

METECH GROUP BERHAD
(Formerly known as Sin Kean Boon Group Berhad)
(Company No. 219350 - H)
(Incorporated in Malaysia)
Notes to the interim financial report

1. Basis of preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The interim financial report should be read in conjunction with the most recent annual audited financial statements of the Group for the year ended 31 December 2004.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those accounting policies in the financial statements for the year ended 31 December 2004.

2. Auditors' qualification

No qualification on the audit report of the preceding annual financial statements of Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) ("Metech").

3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors in the current quarter and current financial year to date.

4. Exceptional and extraordinary items

There were no material exceptional and extraordinary items for the period under review.

5. Change in estimates

There was no material changes in the estimates used for the preparation of this interim financial report.

6. Change in debt and equity securities

There were no issuance, cancellations, repurchase, resale and repayments of debt and equity securities for the current financial year-to-date.

7. Dividends paid

Since the end of the previous financial year, the Company paid a first and final dividend of 1.5%, less 28% tax, amounting to RM437,400 in respect of the financial year ended 31 December 2004 on 25 August 2005.

8. Segment revenue and results

No segment information by business activities has been prepared as the Group's activities involved is primarily in one sector of operations only.

9. Revaluation of property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

There were no material write-down in property, plant and equipment during the quarter under review other than the provision for impairment amounting to RM800,000 by one of the subsidiary companies.

10. Material post balance sheet events

There were no material post balance sheet events subsequent to the period under review.

11. Changes in Group's composition

There were no changes in the composition of the Group for the current quarter and financial year-to-date, other than the following:-

- a) The Company had on 9 September 2005 acquired 2 ordinary shares of RM1 each at par for cash in Mecglow Industries Sdn Bhd. Mecglow Industries Sdn Bhd had subsequently changed its name to Metech Industries Sdn Bhd ("MISB"). On 17 October 2005, the Company further subscribed for 305,998 ordinary shares of RM1/= each at par value for cash, making a total of 306,000 ordinary shares of RM1/= each, representing 51% of the total issued and paid-up share capital of MISB. MISB shall venture into the higher end of the pallet racking and shelving systems which is the mobile racking, Automatic Storage and Retrieval System (ASRS) and better and higher profit margin racking products. MISB will be into more of providing a total storage solution to its customers instead of selling only racking parts.
- b) The Company had on 26 May 2005 acquired 2 ordinary shares of RM1 each at par for cash in Neward Ventures Sdn Bhd, thereby making it a wholly owned subsidiary company. Neward Ventures Sdn Bhd had on 17 August 2005 increased its authorized share capital from RM100,000 divided into 100,000 ordinary shares of RM1 each to RM5,000,000 divided into 5,000,000 ordinary shares of RM1 each and its paid up share capital from RM2 divided into 2 ordinary shares of RM1 each to RM2,000,000 divided into 2,000,000 ordinary shares of RM1 each. Neward Ventures Sdn Bhd had on 24 October 2005 changed its name to Metech Properties Holdings Sdn Bhd. Metech Properties Holdings Sdn Bhd's principal activity is investment holding.
- c) Metech Aluminium Industries Sdn Bhd (formerly known as SKB Aluminium Industries Sdn Bhd), a 51% owned subsidiary, had on 18 July 2005 acquired 1 ordinary share of RM1 at par for cash in Kosmo Indah Sdn Bhd "Kosmo"). This represents 50% of the total issued and paid up share capital of Kosmo. Kosmo shall be involved in the tendering and securing of projects involving the fabrication of aluminium extrusion products in the local market and overseas market and also involving in the manufacturing of fabricated aluminium extrusion products.

12. Changes in contingent liabilities and assets

There were no changes in contingent liabilities and assets during the year under review.

13. Review of performance of the current quarter and current financial year to date

The Group recorded a net profit of RM1.603 million and RM3.473 million for the current quarter and current year to date respectively as compared to the net profit after taxation of RM0.069 million and RM1.808 million in the preceding year corresponding quarter and year to date ended 31 December 2004 respectively. The higher net profit for the current quarter was mainly due to the higher turnover and improved performance in terms of profitability and also the positive contribution from the share of result of an associated company.

14. Variation of results against preceding quarter

The Group recorded a slight drop of 4.19% or RM1.884 million in revenue, RM43.080 million for the current quarter as compared to RM44.964 million in the preceding quarter ended 30 September 2005.

Despite the slight drop in revenue, the net profit increased to RM1.603 million for the current quarter from RM0.368 million in the preceding quarter and it was mainly due to the better profit margin and to keep the administration and operational cost down.

15. Current year prospects

With the uncertainty and fluctuation in the world prices of the crude petroleum, the Group will still face inflationary pressure from the rising costs of raw materials and also increased competition in the local market and as well as the world market. But, the Group will treat it as a challenge and will continue to take immediate positive steps to mitigate the economic impact to further improve its performance and also to continue to explore for new products, new markets and new opportunities that will contribute positively to the Group's overall performance.

16. Variance of profit forecast

Not applicable as no profit forecast was published.

17. Tax expense

	Individual Quarter		Cumulative Quarters	
	Current Year Quarter 31 December 2005 RM'000	Preceding Year Corresponding Quarter 31 December 2004 RM'000	Current Year To date 31 December 2005 RM'000	Preceding Year To date 31 December 2004 RM'000
Current taxation				
- Based on results for the period	635	(278)	1,247	605
-Prior year	(621)	(59)	(621)	(59)
	14	(337)	626	546
Deferred taxation				
- Based on results for the period	(326)	(181)	(326)	(181)
- Prior period	293	(238)	293	(238)
	(33)	(419)	(33)	(419)
On share of results of associated company	(16)	48	234	48
	(35)	(708)	827	175

The disproportionate tax charge is due to the availability of tax incentives to certain subsidiary companies.

18. Profit/(Loss) on sale of unquoted investments and/or properties for current quarter and financial year-to-date

There were no profits on sale of unquoted investments and properties as there were no disposals of investments and properties during the period under review.

19. Purchase or disposal of quoted securities

There were no material purchases or disposals of quoted shares for the period under review.

Investments in quoted securities as at 31 December 2005

	Cost RM'000	Book value RM'000	Market Value RM'000
Total quoted investment	1,898	108	97

20. Status of corporate proposals

On 11 October 2005, SKBG announced that the Company is proposing to change its name from “Sin Kean Boon Group Berhad” to “Metech Group Berhad”. “Metech” which is the trademark of the Company portrays a dynamic outlook that is reflective of the future direction of the Company to strengthen its positioning in the marketplace as a renowned manufacturer of metal related products.

The proposed change of name was approved by the shareholders at an Extraordinary General Meeting convened on 28 November 2005 and will be effective from the date provided in the Certificate of Incorporation on Change of Name as issued by the Companies Commission of Malaysia.

Subsequently, on 30 December 2005, the Company received the Certificate of Incorporation on Change of Name from the Companies Commission of Malaysia to effect its new name to Metech Group Berhad effective 29 December 2005.

21. Group borrowings and debts securities

	31 December 2005 RM'000
Current	
Unsecured	<u>49,739</u>
Non-current	
Unsecured	<u>933</u>

The above borrowings are denominated in Ringgit Malaysia.

22. Off balance sheet financial instruments

During the financial year to date, the group did not enter into any contracts involving off balance sheet financial instruments.

23. Changes in material litigation

(a) Penang High Court (No.2) Civil No:22-205-2002

On 17th April 2002, SKB Metal Sdn Bhd (“SMSB”) (a non-related company to Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) commenced legal proceedings vide High Court (No. 2) Civil Suit No. 22-205-2002 against Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) claiming for losses of RM12,590,923 and damages for breach of contract plus interest at 8% per annum and legal costs.

This claim is in respect of two Sale and Purchase Agreements for SMSB to sell and for Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) to purchase the entire share capital of Asas Cergas Sdn Bhd (“ACSB”) (a wholly-owned subsidiary of SMSB). ACSB is the registered owner of Lot Nos. 466 & 472, Jalan Perusahaan Baru Satu, Prai [see section (b) below]. SMSB has terminated the Sale and Purchase Agreements. Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) accepted the termination and demanded for a refund of RM1.2 million being the deposit paid by Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) to SMSB under the Agreements. Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) has counterclaimed for this RM1.2 million in its Counterclaim.

On 5th June 2002 Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) filed the Defence and Counterclaim. SMSB sought for further and better particulars of Metech Group Berhad’s (Formerly known as Sin Kean Boon Group Berhad) Defence and Counterclaim. Upon hearing the application, the Senior Assistant Registrar on 10th September 2002 dismissed the said application with costs. An appeal to the Judge in Chambers was filed. The said appeal was allowed with costs in the cause. Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) then filed and served the Further and Better Particulars as required on 13th October 2003.

Subsequently on 15th April 2005, SMSB filed a Notice of Intention to Proceed with suit after a lapse of 1 year and subsequently, filed an application to amend the Statement of Claim. Statement of Claim was amended to claim:-

- (i) Loss and damages of RM13,340,136.88;
- (ii) General Damages;
- (iii) Interest at the rate of 8% p.a. on the sum of RM5,341,405.65 from 1 April 2002 to date of full settlement;
- (iv) Interest at the rate of 8% p.a. on the sum of RM8,277,360.00 from 1 April 2002 to date of full settlement;
- (v) Interest;
- (vi) Costs; and
- (vii) Such further reliefs as this Honorable Court deems fit.

Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) filed an Amended Defence and maintained the Counterclaim filed earlier.

The hearing for the application for change of name has been fixed on 5 September 2006.

Based on the advice of the solicitors, Messrs Sitham & Associates, Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) is of the opinion that the final outcome of the above suit would be favourable to the Company.

(b) Penang High Court (No.2) Civil No:22-104-2002

On 5th March 2002, Asas Cergas Sdn Bhd (ACSB) and SKB Metal Sdn Bhd (SMSB) commenced legal proceedings against, Sin Kean Boon Metal Industries Sdn Bhd ("SKBMI") vide Penang High Court Civil Suit No. 22-104-2002 claiming vacant possession and double rental in respect of the tenancy of Lot Nos 466 & 472, Jalan Perusahaan Baru Satu, Prai Industrial Estate 3, 13600 Prai, Penang. On 10th October 2002, SKBMI has filed Defence and Counterclaim, claiming amongst other things, alternatively, that they are entitled to compensation of approximately RM10.0 million being the investment cost and also all consequential damages flowing from the breach by ACSB and SMSB.

On 17th May 2002, SKBMI and its parent company Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) obtained an injunction restraining ACSB and SMSB from proceeding with or executing any Writ of Distress on SKBMI. ACSB and SMSB have lodged appeals in the Court of Appeal against the Injunction Order. Subsequently, the appeal against the injunction has been withdrawn. The injunction obtained by SKBMI and Metech Group Berhad's (Formerly known as Sin Kean Boon Group Berhad) is maintained.

On 13th March 2003, ACSB and SMSB discontinued their claim in Civil Suit No. 22-104-2002 and the Court has ordered them to pay costs to SKBMI. The Counterclaim of SKBMI and Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) against ACSB and SMSB is maintained.

The said Counterclaim was pending case management on 21st February 2006 and not fixed for trial yet. Further, this Counterclaim has been consolidated with SMSB's claim in Suit No. 22-267-2003 and therefore will be heard together when it comes up for hearing. Meanwhile, SKBMI has been paying the monthly rental of RM46,300 per month without fail to a stakeholder's account in the joint names of solicitors for both parties pending adjudication of this matter.

On 14 October 2005, the Court fixed the Plaintiffs' appeals against order for taxation on 28 March 2006.

On 21 February 2006, the matter which was fixed for Case Management was not listed in the Court's chamber list. The solicitors will make a file search in the Court file and thereafter shall revert with the outcome in due course.

SKBMI and Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) have been advised by their solicitors, Messrs Sitham & Associates, that they have a reasonably strong defence and counterclaim, and that it would probably take one to two years for the trial of this civil suit and for the Court to adjudicate on this matter. SKBMI and Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) have counterclaimed for amongst other things, an order that any rental found due and payable from SKBMI to ACSB and SMSB if any, be set off from the RM1.2 million already paid by Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) to SMSB under sale and purchase agreements for Metech Group Berhad (Formerly known as Sin Kean Boon Group Berhad) to acquire the shares in ACSB. (see (a) above)

(c) Penang High Court (No. 2) Civil Suit No. 22-267-2003

By letter dated 21st March 2003, SMSB demanded for rent of RM972,000 and interest of RM74,078 for the period of July 2001 to March 2003 inclusive. By letter dated 25th March 2003, SKBMI replied that as previously agreed, rental from July 2001 to March 2003 has been held in stakeholder's account pending the adjudication of the tenancy dispute, which is still awaiting trial by virtue of the Counterclaim in Suit No. 22-104-2002. Therefore, the rental cannot be released to SMSB.

On 31st March 2003, SMSB issued a notice to determine the tenancy on 2nd May 2003. By letter dated 3rd April 2003, SKBMI reiterated its stand that all rent has been paid up to date to the stakeholder's account. Furthermore, in the Counterclaim in Suit No. 22-104-2002, the High Court will be deciding if SKBMI has acquired a tenancy coupled with an equity. Therefore, SMSB is not entitled to determine the tenancy on 2nd May 2003 and their notice of termination of tenancy is null and void. By letter dated 10th April 2003, SMSB denied the assertions in letter dated 3rd April 2003 and maintained their stand. SKBMI reiterated its stand vide letter of 2nd May 2003 and that it had not breached any covenant and that SMSB is not entitled to determine the tenancy.

On 20th May 2003, SKBMI was served with a Writ of Summons, at the Penang High Court Civil Suit No. 22-267-2003. By the said Writ, SMSB has claimed against SKBMI for vacant possession, arrears of rent, interest and double rental in respect of the tenancy of Lot Nos. 466 & 472, Jalan Perusahaan Baru Satu, Prai Industrial Estate 3, 13600 Prai, Penang. On 10th June 2003, SKBMI has filed Defence stating that all monthly rental from July 2001 to date has been paid to SKBMI's solicitors as stakeholders as previously agreed pending the tenancy dispute of the premises, which is still pending trial by virtue of the Counterclaim in Suit No. 22-104-2002 [see section (b) above].

SMSB filed for summary judgment which was strongly opposed by SKBMI. Simultaneously, SKBMI also filed application to consolidate Suit No. 22-267-2003 and 22-104-2002 to be heard together. Both the applications were allowed by the Court on 27th July 2004.

A stay of execution was obtained against SMSB on 10th August 2004. Both parties appealed. On appeal on 7th September 2004, the Summary Judgment order obtained by SMSB against SKBMI was reversed and the Court ordered that all rentals paid so far and all future rentals be paid into a trust account. Subsequently, SMSB's appeal against the order of consolidation was dismissed on 8th November 2004. Thus, this suit is now ordered to be heard together with SKBMI's Defence and Counterclaim in Suit No. 22-104-2002 and the same is pending case management in preparation for trial. The suit is now consolidated with the Defence and Counterclaim in Suit No. 22-104-2002.

Meanwhile, pending all this, SMSB had on 12th January 2005 filed an application under Order 14A RHC, for an order for determination of the case on a point of law without a full trial. This was up for hearing on 7th February 2006. However this date was later adjourned to 22 August 2006.

The Plaintiff's appeals against order for taxation dated 27 June 2005 and the Review of the Taxation before the Deputy Registrar are now fixed for hearing on 28 March 2006.

Based on the advice of the solicitors, Messrs Sitham & Associates, SKBMI is of the opinion that they have a reasonably strong defence.

24. Proposed dividend

Subject to the shareholders' approval, the directors recommend a first and final dividend of 2% less 28% tax amounting to RM583,200 for the financial year ended 31 December 2005.

25. Earnings per share

The calculation of basic earnings per share for the current quarter and current year to date are based on the net profit attributable to ordinary shareholders of RM1.653 million and RM3.523 million and on the number of ordinary shares outstanding of 40,500,000.

26. Capital commitments

	31 December 2005 RM'000
Property	
Contracted but not provided for in the financial statements	<u>2,417</u>

27. Related party transactions

There were no non-recurrent related party transactions during the period under review.

BY ORDER OF THE BOARD

Lam Voon Kean
Company Secretary
Dated this 23 February 2006