METECH GROUP BERHAD
(Company No. 219350 - H)
(Incorporated in Malaysia)
Notes to the interim financial report

1. Basis of preparation

This interim report is unaudited and has been prepared in accordance with Financial Reporting Standards ("FRS") No. 134 : Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Bursa Malaysia Listing Requirements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2009.

The accounting policies and methods of computation adopted by the Group in these quarterly interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2009, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2010 that have an impact on the Group, detailed as below:

(a) *FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009)*
FRS 8 replaces FRS 114 2004 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. As the Group's chief operating decision maker, the Group's Board of Directors, relies on internal reports which are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.

(b) *FRS 139 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010)*
This standard establishes principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items and permits hedge accounting only under strict circumstances.

The Board of Directors has assessed the impact of the adoption of FRS 139 and concluded that the fair value adjustments arising from remeasurement of financial instruments are immaterial to the financial statements. Thus no adjustment has been made to the opening balances of reserves.

(c) *Amendments to FRS 101 Presentation of Financial Statements(effective for annual periods beginning on or after 1 January 2010)*
The amendments to FRS 101 require changes in the format of the financial statements including the amounts directly attributable to shareholders in the primary statements, but do not affect the measurement of reported profit or equity.

As a result, the Group presents all non-owner changes in equity in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation, there is no impact on earnings per ordinary share.

(d) <u>*Amendments to FRS 117 Leases (effective for annual periods beginning on or after 1 January 2010)*</u>
The amendments to FRS 117 require entities with existing leases of land to reassess the classification of land as finance or operating lease.

The Group has reassessed and determined that all leasehold land of the Group which are in substance finance leases and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The reclassification does not affect the earnings per share for the current and prior periods.

The following comparative figures have been restated following the adoption of the amendments to FRS 117:

	31 December 2009	
Net Book Value	As restated RM'000	As stated previously RM'000
Property, plant and equipment	59,167	55,403
Prepaid lease payments	0	3,764

The adoption of other interpretations and revisions to existing standards mandatory for annual reports beginning on or after 1 January 2010 will not result in significant changes in the reported profit or equity or on the disclosures in the financial statements.

2. Auditors' qualification

The auditors have expressed an unqualified opinion on the Company's statutory financial statements for the year ended 31 December 2009 in their report dated 15 April 2010.

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 were 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. Dividend paid

No dividend was paid for the current quarter ended 31 December 2010.

8. 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.

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 write-down in property, plant and equipment during the quarter under review.

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

On 23 August 2010, the Company had announced that the disposal of all of its 5,100,000 "A" class ordinary shares of RM1.00 each, representing 51% of the total issued and paid-up share capital in Metech Aluminium Industries Sdn Bhd ("MAI") (Now known as Tong Heer Aluminium Industries Sdn Bhd) to Tong Herr Resources Berhad (Company No. 432139-W) was completed on 23 August 2010. Accordingly, as of that date, MAI and its subsidiaries, Aluta Metal Sdn Bhd (327616-X), Better Technology Sdn Bhd (462455-V), ACME Aluminium Sdn Bhd (636490-K), Aluminium Service Centre Sdn Bhd (139041-D) and Kosmo Indah Sdn Bhd (693588-T) cease to be subsidiaries of Metech Group.

Other than as stated above, there were no changes in the composition of the Group for the current quarter and financial year-to-date.

12. Changes in contingent liabilities and assets

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

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

The Group recorded a net loss attributable to shareholders of RM2.923 million for the current quarter and net loss of RM10.961 million for the current financial year to date as compared to the net profit attributable to shareholders of RM1.392 million and net profit of RM0.965 million in the preceding year corresponding quarter and year to date ended 31 December 2009 respectively.

Included in the loss suffered was an amount of RM4.455 million representing loss on disposal of MAI and its subsidiary companies.

The performance of the major subsidiary companies had also contributed losses due mainly to the high costs of raw materials which was not able to be passed on to the customers, the disposal of some of the non moving stock at below costs and written off of some of the obsolete stocks.

14. Variation of results against preceding quarter

The net loss attributable to shareholders of the Group for the current quarter was RM2.923 million as compared to the net loss before tax of RM8.283 million in the preceding quarter.

Included in the loss suffered was an amount of RM4.455 million representing loss on disposal of MAI and its subsidiary companies.

The performance of the major subsidiary companies had also contributed losses due mainly to the high costs of raw materials which was not able to be passed on to the customers, the disposal of some of the non moving stock at below costs and written off of some of the obsolete stocks.

15. Current year prospects

The performance of the Group will continue to be impacted by the challenging business environment faced by its subsidiaries.

The Directors of the Company are still in the process of formulating a Regularisation Plan to regularise its financial condition and shall announce the same to Bursa Securities upon finalization of the Regularisation Plan. The Directors will look into rationalisation of major subsidiaries and to look for opportunity to enhance the shareholders' value of the Company.

16. Variance of profit forecast

Not applicable as no profit forecast was published.

17. Tax expense

	Individual Quarter		Cumulative Quarters	
	Current Year Quarter 31 Dec 2010	Preceding Year Corresponding Quarter 31 Dec 2009	Current Year To date 31 Dec 2010	Preceding Year To date 31 Dec 2009
	RM'000	RM'000	RM'000	RM'000
Current taxation				
- Based on results for the period	(29)	306	506	1,152
-Prior year	287	(1,765)	287	(1,765)
	258	(1,459)	793	(613)
Deferred taxation				
- Based on results for the period	29	(53)	-	173
- Prior period	-	(302)	-	(302)
	-	(355)	-	(129)
Tax expense	287	(1,814)	793	(742)

The disproportionate tax charge was due to tax payable by certain subsidiaries.

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 2010:

	Cost RM'000	Book value RM'000	Market Value RM'000
Total quoted investment	1,220	1	2

20. Status of corporate proposals

Except for as disclosed in the following, there were no corporate proposals announced but not completed as at the date of this quarterly report: -

(i) Compliance with Practice Note 17 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad

On 23 August 2010, the Company had announced that the disposal of all of its 5,100,000 "A" class ordinary shares of RM1.00 each ("the Sale Shares"), representing 51% of the total issued and paid-up share capital in Metech Aluminium Industries Sdn Bhd ("MAI") (Now known as Tong Heer Aluminium Industries Sdn Bhd), for a total cash consideration of RM35,132,880.00 was completed on 23 August 2010.

Accordingly due to the completion of the above Proposed Disposal, the Company has also on 23 August 2010 announced it has become an Affected Listed Issuer pursuant to the Practice Note 17 ("PN17") of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") by triggering the criteria as set out under Paragraph 2.1(g) of PN17 when a listed issuer has suspended or ceased its major operations as a result of the disposal of the listed issuer's major business. "Major" business has been defined under Paragraph 2.2 (c) of PN17 as "such proportion that contributes or generates 70% or more of the listed issuer's revenue on a consolidated basis based on its latest annual audited or unaudited financial statements.

Consequently, the Company and the Group are required to undertake a plan to regularise their financial position and to submit the regularisation plan to the relevant authorities for approval within 12 months from 23 August 2010.

21. Group borrowings and debts securities

	31 Dec 2010 RM'000
Current	
Secured	1,825,478
Unsecured	3,228,245
Finance lease	1,398,720
	6,452,443
Non-current	
Secured	6,894,084
Unsecured	-
Finance lease	2,468,473
	9,362,557

All borrowings are denominated in Ringgit Malaysia.

22. Off balance sheet financial instruments

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

23. Changes in material litigation

There were no changes in material litigation within the Group for the current quarter and financial period to-date.

24. Proposed dividend

No dividend is proposed for the current quarter ended 31 December 2010.

25. Earnings per ordinary share

The calculation of basic earnings per ordinary share for the current quarter and current year to date are based on the net loss attributable to ordinary shareholders of RM10.961 million on the number of ordinary shares outstanding of 40,500,000.

26. Related party transactions

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

27. Realised and Unrealised Profit or Losses Disclosure

The following analysis of realized and unrealized retained profits/(accumulated losses) is prepared pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Securities Berhad Listing Requirements and in accordance with the Guidance on Special Matter No. 1 – Determination of Realised and Unrealised Profits or Losses as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	Current financial year 31 Dec 2010 (RM'000)	As at 30 September 2010 (RM'000)
Total retained profits/(accumulated losses) of the Company and its subsidiaries	6,366	7,289
- Realised	(3,268)	4,723
- Unrealised	465	500
Less : Consolidation adjustments	(9,169)	(2,066)
Total retained profits	6,366	7,289

BY ORDER OF THE BOARD

Lam Voon Kean
Company Secretary
Dated this 25 February 2011