



**METRONIC GLOBAL BERHAD**

*(Company No.: 632068-V)*

*(Incorporated in Malaysia under the Companies Act, 1965)*

**ANNOUNCEMENT TO BURSA MALAYSIA**

**Control No:MGB/A/12/2006**

**SUBJECT MATTER:**

**METRONIC GLOBAL BERHAD (“MGB” or “Company”)**

- **Proposed Acquisition of Shares in Unilink Development Limited**
- **Proposed Acquisition of Shares in Hong Kong Broadway Electronics Company Limited (collectively referred to as the “Proposed Acquisitions”)**

**CONTENTS:**

**1. THE PROPOSED ACQUISITIONS**

- 1.1 MGB wishes to announce that the Company had on 29 June 2006 entered into Heads of Agreements (“HOAs”) for the following:
- (a) Proposed acquisition of 125 ordinary shares of Hong Kong Dollar (“HK\$”) 1.00 each in Unilink Development Limited (“Unilink”) representing 12.5% equity interest in Unilink for a total purchase consideration of Renminbi (“RMB”) 15,000,000 (equivalent to RM6,912,442 at an exchange rate of RM1.00 : RMB2.17) to be satisfied via the issuance of 23,041,474 new ordinary shares of RM0.10 each in MGB (“MGB Shares”) at an issue price of RM0.30 per MGB Share (“Proposed Unilink Acquisition”); and
  - (b) Proposed acquisition of 10,000 ordinary shares of HK\$1.00 each in Hong Kong Broadway Electronics Company Limited (“HK Broadway”) representing 100% equity interest in HK Broadway for a total purchase consideration of RMB15,000,000 (equivalent to RM6,912,442 at an exchange rate of RM1.00 : RMB2.17) to be satisfied via the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share (“Proposed HK Broadway Acquisition”).
- 1.2 The issue price of RM0.30 for the new MGB Shares to be issued pursuant to the Proposed Acquisitions represent a premium of 11% over the five (5)-day volume weighted average market price of MGB Shares for the five (5) business days up to 28 June 2006 of RM0.27.
- 1.3 The vendor of the Proposed Unilink Acquisition is Zonemax Holdings Limited (BVI) (Zonemax). The vendor of the Proposed HK Broadway Acquisition is Newtron Company Limited (BVI) (“Newtron”). Both Zonemax and Newtron are incorporated in the British Virgin Islands under the BVI International Companies Act and are investment holding companies. (“Parties” shall refer to MGB, Zonemax and Newtron collectively).

- 1.4 Unilink is the legal and beneficial owner of the following:
- (a) 2,184,000 ordinary shares of United States Dollars (“USD”) 1.00 each in Newtronics Hangzhou Co, Ltd (“NH”) representing 80% of the issued and paid-up capital of NH; and
  - (b) 2,000,000 ordinary shares of USD1.00 each in Hangzhou HengAi Electronics Co, Ltd (“HH”) representing 80% of the issued and paid-up share capital of HH.
- 1.5 HK Broadway is the legal and beneficial owner of the following:
- (a) 273,000 ordinary shares of USD1.00 each in NH representing 10% of the issued and paid-up share capital of NH; and
  - (b) 250,000 ordinary shares of USD1.00 each in HH representing 10% of the issued and paid-up share capital of HH.
- 1.6 Upon completion of the Proposed Acquisitions, MGB will have an effective equity interest of 20% in NH and HH respectively.

## **2. BACKGROUND INFORMATION ON NH AND HH**

- 2.1 NH was incorporated on 5 June 2003 under the laws of the People’s Republic of China in Hangzhou. The authorized and issued and paid up share capital of NH is USD2,730,000 comprising 2,730,000 ordinary shares of USD1.00 each. The principal business of NH is the production, research and development of industrial electronic modules, telecommunication equipment and related component modules and sale of its products. For the financial year ended 31 December 2005, NH had net assets of RMB27,763,725 (equivalent to RM12,794,343 at an exchange rate of RM1.00 : RMB2.17) and recorded profit after tax of RMB14,720,542 (equivalent to RM6,783,660 at an exchange rate of RM1.00 : RMB2.17).
- 2.2 HH was incorporated on 15 September 2004 under the laws of the People’s Republic of China in Hangzhou. The authorized and issued and paid up share capital of HH is USD2,500,000 comprising 2,500,000 ordinary shares of USD1.00 each. The principal business of HH is the assembly of mobile handset. For the financial year ended 31 December 2005, HH had net assets of RMB26,817,073 (equivalent to RM12,358,098 at an exchange rate of RM1.00 : RMB2.17) and recorded profit after tax of RMB6,646,663 (equivalent to RM3,062,978 at an exchange rate of RM1.00 : RMB2.17).

## **3. SALIENT TERMS OF THE HOAS**

### **3.1 The Proposed Unilink Acquisition**

- 3.1.1 Zonemax has agreed in principle and subject to contract to sell 125 ordinary shares of HK\$1.00 each in Unilink representing 12.5% equity interest in Unilink for a total purchase consideration of RMB15,000,000 (equivalent to RM6,912,442 at an exchange rate of RM1.00 : RMB2.17) to be satisfied via the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share, the completion of which is scheduled to take place on or before 31 December 2006.

3.1.2 Zonemax agrees that a total of 85% or 19,585,253 of the MGB Shares to be issued and allotted to Zonemax shall be placed in an escrow account to be opened by Zonemax and managed by an independent Escrow Agent. The Escrow Agent shall only release the said MGB Shares held in escrow to Zonemax upon the fulfilment of the Guaranteed Profit (as defined in clause 3.1.3 below) or in the event where the Guaranteed Profit is not met, only where the difference between the Guaranteed Profit and Actual Profit (as defined in clause 3.1.3 below) is not more than RMB3,000,000 (“Allowable Profit Differential”). In the event the Guaranteed Profit is not met and the difference between the Guaranteed Profit and Actual Profit is more than the Allowable Profit Differential, MGB shall be authorized via the Escrow Agent to deal with the MGB Shares held in escrow in MGB’s absolute discretion. In the event that any sale of the MGB Shares held in escrow is not sufficient to meet the shortfall between the Actual Profit and the Guaranteed Profit, Zonemax shall be liable to pay such amount of the unfulfilled Guaranteed Profit that is attributable to MGB based on the indirect equity interest of the Purchaser in HH and NH.

For purposes of illustration:

	<b>RMB</b>
Actual Profit	25,000,000
Guaranteed Profit	30,000,000
Shortfall	5,000,000
<b>Total payable to MGB</b>	$5,000,000 \times 12.5\% \times 80\%$ <b>= 500,000</b>

For the avoidance of doubt:

- (a) in the event the difference between the Actual Profit and the Guaranteed Profit is within the Allowable Profit Differential, Zonemax shall be discharged from any liability under the Guaranteed Profit; and
- (b) in the event the difference between the Actual Profit and the Guaranteed Profit is more than the Allowable Profit Differential and the sale of the MGB Shares held in the escrow account is insufficient to meet the shortfall between the Actual Profit and the Guaranteed Profit, Zonemax shall be liable to pay to MGB the amount of the unfulfilled Guaranteed Profit as illustrated above.

The balance 15% or 3,456,221 of the MGB Shares to be issued shall not be held under any form of moratorium and as such are freely able to be dealt with by Zonemax.

3.1.3 Zonemax agrees to provide a guarantee that the aggregate audited profit after tax of HH and NH, based on the ordinary course of business of HH and NH for the financial year ending 31 December 2007 shall be not less than RMB30,000,000 (“Guaranteed Profit”). Actual Profit shall be defined as the aggregate audited profit after tax of HH and NH, based on the ordinary course of business of HH and NH for the financial year ending 31 December 2007.

3.1.4 Zonemax agrees that for a consideration of RMB1.00, the receipt and sufficiency of which Zonemax hereby acknowledges, Zonemax agrees to grant a call option to MGB to acquire up to a further number of shares in Unilink which shall represent 56.25% of the issued and paid-up share capital of Unilink at the point of exercise of the said call option at a price to be mutually agreed between MGB and Zonemax.

### 3.2 The Proposed HK Broadway Acquisition

- 3.2.1 Newtron has agreed in principle and subject to contract to sell 10,000 ordinary shares of HK\$1.00 each in HK Broadway representing 100% equity interest in HK Broadway for a total purchase consideration of RMB15,000,000 (equivalent to RM6,912,442 at an exchange rate of RM1.00 : RMB2.17) to be satisfied via the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share, the completion of which is scheduled to take place on or before 31 December 2006.
- 3.2.2 Newtron agrees that a total of 85% or 19,585,253 of the MGB Shares to be issued and allotted to Newtron shall be placed in an escrow account to be opened by Newtron and managed by an independent Escrow Agent. The Escrow Agent shall only release the said MGB Shares held in escrow to Newtron upon the fulfilment of the Guaranteed Profit (as defined in clause 3.2.3 below) or in the event where the Guaranteed Profit is not met, only where the difference between the Guaranteed Profit and Actual Profit (as defined in clause 3.2.3 below) is not more than RMB3,000,000 (“Allowable Profit Differential”). In the event the Guaranteed Profit is not met and the difference between the Guaranteed Profit and Actual Profit is more than the Allowable Profit Differential, MGB shall be authorized via the Escrow Agent to deal with the MGB Shares held in escrow in MGB’s absolute discretion. In the event that any sale of the MGB Shares held in escrow is not sufficient to meet the shortfall between the Actual Profit and the Guaranteed Profit, Newtron shall be liable to pay such amount of the unfulfilled Guaranteed Profit that is attributable to MGB based on the indirect equity interest of MGB in HH and NH.

For purposes of illustration:

		<b>RMB</b>
Actual Profit		25,000,000
Guaranteed Profit		30,000,000
Shortfall		5,000,000
<b>Total payable to MGB</b>		<b>5,000,000 x 100% x 10% = 500,000</b>

For the avoidance of doubt:

- (a) in the event the difference between the Actual Profit and the Guaranteed Profit is within the Allowable Profit Differential, Newtron shall be discharged from any liability under the Guaranteed Profit; and
- (b) in the event the difference between the Actual Profit and the Guaranteed Profit is more than the Allowable Profit Differential and the sale of the MGB Shares held in the escrow account is insufficient to meet the shortfall between the Actual Profit and the Guaranteed Profit, Newtron shall be liable to pay to MGB the amount of the unfulfilled Guaranteed Profit as illustrated above.

The balance 15% or 3,456,221 of the MGB Shares to be issued shall not be held under any form of moratorium and as such are freely able to be dealt with by Newtron.

- 3.2.3 Newtron agrees to provide a guarantee that the aggregate audited profit after tax of HH and NH, based on the ordinary course of business of HH and NH for the financial year ending 31 December 2007 shall be not less than RMB30,000,000 (“Guaranteed Profit”). Actual Profit shall be defined as the aggregate audited profit after tax of HH and NH, based on the ordinary course of business of HH and NH for the financial year ending 31 December 2007.

### **3.3 Common Salient Terms of the HOAs**

#### **3.3.1 The HOAs are subject to:**

- (a) a full investigation and audit report, including but not limited to a due diligence process, on the affairs and business of Unilink, HK Broadway, NH and HH satisfactory to MGB, the discretion of which lies entirely with MGB, conducted by the financial advisers of MGB and its solicitors, which investigation shall commence on 28 June 2006 and in respect of which the Vendors shall extend all necessary co-operation to MGB and its advisers and solicitors; and
- (b) the negotiation, agreement and execution of definitive agreements on the Proposed Acquisitions with the Vendors.

#### **3.3.2 In consideration of MGB agreeing to enter into the HOAs and to negotiate in good faith with the Vendors concerning the transactions contemplated therein, the Vendors agree with and undertakes with MGB the following obligations, each of which shall be a separate obligation, legally binding upon the Vendors and separately enforceable by MGB, as follows:**

- (a) the Vendors shall not, directly or indirectly, knowingly encourage, solicit or initiate, nor engage in or participate in, discussions or negotiations with, nor provide any information to, any company, partnership, person or other entity or group other than MGB (a "Third Party") concerning any sale, merger, business combination, acquisition or other similar transaction involving Unilink and HK Broadway, their shares or all or any part of the business or undertaking of Unilink and HK Broadway (whatever the form or nature of such transaction, including without limitation a transaction effected by the sale and purchase or the issue of shares and/or by the sale and purchase or assignment of any of the assets of Unilink and HK Broadway)("a Prohibited Transaction");
- (b) the Vendors shall use their best endeavours to have collected up and returned to it all copies of all non-public information it or any person acting on its behalf has distributed to other potential acquirers of Unilink and HK Broadway or their assets or of any interest therein;
- (c) the Vendors shall immediately notify MGB, and will disclose to MGB all details of any proposals it receive to enter into or take any action in relation to a Prohibited Transaction ("Acquisition Proposal"), any indications that any person is potentially interested in an Acquisition Proposal or the initiation and status of discussions or negotiations relating to an Acquisition Proposal; and
- (d) if these HOAs terminate pursuant to clause 3.3.3(a) or 3.3.3(b), the obligations contained in clauses 3.3.2(a) to 3.3.2(c) shall also thereupon terminate and be of no effect.

#### **3.3.3 The HOAs and the understandings therein set forth shall come into effect immediately upon execution by the Parties and unless otherwise mutually agreed shall terminate on the earlier of:**

- (a) on the execution of definitive sale and purchase agreements pursuant to clause 3.3.1(b) superseding this HOAs; and
- (b) when MGB notifies the Vendors in writing that MGB is no longer interested in effecting the transactions contemplated therein.

3.3.4 The HOAs **are intended to be legally binding** but do not represent a complete summary of the contractual or commercial aims of the Parties, but express their current desires and understandings subject to obtaining legal and other professional advice. The HOAs will form the basis of negotiation for the definitive agreements referred to in clause 3.3.1(b).

3.3.5 The construction, validity and performance of the HOAs shall be governed by the laws of Malaysia.

None of the directors or substantial shareholders of MGB or persons connected to them has any interest, direct or indirect, in the Proposed Acquisitions.

MGB shall make an announcement upon the signing of the sale and purchase agreements for the Proposed Acquisitions.

This announcement is dated 30 June 2006.