**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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# METRONIC GLOBAL BERHAD

(Company No.: 632068-V)
(Incorporated in Malaysia under the Companies Act, 1965)

## CIRCULAR TO SHAREHOLDERS IN RELATION TO

- **PROPOSED ACQUISITION OF 125 ORDINARY SHARES OF HONG KONG DOLLAR ("HK$") 1.00 EACH IN UNILINK DEVELOPMENT LIMITED ("UNILINK") ("UNILINK SHARES") REPRESENTING 12.5% EQUITY INTEREST IN UNILINK FOR A PURCHASE CONSIDERATION OF RENMINBI ("RMB") 15,000,000 (EQUIVALENT TO APPROXIMATELY RM6,912,442) TO BE SATISFIED BY 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 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 PURCHASE CONSIDERATION OF RMB15,000,000 (EQUIVALENT TO APPROXIMATELY RM6,912,442) TO BE SATISFIED BY THE ISSUANCE OF 23,041,474 NEW MGB SHARES AT AN ISSUE PRICE OF RM0.30 PER MGB SHARE**
- **PROPOSED CALL OPTION ARRANGEMENT BETWEEN MGB AND ZONEMAX HOLDINGS LIMITED ("ZONEMAX") WHEREBY ZONEMAX HAS GRANTED MGB A CALL OPTION TO ACQUIRE 563 UNILINK SHARES REPRESENTING APPROXIMATELY 56.25% EQUITY INTEREST IN UNILINK FOR A PURCHASE CONSIDERATION OF RMB67,500,000 (EQUIVALENT TO APPROXIMATELY RM31,105,991) TO BE SATISFIED BY THE ISSUANCE OF UP TO 103,686,636 NEW MGB SHARES AT AN ISSUE PRICE OF RM0.30 PER MGB SHARE AND/OR CASH PAYMENT TO BE MUTUALLY AGREED UPON BY ZONEMAX AND MGB OR, IF THE PROPOSED BONUS ISSUE (AS DEFINED HEREIN) IS IMPLEMENTED, UP TO 182,976,416 NEW MGB SHARES AT AN ISSUE PRICE OF RM0.17 PER MGB SHARE AND/OR CASH PAYMENT TO BE MUTUALLY AGREED UPON BY ZONEMAX AND MGB**
- **PROPOSED PRIVATE PLACEMENT OF UP TO 42,531,000 NEW MGB SHARES REPRESENTING FIFTEEN PERCENT (15%) OF THE EXISTING ISSUED AND PAID-UP SHARE CAPITAL OF MGB AT AN ISSUE PRICE TO BE DETERMINED BASED ON A DISCOUNT OF NOT MORE THAN TEN PERCENT (10%) ON THE FIVE (5)-DAY VOLUME WEIGHTED AVERAGE MARKET PRICE OF MGB SHARES**
- **PROPOSED BONUS ISSUE OF UP TO 318,989,098 NEW MGB SHARES TO BE CREDITED AS FULLY PAID-UP ON THE BASIS OF SIX (6) NEW MGB SHARES FOR EVERY SEVEN (7) MGB SHARES HELD**
- **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF MGB FROM RM50,000,000 COMPRISING 500,000,000 MGB SHARES TO RM100,000,000 COMPRISING 1,000,000,000 MGB SHARES**
- **PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF MGB**
- **PROPOSED TRANSFER OF THE LISTING OF AND QUOTATION FOR THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF MGB FROM THE MESDAQ MARKET TO THE MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Adviser**

HWANGDBS
INVESTMENT BANK

**HWANG-DBS INVESTMENT BANK BERHAD**
*(formerly known as Hwang-DBS Securities Berhad)*
*(Company No.: 14389-U)*
*(A Participating Organisation of Bursa Malaysia Securities Berhad)*

Notice of the Extraordinary General Meeting ("EGM") to be held at Room Chenderawasih, Holiday Inn Glenmarie Golf & Country Club, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan on Monday, 23 April 2007 at 10.00 a.m. or any adjournment thereof, together with the Form of Proxy are enclosed in this Circular. The Form of Proxy for use at the EGM should be completed and returned in accordance with the instructions thereon as soon as possible and must be deposited at the registered office of the Company as soon as possible and in any event not later than 48 hours before the time appointed for the meeting. The lodging of the Form of Proxy will not preclude you from attending and voting at the meeting should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy : Saturday, 21 April 2007 at 10.00 a.m.
Date and time of EGM : Monday, 23 April 2007 at 10.00 a.m.

This Circular is dated 2 April 2007

## DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

| | | |
|---|---|---|
| "Act" | : | Companies Act, 1965, as amended from time to time and any re-enactment thereof |
| "BNM" | : | Bank Negara Malaysia |
| "Board" | : | Board of Directors |
| "Bonus Share(s)" | : | Up to 318,989,098 new MGB Share(s) to be issued pursuant to the Proposed Bonus Issue |
| "Bursa Securities" | : | Bursa Malaysia Securities Berhad |
| "BVI" | : | British Virgin Islands |
| "CAGR" | : | Compounded Annual Growth Rate |
| "CDS" | : | Central Depository System |
| "Call Option" | : | Call option granted by Zonemax to MGB for MGB to acquire 563 Unilink Shares representing approximately 56.25% equity interest in Unilink at the Option Exercise Price |
| "Call Option Agreement" | : | Agreement entered into between MGB and Zonemax dated 14 August 2006 in respect of the Proposed Call Option |
| "Completion Date" | : | Being a business day not later than ten (10) days after the date when all approvals and conditions in the Share Sale Agreements are satisfied or on such later date as the parties shall mutually agree in writing |
| "Consideration Share(s)" | : | The 46,082,948 new MGB Share(s) to be issued as consideration for the Proposed Acquisitions |
| "EBITDA" | : | Earnings before interest, taxation, depreciation and amortisation |
| "EPS" | : | Earnings per share |
| "EGM" | : | Extraordinary General Meeting |
| "Entitlement Date" | : | The date on which shareholders must be registered in the Record of Depositors of MGB in order to be entitled for the Proposed Bonus Issue |
| "GDP" | : | Gross Domestic Product |
| "FYE" | : | Financial year(s) ended/ending |
| "Heng-Ai" | : | Hangzhou Heng-Ai Electronics Co, Ltd |
| "HK$" | : | Hong Kong Dollar |
| "HK Broadway" | : | Hong Kong Broadway Electronics Company Limited |
| "HK Broadway Share(s)" | : | Ordinary share(s) of HK$1.00 each in HK Broadway |

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|---|---|---|
| "HK Broadway Share Sale Agreement" | : | Share Sale Agreement entered into by MGB with Newtron dated 14 August 2006 in respect of the Proposed Acquisition of HK Broadway |
| "HK Broadway Share Transfer" | : | Transfer of USD273,000 registered capital representing 10% equity interest in Newtronics and USD250,000 registered capital representing 10% equity interest in Heng-Ai from the previous owners to HK Broadway, which was completed on 23 November 2006 and 13 December 2006, respectively |
| "Hwang-DBS" | : | Hwang-DBS Investment Bank Berhad *(formerly known as Hwang-DBS Securities Berhad)* |
| "IBMS" | : | Intelligent Building Management Systems |
| "ICT" | : | Information and Communication Technology |
| "ISMS" | : | Integrated Security Management Systems |
| "M&A" | : | Memorandum and Articles of Association |
| "MCSB" | : | Metronic Corporation Sdn Bhd |
| "MEPL" | : | Metronic Engineering Private Limited |
| "MESB" | : | Metronic Engineering Sdn Bhd |
| "MESDAQ Market" | : | MESDAQ Market of Bursa Securities |
| "MESDAQ Listing Requirements" | : | Listing Requirements of Bursa Securities for the MESDAQ Market |
| "MGB" or "Company" | : | Metronic Global Berhad |
| "MGB Group" or "Group" | : | MGB and its subsidiaries, collectively |
| "MGB Share(s)" | : | Ordinary share(s) of RM0.10 each in MGB |
| "MI" | : | Minority interest |
| "MISSB" | : | Metronic Integrated System Sdn Bhd |
| "MITI" | : | Ministry of International Trade and Industry |
| "Newtron" | : | Newtron Company Limited (BVI) |
| "Newtronics" | : | Newtronics Hangzhou Co, Ltd |
| "NTA" | : | Net tangible assets |

| | | |
|---|---|---|
| "Option Exercise Price" | : | RMB67,500,000 (equivalent to approximately RM31,105,991) which shall be satisfied by the issuance of up to 103,686,636 new MGB Shares at an issue price of RM0.30 per MGB Share and/or cash payment to be mutually agreed upon by Zonemax and MGB. In the event that the Proposed Bonus Issue is implemented, the Option Exercise Price shall be satisfied by the issuance of up to 182,976,416 new MGB Shares at an issue price of RM0.17 per MGB Share and/or cash payment to be mutually agreed upon by Zonemax and MGB |
| "Option Period" | : | Fifteen (15) months from the completion of the Unilink Share Sale Agreement. Notwithstanding the Option Period, the completion of the issuance of the new MGB Shares and/or cash payment may be longer from the Option Period for MGB to exercise the Call Option |
| "PE Multiple" | : | Price earnings multiple |
| "PAT" | : | Profit after taxation |
| "Placement Share(s)" | : | Up to 42,531,000 new MGB Share(s) to be issued pursuant to the Proposed Private Placement |
| "PRC" | : | People's Republic of China |
| "Proposals" | : | Collectively referred to as the Proposed Acquisitions, Proposed Call Option and the Proposed Transfer of Listing Exercise |
| "Proposed Acquisition of HK Broadway" | : | Proposed acquisition of 10,000 HK Broadway Shares representing 100% equity interest in HK Broadway for a purchase consideration of RMB15,000,000 (equivalent to approximately RM6,912,442) to be satisfied by the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share |
| "Proposed Acquisition of Unilink" | : | Proposed acquisition of 125 Unilink Shares representing 12.5% equity interest in Unilink for a purchase consideration of RMB15,000,000 (equivalent to approximately RM6,912,442) to be satisfied by the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share |
| "Proposed Acquisitions" | : | Proposed Acquisition of HK Broadway and Proposed Acquisition of Unilink, collectively |
| "Proposed Bonus Issue" | : | Proposed bonus issue of up to 318,989,098 new MGB Shares to be credited as fully paid-up on the basis of six (6) Bonus Shares for every seven (7) MGB Shares held |
| "Proposed Call Option" | : | Proposed call option arrangement between MGB and Zonemax whereby Zonemax has granted MGB the Call Option |
| "Proposed IASC" | : | Proposed increase in the authorised share capital of MGB from RM50,000,000 comprising 500,000,000 MGB Shares to RM100,000,000 comprising 1,000,000,000 MGB Shares |

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| "Proposed M&A Amendments" | : | Proposed amendments to the M&A of MGB |
| "Proposed Private Placement" | : | Proposed private placement of up to 42,531,000 new MGB Shares representing fifteen percent (15%) of the existing issued and paid-up share capital of MGB at an issue price to be determined based on a discount of not more than ten percent (10%) on the five (5)-day VWAMP of MGB Shares |
| "Proposed Transfer" | : | Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of MGB from the MESDAQ Market to the Main Board of Bursa Securities |
| "Proposed Transfer of Listing Exercise" | : | Proposed Private Placement, Proposed Bonus Issue, Proposed IASC, Proposed M&A Amendments and Proposed Transfer, collectively |
| "RM" | : | Ringgit Malaysia |
| "RMB" | : | Renminbi |
| "Share Sale Agreements" | : | Unilink Share Sale Agreement and HK Broadway Share Sale Agreement, collectively |
| "Share Transfers" | : | Unilink Share Transfer and HK Broadway Share Transfer, collectively |
| "SC" | : | Securities Commission |
| "SC Guidelines" | : | Policies and Guidelines on the Issue/Offer of Securities issued by the Securities Commission |
| "SC(SID)" | : | SC(Securities Issues Department) |
| "SC(ECU)" | : | SC(Equity Compliance Unit) |
| "Unilink" | : | Unilink Development Limited |
| "Unilink Share(s)" | : | Ordinary share(s) of HK$1.00 each in Unilink |
| "Unilink Share Sale Agreement" | : | Share Sale Agreement entered into by MGB with Zonemax dated 14 August 2006 in respect of the Proposed Acquisition of Unilink |
| "Unilink Share Transfer" | : | Transfer of USD2,000,000 registered capital representing 80% equity interest in Heng-Ai from the previous owners to Unilink, which was completed on 13 December 2006 |
| "USD" | : | United States Dollar |
| "Vendors" | : | Zonemax and Newtron |
| "VWAMP" | : | Volume Weighted Average Market Price |
| "Zonemax" | : | Zonemax Holdings Limited (BVI) |

## CONTENTS

# METRONIC GLOBAL BERHAD

(Company No.: 632068-V)
(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**
650, Block A, Kelana Centre Point
No. 3, Jalan SS7/19
Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan

2 April 2007

**Board of Directors:**
Tan Sri Dato' Kamaruzzaman bin Shariff *(Executive Chairman)*
Dato' Abd. Gani bin Yusof *(Executive Vice-Chairman)*
Dr. Ng Tek Che *(Group Managing Director)*
Liew Chiap Hong *(Executive Director)*
Subhi bin Hj Dziyauddin *(Independent Non-Executive Director)*
Lee Fok Chong *(Independent Non-Executive Director)*
Amirudin bin Mohd Baria *(Independent Non-Executive Director)*
Li Ji Chang *(Non-Independent Non-Executive Director)*

**To: The Shareholders of Metronic Global Berhad**

Dear Sir/Madam,

- **PROPOSED ACQUISITION OF 125 ORDINARY SHARES OF HONG KONG DOLLAR ("HK$") 1.00 EACH IN UNILINK DEVELOPMENT LIMITED ("UNILINK") ("UNILINK SHARES") REPRESENTING 12.5% EQUITY INTEREST IN UNILINK FOR A PURCHASE CONSIDERATION OF RENMINBI ("RMB") 15,000,000 (EQUIVALENT TO APPROXIMATELY RM6,912,442) TO BE SATISFIED BY 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 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 PURCHASE CONSIDERATION OF RMB15,000,000 (EQUIVALENT TO APPROXIMATELY RM6,912,442) TO BE SATISFIED BY THE ISSUANCE OF 23,041,474 NEW MGB SHARES AT AN ISSUE PRICE OF RM0.30 PER MGB SHARE;**

- **PROPOSED CALL OPTION ARRANGEMENT BETWEEN MGB AND ZONEMAX HOLDINGS LIMITED ("ZONEMAX") WHEREBY ZONEMAX HAS GRANTED MGB A CALL OPTION TO ACQUIRE 563 UNILINK SHARES REPRESENTING APPROXIMATELY 56.25% EQUITY INTEREST IN UNILINK FOR A PURCHASE CONSIDERATION OF RMB67,500,000 (EQUIVALENT TO APPROXIMATELY RM31,105,991) TO BE SATISFIED BY THE ISSUANCE OF UP TO 103,686,636 NEW MGB SHARES AT AN ISSUE PRICE OF RM0.30 PER MGB SHARE AND/OR CASH PAYMENT TO BE MUTUALLY AGREED UPON BY ZONEMAX AND MGB OR, IF THE PROPOSED BONUS ISSUE (AS DEFINED HEREIN) IS IMPLEMENTED, UP TO 182,976,416 NEW MGB SHARES AT AN ISSUE PRICE OF RM0.17 PER MGB SHARE AND/OR CASH PAYMENT TO BE MUTUALLY AGREED UPON BY ZONEMAX AND MGB;**

- **PROPOSED PRIVATE PLACEMENT OF UP TO 42,531,000 NEW MGB SHARES REPRESENTING FIFTEEN PERCENT (15%) OF THE EXISTING ISSUED AND PAID-UP SHARE CAPITAL OF MGB AT AN ISSUE PRICE TO BE DETERMINED BASED ON A DISCOUNT OF NOT MORE THAN TEN PERCENT (10%) ON THE FIVE (5)-DAY VOLUME WEIGHTED AVERAGE MARKET PRICE OF MGB SHARES;**

- **PROPOSED BONUS ISSUE OF UP TO 318,989,098 NEW MGB SHARES TO BE CREDITED AS FULLY PAID-UP ON THE BASIS OF SIX (6) NEW MGB SHARES FOR EVERY SEVEN (7) MGB SHARES HELD;**

- **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF MGB FROM RM50,000,000 COMPRISING 500,000,000 MGB SHARES TO RM100,000,000 COMPRISING 1,000,000,000 MGB SHARES;**

- **PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF MGB; AND**

- **PROPOSED TRANSFER OF THE LISTING OF AND QUOTATION FOR THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF MGB FROM THE MESDAQ MARKET TO THE MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD**

## 1. INTRODUCTION

On 30 June 2006, MGB announced that the Company had on 29 June 2006 entered into Heads of Agreements for the following:

(i) Proposed acquisition of 125 Unilink Shares representing 12.5% equity interest in Unilink for a purchase consideration of RMB15,000,000 (equivalent to approximately RM6,912,442 at a foreign exchange rate of RM1.00:RMB2.17) to be satisfied by the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share; and

(ii) Proposed acquisition of 10,000 HK Broadway Shares representing 100% equity interest in HK Broadway for a purchase consideration of RMB15,000,000 (equivalent to approximately RM6,912,442 at a foreign exchange rate of RM1.00:RMB2.17) to be satisfied by the issuance of 23,041,474 new MGB Shares at an issue price of RM0.30 per MGB Share.

On 14 August 2006, Hwang-DBS, on behalf of the Board of MGB announced the following:

(i) Proposed Acquisition of Unilink;

(ii) Proposed Acquisition of HK Broadway;

(iii) Proposed call option arrangement between MGB and Zonemax whereby Zonemax has granted MGB the Call Option;

(iv) Proposed private placement of up to 42,531,000 new MGB Shares representing fifteen percent (15%) of the existing issued and paid-up share capital of MGB at an issue price to be determined based on a discount of not more than ten percent (10%) on the five (5)-day VWAMP of MGB Shares;

(v) Proposed bonus issue of up to 318,989,098 new MGB Shares to be credited as fully paid-up on the basis of six (6) Bonus Shares for every seven (7) MGB Shares held;

(vi) Proposed increase in the authorised share capital of MGB from RM50,000,000 comprising 500,000,000 MGB Shares to RM100,000,000 comprising 1,000,000,000 MGB Shares;

(vii) Proposed amendments to the M&A of MGB; and

(viii) Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of MGB from the MESDAQ Market to the Main Board of Bursa Securities.

On 6 November 2006, Hwang-DBS, on behalf of the Board of MGB announced that the SC had, vide its letter dated 3 November 2006 approved the Proposals subject to certain conditions. The details of the conditions imposed by the SC are set out in Section 8 of this Circular.

On 24 January 2007, Hwang-DBS, on behalf of the Board of MGB announced that the SC had, vide its letter dated 19 January 2007, approved a revision to the terms and conditions of approval for the Proposed Acquisitions, Proposed Call Option, Proposed Private Placement and Proposed Transfer. The details of the revision are set out in Section 8 of this Circular.

On 26 February 2007, Hwang-DBS, on behalf of the Board of MGB announced that BNM had, vide its letter dated 14 February 2007 approved MGB's proposal to invest abroad a sum of RMB82.5 million (equivalent to RM38,018,433) for the Proposed Acquisition of Unilink and the Proposed Call Option subject to certain conditions. The details of the conditions imposed by BNM are set out in Section 8 of this Circular.

On 26 March 2007, Hwang-DBS, on behalf of the Board of MGB announced that MGB and the Vendors had on the even date mutually agreed to extend and thus, vary the completion of the Proposed Acquisitions as appearing in clause 3.1 of the Share Sale Agreements, to a date falling ten (10) months from the date of the Share Sale Agreements, instead of the six (6) months period with an automatic extension of one (1) month, as provided for in the Share Sale Agreements.

In this Circular, the foreign exchange rate assumed is RM1.00 : RMB2.17 as at 28 June 2006, being the latest practicable date prior to the announcement of the Heads of Agreements.

**The purpose of this Circular is to provide you with the relevant information pertaining to the Proposals and to seek your approval for the resolutions to be tabled at the forthcoming EGM.**

**You are advised to read the contents and appendices of this Circular carefully before voting on the resolutions pertaining to the Proposals at the forthcoming EGM of the Company.**

## 2. DETAILS OF THE PROPOSALS

### 2.1 Proposed Acquisitions

### 2.1.1 Proposed Acquisition of Unilink

On 14 August 2006, MGB entered into the Unilink Share Sale Agreement with Zonemax for the Proposed Acquisition of Unilink.

The 125 Unilink Shares to be acquired by MGB shall be free from all charges or liens or any other encumbrances and with all rights attaching thereto as at the Completion Date including but without limitation to all bonuses, rights, dividends and distributions declared, paid or made in respect thereof.

The new MGB Shares to be issued pursuant to the Proposed Acquisition of Unilink will, upon issue and allotment, rank pari passu in all respects with the existing MGB Shares, be free from all encumbrances and include all rights attaching thereto including but without limitation to all bonuses, rights, dividends and distributions declared paid or made in respect thereof as from the Completion Date.

For the avoidance of doubt, the new MGB Shares to be issued pursuant to the Proposed Acquisition of Unilink will be entitled to the Proposed Bonus Issue as detailed in Section 2.4 below.

MGB is not expected to incur any additional financial commitment to put the business of Unilink on-stream.

### 2.1.2 Proposed Acquisition of HK Broadway

On 14 August 2006, MGB entered into the HK Broadway Share Sale Agreement with Newtron for the Proposed Acquisition of HK Broadway.

The 10,000 HK Broadway Shares to be acquired by MGB shall be free from all charges or liens or any other encumbrances and with all rights attaching thereto as at the Completion Date including but without limitation to all bonuses, rights, dividends and distributions declared, paid or made in respect thereof.

The new MGB Shares to be issued pursuant to the Proposed Acquisition of HK Broadway will, upon issue and allotment, rank pari passu in all respects with the existing MGB Shares, be free from all encumbrances and include all rights attaching thereto including but without limitation to all bonuses, rights, dividends and distributions declared paid or made in respect thereof as from the Completion Date.

For the avoidance of doubt, the new MGB Shares to be issued pursuant to the Proposed Acquisition of HK Broadway will be entitled to the Proposed Bonus Issue as detailed in Section 2.4 below.

MGB is not expected to incur any additional financial commitment to put the business of HK Broadway on-stream.

### 2.1.3 Background information on Unilink and HK Broadway

**Unilink**

Unilink was incorporated as a private limited company in Hong Kong, PRC on 15 February 2005. The authorised share capital of Unilink is HK$10,000 comprising 10,000 Unilink Shares, of which 1,000 Unilink Shares are issued and fully paid-up as at 5 March 2007.

Unilink is an investment holding company and is the legal and beneficial owner of the following:
(i) USD2,184,000 registered capital representing 80% equity interest in Newtronics; and
(ii) USD2,000,000 registered capital representing 80% equity interest in Heng-Ai.

**HK Broadway**

HK Broadway was incorporated as a private limited company in Hong Kong, PRC on 28 May 2005. The authorised share capital of HK Broadway is HK$10,000 comprising 10,000 HK Broadway Shares, of which all are issued and fully paid-up as at 5 March 2007.

HK Broadway is an investment holding company. HK Broadway is the legal and beneficial owner of the following:
(i) USD273,000 registered capital representing 10% equity interest in Newtronics; and
(ii) USD250,000 registered capital representing 10% equity interest in Heng-Ai.

Further details on Unilink and HK Broadway are set out in Appendices I and II of this Circular.

### 2.1.4 Background information on Newtronics and Heng-Ai

**Newtronics**

Newtronics was registered as a limited liability company in Hangzhou, PRC on 5 June 2003 in accordance with the PRC Sino-foreign Equity Joint Venture Enterprises Law and the PRC Company Law. On 23 November 2006, with the completion of the HK Broadway Share Transfer, Newtronics became a Wholly Foreign Owned Enterprise. As at 5 March 2007, the total investment and registered capital in Newtronics is USD2,730,000. Newtronics is principally engaged in high volume printed circuit board assembly, cellular phone and other electronics products assembly.

Newtronics had net assets of RMB27,763,725 (equivalent to approximately RM12,794,343) and recorded PAT of RMB14,720,542 (equivalent to approximately RM6,783,660) and did not have any borrowings based on its latest audited financial statements for FYE 31 December 2005.

**Heng-Ai**

Heng-Ai was incorporated as a limited liability company in Hangzhou, PRC on 15 September 2004 in accordance with the PRC Sino-foreign Equity Joint Venture Enterprises Law and the PRC Company Law. As at 5 March 2007, the current total investment in Heng-Ai is USD4,750,000 and the registered capital is USD2,500,000. The principal business of Heng-Ai is the assembly of mobile telecommunication component products.

Heng-Ai had net assets of RMB26,817,073 (equivalent to RM12,358,098) and recorded PAT of RMB6,646,663 (equivalent to approximately RM3,062,978) and did not have any borrowings based on its latest audited financial statements for FYE 31 December 2005.

Further details on Newtronics and Heng-Ai are set out in Appendices III and IV of this Circular.

### 2.1.5 Basis of arriving at the purchase consideration

The total purchase consideration of RMB30,000,000 (equivalent to approximately RM13,824,884) for the Proposed Acquisitions was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:

(i) the latest available audited PAT of Newtronics for FYE 31 December 2005 of RMB14,720,542 (equivalent to approximately RM6,783,660);

(ii) the latest available audited PAT of Heng-Ai for FYE 31 December 2005 of RMB6,646,663 (equivalent to approximately RM3,062,978);

(iii) the latest available audited net assets of Newtronics as at 31 December 2005 of RMB27,763,725 (equivalent to approximately RM12,794,343);

(iv) the latest available audited net assets of Heng-Ai as at 31 December 2005 of RMB26,817,073 (equivalent to approximately RM12,358,098);

(v) aggregate audited PAT of RMB30,000,000 (equivalent to RM13,824,884) of Newtronics and Heng-Ai guaranteed by the Vendors for FYE 31 December 2007.

The proposed issue price of RM0.30 per MGB Share represents a premium of RM0.03 or approximately 11% over the VWAMP of MGB Shares of RM0.27 for the five (5) business days preceding 29 June 2006, being the date of signing of the Heads of Agreements for the Proposed Acquisitions. The new MGB Shares shall be unencumbered in all respects saved for the amount held in escrow as disclosed in Section 2.1.6 below.

### 2.1.6 Salient terms of the Share Sale Agreements

Salient terms of the Share Sale Agreements are as follows:

(i) The Vendors and MGB ("the Parties") declare that MGB has agreed to enter into the Share Sale Agreements on the express representation and warranty by the Vendors that collectively Heng-Ai and Newtronics shall achieve an aggregate audited PAT of not less than RMB 30,000,000, based on the ordinary course of business of Heng-Ai and Newtronics for the FYE 31 December 2007. Accordingly, the Vendors have agreed to provide a guarantee to MGB that the aggregate audited PAT of Heng-Ai and Newtronics, based on the ordinary course of business of Heng-Ai and Newtronics for the FYE 31 December 2007 shall be not less than RMB30,000,000 ("Guaranteed Profit"). The PAT of Heng-Ai and Newtronics for the FYE 31 December 2007 shall be determined and certified by an independent auditor to be appointed by MGB. Actual Profit shall be defined as the aggregate audited PAT of Heng-Ai and Newtronics, based on the ordinary course of business of Heng-Ai and Newtronics for the FYE 31 December 2007 ("Actual Profit"). MGB agrees that in the event the Actual Profit recorded is less than the Guaranteed Profit by a margin of not more than 10% of the Guaranteed Profit or not more than RMB3,000,000 ("Allowable Profit Differential") the Vendors would be deemed to have discharged their obligation with regard to the Guaranteed Profit;

(ii) The Vendors agree that a total of 85% or 39,170,506 Consideration Shares to be issued and allotted to the Vendors shall be placed in an escrow account to be opened by the Vendors and managed by an independent Escrow Agent. The Escrow Agent shall only release the Consideration Shares held in escrow to the Vendors upon the fulfilment of the Guaranteed Profit or in the event where the Guaranteed Profit is not met, only where the difference between the Guaranteed Profit and Actual Profit is within the Allowable Profit Differential. Where the Escrow Agent is authorised to release the Consideration Shares pursuant to the Share Sale Agreements, such release of the Consideration Shares shall be made not later than 14 days after the certification of the independent auditor on the PAT of Heng-Ai and Newtronics;

(iii) The Parties agree that 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, the Vendors shall pay MGB the difference between the Guaranteed Profit and Actual Profit attributable to MGB in cash payment within 14 days after the certification of the PAT of Heng-Ai and Newtronics. In the event the Vendors fail to make such cash payment in full, MGB shall be authorised via the Escrow Agent to deal with the Consideration Shares held in escrow in MGB's absolute discretion. In the event that MGB directs the Escrow Agent to sell the Consideration Shares held in escrow and the proceeds realised from such sale is not sufficient to meet the shortfall between the Actual Profit and the Guaranteed Profit, the Vendors 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 Heng-Ai and Newtronics.

For purposes of illustration:

| **For Unilink** | | **RMB** |
|---|---|---|
| Actual Profit | | 25,000,000 |
| Guaranteed Profit | | 30,000,000 |
| Shortfall | | 5,000,000 |
| | | |
| **Total payable to MGB** | | 5,000,000 x 12.5% x 80% = **500,000** |

| **For HK Broadway** | | **RMB** |
|---|---|---|
| Actual Profit | | 25,000,000 |
| Guaranteed Profit | | 30,000,000 |
| Shortfall | | 5,000,000 |
| | | |
| **Total payable to MGB** | | 5,000,000 x 100% x 10% = **500,000** |

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 the Vendors shall be discharged from any liability under the Guaranteed Profit;

(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 Consideration Shares held in the escrow account is insufficient to meet the shortfall between the Actual Profit and the Guaranteed Profit, the Vendors shall be liable to pay to MGB the amount of the unfulfilled Guaranteed Profit as illustrated above;

(iv) The balance 15% or 6,912,442 Consideration Shares to be issued shall not be held under any form of moratorium and as such are freely able to be dealt with by the Vendors;

(v) The Vendors represent and warrant that upon the issuance of the Consideration Shares by MGB to the Vendors, any amount due to the Vendors in respect of the Unilink Share Transfer and the HK Broadway Share Transfer shall be assigned by the Vendors to MGB based on the proportion of the shares acquired by MGB pursuant to the Proposed Acquisitions to the total issued and paid-up share capital of Unilink and HK Broadway respectively. Similarly, any amount owing to the Vendors (if applicable) in relation to the Proposed Acquisitions shall be assigned by the Vendors to MGB based on the proportion of the shares acquired by MGB pursuant to the Proposed Acquisitions to the total issued and paid-up share capital of Unilink and HK Broadway respectively;

(vi) The Vendors have procured their directors and shareholders to jointly and severally provide a personal guarantee to MGB to pay any sums due and owing to MGB in the event the Vendor fails to make any payment to MGB for any reason whatsoever including but not limited to the winding up of the Vendors provided that such amount shall not exceed RMB 2,250,000 for the Proposed Acquisition of Unilink and the Proposed Acquisition of HK Broadway respectively;

(vii) Completion of the Proposed Acquisitions is conditional upon the following conditions being satisfied within six (6) months from the date of the Share Sale Agreements with an automatic extension of one (1) month or within such further period as may be mutually agreed upon by the Parties hereto in writing, namely:

(a) the completion of the Unilink Share Transfer resulting in Unilink being the legal and beneficial owner of 80% equity interest in the registered capital of Heng-Ai;

(b) the completion of the HK Broadway Share Transfer resulting in HK Broadway being the legal and beneficial owner of 10% equity interest in the registered capital of Heng-Ai and Newtronics respectively;

(c) the approvals of the shareholders of MGB for the Proposed Acquisitions:

(d) the approval of SC(SID) being obtained by MGB for the Proposed Acquisitions and the issuance, allotment and listing of the Consideration Shares;

(e) the approval of the SC(ECU) being obtained by MGB for the Proposed Acquisitions under the Foreign Investment Committee Guidelines on the Acquisition of Interest, Mergers and Takeovers by Local and Foreign Interest;

(f) the approval of Bank Negara Malaysia;

(g) the approval of Bursa Securities being obtained by MGB for the listing of and quotation for the Consideration Shares; and

(h) the approval of or waiver from any other regulatory requirements by any relevant authorities or persons, if required.

### 2.1.7 Background information on the Vendors

***Zonemax***

Zonemax was incorporated on 11 February 2005 in the BVI. Zonemax has an authorised share capital of USD50,000 comprising 50,000 ordinary shares of USD1.00 each in Zonemax, of which 1,000 shares are issued and fully paid-up. Zonemax is an investment holding company.

As at 5 March 2007, Zonemax is wholly owned by Ooi Kok Leong, who is also the Director of Zonemax.

***Newtron***

Newtron was incorporated on 8 February 2005 in the BVI. Newtron has an authorised share capital of USD50,000 comprising 50,000 ordinary shares of USD1.00 each in Newtron, all of which are issued and fully paid-up. Newtron is an investment holding company.

As at 5 March 2007, the major shareholders of Newtron are Gu Ying, Cui Jun and Jin Yao Quan, who are also the Directors of Newtron.

### 2.1.8 Original cost and date of investment

The original cost and dates of investment of Zonemax in Unilink are as follows:

| Date of investment | No of Unilink Shares | Cost of investment (HK$) | Approximate RM equivalent |
|---|---|---|---|
| 01.06.2006 | 80 | 80 | 37.91* |
| 28.06.2006 | 770 | 770 | 364.93* |
| Total | 850 | 850 | 402.84* |

Unilink is an investment holding company and is the legal and beneficial owner of the following:

| | Registered capital (USD) | Equity interest held |
|---|---|---|
| Newtronics | 2,730,000 | 80.00 |
| Heng-Ai | 2,500,000 | 80.00 |

The original cost and date of investment of Newtron in HK Broadway is as follows:

| Date of investment | No of HK Broadway Shares | Cost of investment (HK$) | Approximate RM equivalent |
|---|---|---|---|
| 18.05.2005 | 10,000 | 10,000 | 4,739.34* |

HK Broadway is an investment holding company and is the legal and beneficial owner of the following:

| | Registered capital (USD) | Equity interest held |
|---|---|---|
| Newtronics | 2,730,000 | 10.00 |
| Heng-Ai | 2,500,000 | 10.00 |

*Note:*

* *Assuming an exchange rate of RM1.00 : HK$2.11 as at 28 June 2006.*

### 2.1.9 Liabilities to be assumed

No liabilities, including contingent liabilities and guarantees, will be assumed by MGB pursuant to the Proposed Acquisitions.

## 2.2 Proposed Call Option

On 14 August 2006, MGB and Zonemax entered into the Call Option Agreement whereby in consideration of RM1.00, Zonemax unconditionally and irrevocably granted MGB a call option to acquire 563 Unilink Shares representing approximately 56.25% equity interest in Unilink for a purchase consideration of RMB67,500,000 (equivalent to approximately RM31,105,991) to be satisfied by the issuance of up to 103,686,636 new MGB Shares at an issue price of RM0.30 per MGB Share and/or cash payment to be mutually agreed upon by Zonemax and MGB.

In the event that the Proposed Bonus Issue (as detailed in Section 2.4 below) is implemented, the exercise of the Call Option will be satisfied by the issuance of up to 182,976,416 new MGB Shares at an issue price of RM0.17 per MGB Share and/or cash payment to be mutually agreed upon by Zonemax and MGB.

The issue price of RM0.17 per MGB Share for the Proposed Call Option represents a premium of 14.9% over the theoretical ex-bonus price of RM0.15 per MGB Share pursuant to the implementation of the Proposed Bonus Issue. The theoretical ex-bonus price of RM0.15 per MGB Share is arrived at based on the following:

(i) the five (5)-day VWAMP of MGB Shares of RM0.27 per MGB Share preceding 29 June 2006, being the date of signing of the Heads of Agreements for the Proposed Acquisitions;

(ii) the issue price of RM0.30 per Consideration Share; and

(iii) the illustrative issue price of RM0.29 per Placement Share. Please see Section 2.3 below.

In the event Zonemax and MGB cannot come to an agreement on the ratio of the new MGB Shares to be issued and the cash payment, the ratio between the new MGB Shares and the cash payment shall be on an equal proportion of 50:50. The cash payment, if any, shall be paid in full upon the exercise of the Call Option. The MGB Group will fund any cash payment to be made via internally generated funds and/or bank borrowings. The amount of internally generated funds and/or bank borrowings to be utilised will only be determined later depending on, amongst others, the amount of cash payment to be made, the availability of internally generated funds and other relevant cost factors.

MGB can exercise the Call Option within a period of fifteen (15) months from the completion of the Proposed Acquisitions. Notwithstanding the Option Period, the completion of the issuance of the new MGB Shares and/or cash payment may be longer from the Option Period for MGB to exercise the Call Option.

The 563 Unilink Shares to be acquired by MGB shall be free from all charges or liens or any other encumbrances and with all rights attaching thereto as at the completion of the Call Option Agreement including but without limitation to all bonuses, rights, dividends and distributions declared paid or made in respect thereof.

The new MGB Shares to be issued pursuant to the exercise of the Call Option will, upon issue and allotment, rank pari passu in all respects with the existing MGB Shares, be free from all encumbrances and include all rights attaching thereto including but without limitation to all bonuses, rights, dividends and distributions declared paid or made in respect thereof as from the completion of the Call Option Agreement.

No liabilities, including contingent liabilities and guarantees, will be assumed by MGB pursuant to the Proposed Call Option.

#### 2.2.1 Basis of arriving at the purchase consideration

The basis of arriving at the Option Exercise Price of RMB67,500,000 (equivalent to approximately RM31,105,991) is the same as per the consideration for the Proposed Acquisitions, as set out in Section 2.1.5 above.

*Note: Based on a per share calculation, the acquisition price per Unilink Share for the Proposed Acquisition of Unilink is RMB120,000 per Unilink Share whilst the acquisition price per Unilink Share for the Proposed Call Option is RMB119,893 per Unilink Share. The difference is due to the rounding up of the number of Unilink Shares being acquired pursuant to the Proposed Call Option. The current issued and paid-up share capital of Unilink is HK$1,000 comprising 1,000 Unilink Shares. The additional 56.25% equity interest in Unilink to be acquired pursuant to the Proposed Call Option is represented by 562.5 Unilink Shares. As is it not possible for MGB to acquire 562.5 Unilink Shares, the number of Unilink Shares to be acquired has been rounded up to 563 Unilink Shares resulting in a small difference in the acquisition price per Unilink Share.*

#### 2.2.2 Salient terms of the Call Option Agreement

The salient terms of the Call Option Agreement are as follows:

(i) The Call Option granted may be exercised by MGB at any time during the Option Period by giving Zonemax notice in writing and the payment of the Option Exercise Price in full. Zonemax hereby agrees that the satisfaction of the Option Exercise Price whether by way of the issuance of new MGB Shares and/or by way of cash payment to be mutually agreed upon by Zonemax and MGB.

(ii) Zonemax represents and warrants that upon the satisfaction of the Option Exercise Price, any amount due to Zonemax shall be assigned by Zonemax to MGB based on the proportion of the Unilink Shares acquired pursuant to the exercise of the Call Option to the total issued and paid-up share capital of Unilink.

(iii) For the avoidance of doubt, the Call Option merely confers a right but not an obligation to MGB to exercise the Call Option.

### 2.3 Proposed Private Placement

MGB proposes to undertake a private placement of up to 42,531,000 new MGB Shares, representing fifteen percent (15%) of the existing issued and paid-up share capital of the Company.

The Placement Shares will be priced at a discount of not more than ten percent (10%) to the five (5)-day VWAMP of MGB Shares immediately preceding the price-fixing date. The issue price shall not, in any event, be less than the par value of MGB Shares of RM0.10.

For illustrative purposes, assuming an issue price of RM0.29 per Placement Share, the Proposed Private Placement is expected to raise gross proceeds of up to approximately RM12,333,990. The proceeds arising from the Proposed Private Placement will be utilised as follows:

| | **RM** | **Timeframe for utilisation** |
|---|---|---|
| Working capital | 10,833,990 | Within 2 years from the completion of the Proposals |
| Estimated expenses for the Proposals | 1,500,000 | Within 1 month from the completion of the Proposals |
| | 12,333,990 | |

In the event that the Proposals are all approved by shareholders at the forthcoming EGM, MGB will only issue 19,750,000 Placement Shares to identified investors. In compliance with the condition imposed by the SC, all 19,750,000 Placement Shares have been allocated to placees approved by MITI as follows:

| **Placee** | **No of MGB Shares** | **Indicative value based on an illustrative issue price of RM0.29 (RM)** |
|---|---|---|
| Koperasi Harta Johor Berhad | 5,000,000 | 1,450,000 |
| Mega Lavender (M) Sdn Bhd | 2,500,000 | 725,000 |
| Genting Perwira Sdn Bhd | 2,000,000 | 580,000 |
| Munawir Mohammad | 5,250,000 | 1,522,500 |
| Raja Zainal Abidin Raja Hussin | 5,000,000 | 1,450,000 |
| | 19,750,000 | 5,727,500 |

*Notes:*

1. *As the Proposed Transfer of Listing Exercise is not conditional upon the Proposed Acquisitions and the Proposed Call Option, in the event that the Proposed Acquisitions and the Proposed Call Option are not approved by shareholders at the forthcoming EGM, MGB will proceed to identify placees for the remaining Placement Shares that have yet to be allocated and seek shareholders' approval for the relevant terms and conditions of the Proposed Private Placement as required under the SC Guidelines.*
2. *In order to generate sufficient reserves to implement the Proposed Bonus Issue (in the event that the Proposed Acquisitions and the Proposed Call Option are not approved by shareholders at the EGM), MGB has to implement the Proposed Private Placement at a minimum issue price of RM0.29. In the event that the five (5)-day VWAMP of MGB Shares preceding the price-fixing date is less than RM0.29, MGB will not implement the Proposed Transfer of Listing Exercise.*
3. *The illustrative issue price of RM0.29 represents a discount of RM0.065 or approximately 18% to the five (5)-day VWAMP of MGB Shares up to 27 March 2007, being the latest practicable date prior to the printing of the Circular, of RM0.355.*
3. *In the event that the issue price of the Placement Shares is higher than RM0.29, any excess in the proceeds raised will be allocated for working capital purposes.*

The Placement Shares shall, upon issue and allotment, rank pari passu in all respects with the existing MGB Shares, except that they shall not be entitled to any dividends, rights, allotments and/or any other distributions that may be declared by the Company, the entitlement date of which is prior to the date of allotment of the Placement Shares.

For the avoidance of doubt, the new MGB Shares to be issued pursuant to the Proposed Private Placement will be entitled to the Proposed Bonus Issue as detailed in Section 2.4 below.

### 2.4 Proposed Bonus Issue

MGB proposes to undertake a bonus issue of up to 318,989,098 Bonus Shares on the basis of six (6) Bonus Shares for every seven (7) MGB Shares held, to the shareholders of MGB whose names appear in the Record of Depositors at the close of business on a date to be determined and announced later. In determining shareholders' entitlement to the Bonus Shares, fractional entitlements, if any, shall be dealt with by the Board of MGB at its absolute discretion on such terms and at such time as the Directors shall think fit in the best interest of the Company and shareholders.

The Proposed Bonus Issue will be capitalised from the Company's share premium and retained profits accounts based on the audited financial statements of MGB for FYE 31 December 2005 and the latest unaudited quarterly results of the Company for FYE 31 December 2006 after taking into consideration the proforma reserves arising from the Proposed Acquisitions (if applicable) and the Proposed Private Placement as follows:

**Scenario 1 – Assuming the Proposals are all implemented**

| Company Level | Audited as at 31 December 2005 RM | Unaudited as at 31 December 2006 RM | (I) After the Proposed Acquisitions RM | (II) After (I) and the Proposed Private Placement& RM | To be capitalised for the Proposed Bonus Issue RM | After the Proposed Bonus Issue RM |
|---|---|---|---|---|---|---|
| Share premium | 6,406,222 | 6,406,222 | 15,622,812 | 23,703,702 | (22,753,702) | -# |
| Retained profits | 378,158 | 14,787,680 | 14,787,680 | 14,787,680 | (9,145,208) | 5,642,472 |
| Total | 6,784,380 | 21,193,902 | 30,410,492 | 38,491,382 | (31,898,910) | 5,642,472 |

**Scenario 2 – Assuming only the Proposed Transfer of Listing Exercise is implemented**

| | Audited as at 31 December 2005 RM | Unaudited as at 31 December 2006 RM | After the Proposed Private Placement& RM | To be capitalised for the Proposed Bonus Issue RM | After the Proposed Bonus Issue RM |
|---|---|---|---|---|---|
| Share premium | 6,406,222 | 6,406,222 | 14,487,112 | (13,537,112) | -# |
| Retained profits | 378,158 | 14,787,680 | 14,787,680 | (14,411,831) | 375,849 |
| Total | 6,784,380 | 21,193,902 | 29,274,792 | (27,948,943) | 375,849 |

*Notes:*

& *Assuming an indicative issue price of RM0.29 per new MGB Share.*

# *After deducting estimated expenses arising from the Proposed Transfer of Listing Exercise of RM950,000. The estimated expenses for the Proposals are RM1,500,000, however, only the estimated expenses arising from the Proposed Transfer of Listing Exercise of RM950,000 can be set off against the share premium account.*

Hwang-DBS, on behalf of MGB had submitted an application to Bursa Securities for a modification of Paragraph 6.25(3) of the MESDAQ Listing Requirements on 26 December 2006 with updates on 11 January 2007 and 13 March 2007. Bursa Securities had, vide a letter dated 26 March 2007 approved a modification to Paragraph 6.25(3) of the MESDAQ Listing Requirements in relation to the Proposed Bonus Issue.

The reserves required for capitalization of the Proposed Bonus Issue are unimpaired by losses on a consolidated basis based on the audited consolidated financial statements of the MGB Group for FYE 31 December 2005 and the latest unaudited consolidated quarterly results of the MGB Group for FYE 31 December 2006 after taking into consideration the proforma reserves arising from the Proposed Acquisitions (if applicable) and the Proposed Private Placement.

The aforementioned reserves available for capitalisation under the Proposed Bonus Issue have been confirmed by the reporting accountants of MGB, Messrs Ernst & Young vide their letter dated 9 March 2007.

The Bonus Shares shall, upon allotment and issue, rank pari passu in all respects with the existing MGB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/ or any other distributions that may be declared by the Company, the entitlement date of which is prior to the date of allotment of the said Bonus Shares.

As MGB Shares are prescribed securities, the Bonus Shares will be credited directly into the respective CDS accounts of the entitled shareholders on the Entitlement Date and no physical share certificates will be issued. On the next market day after the Entitlement Date, or such other period as may be prescribed by Bursa Securities, the Bonus Shares will be listed and quoted on Bursa Securities. The notices of allotment will be despatched to the entitled shareholders no later than four (4) market days after the date of listing and quotation of the Bonus Shares.

### 2.5 Proposed IASC

MGB proposes to increase its authorised share capital from RM50,000,000 comprising 500,000,000 MGB Shares to RM100,000,000 comprising 1,000,000,000 MGB Shares to accommodate the increase in the issued and paid-up share capital of MGB as a result of the Proposed Acquisitions, the Proposed Private Placement and the Proposed Bonus Issue.

### 2.6 Proposed M&A Amendments

MGB proposes to amend its M&A to cater for the changes in the Company as a result of the Proposed IASC and the Proposed Transfer. The amendments (for which the differences are highlighted in bold) to be made are as follows:

| **Existing Memorandum of Association** | **Amended Memorandum of Association** |
|---|---|
| Item 6 | Item 6 |
| The capital of the Company is RM50,000,000 divided into 500,000,000 shares of RM0.10 each. The Company shall have the power to increase or reduce its capital, to consolidate or subdivide the shares into shares of larger or smaller amounts, and to divide the shares forming the capital (original, increased or reduced) of the Company into several classes and to attach thereto respectively, preferential, or special rights, privileges or conditions as may be determined by, or in accordance with the regulation for the time being of the Company and to issue additional capital with any such rights, privileges or conditions as aforesaid, and any preference share may be issued on the terms that it is, or at the option of the Company liable, to be redeemed. | The capital of the Company is **RM100,000,000** divided into **1,000,000,000** shares of RM0.10 each. The Company shall have the power to increase or reduce its capital, to consolidate or subdivide the shares into shares of larger or smaller amounts, and to divide the shares forming the capital (original, increased or reduced) of the Company into several classes and to attach thereto respectively, preferential, or special rights, privileges or conditions as may be determined by, or in accordance with the regulation for the time being of the Company and to issue additional capital with any such rights, privileges or conditions as aforesaid, and any preference share may be issued on the terms that it is, or at the option of the Company liable, to be redeemed. |

| **Existing Article of Association** | | **Amended Article of Association** | |
|---|---|---|---|
| Article 2 | | Article 2 | |
| Listing Requirements | The Listing Requirements of the Exchange for the MESDAQ Market for the time being, including any amendments thereto that may be made from time to time. | Listing Requirements | The Listing Requirements of the Exchange for the time being, including any amendments thereto that may be made from time to time. |
| MESDAQ | Malaysian Exchange of Securities Dealing & Automated Quotation Bhd. | Deleted | |
| The Exchange | The Kuala Lumpur Stock Exchange | The Exchange | **Bursa Malaysia Securities Berhad** |

| Existing Article of Association | Amended Article of Association |
| --- | --- |
| Article 42 | Article 42 |
| The authorised share capital of the Company at the date of the adoption of these Articles is RM50,000,000 divided into 500,000,000 ordinary shares of RM0.10 each. The Company may by ordinary resolution from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital, voting or other wise as the Company by the resolution authorising such increase directs. | The authorised share capital of the Company at the date of the adoption of these Articles is **RM100,000,000** divided into **1,000,000,000** ordinary shares of RM0.10 each. The Company may by ordinary resolution from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital, voting or other wise as the Company by the resolution authorising such increase directs. |
| Article 84(f) | Article 84(f) |
| absent from more than 50% of the total Board of Directors meeting in a year without permission of the Directors. | absent from more than 50% of the total Board of Directors' meetings **held during a financial year**. |
| Article 86 | Article 86 |
| An election of Directors shall take place each year. All Directors (except a Managing Director) shall retire from office at least once every three (3) years, but shall be eligible for re-election. | An election of Directors shall take place each year. All Directors shall retire from office at least once every three (3) years, but shall be eligible for re-election. |
| Article 94 | Article 94 |
| The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the minimum number fixed by or pursuant to these Articles, the continuing Directors, except in an emergency, act only for the purpose of increasing the number of Directors to such minimum number or to summon a General Meeting of the Company. | The **remaining** Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the minimum number fixed by or pursuant to these Articles, the **remaining** Directors, except in an emergency, act only for the purpose of increasing the number of Directors to such minimum number or to summon a General Meeting of the Company. |
| Header before Article 95 | Header before Article 95 |
| Managing Directors | **Executive Officer(s)** |

| **Existing Article of Association** | **Amended Article of Association** |
| --- | --- |
| Article 95 | Article 95 |
| The Directors may from time to time appoint one or more of their body to be managing director or managing directors of the company for a fixed term(that term shall not exceed five (5) years ) and may from time to time (subject to the provisions of a contract between him or them and the company) remove or dismiss him or them from office and appoint another or others in his or their place or places. | The **Board** may from time to time appoint any one or more of their body to be **the holder of any executive office or position (including but not limited to office of Group Managing Director, Managing Director, Executive Director, Chief Executive Officer) for such period and upon such terms as it thinks fit, provided always that any appointment to the office(s) of the Chief Executive Officer and/or Managing Director shall be for such period not exceeding five (5) years and may from time to time** (subject to the provision of the contract between him or them and the Company) remove or dismiss him or them from office and appoint another or others in his or their place or places. |
| Article 96 | Article 96 |
| A managing director shall not while he continues to hold that office be subject to retirement by rotation and he shall not be taken into account in determining the rotation or retirement of directors but he shall subject to the provisions of any contract between him and the company be subject to the same provisions as to resignation and removal as the other directors of the company and if he ceases to hold the office of director for any cause he shall *ipso facto* and immediately cease to be a managing director. | **The appointment of any Director to an executive position under Article 95 shall be subject to termination if he ceases from any cause to be a Director but without prejudice to any claim he may have for damages for breach of any contract of service between him and the Company.** |
| Article 97 | Article 97 |
| The Directors may from time to time entrust to and confer upon a managing director for the time being such of the powers exercisable under these articles by the Directors as they may think fit and may confer such powers for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they think expedient and they may confer such powers either collaterally with or to the exclusion of and in substitution for all or any of the powers of the Directors in that behalf and may from time to time revoke, withdraw, alter or vary all or any of such powers. A managing director shall always be subject to the control of the Directors. | **The Board may entrust to and confer upon such Director(s) appointed to an executive position under Article 95, any of the powers exercisable by it upon such terms and conditions and with such restrictions as it thinks fit, and either collateral with or to the exclusion of its own powers, and may from time to time (subject to the terms of any agreement entered into in any particular case) revoke, withdraw, alter or vary all or any of such powers, provided always that the Chief Executive Officers and/or the Managing Director shall be subject to the control of the Board.** |
| Article 157 | Article 157 |
| The Company shall not delete, amend or add to any of these Articles which have previously been approved by the Exchange unless the prior written approval of the Exchange for such deletion, amendment or addition has been sought and obtained. | Deleted |

### 2.7 Proposed Transfer

MGB proposes to seek a transfer of the listing of and quotation for the entire issued and paid-up share capital of the Company from the MESDAQ Market to the Main Board of Bursa Securities.

### 2.8 Conditionality

The Proposed Acquisitions and the Proposed Call Option are inter-conditional. However, the Proposed Acquisitions and the Proposed Call Option are not conditional upon any other proposals.

The Proposed Private Placement, Proposed Bonus Issue, Proposed IASC, Proposed M&A Amendments and the Proposed Transfer are inter-conditional. The Proposed Private Placement, Proposed Bonus Issue, Proposed IASC, Proposed M&A Amendments and the Proposed Transfer are either all implemented or not at all. The Proposed Transfer of Listing Exercise is not conditional upon the Proposed Acquisitions or the Proposed Call Option.

## 3. RATIONALE

### 3.1 Proposed Acquisitions

Unilink and HK Broadway are investment holding companies with investments in Heng-Ai and Newtronics. Newtronics is principally engaged in high volume printed circuit board assembly, cellular phone and other electronics products assembly and Heng-Ai is principally engaged in the assembly of mobile telecommunication component products. Upon completion of the Proposed Acquisitions, MGB will have an effective equity interest of 20% in both Heng-Ai and Newtronics.

The Proposed Acquisitions will enable MGB to acquire a complementary manufacturing business and enable the Group to expand into upstream activities. MGB will be able to leverage on the manufacturing capabilities of Newtronics and Heng-Ai to manufacture industrial electronic modules which are inputs for the Group's building automation systems, thereby lowering the MGB Group's cost base for its building automation business activities. In addition, the Proposed Acquisitions will enable the MGB Group to penetrate the fast-growing telecommunications industry in the PRC and to diversify and enhance its earnings base to include revenue from manufacturing activities in addition to its current contract-based revenue from its building automation projects.

### 3.2 Proposed Call Option

The Proposed Call Option is intended to further increase MGB's equity interest in Unilink from 12.5% to 68.75%, assuming full exercise of the Call Option. Upon exercise of the Call Option, MGB will have an effective equity interest of 65% in both Newtronics and Heng-Ai and have control over the management and operations of Newtronics and Heng-Ai.

### 3.3 Proposed Private Placement

The Proposed Private Placement is to facilitate the Proposed Transfer by increasing the issued and paid-up capital of the Company. In addition, the proceeds raised via the Proposed Private Placement are to strengthen the Group's working capital and to defray the estimated expenses arising from the Proposals.

### 3.4 Proposed Bonus Issue

The Proposed Bonus Issue is to facilitate the Proposed Transfer by increasing the issued and paid-up share capital of the Company to a level which will meet the minimum share capital requirement of RM60 million for listing on the Main Board of Bursa Securities and to reward the shareholders of MGB.

### 3.5 Proposed IASC and Proposed M&A Amendments

The Proposed IASC and the Proposed M&A Amendments are to facilitate the Proposed Private Placement, Proposed Bonus Issue and the Proposed Transfer.

### 3.6 Proposed Transfer

The Proposed Transfer would serve the following purposes:

(i) better reflect the current stature of the operations and profitability of the MGB Group;

(ii) enhance the prestige and reputation of the MGB Group, thus further improve the confidence of MGB's employees, customers, suppliers, and bankers; and

(iii) accord MGB with greater recognition and acceptance amongst investors, particularly institutional investors, thereby enhancing the attractiveness of MGB Shares.

## 4. INDUSTRY OVERVIEW AND PROSPECTS

### 4.1 INDUSTRY OVERVIEW

As the principal activities of Newtronics and Heng-Ai are in the provision of manufacturing and assembly services for printed circuit boards ("PCBs"), mobile handset and other electronic products, the growth of the companies' businesses is closely linked to the growth dynamics of the industries that they operate in, namely the PRC's electronic manufacturing services ("EMS") industry, PCB industry and the mobile handset industry. An overview of the said industries is set out below.

#### 4.1.1 The EMS Industry

Worldwide EMS revenue was approximated at USD190 billion in 2005. The global EMS industry is expected to register a CAGR of 11.5% between 2005 to 2010.

The high growth rate of the global EMS industry is primarily driven by the following factors:

- An ongoing trend by multi-national companies to the adoption of outsourcing;
- Additional service offerings by the EMS industry such as more comprehensive design solutions and services, delivery and inventory logistics and aftermarket services, which provides further avenues for EMS players to increase their revenue and profitability; and
- Continual growth of the existing customer base of the EMS players.

The EMS market in Asia Pacific forms the bulk of the global EMS industry approximated at 53% in 2005. This dominance is expected to increase over time in line with the estimated annual growth rate of approximately 21% over the period of 2005 to 2009 which is well ahead of the estimated annual growth rate of the global EMS industry.

Within the Asia Pacific EMS market, the PRC is the imminent dominant player with an estimated 69% market share in 2005. The PRC's EMS revenue is expected to grow at an estimated annual growth rate of 30% over the period of 2005 to 2009 in line with expected continuous migration of manufacturing operations to the PRC in the near term.

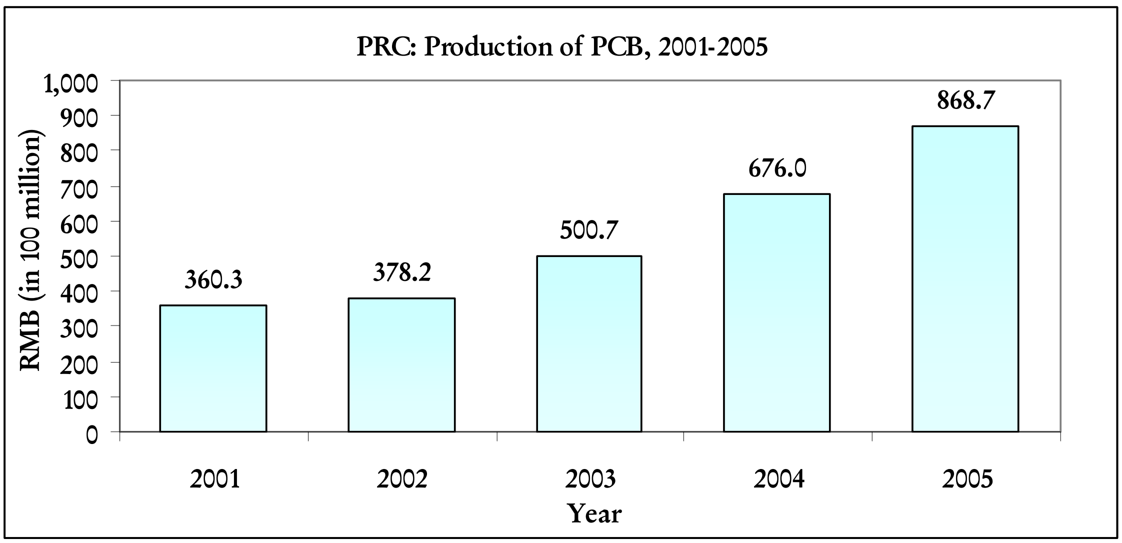
*(Source: Dun & Bradstreet (D&B) Malaysia Sdn Bhd)*

### 4.1.2 The PCB Industry

The global PCB industry is estimated to be worth USD42.1 billion in 2005, based on production value. The industry is expected to grow at a CAGR of 11.6% between 2006 and 2010. As the end-market of the PCB industry is in the electronics equipment industry, the demand for PCB is driven by the demand for electronics equipment. Since 2002, the world electronics equipment market has been recovering from a downturn. Among the various market segments of electronics equipment, the computer segment was the leading application market with a share of 38% of the total market. This was followed by the communication devices and consumer electronics market with market share of 14% each.

The PCB industry in the PRC is primarily driven by the growing demand for electronics products such as mobile phones, personal computers, automobiles, communication devices and consumer electronics. In 2005, the PRC's PCB output was 110.57 million square meters with production valued at RMB86.8 billion or approximately 26% of the world's PCB production.

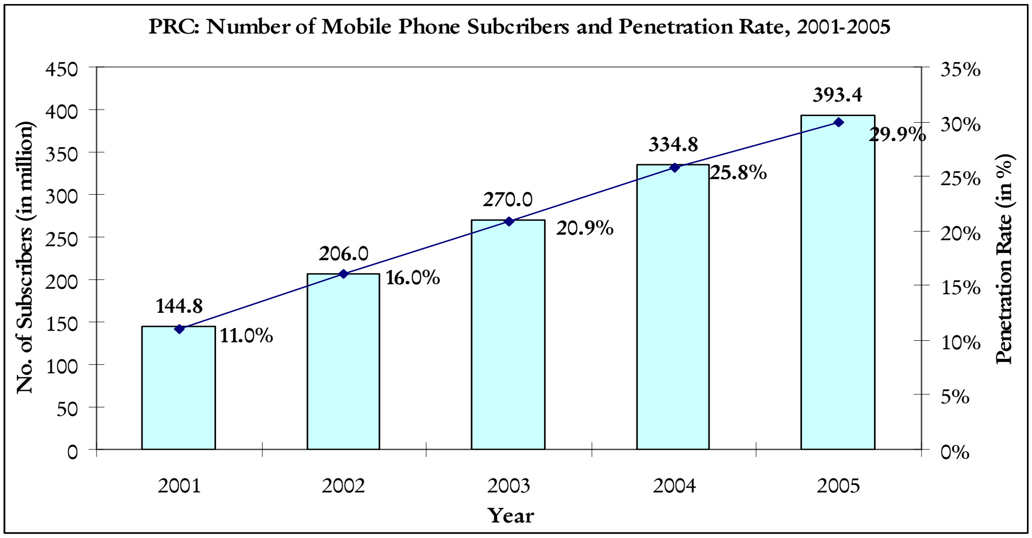
In 2005, it is estimated that there are 1,200 PCB manufacturers in the PRC, representing about 43% of total number of PCB manufacturers in the world. The PCB market in the PRC is one of the highest growth markets as production, procurement and final assembly are shifting to Asia from high-cost locations such as the United States and Europe. This is also in line with the ongoing outsourcing trend and the rising domestic demand in the PRC.




(*Source:Dun & Bradstreet (D&B) Malaysia Sdn Bhd)*

### 4.1.3 The PRC Mobile Handset Market

In 2005, the PRC has become one of the largest mobile handset markets worldwide. The number of mobile phone subscribers in the PRC increased from approximately 144.8 million in 2001 to 393.4 million in 2005. In line with a CAGR of 28.4% between 2001 and 2005, the number of subscribers is expected to grow in line with an increase in the penetration rate.




The total production output and sales volume of mobile handsets in the PRC have experienced similar growth. In 2005, the total production output of mobile handsets was 303.7 million units, representing a growth rate of 30% over 2004. The total sales volume of mobile handsets in the PRC was 85.4 million units in 2005, representing a growth rate of 28% over 2004.

The mobile handset market growth in the PRC is expected to be driven by several factors as follows:

- Strong economic growth which helps to spur the growth in the telecommunications industry;
- High growth of mobile telecommunications driven by increasing mobile subscriptions and mobile telecom network coverage. The penetration rate of 29.9% in 2005 as compared to that of developed countries at 60-70% indicates that there is still potential for growth in the PRC mobile handset market.

It is expected that the number of mobile handset subscribers and the mobile handset demand in the PRC will continue to grow in the near future. However, the production growth rate and sales growth rate is expected to slow down but the slowdown is expected to be mitigated by the mobile handset short product life cycle which would entail continuous production and sales demand.

(*Source:Dun & Bradstreet (D&B) Malaysia Sdn Bhd)*

## 4.2 PROSPECTS

### 4.2.1 The PRC Economy

Driven by surging investment and exports, the PRC economy grew by 9.9% in 2005. The strong economic performance of recent years has been anchored in export-oriented industrial production and powered by investment. On the other hand, the high investments levels have caused overcapacity in certain industries.

In 2006 and 2007, growth is expected to remain vigorous, albeit lower than that recorded in 2005. GDP growth is expected to be about 9.5% and 8.8% in 2006 and 2007 respectively. Industrial growth is forecasted to slow down to between 9% and 10%, from about 11% in the past 2 years. Due to the significant oversupply in some industrial sectors, investment will be carried out moderately and there will be deceleration in export growth. In 2006, the service sector is expected to record a growth rate of 9.5%. The growth is supported by government efforts to promote private consumption and services. The agriculture sector is forecast to expand by between 5.0% to 5.5%, due to higher levels of infrastructure investment and other targeted development measures. Notwithstanding the aim of rebalancing demand towards private consumption and anticipated slowing of growth of capital spending in manufacturing and real estate, investment remains a dominant driver of growth in the next two years.

In short, the overall economic growth of the PRC is seen as converging on a more sustainable trajectory but may require a rebalancing of demand in favour of private consumption and better use of investment resources. Risks to the outlook include incomplete reforms in the financial system, labour market, and state enterprises; widening income inequalities; a deteriorating natural environment; and international trade frictions.

*(Source: Dun & Bradstreet (D&B) Malaysia Sdn Bhd)*

### 4.2.2 Prospects of the PRC EMS Industry

Between 2005 and 2009, the PRC's EMS revenue is expected to grow at an estimated annual growth rate of 30%, in line with expected continuous migration of manufacturing operations to the PRC in the near term. As leading global electronics manufacturers have set up manufacturing facilities, targeting the domestic and world market, the EMS industry remains a promising industry. The rapid growth of the PRC's economy is creating a huge demand for PCs, mobile phones, digital cameras, liquid crystal display, etc. This is coupled with a high global demand for consumer electronics. As electronics consumers upgrade their digital products on regular basis to keep up with the latest technology, the EMS industry is expected to grow strongly. The setting up of EMS facilities in the PRC by MNCs such as Celestica Inc., Flextronics Corp., Solectron Corp., Sanmina-SCI Corp. and Jabil Circuit Inc. in recent years indicates the confidence placed by foreign investors in the PRC's EMS industry. Currently, the PRC is expanding to manufacture more advanced EMS including PCB assembling, surface mounting as well as final assembly. With support from both the government and foreign investors, the EMS industry is expected to flourish in the next few years.

*(Source: Dun & Bradstreet (D&B) Malaysia Sdn Bhd)*

### 4.2.3 Prospects of Newtronics and Heng-Ai

As principally EMS providers, Newtronics and Heng-Ai are operating in an industry that is expected to register continuous strong growth in the near term in line with the expected continuous migration of manufacturing operations to the PRC. In addition, the customer base of Newtronics and Heng-Ai which is currently primarily made up of mobile handset design houses and manufacturers is also expected to register continuous growth in the near term. Accordingly, Newtronics and Heng-Ai foresees continued business prospects as the companies are expected to benefit from the growth dynamics of these two industries in which they operate.

Newtronics and Heng-Ai are in the process of diversifying their customer base and product offerings. Whilst the companies are currently primarily manufacturing mobile handset-related products, Newtronics and Heng-Ai have commenced manufacturing services for other electronic products such as wireless modules, in line with the flexibility of its production facilities. In addition, Newtronics and Heng-Ai have also commenced the development of its own value-added products such as Bluetooth mobile headsets, which is expected to be ready for commercialisation in the very near term. These ventures are expected to diversify and expand the companies' revenue base whilst mitigating the risk of reliance on any particular customer, product or industry. The Directors of Newtronics and Heng-Ai anticipate that these efforts will ensure the sustainability of profitability and the future growth of Newtronics and Heng-Ai.

## 5. RISK FACTORS

### 5.1 Risks related to the business

#### 5.1.1 Limited operating track record

Newtronics and Heng-Ai were incorporated in June 2003 and September 2004, respectively and thus, have only a limited operating history, which may provide only limited basis for evaluation for the business and prospects of the two companies. Whilst the Directors and management of Newtronics and Heng-Ai have been able to manage the businesses profitably since incorporation, there is no assurance that the Directors and management of Newtronics and Heng-Ai may be able to effectively address the risks frequently encountered by early-stage companies, which may include the inability to:

- Manage growth effectively;
- Maintain profitability or margin;
- Acquire and retain customers;
- Attract, train and retain qualified and key personnel;
- Maintain adequate control over costs and expenses;
- Keep up with evolving industry, technology and market developments; or
- Respond to competitive market conditions.

Should any of the above risks are failed to be addressed successfully, the businesses of Newtronics and Heng-Ai may be materially and adversely affected. Therefore, there is no assurance that the Proposed Acquisitions will necessarily result in an outcome in favour of the MGB Group in future. The Directors and management of Newtronics and Heng-Ai will seek to mitigate the aforementioned risks by, amongst others, maintaining good relationship with existing customers, enlarging their customer base, keeping up with the latest technology and market development and maintaining low operating costs.

#### 5.1.2 Vulnerability to changes within the PRC telecommunications industry

The global telecommunications industry and similarly, the PRC telecommunication industry have been characterised by rapid technological and consumer preference changes, resulting in short product life cycles, technology obsolescence and evolving industry standards. If Newtronics and Heng-Ai were to fail to keep up with the rapid technological changes and upgrade their manufacturing facilities to meet the evolving needs of their customers, demand for their services may decline and therefore, their financial results may be adversely affected.

In addition, the telecommunications industry has been characterised by wide fluctuations in product demand and supply, and fluctuations in price. The industry experiences significant downturns from time to time, often in connection with, or in anticipation of maturing product cycles and declines in general economic conditions. These downturns have been characterised by diminished product demand, production over-capacity and subsequent accelerated erosion of average selling prices. Any cyclical fluctuations experienced by the industry may result in delays or cancellations of existing orders or a reduction in demand from the customers of Newtronics and Heng-Ai. In such event, the revenue and profitability of the two companies will be adversely affected.

The telecommunications industry is also generally a heavily regulated industry. The impact of the potential changes in the regulation of the industry could affect the business of Newtronics and Heng-Ai adversely even though certain regulations may be not directly applicable to the two companies.

The Directors and management of Newtronics and Heng-Ai are well aware of the vulnerability of the companies to the changes within the telecommunications industry and shall endeavour to keep abreast with the latest technology, market conditions and regulations of the PRC telecommunications industry to mitigate the risk mentioned above.

### 5.1.3 Dependence on the PRC mobile handset market

Newtronics and Heng-Ai primarily derive their revenue from the PRC mobile handset market, specifically by providing manufacturing services to mobile handset manufacturers and design houses. Therefore, Newtronics and Heng-Ai are dependent and susceptible to market dynamics and fluctuations of the PRC mobile handset market. The PRC mobile handset market is characterised by intense competition amongst a concentrated group of mobile handset vendors, rapidly evolving technology, and constantly changing consumer preferences, which result in frequent introduction of new products, short product life cycles, continually evolving mobile specifications and significant price competition. If mobile handset vendors, which include customers of Newtronics and Heng-Ai, are unable to manage product transitions or delay the rollout of new products or enhancements, demand for the manufacturing services of Newtronics and Heng-Ai may be materially affected and therefore, the operating results of the companies maybe adversely affected. To mitigate the risks associated with the PRC's mobile handset market, Newtronics and Heng-Ai are seeking opportunities to diversify their customer base, products and services offering.

### 5.1.4 Dependence on major customers

The customers of Newtronics and Heng-Ai are mainly design houses for mobile handsets in the PRC. For the FYE 31 December 2005, the top three (3) customers of Newtronics are Shanghai Suncom, Shanghai Boda and Hangzhou Motorola that contributed approximately 59.8%, 10.2% and 10.2% respectively of their aggregate turnover from the provision of manufacturing services. As Heng-Ai primarily serves as a manufacturing arm to Newtronics, Heng-Ai has only one customer being Newtronics. The loss of a significant portion of the sales to the major customers of Newtronics, in particular Shanghai Suncom, would have a material adverse effect on the business, financial condition and operating results of Newtronics and Heng-Ai. Although the Directors and management of both Newtronics and Heng-Ai believe that the relationship with these major customers are good, there can be no assurance that the good business rapport would translate into orders/revenue in the future and that the sales to the major customers would be able to be maintained at the current level.

Newtronics and Heng-Ai seek to limit the aforesaid risk by enhancing the relationship with their existing and potential customers as well as diversifying into other electronics products. However, no assurance can be given that their efforts would be successful and sufficient to mitigate risk of dependence on their major customers.

### 5.1.5 Dependence on key management and skilled personnel

The success of Newtronics and Heng-Ai is dependent on the extensive experience and the established relationship within the industry of their respective key management, and the continued contributions of their skilled personnel. If a significant number of the key management or skilled personnel cease to serve the two companies in the future, or fail to perform their duties as expected, the financial performance of Newtronics and Heng-Ai could be materially and adversely affected. Additionally, in order for Newtronics and Heng-Ai to achieve further business expansion, the companies must be able to attract and hire suitably qualified personnel to achieve their expansion plan and thus, the inability of the companies to achieve the aforesaid may materially affect their financial performance.

The Vendors who are also key management of Newtronics and Heng-Ai shall remain indirect substantial shareholders of the two companies pursuant to the Proposed Acquisitions and thus, have a vested interest in ensuring the continual profitability and operations of the two companies. The ability of Newtronics and Heng-Ai to attract and retain key employees generally depends on their ability to offer competitive compensation, training, fair advancement opportunities and other incentives. Thus far, Newtronics and Heng-Ai have been enjoying good employer-employee relationship with its employees and shall endeavour to maintain the good relationship. Nonetheless, no assurance can be given that the two companies will be able to retain their key management and skilled personnel in the future, and to successfully hire the requisite skilled personnel.

### 5.1.6 Competition from existing competitors and new entrants

As primarily an EMS provider, Newtronics and Heng-Ai are operating in an industry that has relatively low barriers to entry and is highly competitive. Newtronics and Heng-Ai not only have to compete with existing electronics manufacturing services providers, they also face competition from new entrants, which may include their existing customers who may decide to produce electronics modules or assemble mobile handsets themselves in order to reduce their reliance on third parties and to better control their costs. The competition from other EMS providers as well as new entrants to the industry will result in price reductions, reduced profit margins and loss of market share, which may adversely impact the financial performance of Newtronics and Heng-Ai. Whilst Newtronics and Heng-Ai seek to mitigate the risk by, among others, constantly enhancing the relationship with mobile handset design houses via better products and services, seeking opportunities to form partnerships with sourcing houses, and diversifying into other electronics products, no assurance can be given that the efforts would be successful and sufficient to address the risk arising from increasing market competition.

### 5.1.7 Insurance coverage

Under the PRC law, Newtronics and Heng-Ai are not required to maintain product liability insurance and business interruption insurance. Accordingly, Newtronics and Heng-Ai have not maintained any product insurance liability and business interruption insurance. In addition, Newtronics and Heng-Ai currently do not have insurance coverage for their plants and equipment. However, the Directors and management of Newtronics and Heng-Ai are in the process of obtaining insurance coverage for the plants and equipment of the companies to mitigate the risk arising from insurance non-coverage on the plants and equipment, but there is no assurance that the said insurance coverage would be sufficient to address the risk thereof. In accordance to the above, any business disruption, litigation or natural disaster may result in substantial costs and diversion of the resources of Newtronics and Heng-Ai.

## 5.2 Risks Related to the PRC

### 5.2.1 Political and economic conditions in the PRC

The revenue of both Newtronics and Heng-Ai are currently derived from the PRC market. In the event that there are major changes in the political or economic climate in the PRC and such changes directly or indirectly affect the demand for electronics manufacturing services, particularly in relation to that of mobile handsets, the profitability of Newtronics and Heng-Ai may be adversely impacted.

The PRC government has undergone various reforms of its economic system since 1978. Many of the reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. The refinement and readjustment process may consequently have a material impact on the operating or financial performance of Newtronics and Heng-Ai. The Directors and management of Newtronics and Heng-Ai seek to mitigate these risks through prudent management policies. However, there is no assurance that any changes in the PRC's social, economic, political and regulatory conditions as well as changes in the policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof will not have a material adverse effect on the financial results and financial position of the two companies.

### 5.2.2 PRC foreign exchange control

Newtronics and Heng-Ai are subject to the PRC rules and regulations on currency conversion. Under the existing foreign exchange regulations in PRC, Newtronics and Heng-Ai may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from the State Administration of Foreign Exchange of PRC ("SAFE"), by complying with certain procedural requirements. However, foreign exchange transactions for capital account purposes, which may include overseas investment and various international loans, require prior approval of the SAFE. Should Newtronics and Heng-Ai fail to obtain the consent of the SAFE to convert Renminbi into foreign currencies for such purposes, any remittances by Newtronics and Heng-Ai overseas may be adversely affected.

The Directors and management of Newtronics and Heng-Ai are of the view that in the short to medium term, there are ample investment opportunities in the PRC for Newtronics and Heng-Ai to implement their expansion plan and thus, the restrictions on foreign exchange transactions will not have a material adverse effect on the two companies.

### 5.2.3 Electricity shortages in the PRC

In recent years, eastern and southern China have reportedly experienced acute electricity shortages as a result of high industrial activities in those areas. Many businesses were reported to have experienced rotating electricity shutdowns as a result of the electricity shortages. Any prolonged interruption to the operation of the manufacturing facilities of Newtronics and Heng-Ai due to the shortages in electricity supply may have a material adverse effect on the operations and thus, financial performance of the two companies. Although Newtronics and Heng-Ai have not been materially affected by electricity shortages in their operating history and have taken the step in owning a power generator to address any power shortage, there is no assurance that the two companies will not suffer from any blackouts or electricity shortage in the future that would materially and adversely affect the business and financial performance of Newtronics and Heng-Ai.

## 6. FINANCIAL EFFECTS

The Proposed IASC, the Proposed M&A Amendments and the Proposed Transfer will not have any effects on the share capital, net assets, earnings, shareholding structure, shareholdings of substantial shareholders, dividends and gearing ratio of MGB.

The proforma effects of the Proposed Acquisitions, the Proposed Private Placement, the Proposed Bonus Issue and the exercise of the Call Option (assuming that the exercise of the Call Option will be fully satisfied via the issuance of new MGB Shares) are set out below based on the following scenarios:

**Scenario 1:** **Assuming the Proposals are all implemented**

**Scenario 2:** **Assuming the Proposed Acquisitions are implemented and the Call Option is exercised**

**Scenario 3:** **Assuming the Proposed Transfer of Listing Exercise is implemented**

### 6.1 Share capital

The issued and paid-up share capital of MGB following the Proposed Acquisitions, the Proposed Private Placement, the Proposed Bonus Issue and the exercise of the Call Option are as shown below:

**Scenario 1**

| | No. of shares | Par value | RM |
|---|---|---|---|
| Existing | 283,540,000 | 0.10 | 28,354,000 |
| To be issued pursuant to the | | | |
| - Proposed Acquisitions | 46,082,948 | 0.10 | 4,608,295 |
| - Proposed Private Placement | 42,531,000 | 0.10 | 4,253,100 |
| - Proposed Bonus Issue | 318,989,098 | 0.10 | 31,898,910 |
| - exercise of the Call Option | 182,976,416 | 0.10 | 18,297,641 |
| Total | 874,119,462 | 0.10 | 87,411,946 |

**Scenario 2**

| | No. of shares | Par value | RM |
|---|---|---|---|
| Existing | 283,540,000 | 0.10 | 28,354,000 |
| To be issued pursuant to the | | | |
| - Proposed Acquisitions | 46,082,948 | 0.10 | 4,608,295 |
| - exercise of the Call Option | 103,686,636 | 0.10 | 10,368,663 |
| Total | 433,309,584 | 0.10 | 43,330,958 |

**Scenario 3**

| | No. of shares | Par value | RM |
|---|---|---|---|
| Existing | 283,540,000 | 0.10 | 28,354,000 |
| To be issued pursuant to the | | | |
| - Proposed Private Placement | 42,531,000 | 0.10 | 4,253,100 |
| - Proposed Bonus Issue | 279,489,429 | 0.10 | 27,948,943 |
| Total | 605,560,429 | 0.10 | 60,556,043 |

## 6.2 Net Assets

The proforma effects of the Proposed Acquisitions, the Proposed Private Placement, the Proposed Bonus Issue and the exercise of the Call Option on the consolidated net assets of the MGB Group based on the audited financial statements of the MGB Group as at 31 December 2005 are set out below:

**Scenario 1**

| | | (I) | (II) | (III) | |
|---|---|---|---|---|---|
| | Audited as at 31 December 2005 | After the Proposed Acquisitions | After (I) and the Proposed Private Placement* | After (II) and the Proposed Bonus Issue | After (III) and the exercise of the Call Option |
| | RM | RM | RM | RM | RM |
| Share capital | 28,354,000 | 32,962,295 | 37,215,395 | 69,114,305 | 87,411,946 |
| Share premium | 6,406,222 | 15,622,812 | 23,703,702 | -# | 12,808,349 |
| Translation reserve | 83,729 | 83,729 | 83,729 | 83,729 | 83,729 |
| Retained profits | 18,108,159 | 18,108,159 | 18,108,159 | 8,962,951 | 8,962,951 |
| Shareholders' funds / Net assets | 52,952,110 | 66,776,995 | 79,110,985 | 78,160,985 | 109,266,975 |
| No of MGB Shares in issue | 283,540,000 | 329,622,948 | 372,153,948 | 691,143,046 | 874,119,462 |
| Net assets per share (RM) | 0.19 | 0.20 | 0.21 | 0.11 | 0.13 |

**Scenario 2**

| | Audited as at 31 December 2005 RM | (I) After the Proposed Acquisitions RM | After (I) and the exercise of the Call Option RM |
|---|---|---|---|
| Share capital | 28,354,000 | 32,962,295 | 43,330,958 |
| Share premium | 6,406,222 | 15,622,812 | 36,360,139 |
| Translation reserve | 83,729 | 83,729 | 83,729 |
| Retained profits | 18,108,159 | 18,108,159 | 18,108,159 |
| Shareholders' funds / net assets | 52,952,110 | 66,776,995 | 97,882,985 |
| No of MGB Shares in issue | 283,540,000 | 329,622,948 | 433,309,584 |
| Net assets per share (RM) | 0.19 | 0.20 | 0.23 |

**Scenario 3**

| | Audited as at 31 December 2005 RM | (I) After the Proposed Private Placement* RM | After (I) and the Proposed Bonus Issue RM |
|---|---|---|---|
| Share capital | 28,354,000 | 32,607,100 | 60,556,043 |
| Share premium | 6,406,222 | 14,487,112 | -# |
| Translation reserve | 83,729 | 83,729 | 83,729 |
| Retained profits | 18,108,159 | 18,108,159 | 3,696,328 |
| Shareholders' funds / net assets | 52,952,110 | 65,286,100 | 64,336,100 |
| No of MGB Shares in issue | 283,540,000 | 326,071,000 | 605,560,429 |
| Net assets per share (RM) | 0.19 | 0.20 | 0.11 |

*Notes:*
* *Assuming an indicative issue price of RM0.29 per new MGB Share*
\# *After deducting estimated expenses relating to the Proposed Transfer of Listing Exercise of RM950,000*

### 6.3 Earnings/EPS

The Proposed Acquisitions are expected to contribute positively to the earnings of the MGB Group for the FYE 31 December 2007, as the results of Unilink and HK Broadway will be consolidated into the MGB Group. The exercise of the Call Option will contribute positively to the earnings of the MGB Group for FYE 31 December 2007 in the event that it is exercised during the said financial year.

The Proposed Private Placement is expected to contribute positively to the earnings of MGB for the FYE 31 December 2007 as the proceeds arising from the Proposed Private Placement will be utilised for working capital purposes of the MGB Group.

The net EPS of the MGB Group will be reduced accordingly as a result of the increase in the total number of MGB Shares due to the Proposed Bonus Issue.

### 6.4 Shareholding structure

The effects of the Proposed Acquisitions, Proposed Private Placement, Proposed Bonus Issue and exercise of the Call Option on the shareholding structure of MGB based on the Record of Depositors of MGB as at 5 March 2007 are as follows:

**Scenario 1**

| | As at 5 March 2007 | | (I) After the Proposed Acquisitions | | (II) After (I) and the Proposed Private Placement* | | (III) After (II) and the Proposed Bonus Issue | | (IV) After (III) and the exercise of the Call Option | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held |
| **MALAYSIAN** | | | | | | | | | | |
| Bumiputera | 155,814 | 54.95 | 155,814 | 47.27 | 182,399 | 49.01 | 338,741 | 49.01 | 338,741 | 38.75 |
| Non-Bumiputera | 121,691 | 42.92 | 121,691 | 36.92 | 137,637 | 36.99 | 255,611 | 36.99 | 255,611 | 29.24 |
| **Total Malaysian** | 277,505 | 97.87 | 277,505 | 84.19 | 320,036 | 86.00 | 594,352 | 86.00 | 594,352 | 67.99 |
| **FOREIGN** | 6,035 | 2.13 | 52,118 | 15.81 | 52,118 | 14.00 | 96,791 | 14.00 | 279,767 | 32.01 |
| **GRAND TOTAL** | 283,540 | 100.00 | 329,623 | 100.00 | 372,154 | 100.00 | 691,143 | 100.00 | 874,119 | 100.00 |

**Scenario 2**

| | As at 5 March 2007 | | (I) After the Proposed Acquisitions | | (II) After (I) and the exercise of the Call Option | |
|---|---|---|---|---|---|---|
| | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held |
| **MALAYSIAN** | | | | | | |
| Bumiputera | 155,814 | 54.95 | 155,814 | 47.27 | 155,814 | 35.96 |
| Non-Bumiputera | 121,691 | 42.92 | 121,691 | 36.92 | 121,691 | 28.08 |
| **Total Malaysian** | 277,505 | 97.87 | 277,505 | 84.19 | 277,505 | 64.04 |
| **FOREIGN** | 6,035 | 2.13 | 52,118 | 15.81 | 155,804 | 35.96 |
| **GRAND TOTAL** | 283,540 | 100.0 | 329,623 | 100.0 | 433,309 | 100.0 |

**Scenario 3**

| | As at 5 March 2007 | | (I) After the Proposed Private Placement^ | | (II) After (I) and the Proposed Bonus Issue | |
|---|---|---|---|---|---|---|
| | **No. of Shares ’000** | **% held** | **No. of Shares ’000** | **% held** | **No. of Shares ’000** | **% held** |
| **MALAYSIAN** | | | | | | |
| Bumiputera | 155,814 | 54.95 | 168,574 | 51.70 | 313,066 | 51.70 |
| Non-Bumiputera | 121,691 | 42.92 | 151,462 | 46.45 | 281,286 | 46.45 |
| **Total Malaysian** | 277,505 | 97.87 | 320,036 | 98.15 | 594,352 | 98.15 |
| **FOREIGN** | 6,035 | 2.13 | 6,035 | 1.85 | 11,208 | 1.85 |
| **GRAND TOTAL** | 283,540 | 100.00 | 326,071 | 100.00 | 605,560 | 100.00 |

*Notes:*

* *Assuming that 26,585,000 Placement Shares are issued to bumiputera investors in order to comply with SC’s condition and the remaining 15,946,000 Placement Shares are issued to non-bumiputera investors.*

^ *Assuming that 12,760,000 Placement Shares are issued to bumiputera investors in order to comply with SC’s condition and the remaining 29,771,000 Placement Shares are issued to non-bumiputera investors.*

### 6.5 Shareholdings of substantial shareholders

Based on the Register of Substantial Shareholders, the effects of the Proposed Acquisitions, the Proposed Private Placement, the Proposed Bonus Issue and the exercise of the Call Option on the shareholdings of the substantial shareholders of MGB (holding 5% or more in the share capital) as at 5 March 2007 are as follows:

**Scenario 1**

| | As at 5 March 2007 | | | | (I) After the Proposed Acquisitions | | | | (II) After (I) and the Proposed Private Placement | | | | (III) After (II) and the Proposed Bonus Issue | | | | (IV) After (III) and the exercise of the Call Option | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held |
| MCSB | 42,531 | 15.00 | - | - | 42,531 | 12.90 | - | - | 42,531 | 11.43 | - | - | 78,986 | 11.43 | - | - | 78,986 | 9.04 | - | - |
| Dato’ Abd. Gani Bin Yusof | 74,925 | 26.42 | 42,531 [(1)] | 15.00 | 74,925 | 22.73 | 42,531 [(1)] | 12.90 | 74,925 | 20.14 | 42,531 [(1)] | 11.43 | 139,147 | 20.14 | 78,986[(1)] | 11.43 | 139,147 | 15.92 | 78,986[(1)] | 9.04 |
| Dr Ng Tek Che | 27,542 | 9.71 | 42,531 [(1)] | 15.00 | 27,542 | 8.36 | 42,531 [(1)] | 12.90 | 27,542 | 7.40 | 42,531 [(1)] | 11.43 | 51,149 | 7.40 | 78,986[(1)] | 11.43 | 51,149 | 5.85 | 78,986[(1)] | 9.04 |
| Liew Chiap Hong | 16,042 | 5.66 | 42,531 [(1)] | 15.00 | 16,042 | 4.87 | 42,531 [(1)] | 12.90 | 16,042 | 4.31 | 42,531 [(1)] | 11.43 | 29,792 | 4.31 | 78,986[(1)] | 11.43 | 29,792 | 3.41 | 78,986[(1)] | 9.04 |

**Scenario 2**

| | As at 5 March 2007 | | | | (I) After the Proposed Acquisitions | | | | (II) After (I) and the exercise of the Call Option | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held | No. of Shares ’000 | % held |
| MCSB | 42,531 | 15.00 | - | - | 42,531 | 12.90 | - | - | 42,531 | 9.82 | - | - |
| Dato’ Abd. Gani Bin Yusof | 74,925 | 26.42 | 42,531 [(1)] | 15.00 | 74,925 | 22.73 | 42,531[(1)] | 12.90 | 74,925 | 17.29 | 42,531[(1)] | 9.82 |
| Dr Ng Tek Che | 27,542 | 9.71 | 42,531 [(1)] | 15.00 | 27,542 | 8.36 | 42,531[(1)] | 12.90 | 27,542 | 6.36 | 42,531[(1)] | 9.82 |
| Liew Chiap Hong | 16,042 | 5.66 | 42,531 [(1)] | 15.00 | 16,042 | 4.87 | 42,531[(1)] | 12.90 | 16,042 | 3.70 | 42,531[(1)] | 9.82 |

**Scenario 3**

| | As at 5 March 2007 | | | | (I) After the Proposed Private Placement | | | | (II) After (I) and the Proposed Bonus Issue | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held | No. of Shares '000 | % held |
| MCSB | 42,531 | 15.00 | - | - | 42,531 | 13.04 | - | - | 78,986 | 13.04 | - | - |
| Dato' Abd. Gani Bin Yusof | 74,925 | 26.42 | 42,531(1) | 15.00 | 74,925 | 22.98 | 42,531(1) | 13.04 | 74,925 | 22.98 | 78,986(1) | 13.04 |
| Dr Ng Tek Che | 27,542 | 9.71 | 42,531(1) | 15.00 | 27,542 | 8.45 | 42,531(1) | 13.04 | 27,542 | 8.45 | 78,986(1) | 13.04 |
| Liew Chiap Hong | 16,042 | 5.66 | 42,531(1) | 15.00 | 16,042 | 4.92 | 42,531(1) | 13.04 | 16,042 | 4.92 | 78,986(1) | 13.04 |

*Note:*
*(1) Deemed interest by virtue of their shareholdings in MCSB pursuant to Section 6A(4) of the Act*

### 6.6 Dividends

The Board of MGB does not expect the Proposals to have a material effect on the dividend policy of the Company for the FYE 31 December 2007. The declaration of dividend for the FYE 31 December 2007 is dependent on the performance of the MGB Group during the financial year.

There is no fixed dividend policy adopted by Unilink, HK Broadway, Newtronics and Heng-Ai. The declaration of future dividends by Unilink, HK Broadway, Newtronics and Heng-Ai will depend upon the retained earnings, cashflow position and funding requirements of the respective companies.

### 6.7 Gearing

The proforma effects of the Proposed Acquisitions, Proposed Private Placement, Proposed Bonus Issue and the exercise of the Call Option on the gearing ratio of the MGB Group based on the audited financial statements of the MGB Group as at 31 December 2005 are as follows:

**Scenario 1**

| | | **(I)** | **(II)** | **(III)** | |
|---|---|---|---|---|---|
| | **Audited as at 31 December 2005 RM** | **After the Proposed Acquisitions RM** | **After (I) and the Proposed Private Placement* RM** | **After (II) and the Proposed Bonus Issue RM** | **After (III) and the exercise of the Call Option RM** |
| Total borrowings | 3,113,580 | 3,113,580 | 3,113,580 | 3,113,580 | 3,113,580 |
| Shareholders' funds | 52,952,110 | 66,776,995 | 79,110,985 | 78,160,985 | 109,266,975 |
| Gearing ratio (times) | 0.06 | 0.05 | 0.04 | 0.04 | 0.03 |

**Scenario 2**

| | | **(I)** | |
|---|---|---|---|
| | **Audited as at 31 December 2005 RM** | **After the Proposed Acquisitions RM** | **After (I) and the exercise of the Call Option RM** |
| Total borrowings | 3,113,580 | 3,113,580 | 3,113,580 |
| Shareholders' funds | 52,952,110 | 66,776,995 | 97,882,985 |
| Gearing ratio (times) | 0.06 | 0.05 | 0.03 |

**Scenario 3**

| | | **(I)** | |
|---|---|---|---|
| | **Audited as at 31 December 2005 RM** | **After the Proposed Private Placement* RM** | **After (I) and the Proposed Bonus Issue RM** |
| Total borrowings | 3,113,580 | 3,113,580 | 3,113,580 |
| Shareholders' funds | 52,952,110 | 65,286,110 | 64,336,100 |
| Gearing ratio (times) | 0.06 | 0.05 | 0.05 |

*Note:*
* *Assuming an indicative issue price of RM0.29 per new MGB Share*

## 7. HISTORICAL SHARE PRICES

The monthly high and low market prices of MGB Shares as traded on Bursa Securities for the twelve (12)-month period from March 2006 to February 2007 are as follows:

| | **High RM** | **Low RM** |
|---|---|---|
| **2006** | | |
| March | 0.325 | 0.26 |
| April | 0.32 | 0.265 |
| May | 0.32 | 0.23 |
| June | 0.29 | 0.235 |
| July | 0.29 | 0.23 |
| August | 0.455 | 0.27 |
| September | 0.37 | 0.315 |
| October | 0.365 | 0.315 |
| November | 0.45 | 0.355 |
| December | 0.49 | 0.37 |
| **2007** | | |
| January | 0.56 | 0.41 |
| February | 0.455 | 0.29 |

| | |
|---|---|
| Last transacted price of MGB Shares on 11 August 2006 (being the last trading day prior to the announcement of the Proposals) | RM0.36 |
| Last transacted price of MGB Shares on 27 March 2007 (being the latest practicable date prior to the printing of this Circular) | RM0.355 |

*Source: Bloomberg*

## 8. APPROVALS REQUIRED AND CONDITIONS OF THE APPROVALS

### 8.1 Approvals Required

The Proposals are conditional upon approvals being obtained from:

(i) the SC(SID) for the following:

(a) the Proposed Acquisitions;

(b) the Proposed Call Option;

(c) the Proposed Private Placement;

(d) the Proposed Transfer;

(e) listing of and quotation for the Consideration Shares on the Main Board of Bursa Securities;

(f) listing of and quotation for the Placement Shares on the Main Board of Bursa Securities; and

(g) listing of and quotation for up to 182,976,416 new MGB Shares to be issued pursuant to the exercise of the Call Option on the Main Board of Bursa Securities.

(ii) the SC(ECU) for the Proposed Acquisitions, the Proposed Call Option and the Proposed Private Placement;

(iii) Bursa Securities for the following:

(a) listing of and quotation for the Consideration Shares on the Main Board of Bursa Securities;

(b) listing of and quotation for the Placement Shares on the Main Board of Bursa Securities;

(c) listing of and quotation for the Bonus Shares on the Main Board of Bursa Securities;

(d) listing of and quotation for the existing issued and paid-up share capital of MGB RM28,354,000 comprising 283,540,000 MGB Shares on the Main Board of Bursa Securities;

(e) listing of and quotation for up to 182,976,416 new MGB Shares to be issued pursuant to the exercise of the Call Option on the Main Board of Bursa Securities;

(iv) BNM for the Proposed Acquisitions and the Proposed Call Option;

(v) the shareholders of MGB at the forthcoming EGM; and

(vi) any other relevant authorities/parties.

MGB proposes to undertake the listing of and quotation for the Consideration Shares, the Placement Shares and the Bonus Shares on the Main Board of Bursa Securities concurrently (i.e., on the same day) with the transfer of the existing issued and paid-up share capital of MGB of RM28,354,000 comprising 283,540,000 MGB Shares from the MESDAQ Market to the Main Board of Bursa Securities.

## 8.2 Approvals Obtained and Conditions of the Approvals

The approval of the SC(SID) and SC(ECU) was obtained vide their letter dated 3 November 2006 subject to the following conditions:

| Details of conditions imposed | Status of compliance |
|---|---|
| (i) MGB to disclose in the Company's circular to shareholders a debtors aging analysis based on the Group's latest audited trade receivables including measures taken to recover long overdue balances and other credit control measures undertaken to mitigate the risk of bad and doubtful debts; | Complied. Please refer to Section 8.2.1 below. |
| (ii) MGB to make full provision for trade receivables outstanding that has exceeded the normal credit period granted, unless it can be justified that the outstanding amount can be collected. The said justification must be disclosed in the circular supported by an independent opinion from the Reporting Accountants; | Complied. Please see Section 8.2.2 below. |
| (iii) MGB to collect all the trade debts from the related party prior to the Proposed Transfer; | Complied. Please see Section 8.2.2 below. |
| (iv) MGB to collect or make full provision for all trade receivables that have been outstanding more than 180 days, prior to the Proposed Transfer; | Complied. Please see Section 8.2.2 below. |

| Details of conditions imposed | Status of compliance |
|---|---|
| (v) The SC's approval of the Proposed Acquisitions and Proposed Call Option is subject to the following conditions: | |
| (a) The number of MGB shares to be issued to Zonemax pursuant to exercise by MGB of the Call Option, must not result in Zonemax becoming the dominant shareholder of MGB; and | To be complied with. |
| (b) The exercise of the Call Option by MGB, must not result in any changes to the control of the existing Board of Directors of MGB. | To be complied with. |
| (vi) The SC's approval of the waiver from having to comply with paragraph 6 of Guidance Note 8C of the Policies and Guidelines on Issue/Offer of Securities is subject to the following conditions: | Please see revised condition below. |
| (a) The price in the circular is to be stated as an indicative price and the actual price can only be fixed upon approval of the Proposed Private Placement by MGB's shareholders at a General Meeting ("GM") of the Company. | |
| (b) The payment to be made within 5 days from the GM's date | |
| ***This condition was revised by the SC vide their letter dated 19 January 2007. Please see revised condition below.*** | |
| (vii) If all proposals are implemented, MGB to allocate at least 26,584,184 of its new issue shares (excluding the bonus issue shares and upon full exercise of the Proposed Call Option) to Bumiputera investors to be approved by MITI; | Please see revised condition below. |
| ***This condition was revised by the SC vide their letter dated 27 February 2007. Please see revised condition below.*** | |
| (viii) If all proposals, except the Proposed Acquisitions and the Proposed Call Option, are implemented, MGB to allocate at least 30% of the placement shares to Bumiputera investors to be approved by MITI; | To be complied with, if applicable |
| (ix) Hwang-DBS/MGB to inform the SC upon completion of the Proposals; and | To be complied with. |
| (x) Approvals to be obtained from other relevant authorities, if any. | To be complied with. |

Revisions to the abovementioned conditions were approved by the SC vide their letters dated 19 January 2007 and 27 February 2007 as follows:

| **Revised condition imposed by the SC in their letter dated 19 January 2007** | **Status of compliance** |
|---|---|
| The SC's approval of the waiver from having to comply with paragraph 6 of Guidance Note 8C of the Policies and Guidelines on Issue/Offer of Securities is subject to the following conditions: | |
| (a) The price for the Proposed Private Placement in MGB's circular to shareholders on the Proposals, is to be stated as an indicative price until it is fixed upon approval of the Proposed Private Placement by MGB's shareholders at a General Meeting ("GM") of the Company. The date of the GM is to be the price-fixing date for the fixed indicative price; | The issue price as stated in Section 2.3 of this Circular is an indicative price. The actual issue price of the Placement Shares will be fixed at the price-fixing date. |
| (b) Payment for the Proposed Private Placement tranche of new MGB shares issued based on the price fixed at the GM is to be made within 5 days from the GM's date; and | To be complied with. |
| (c) For subsequent tranches of the Proposed Private Placement, the allotment and issuance of new MGB shares must be effected in accordance with paragraph 6 of Guidance Note 8C of the Policies and Guidelines on Issue/Offer of Securities. | To be complied with. |
| **Revised condition imposed by the SC in their letter dated 27 February 2007** | |
| If MGB proposes to only undertake a proposed private placement of 19,750,000 Placement Shares, MGB is required to obtain MITI's approval and recognition for the Bumiputera investors who will be allocated all 19,750,000 Placement Shares. | MITI's approval for allocation of the 19,750,000 Placement Shares to the Bumiputera investors as set out in Section 2.3 was obtained vide their letters dated 2 February 2007 and 30 March 2007. |

BNM had, vide their letter dated 14 February 2007 approved MGB's proposal to invest abroad a sum of RMB82.5 million (equivalent to RM38,018,433) for the Proposed Acquisition of Unilink and the Proposed Call Option, subject to the following conditions:

(i) Repatriation to Malaysia all dividends, profits and proceeds from the sale of the investment upon the payment of the said dividends or profits or the receipt of the proceeds from the sale of the investment in the shares of the foreign company; and

(ii) Completion of the Quarterly Report on External Assets and Liabilities of Resident Companies in Malaysia.

The Proposed Acquisition of HK Broadway has been registered with BNM, vide their letter dated 24 November 2006.

### 8.2.1 Aging Analysis of the MGB Group's Trade Receivables based on its Audited Financial Statements as at 31 December 2005

| | 0 – 30 days RM'000 | 31 – 60 days RM'000 | 61 – 90 days RM'000 | Over 90 days RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| Trade receivables[1] | 23,258 | 3,002 | 1,581 | 27,488 | 55,329 |
| Percentage of total trade receivables (%) | 42 | 5 | 3 | 50 | 100 |

*Note:*
[1] *Including unbilled receivables of approximately RM3.32 million, of which the project revenue had been recognised based on the percentage of completion but yet to be billed as at 31 December 2005.*

The management of the Group monitors the status of trade receivables on a monthly basis by following up with debts which have exceeded the credit periods granted by the Group. In the event that the management is concerned about the recoverability of any long outstanding debt balances, it may decide to cease work on the affected project(s) until a decisive solution is given by the customers. The management may also initiate litigation to recover overdue debts if necessary.

Generally, full provision for doubtful debts will be made for all trading, service and maintenance debts which have been outstanding for more than 90 days, contract debtors which have been outstanding for 365 days and those debts which are under litigation. Where the outstanding debts are related to agreed retention sum or final sum for completed projects which are under defect liability period and have exceeded the normal credit period, no provision is required as the management strongly believes that these debts will eventually be settled.

Although there is no assurance that the MGB Group will be able to collect all trade debts due from its customers on time, the Group seeks to limit this risk through implementation of internal policy involving the assessment of credit worthiness of potential customers before granting the credit terms.

### 8.2.2 Collection of Trade Receivables

As at 31 December 2005, MGB's trade receivables which exceed 90 days but which are less than 180 days amounted to RM6,337,621. As at 28 February 2007, MGB has collected RM6,099,468 and made full provision for the balance RM238,153. As at 31 December 2005, MGB's trade receivables which exceed 180 days amounted to RM21,150,940. As at 28 February 2007, MGB has collected RM16,779,223 and made full provision for the balance RM4,371,717. Todate, all trade debts from related parties as at 31 December 2005 exceeding the normal credit period granted have been collected.

## 9. CORPORATE EXERCISES OR SCHEMES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals and the following, as at 27 March 2007, being the latest practicable date prior to the printing of this Circular, the Company has not announced any corporate exercises or schemes which have yet to be completed:

(i) Pursuant to the Memorandum of Understanding dated 7 March 2003 and the disclosure in the Company's Prospectus dated 30 April 2004, Metronic Engineering Sdn Bhd ("MESB"), a wholly-owned subsidiary of the Company, had, on 13 July 2004, entered into a conditional Acquisition of Shares and Shareholders Agreement ("the Agreement") with Infocon Holdings (S) Pte Ltd ("ISPL") whereby MESB agreed to purchase 51% of shares in Infocon (Beijing) Environment Control Technology Company Limited ("IBEC"), a subsidiary of ISPL for a cash consideration of USD300,000. Approval from BNM under ECM 9 had been obtained on 23 July 2004.

A proposal had been submitted to ISPL proposing variations to certain terms and conditions of the Agreement. The acquisition is now pending finalisation of the terms and conditions of the Agreement;

(ii) On 18 May 2006, MGB announced that the Company had on 17 May 2006 entered into a binding Heads of Agreement with FEELingK Co., Ltd ("FEELingK") to set up a joint venture company, to be named as FEELingK Malaysia Sdn Bhd ("FKSB") with the primary objective of deploying Card Notification Solution, Bulk Short Message Services, Voice SMS and the related consultancy, implementation and operations in Malaysia, Pakistan, India, United Arab Emirates, Saudi Arabia, Qatar, Australia, New Zealand and any other countries to be mutually agreed by MGB and FEELingK ("Joint Venture Agreement"). The shareholdings of the respective joint venture partners shall be as follows: MGB (60%) and FEELingK (40%). On 7 July 2006, MGB announced that the Company had on 6 July 2006 acquired 2 ordinary shares of RM1.00 in FKSB representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.00 from Ng Ah Fong and Teng Mee Leng. Both parties are currently in the midst of finalising a cooperation agreement to replace the Joint Venture Agreement. Under the cooperation agreement, MGB will own 100% equity interest in FKSB and FEELingK will charge FKSB licensing fees for solutions provided; and

(iii) On 14 June 2006, MGB announced that the Company had on 11 June 2006 entered into a deed of partnership with Tariq Mohammed Saeed Abdulla Al Jassmi, a UAE national ("Tariq") and Khalid Abdul Karim Faris, a Jordanian national ("Khalid") (collectively known as the Parties) for the purpose of carrying out the business of intelligent building management system, integrated security management, e-project management of mechanical and electrical services and other related activities in the entire Middle-East and North Africa region. The partners intend to incorporate a company with limited liability in the Emirate of Dubai under the proposed name of "Metronic Global Berhad LLC" ("the JVC") subject to the approvals of the relevant authorities. The shareholdings of the respective partners in the JVC shall be as follows: MGB (50%), Tariq (25%) and Khalid (25%). As at the date of this Circular, an initial approval to set up a Limited Liability Company ("LLC") has been obtained from the Department of Economic Development, Government of Dubai and the LLC is in the midst of being set up.

The Proposals are not conditional upon any of the above corporate exercises.

## 10. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save for their respective entitlements under the Proposed Bonus Issue, none of the Directors and/or substantial shareholders of MGB, and/or person(s) connected to them, have any interest, direct or indirect, in the Proposals.

## 11. ESTIMATED TIME FRAME FOR COMPLETION

In the event that the Proposals are all approved by shareholders at the forthcoming EGM, the Proposed Acquisitions and the Proposed Transfer of Listing Exercise are expected to be completed by June 2007.

In the event that the Proposed Acquisitions and the Proposed Call Option are approved by shareholders but the Proposed Transfer of Listing Exercise is not approved by shareholders at the forthcoming EGM, the Proposed Acquisitions are expected to be completed by May 2007.

In accordance to the terms of the Call Option Agreement, MGB can exercise the Call Option within a period of fifteen (15) months from the completion of the Proposed Acquisitions.

In the event that the Proposed Acquisitions and the Proposed Call Option are not approved by shareholders but the Proposed Transfer of Listing Exercise is approved by shareholders at the forthcoming EGM, the timeframe for the completion of the Proposed Transfer of Listing Exercise will depend on the timeframe of the completion of the Proposed Private Placement. As mentioned in Section 2.3 above, MGB will proceed to identify placees for the remaining Placement Shares that have yet to be allocated and seek shareholders' approval for the identity of the placees and the number of Placement Shares to be allocated to the said placees. The Board of MGB estimates that the Proposed Transfer of Listing Exercise will be completed within four (4) months from the forthcoming EGM.

## 12. EGM

The EGM, a notice of which is set out in this Circular, will be held at Room Chenderawasih, Holiday Inn Glenmarie Golf & Country Club, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan on Monday, 23 April 2007 at 10.00 a.m. or any adjournment thereof for the purpose of considering and if thought fit, to pass the resolutions to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, you should complete and return the Form of Proxy in accordance with the instructions therein as soon as possible and in any event so that it arrives at the Registered Office of the Company at 650, Block A, Kelana Centre Point, No. 3, Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for holding the EGM or any adjournment thereof. The lodging of the Form of Proxy will not, however, preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

## 13. DIRECTORS' RECOMMENDATION

The Board of MGB, after careful deliberation, is of the opinion that the Proposals are in the best interest of the MGB Group. Accordingly, the Directors recommend that shareholders vote in favour of the resolutions in relation to the Proposals at the forthcoming EGM.

## 14. FURTHER INFORMATION

Shareholders are requested to refer to the Appendices for additional information.

Yours faithfully
For and on behalf of the Board of Directors of
**METRONIC GLOBAL BERHAD**

**TAN SRI DATO' KAMARUZZAMAN BIN SHARIFF**
Executive Chairman