

METECH 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 set out 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 2005.

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 2005, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

2. Changes in accounting policies

The Malaysian Accounting Standards Board (“MASB”) has issued a number of new and revised Financial Reporting Standards (FRSs, which term collectively includes the MASB’s Issues Committee’s Interpretations) that are effective for accounting periods beginning on or after 1 January 2006.

In 2006, the MASB issued another two revised FRSs which are effective for annual periods beginning on or after 1 October 2006.

The board of directors has determined the accounting policies to be adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2006 including early adopting the two FRSs issued by the MASB in 2006, on the basis of FRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2006 which have been reflected in this interim financial report.

(a) Impact on the results

There was no significant impact to the net profit for the 12 months ended 31 December 2006 as a result of the adoption of the new and revised FRSs.

(b) Leasehold land held for own use

With the adoption of FRS 117 as from 1 January 2006, the leasehold interest in land held for own use is accounted for as being held under an operating lease and the prepaid lease payments are amortised on a straight line basis over the remaining lease term of the land.

(c) Negative Goodwill

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition and is not amortised previously.

With effect from 1 January 2006, in accordance with FRS 3, Business combination, the negative goodwill is recognised immediately in the income statement as it arises. In

accordance with the transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of RM2.174 million was derecognised with a corresponding increase in retained earnings.

3. Auditors' qualification

The auditors have expressed an unqualified opinion on the Company's statutory financial statements for the year ended 31 December 2005 in their report dated 19 April 2006.

4. 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.

5. Exceptional and extraordinary items

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

6. Change in estimates

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

7. 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.

8. Dividends paid

Since the end of the previous financial year, the Company paid a first and final dividend of 2.0% less 28% tax amounting to RM583,200 in respect of the financial year ended 31 December 2005 on 21 August 2006.

9 Segment revenue and results

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

10 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.

11. Material post balance sheet events

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

12. 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 :-

On 23 March 2006, the Company acquired the remaining 294,000 ordinary shares of RM1/= each representing 49% of the total issued and paid up share capital of Metech Industries Sdn Bhd ("MISB") (Formerly known as Mecglow Industries Sdn Bhd). Upon the completion of acquisition, MISB became a wholly-owned subsidiary of the Company. Subsequently, the Company further subscribed for another 2,400,000 ordinary shares of RM1/= each in MISB on 29 March 2006.

On 29 September 2006, the Company had announced the intention to acquire an additional 1% comprising 24,500 ordinary shares of RM1.00 each in the capital of Chaun Choung Corporation (M) Sdn Bhd, an 50% associate company of Metech Group for a total consideration of RM100,000. The acquisition was completed on 7 February 2007 upon getting the approval from the Ministry of International Trade and Industry on 29 January 2007.

On 28 February 2007, Metech Aluminium Industries Sdn Bhd ("MAI"), a 51% own subsidiary company of Metech Group, has further subscribed 59,999 ordinary shares of RM1.00 each representing 60% of the total issued and paid up share capital of Kosmo Indah Sdn Bhd, a 50% owned company of MAI, for a total consideration of RM59,999.00.

13. Changes in contingent liabilities and assets

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

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

The Group recorded a net profit of RM1.037 million and RM2.005 million for the current quarter and current year to date as compared to the net profit of RM1.603 million and RM3.473 million in the preceding year corresponding quarter and year to date ended 31 December 2005.

15. Variation of results against preceding quarter

The Group recorded a decrease of 7.4% or RM4.262 million in revenue for the current quarter as compared to RM57.244 million in the preceding quarter ended 30 September 2006.

Despite the drop in revenue, it recorded a net profit of RM1.849 million as compared to the net loss of RM1.877 million due to the improved profit margin besides the reversing of the over provision of taxation, no extraordinary loss (forfeiture of part of deposit paid for the amicable settlement of all existing legal cases) for this quarter and lower share of losses from an associate company.

16. Current year prospects

Barring any unforeseen circumstances to crop out during the current year, with the expected commencement of commercial production in the newly constructed factory in the second half of 2007 and the continued commitments to explore for new source of raw material suppliers, new products, new markets and new opportunities, the management is confident of the overall performance of the Group to be on the uptrend.

17. Variance of profit forecast

Not applicable as no profit forecast was published.

18. Tax expense

	Individual Quarter		Cumulative Quarters	
	Current Year Quarter 31 December 2006 RM'000	Preceding Year Corresponding Quarter 31 December 2005 RM'000	Current Year To date 31 December 2006 RM'000	Preceding Year To date 31 December 2005 RM'000
Current taxation				
- Based on results for the period	(204)	635	489	1,247
-Prior year	(596)	(621)	(630)	(621)
	(800)	14	(141)	626
Deferred taxation				
- Based on results for the period	293	(326)	293	(326)
- Prior period	14	293	14	293
	307	(33)	307	(33)
Tax expense	(493)	(19)	166	593
On share of results of associated company	-	(16)	-	234
	(493)	(35)	166	827

The disproportionate tax charge is due to utilisation of tax losses of certain subsidiary companies.

19. 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.

20. 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 2006.

	Cost RM'000	Book value RM'000	Market Value RM'000
Total quoted investment	1,220	57	94

21. Status of corporate proposals

There were no corporate proposals that have been announced by the Company but not completed at the date of this announcement except in the current quarter and current financial year to date other than the following:-

The Company had on 29 September 2006 announced the intention to acquire an additional 1% comprising 24,500 ordinary shares of RM1.00 each in the capital of Chaun Choung Corporation (M) Sdn Bhd, an 50% associate company of Metech Group for a total consideration of RM100,000. The acquisition was completed on 7 February 2007 upon getting the approval from the Ministry of International Trade and Industry on 29 January 2007.

22. Group borrowings and debts securities

	31 December 2006 RM'000	
Current		
Unsecured	64,537	
Secured	116	<u>64,653</u>
Non-current		
Unsecured	857	
Secured	6,960	<u>7,817</u>

Foreign currency borrowings included in the above are RM1,060,832 denominated in USD.

23. 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.

24. Changes in material litigation

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

On 17 April 2002, SKB Metal Sdn Bhd (“SMSB”) (a non-related company to Metech Group Berhad (“Metech Group”)) (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 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 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 accepted the termination and demanded for a refund of RM1.2 million being the deposit paid by Metech Group to SMSB under the Agreements. Metech Group has counterclaimed for this RM1.2 million in its Counterclaim.

On 5 June 2002, Metech Group filed the Defence and Counterclaim. SMSB sought for further and better particulars of Metech Group’s Defence and Counterclaim. Upon hearing the application, the Senior Assistant Registrar on 10 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 then filed and served the Further and Better Particulars as required on 13 October 2003.

Subsequently on 15 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 filed an Amended Defence and maintained the Counterclaim filed earlier.

The hearing for the application for change of name fixed on 5 September 2006 was later adjourned to 11 December 2006.

As disclosed under (b) below, the parties have now reached an amicable understanding and a Consent Judgement has been drawn. Pursuant to the Consent Judgement, SKB Metal Sdn Bhd is to pay Metech Group a sum of RM270,000 in settlement of the counterclaim in Suit No. 22-205-2002. In view of this, Metech Group would be foregoing the differential sum between the counterclaim of RM1.2 million in Suit 22-205-2002 and the above payment from SKB Metal Sdn Bhd, which is RM930,000.

The amount of deposit foregone of RM930,000 was duly charged to the Income Statement in the current quarter results ended 30 September 2006.

On 8 December 2006, Metech's solicitors filed the Notice of Discontinuance for the counterclaim in respect of Civil Suit 22-205-2002. As such there would be no need to proceed to obtain order in terms of the said application as this suit has been agreed to be discontinued by both parties pursuant to the Consent Order dated 16 October 2006.

On 14 December 2006, SKB Metal Sdn Bhd's solicitors filed and served a copy of the Notice of Discontinuance in respect of Civil Suit 22-205-2002.

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

On 5 March 2002, ACSB and 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 17 May 2002, SKBMI and its parent company Metech Group 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 is maintained.

On 13 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. SKBMI had filed taxation proceedings to recover costs and the order for taxation was allowed on 27 June 2005. ACSB and SMSB filed an appeal and the appeal was fixed for hearing on 28 March 2006. SKBMI has been advised by its solicitors that an objection will be taken up against the appeal as it is procedurally wrong in law and is premature. Further SMSB has also filed a stay of taxation pending the outcome of the suit. The court dismissed the stay and SMSB appealed against the dismissal. The appeal was fixed for hearing on 28th March 2006 and has been subsequently adjourned to 18th April 2006 to enable the plaintiff to withdraw both the appeals. The Counterclaim of SKBMI and Metech Group against ACSB and SMSB is maintained.

The SKBMI's Counterclaim is now pending case management on 21 February 2006 and not fixed for trial yet. On 21 February 2006, the matter was taken off and a new date is still pending from the court. 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 28 March 2006, the Plaintiffs' Solicitors informed that they may withdraw both the appeals which were filed vide Enclosures 66 and 67 ie the appeal against the Deputy Registrar's order granting taxation and order dismissing stay of taxation as the Plaintiff should file a Review against the order of taxation before proceeding with the appeal. The matter is now adjourned to 18 April 2006 for hearing of the same.

On 18 April 2006, the Plaintiffs' solicitors informed the Court that the Plaintiffs do not wish to withdraw both the appeals and intend to proceed with the same. Parties are to put in Written Submission for both enclosures 66 and 67, (i.e. the appeal against the award of costs and appeal against the dismissal of the stay of bill of costs respectively). No date was given for filing of the Written Submission and this matter is fixed on 31 October 2006 for decision/clarification.

The matter which was fixed for Case Management on 21 March 2006 and was not listed in the Court's chamber list is now fixed for Case Management on 3 April 2007.

SKBMI and Metech Group 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 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 to SMSB under sale and purchase agreements for Metech Group to acquire the shares in ACSB (see (a) above).

Parties concerned have now reached an amicable settlement and a Consent Judgement has been drawn up as well as a fresh Tenancy Agreement entered into between the parties.

In view of the above, solicitors of both parties have written to the Court to bring forward the following hearing dates to record Consent Judgement and put a finality to the following matters :-

- a) Suit No. 22-104-2002 which is fixed on 31 October 2006 for decision and clarification of the taxation proceedings and 3 April 2007 for case management, and
- b) Suit No. 22-267-2003 which is fixed on 28 August 2007 for hearing of the plaintiff's Order 14A application.

The Consent Judgement mentioned above encompasses the following terms briefly :-

- a) That the Plaintiff SKB Metal Sdn Bhd enter into a fresh Tenancy Agreement with the Tenant, i.e. Sin Kean Boon Metal Industries Sdn Bhd (the Defendant)
- b) That pursuant to this Consent Judgement, the Plaintiff is to pay to the Defendant a sum of RM270,000-00 in settlement of the counterclaim in Suit No. 22-205-2002. In view of this, the Defendant would be foregoing the differential sum between the counterclaim of RM1.2 million in Suit No. 22-205-2002 and the above payment from the Plaintiff, which is RM930,000-00.
- c) The whole amount of rental held in the joint-stakeholder's account in EON Bank Berhad by Dato' V. Sithambaram and Daphne Choy Gaik Choo together with interest is to be released to the Plaintiff.
- d) The parties agree to discontinue all civil suits, ie 22-205-2002, 22-104-2002, 22-267-2003 and 24-743-2002 without liberty to file a fresh including withdrawing the Defendant's counterclaims, taxation proceedings and all interlocutory proceedings; and
- e) The respective directors, the Plaintiff and Defendant cannot commence any proceedings against each other or re-file any proceedings arising from the suits herein mentioned.

The Consent Judgement was recorded in Court on 16 October 2006. On 6 November 2006, our solicitors filed in Court the Notice of Discontinuance for the counterclaim with regards to civil suits 22-267-2003 and 22-104-2002. Another announcement was further made on 8 November 2006, stating that our solicitors have filed in Court the Notice of Discontinuance for Civil Suit No. 24-743-2002.

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

By letter dated 21 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 31 March 2003, SMSB issued a notice to determine the tenancy on 2 May 2003. By letter dated 3 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 2 May 2003 and their notice of termination of tenancy is null and void. By letter dated 10 April 2003, SMSB denied the assertions in letter dated 3 April 2003 and maintained their stand. SKBMI reiterated its stand vide letter of 2 May 2003 and that it had not breached any covenant and that SMSB is not entitled to determine the tenancy.

On 20 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 10 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 27 July 2004.

A stay of execution was obtained against SMSB on 10 August 2004. Both parties appealed. On appeal on 7 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 8 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 was pending case management in preparation for trial. The suit was subsequently consolidated with the Defence and Counterclaim in Suit No. 22-104-2002.

Meanwhile, pending all this, SMSB had on 12 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 fixed for hearing on 7 February 2006. The hearing however has been adjourned to 28 August 2007 by the Court.

Please refer to (b) above for the updates.

The Notice of Discontinuance in respect of Civil Suit 22-267-2003 have also been filed.

25 Proposed dividend

Subject to the shareholders' approval, the directors recommend a first and final dividend of 2% less 27% tax amounting to RM591,300 for the financial year ended 31 December 2006.

26. 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 RM1.037 million and RM2.005 million and on the number of ordinary shares outstanding of 40,500,000.

27. Capital commitments

	31 December 2006 RM'000
Property, plant and equipment	
Contracted but not provided for	6,124

28. 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 28 February 2007