.

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 Company by the weighted average number of ordinary shares in issue during the period.

	3 months period ended 31 March	
	2007	2006
Profit attributable to ordinary equity holders of the Company (RM'000)	452	7,368
Weighted average number of ordinary shares in issue ('000)	119,097	118,593
Basic earnings per share (sen)	0.4	6.2

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the period attributable to ordinary equity holders of the Company 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 31 March	
	2007	2006
Profit attributable to ordinary equity holders of the Company (RM'000)	452	7,368
Weighted average number of ordinary shares in issue ('000)	119,097	118,593
Effects of dilution:		
Share options	820	2,186
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	119,917	120,779
Diluted earnings per share (sen)	0.4	6.1

29. Authorisation for Issue

On 17 May 2007, 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
 17 May 2007