

METRONIC GLOBAL BERHAD (632068-V)
(Incorporated In Malaysia)

Directors' Report and Audited Financial Statements
31 December 2006

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

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METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are procurement of contracts and system integration specialising in the field of intelligent building management system and integrated security management system; e-project management of mechanical and electrical services; and supply of engineering systems and engineering equipment.

During the year, the Company acquired four new subsidiaries, namely Metronic-iCares Sdn. Bhd., FeelingK Malaysia Sdn. Bhd., Trend Gate Systems Sdn. Bhd., and Metronic Australia Private Limited. The principal activities and intended principal activities of these new subsidiaries have been disclosed in Note 16 to the financial statements. With the exception of Metronic-iCares Sdn. Bhd., these newly acquired subsidiaries have not commenced operations as at 31 December 2006.

There have been no significant changes in the nature of the principal activities during the financial year, other than as disclosed above.

RESULTS

	Group RM	Company RM
Profit for the year	<u>9,028,575</u>	<u>15,021,969</u>
Attributable to:		
Equity holders of the Company	9,214,592	15,021,969
Minority interests	(186,017)	-
	<u>9,028,575</u>	<u>15,021,969</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

RESULTS (CONTD.)

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than:

- (a) the effects arising from the changes in accounting policies due to the adoption of new and revised Financial Reporting Standards as disclosed in the Note 3 to the financial statements.
- (b) the effects arising from the acquisition of a subsidiary as disclosed in Note 16 to the financial statements.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2005 was as follows:

	RM
Final dividend of 3% less 28% income tax in respect of the financial year ended 31 December 2005 as reported in the directors' report of that year, paid on 28 July 2006	<u>612,447</u>

The directors do not recommend the payment of any dividend in respect of the current financial year ended 31 December 2006.

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Dato' Kamaruzzaman bin Shariff
Dato' Abd. Gani bin Yusof
Subhi bin Hj Dziauddin
Dr Ng Tek Che
Liew Chiap Hong
Lee Fok Chong
Amirudin bin Mohd Baria
Li Ji Chang

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' BENEFITS (CONTD.)

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest required to be disclosed by Section 169 (8) of the Companies Act, 1965, except for as disclosed in Note 29 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

	Ordinary shares of RM0.10 each			As at 31.12.2006
	As at 1.1.2006	Bought During the year	Sold	
Direct Interest:				
Dato' Abd. Gani bin Yusof	64,682,450	24,242,670	-	88,925,120
Dr Ng Tek Che	24,397,765	9,144,165	-	33,541,930
Liew Chiap Hong	24,397,765	9,144,165	(7,000,000)	26,541,930
Tan Sri Dato' Kamaruzzaman bin Shariff	-	500,000	-	500,000
Indirect Interest:				
Dato' Abd. Gani bin Yusof	85,062,000	-	(42,531,000)	42,531,000
Dr Ng Tek Che	85,062,000	-	(42,531,000)	42,531,000
Liew Chiap Hong	85,062,000	-	(42,531,000)	42,531,000

By virtue of their interests in the shares of the Company, Dato' Abd. Gani bin Yusof, Dr Ng Tek Che and Liew Chiap Hong are also deemed to have an interest in the shares of all subsidiaries of the Company to the extent the Company has an interest.

None of the other directors holding office at 31 December 2006 had any interest in the ordinary shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts and satisfied themselves that there were no known bad debts and adequate provisions have been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or the amount of the provisions for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person, or
 - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year except as disclosed in Note 33 (c) to the financial statements.

OTHER STATUTORY INFORMATION (CONTD.)

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet its obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT AND SUBSEQUENT EVENTS

Significant and subsequent events are disclosed in Note 32 and Note 33 to the financial statements respectively.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2007.

Dato' Abd. Gani bin Yusof

Dr Ng Tek Che

Selangor Darul Ehsan

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Dato' Abd. Gani bin Yusof and Dr Ng Tek Che, being the directors of Metronic Global Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 9 to 69 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2007

Dato' Abd. Gani bin Yusof

Dr Ng Tek Che

Selangor Darul Ehsan

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Dr Ng Tek Che, being the director primarily responsible for the financial management of Metronic Global Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 9 to 69 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovementioned Dr Ng Tek Che
at Petaling Jaya, Selangor Darul Ehsan
on 26 April 2007

Dr Ng Tek Che

Before me,

**REPORT OF THE AUDITORS TO THE MEMBERS OF
METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 9 to 69. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

632068-V

**REPORT OF THE AUDITORS TO THE MEMBERS OF
METRONIC GLOBAL BERHAD (CONTD.)
(Incorporated in Malaysia)**

We have considered the financial statements and the auditors' report thereon of a subsidiary of which we have not acted as auditors, as indicated in Note 16 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

Gloria Goh Ewe Gim
No. 1685/04/09 (J)
Partner

Kuala Lumpur, Malaysia
26 April 2007

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

		Group		Company	
	Note	2006	2005	2006	2005
		RM	RM	RM	RM
Revenue	5	110,941,715	84,473,902	21,600,000	3,000,000
Cost of sales	6	(87,649,693)	(60,928,651)	-	-
Gross profit		23,292,022	23,545,251	21,600,000	3,000,000
Other income	7	739,437	525,676	50,970	66,482
Administration expenses		(2,404,327)	(1,971,649)	(529,123)	(291,138)
Other expenses		(8,873,869)	(9,303,001)	(97,621)	(195,393)
Profit from operations		12,753,263	12,796,277	21,024,226	2,579,951
Finance costs	8	(192,595)	(15,077)	-	-
Profit before taxation	9	12,560,668	12,781,200	21,024,226	2,579,951
Income tax expense	10	(3,532,093)	(3,557,640)	(6,002,257)	(850,564)
Profit for the year		9,028,575	9,223,560	15,021,969	1,729,387
Attributable to:					
Equity holders of the Company		9,214,592	9,249,354	15,021,969	1,729,387
Minority interests		(186,017)	(25,794)	-	-
		9,028,575	9,223,560	15,021,969	1,729,387
Earnings per share (sen):					
Basic	11	3.25	3.26		
Diluted	11	3.25	3.26		

The accompanying notes form an integral part of the financial statements.

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Note	Group 2006 RM	2005 RM	Company 2006 RM	2005 RM
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	13	11,119,357	11,629,723	-	-
Investment properties	14	399,750	739,155	-	-
Intangible assets	15	3,195,231	937,934	-	-
Investment in subsidiaries	16	-	-	27,671,155	26,281,942
Other investments	17	546,482	414,149	-	-
Deferred tax assets	18	1,371,000	1,341,000	-	-
		<u>16,631,820</u>	<u>15,061,961</u>	<u>27,671,155</u>	<u>26,281,942</u>
CURRENT ASSETS					
Inventories	19	4,829,625	5,386,059	-	-
Trade receivables	20	101,684,285	68,274,772	-	-
Other receivables	20	4,195,478	1,656,177	21,190,098	5,606,882
Short term deposits	22	6,815,888	6,112,856	1,024,544	-
Cash and bank balances	23	4,148,718	5,243,920	227,302	3,282,366
		<u>121,673,994</u>	<u>86,673,784</u>	<u>22,441,944</u>	<u>8,889,248</u>
TOTAL ASSETS		<u>138,305,814</u>	<u>101,735,745</u>	<u>50,113,099</u>	<u>35,171,190</u>
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	24	28,354,000	28,354,000	28,354,000	28,354,000
Share premium		6,406,222	6,406,222	6,406,222	6,406,222
Foreign currency translation reserve	25	(51,769)	83,729	-	-
Retained profit		26,710,304	18,108,159	14,787,680	378,158
		<u>61,418,757</u>	<u>52,952,110</u>	<u>49,547,902</u>	<u>35,138,380</u>
Minority interest		<u>1,139,138</u>	-	-	-
TOTAL EQUITY		<u>62,557,895</u>	<u>52,952,110</u>	<u>49,547,902</u>	<u>35,138,380</u>

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2006 (CONTD.)

	Note	Group 2006 RM	2005 RM	Company 2006 RM	2005 RM
NON CURRENT LIABILITIES					
Hire purchase payables	26	107,037	-	-	-
CURRENT LIABILITIES					
Trade payables	27	66,216,200	39,835,089	-	-
Other payables	27	5,364,139	4,658,728	565,197	32,810
Bank borrowings	28	3,036,543	3,108,818	-	-
Provision for taxation		1,024,000	1,181,000	-	-
		<u>75,640,882</u>	<u>48,783,635</u>	<u>565,197</u>	<u>32,810</u>
TOTAL LIABILITIES		<u>75,747,919</u>	<u>48,783,635</u>	<u>565,197</u>	<u>32,810</u>
TOTAL EQUITY AND LIABILITIES		<u>138,305,814</u>	<u>101,735,745</u>	<u>50,113,099</u>	<u>35,171,190</u>

The accompanying notes form an integral part of the financial statements.

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	← Attributable to Equity Holders of the Parent →				Total RM	Minority Interest RM	Total Equity RM
		Share capital RM	Share premium RM	Foreign currency translation reserve RM	Retained profit RM			
Group								
At 1 January 2005		28,354,000	6,406,222	-	10,083,699	44,843,921	-	44,843,921
Currency translation differences		-	-	83,729	-	83,729	-	83,729
Net profit for the year		-	-	-	9,249,354	9,249,354	-	9,249,354
Dividends	12	-	-	-	(1,224,894)	(1,224,894)	-	(1,224,894)
At 31 December 2005		28,354,000	6,406,222	83,729	18,108,159	52,952,110	-	52,952,110
At 1 January 2006		28,354,000	6,406,222	83,729	18,108,159	52,952,110	-	52,952,110
Currency translation differences		-	-	(135,498)	-	(135,498)	-	(135,498)
Acquisition and subscription of shares in subsidiaries by minority shareholders		-	-	-	-	-	1,325,155	1,325,155
Net profit for the year		-	-	-	9,214,592	9,214,592	(186,017)	9,028,575
Dividends	12	-	-	-	(612,447)	(612,447)	-	(612,447)
At 31 December 2006		28,354,000	6,406,222	(51,769)	26,710,304	61,418,757	1,139,138	62,557,895

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)

			Non- Distributable Reserve	Distributable Reserve	
	Note	Share capital RM	Share premium RM	Retained profit RM	Total Equity RM
Company					
At 1 January 2005		28,354,000	6,406,222	(126,335)	34,633,887
Net profit for the year		-	-	1,729,387	1,729,387
Dividends	12	-	-	(1,224,894)	(1,224,894)
At 31 December 2005		<u>28,354,000</u>	<u>6,406,222</u>	<u>378,158</u>	<u>35,138,380</u>
At 1 January 2006		28,354,000	6,406,222	378,158	35,138,380
Net profit for the year		-	-	15,021,969	15,021,969
Dividends	12	-	-	(612,447)	(612,447)
At 31 December 2006		<u>28,354,000</u>	<u>6,406,222</u>	<u>14,787,680</u>	<u>49,547,902</u>

The accompanying notes form an integral part of the financial statements.

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		12,560,668	12,781,200	21,024,226	2,579,951
Adjustments for:					
Gain on disposal of property, plant and equipment		(335,243)	(31,338)	-	-
Gain on disposal of quoted securities		-	(20,605)	-	-
Unrealised foreign exchange losses		238,748	-	-	-
Depreciation of property, plant and equipment		636,647	953,390	-	-
Depreciation of investment properties		11,188	11,188		
Amortisation of intangible assets		197,939	140,494	-	-
Provision for doubtful debts		453,028	650,151	-	-
Write back of provision for doubtful debts		(26,750)	(196,178)	-	-
(Reversal of impairment)/ impairment loss on quoted securities		(132,332)	737,279	-	-
Impairment loss on investment properties		328,217	-	-	-
Provision for defect liabilities		820,796	544,435	-	-
Inventories written off		84,562	133,593	-	-
Finance cost		192,595	15,077	-	-
Dividend income		-	-	(21,600,000)	(3,000,000)
Interest income		(263,918)	(281,338)	(50,970)	(66,482)
Operating profit before working capital changes		14,766,145	15,437,348	(626,744)	(486,531)
Changes in working capital:					
Inventories		471,872	(3,992,351)	-	-
Receivables		(36,389,313)	4,177,734	(15,531,818)	2,964,101
Payables		26,008,503	(12,493,713)	532,387	(29,341)
Net cash generated from operations carried forward		4,857,207	3,129,018	(15,626,175)	2,448,229

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)

	Note	Group 2006 RM	2005 RM	Company 2006 RM	2005 RM
Net cash generated from operations brought forward		4,857,207	3,129,018	(15,626,175)	2,448,229
Taxes paid		(3,704,873)	(4,947,450)	(5,656)	(15,414)
Interest paid		(192,595)	(15,077)	-	-
Interest received		263,918	281,338	50,970	66,482
Net cash generated from/ (used in) operating activities		<u>1,223,657</u>	<u>(1,552,171)</u>	<u>(15,580,861)</u>	<u>2,499,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries	16	-	2,673	(1,389,212)	(4,811,560)
Subscription of shares in subsidiaries by minority shareholder		1,325,155	23,121	-	-
Dividend received		-	-	15,552,000	2,160,000
Development costs		(2,455,236)	(458,179)	-	-
Purchase of property, plant and equipment		(552,432)	(4,791,423)	-	-
Purchase of intangible assets		-	(60,000)	-	-
Proceeds from disposal of property, plant and equipment		596,374	77,210	-	-
Investment in marketable securities		-	(7,482,044)	-	-
Proceeds from disposal of marketable securities		-	6,570,605	-	-
Net cash used in investing activities		<u>(1,086,139)</u>	<u>(6,118,037)</u>	<u>14,162,788</u>	<u>(2,651,560)</u>

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Placement of fixed deposits under lien with licensed bank	(703,031)	(137,243)	(1,024,544)	-
Repayment of bankers' acceptances	(6,549,593)	(4,011,000)	-	-
Drawdown of bankers' acceptances and trust receipts	6,363,780	5,094,500	-	-
Drawdown of short term loan	1,353,180	-	-	-
Dividend paid	(612,447)	(1,224,894)	(612,447)	(1,224,894)
Drawdown of hire purchase creditors	141,000	-	-	-
Repayment of hire purchase creditors	(15,489)	(40,576)	-	-
Net cash used in in financing activities	<u>(22,600)</u>	<u>(319,213)</u>	<u>(1,636,991)</u>	<u>(1,224,894)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	114,918	(7,989,421)	(3,055,064)	(1,377,157)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>3,731,602</u>	<u>11,637,294</u>	<u>3,282,366</u>	<u>4,659,523</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>3,876,042</u>	<u>3,731,602</u>	<u>227,302</u>	<u>3,282,366</u>
(Note 23)				

METRONIC GLOBAL BERHAD
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Cash and cash equivalents at the balance sheet date comprise the following:				
Cash and bank balances	4,148,718	5,243,920	227,302	3,282,366
Bank overdraft (Note 28)	(272,676)	(1,512,318)	-	-
	<u>3,876,042</u>	<u>3,731,602</u>	<u>227,302</u>	<u>3,282,366</u>

The accompanying notes form an integral part of the financial statements.

METRONIC GLOBAL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the MESDAQ Market of Bursa Malaysia Securities Berhad. The registered office is located at 650, Block A, Kelana Centre Point, No. 3, Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan.

The principal activities of the subsidiaries are procurement of contracts and system integration specialising in the field of intelligent building management system and integrated security management system; e-project management of mechanical and electrical services; and supply of engineering systems and engineering equipment.

During the year, the Company acquired four new subsidiaries, namely Metronic-iCares Sdn. Bhd., FeelingK Malaysia Sdn. Bhd., Trend Gate Systems Sdn. Bhd., and Metronic Australia Private Limited. The principal activities and intended principal activities of these new subsidiaries have been disclosed in Note 16 to the financial statements. With the exception of Metronic-iCares Sdn. Bhd., these newly acquired subsidiaries have not commenced operations as at 31 December 2006.

There have been no significant changes in the nature of the principal activities during the financial year, other than as disclosed above.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26 April 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards issued in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described in Note 3.

The financial statements of the Group and Company have also been prepared on a historical basis.

The financial statements are presented in Ringgit Malaysia (RM).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those entities over which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Subsidiaries and Basis of Consolidation (Contd.)

Any excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit and loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(c) Intangible Assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary.

Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but it is reviewed for impairment annually or more frequently whenever there is an indication that the carrying value may be impaired. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Computer Software

Computer software acquired separately are measured on initial recognition at cost. Following the initial recognition, these assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Computer software is amortised at annual rate of 20% on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Intangible Assets (Contd.)

(ii) Computer Software (Contd.)

Prior to 1 January 2006, computer software was classified under the Property, Plant and Equipment. The adoption of FRS 138 - Intangible Assets has resulted in a change in accounting policy and a reclassification of the computer software to Intangible Assets (Note 15). As the Company continues to apply amortisation of the cost of the assets as that in previous year when classified as Property, Plant and Equipment, there is no other financial implication upon such reclassification in the financial statements.

(iii) Other Intangible Assets

Research and development costs

All research costs are recognised in the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

Development costs, considered to have finite useful lives, are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

Subsequent expenditure on capitalised intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses in accordance with Note 2(g).

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation on other property, plant and equipment is provided on a straight line basis to write off the cost of each assets to its residual value over the estimated useful life at the following annual rates:

Freehold buildings	2%
Renovations	4%
Motor vehicles	20%
Furniture, fittings and equipment	20%

Leasehold buildings is depreciated over the estimated useful life of 50 years.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which is determined on a weighted average basis, includes cost of building automation equipment and parts, computer servers, and other direct cost in bringing the equipment to its present location. Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

(f) Engineering Contracts

Where the outcome of an engineering contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of an engineering contract cannot be reliably estimated, contract revenue is recognised to the extent of the contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total costs incurred on engineering contracts, plus recognised profits (less recognised losses), exceeds progress billings, the balance is shown as amount due from customers on contracts. When progress billings exceed costs incurred plus recognised profit (less recognised losses), the balance is classified as amount due to customers on contracts.

(g) Impairment of Non-Financial Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets other than engineering contract assets, inventories and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Non-Financial Assets (Contd.)

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(h) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Income Tax (Contd.)

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(i) Foreign Currencies

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not translated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Foreign Currencies (Contd.)

(ii) Foreign Currency Transactions (Contd.)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where the monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. Exchange differences arising from such non-monetary items are also recognized directly in equity.

(iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the period, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Foreign Currencies (Contd.)

(iii) Foreign Operations (Contd.)

Goodwill and fair value adjustments arising on the acquisition of a foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

(j) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

(i) Finance Leases - the Group as the Lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(g).

(ii) Operating Leases - the Group as the Lessee

Operating lease payments are charged to the income statement on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provision for defect liability is provided by reference to the stage of completion of contract activity at balance sheet date, based on the performance bond amount or a fixed rate of the contract value as stipulated in the contract. The defect liability period of one to three years is specified in the contracts.

(l) Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**(l) Employee Benefits (Contd.)****(iii) Termination Benefits**

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

(m) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Contract revenue

Contract revenue is recognised based on the stage of completion method as described in Note 2(f).

(ii) Maintenance and services

Revenue from services rendered is recognised net of discounts as and when the services are performed.

(iii) Sale of goods

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Revenue Recognition (Contd.)

(v) Interest income

Interest income is recognised on an accrued basis using the effective yield on the effective interest method.

(n) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, and deposits at call (excludes deposits which are pledged), which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

(ii) Other Non-Current Investments

Non-current investments other than investment in subsidiaries and investment properties are stated at cost less impairment losses.

On disposal of an investment, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(iii) Marketable Securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in profit or loss. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Financial Instruments (Contd.)

(iv) Receivables

Receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date. Bad debts are written off when identified.

(v) Payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(vi) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(vii) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(o) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment loss. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g).

In the previous years, all investment properties were included in Property, Plant and Equipment. Following the adoption of FRS 140 - Investment Property, these assets are now classified into Investment Properties (Note 14). Depreciation on investment property is charged to the income statements on a straight line basis over their estimated useful life of 50 years. Freehold land is not depreciated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(o) Investment Properties (Contd.)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the disposal of an investment property are recognised in profit and loss in the year in which they arise.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs

On 1 January 2006, the Group and the Company adopted the following FRSs which are relevant to the Group's and to the Company's operations and are mandatory for financial periods beginning on or after 1 January 2006:

FRS 2	Share-based Payments
FRS 3	Business Combinations
FRS 5	Non Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statement
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statement
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of the above FRS does not have significant financial impact on the Group and on the Company for the current financial year except for the following:

(a) FRS 101 : Presentation of Financial Statements

Prior to 1 January 2006, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interests.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (CONTD.)

(b) FRS 138 : Intangible Assets

Prior to 1 January 2006, computer software was categorised as Property, Plant and Equipment. The adoption of FRS 138 has resulted in certain acquired computer software whereby computer software that is not integral part of the related hardware are treated as intangible assets. Such intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided for on a straight-line basis over the estimated useful life of the intangible assets.

The details of the accounting policy and the restatement of comparatives are disclosed in Note 2 (c) (ii) and Note 3 (d) respectively.

(c) FRS 140 : Investment Property

Prior to 1 January 2006, properties held for capital gain or rental purposes are classified as Property, Plant and Equipment. Upon adoption of FRS 140, these assets were reclassified to Investment Properties. Because the Company continues to apply cost model, there is no other financial implication upon such reclassification in the financial statements. The details of the accounting policy and the restatement of comparatives are described in Note 2.2 (o) and Note 3 (d) respectively.

(d) Restatement of comparatives

The following amounts of the Group as at 31 December 2005 have been reclassified as follows:

	Previously Stated RM	Reclassification RM	Restated RM
Balance Sheet			
Property, plant and equipment	12,848,633	(1,218,910)	11,629,723
Intangible assets (FRS 138)	458,179	479,755	937,934
Investment properties (FRS 140)	-	739,155	739,155
Income Statement*			
Other income	494,339	31,337	525,676
Other expenses	(9,271,664)	(31,337)	(9,303,001)

* Income statement comparatives have been restated to conform with current year's presentation.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (CONTD.)

(e) Standards and Interpretations Issued but not yet Effective

At the date of authorisation of these financial statements, the following FRSs, amendments to FRS and Interpretations were issued but not yet effective and have not been applied by the Group and the Company:

FRS	Beginning on or after
FRS 117 - Leases	1 October 2006
FRS 124 - Related Party Transactions	1 October 2006
Amendment to FRS 119 ₂₀₀₄ - Employees Actuarial Gains and losses, Group Plans and Disclosure	1 January 2007
FRS 6 - Exploration for and Evaluation of Mineral Resources	1 January 2007
FRS 139 - Financial Instruments: Recognition and Measurement	Effective date deferred
Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement Approach under FRS 129 ₂₀₀₄ - Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

The above FRSs, amendments to FRS and Interpretations are expected to have no significant impact on the financial statements of the Company upon their initial application.

The Company is exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 117, FRS 124 and FRS 139.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Critical Judgments in Applying the Group's Accounting Policies

In the process of applying the Group's accounting policies, which are described in Note 3, management is of the opinion that there are no instances of judgment which are expected to have significant effect of the amounts recognised in the financial statements.

(b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Engineering Contracts

The Group recognises engineering contract revenue and expenses in the income statement by using the stage of completion method. The stage of completion is determined by the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Significant judgment is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs, as well as recoverability of the contract costs. In making the judgment, the Group evaluates based on past experience and by relying on the work of specialists.

A 1% difference in the estimated total engineering contracts revenue or cost would result in approximately RM1 million variance in the Company's revenue and 1% variance in the Company's cost of sales.

(ii) Impairment of development costs

During the current financial year, the Group carried out impairment tests in respect of its subsidiaries development costs included within intangible assets, based on a variety of estimations including the value-in-use of the CGU to which the development costs are allocated. Estimating the value-in-use requires the Group to make an estimate of the future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of development costs of the Group as at 31 December 2006 are RM2,855,970 (2005: RM458,179).

If management's estimated gross margin had been lower by 10%, the development costs would continue to be unimpaired. If management's estimated pre-tax discount rate applied to the discounted cash-flows had been raised by 10%, the development costs would also continue to be unimpaired.

5. REVENUE

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Contract work	103,674,035	79,736,214	-	-
Maintenance services	6,275,936	3,998,979	-	-
Sale of equipment	991,744	738,709	-	-
Dividend income	-	-	21,600,000	3,000,000
	<u>110,941,715</u>	<u>84,473,902</u>	<u>21,600,000</u>	<u>3,000,000</u>

6. COST OF SALES

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Contract costs (Note 21)	85,598,661	59,296,149	-	-
Maintenance services	1,764,291	1,528,776	-	-
Cost of equipment sold	286,741	103,726	-	-
	<u>87,649,693</u>	<u>60,928,651</u>	<u>-</u>	<u>-</u>

7. OTHER INCOME

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Interest income	263,918	281,338	50,970	66,482
Gain on disposal of property, plant and equipment	335,243	31,338	-	-
Rental income	56,250	129,000	-	-
Miscellaneous	84,026	84,000	-	-
	<u>739,437</u>	<u>525,676</u>	<u>50,970</u>	<u>66,482</u>

8. FINANCE COSTS

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Interest expense on:				
Short term borrowing	30,649	-	-	-
Bank overdraft	76,696	5,306	-	-
Bankers' acceptances	82,756	4,446	-	-
Hire purchase	2,494	5,325	-	-
Total interest expense	<u>192,595</u>	<u>15,077</u>	<u>-</u>	<u>-</u>

9. PROFIT BEFORE TAXATION

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
(a) After charging/(crediting):				
Staff costs (Note c)	7,894,951	7,814,922	-	-
Auditors' remuneration				
- statutory audits				
- parent auditors	128,025	72,000	43,000	32,000
- other auditors	30,412	16,400	-	-
Depreciation of property, plant and equipment	636,647	953,390	-	-
Amortisation of intangible assets (Note 15)	197,939	140,494	-	-
Directors' emoluments (Note b)	853,850	839,281	108,000	48,000
Office rental	82,301	70,634	12,000	12,000
Foreign exchange (gains)/losses				
- realised	(137,422)	(52,653)	-	-
- unrealised	238,748	(40,589)	-	-
Provision for doubtful debts	453,028	650,151	-	-
(Reversal of impairment) /impairment loss on quoted securities	(132,332)	737,279	-	-

9. PROFIT BEFORE TAXATION (CONTD.)

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
(a) After charging/(crediting): (Contd.)				
Depreciation of investment properties (Note 14)	11,188	11,188	-	-
Impairment loss on investment properties (Note 14)	328,217	-	-	-
Provision for defect liabilities	820,796	544,435	-	-
Inventories written off	84,562	133,593	-	-
Interest income				
- short term deposit	(253,418)	(270,838)	(50,970)	(66,482)
- loan stocks	(10,500)	(10,500)	-	-
Gain on disposal of quoted securities	-	(20,605)	-	-
Gain on disposal of property, plant and equipment	(335,243)	(31,338)	-	-
Dividend income from subsidiaries	-	-	(21,600,000)	(3,000,000)
Write back of provision for doubtful debts	(26,750)	(196,178)	-	-

(b) Directors' remuneration:

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
(i) Executive directors' remuneration				
Fees	36,000	36,000	36,000	-
Defined contribution benefit (EPF)	78,030	76,500	-	-
Other emoluments	667,820	654,781	-	-
	<u>781,850</u>	<u>767,281</u>	<u>36,000</u>	<u>-</u>

9. PROFIT BEFORE TAXATION (CONTD.)**(b) Directors' remuneration: (Contd.)**

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Non-executive directors' remuneration Fees	72,000	72,000	72,000	48,000
Total directors' remuneration	853,850	839,281	108,000	48,000

The details of remuneration received by directors of the Company during the year are as follows:

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
(ii) Director of the Company Executive:				
Defined contribution benefit (EPF)	78,030	76,500	-	-
Other emoluments	629,570	629,281	-	-
Fees	36,000	36,000	36,000	-
Bonuses	38,250	25,500	-	-
	781,850	767,281	36,000	-
Non-Executive: Fees	72,000	48,000	72,000	48,000
(iii) Director of subsidiaries Non-Executive: Fees	-	24,000	-	-
Total	853,850	839,281	108,000	48,000

9. PROFIT BEFORE TAXATION (CONTD.)**(b) Directors' remuneration: (Contd.)**

- (iv) The numbers of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of Directors	
	2006	2005
Executive directors:		
Below RM50,000	1	1
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	1	1
RM200,001 - RM250,000	1	1
RM250,001 - RM350,000	1	1
Non-Executive directors:		
Below RM50,000	<u>3</u>	<u>3</u>

(c) Employee information

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Staff costs (excluding directors' emoluments)				
Salary, wages and bonus	6,390,872	6,118,472	-	-
Termination benefits	-	508,540	-	-
Defined contribution benefit (EPF)	680,849	692,762	-	-
Other staff related expenses	823,230	495,148	-	-
	<u>7,894,951</u>	<u>7,814,922</u>	<u>-</u>	<u>-</u>

10. INCOME TAX EXPENSE

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

10. INCOME TAX EXPENSE (CONTD.)

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Malaysian taxation based on the results for the year:				
- Current	3,727,119	4,057,075	6,034,119	850,564
Over provision in prior years	(165,026)	(298,435)	(31,862)	-
Deferred tax (Note 18)				
- relating to origination and reversal of temporary differences	(66,759)	(201,000)	-	-
- Overprovision in prior year	(43,000)	-	-	-
- Relating to changes in tax rates	79,759	-	-	-
	<u>3,532,093</u>	<u>3,557,640</u>	<u>6,002,257</u>	<u>850,564</u>

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective tax rate of the Group and of the Company are as follows:

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Profit before taxation	<u>12,560,668</u>	<u>12,781,200</u>	<u>21,024,226</u>	<u>2,579,951</u>
Taxation at the statutory tax rate of 28%	3,516,987	3,578,736	5,886,783	722,386
Effect of different tax rate in subsidiary	(40,000)	(22,930)	-	-
Effect of expenses not deductible for tax purposes	751,058	487,178	154,736	146,793
Effect of income not subject to tax	(656,420)	(186,909)	(7,400)	(18,615)
Overprovision of tax expense in prior years	(165,026)	(298,435)	(31,862)	-
Overprovision of deferred tax in prior year	(43,000)	-	-	-
Deferred tax assets not recognised	88,735	-	-	-
Deferred tax recognised at different tax rates	79,759	-	-	-
	<u>3,532,093</u>	<u>3,557,640</u>	<u>6,002,257</u>	<u>850,564</u>

11. EARNINGS PER SHARE

Both the basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year as there are no potential ordinary shares.

	2006	2005
Profit attributable to ordinary equity holders of the Company (RM)	9,214,592	9,249,354
Weighted average number of ordinary shares in issue	<u>283,540,000</u>	<u>283,540,000</u>
Basic/diluted earnings per share (sen)	<u>3.25</u>	<u>3.26</u>

12. DIVIDENDS

	← Dividend in respect of Year →			Dividends Recognised in Year	
	2006 RM	2005 RM	2004 RM	2006 RM	2005 RM
Recognised during the year:					
Final dividend for 2004: 3% less 28% taxation on 283,540,000 ordinary shares (0.22 sen per ordinary share)	-	-	612,447	-	612,447
Interim dividend for 2005: 3% less 28% taxation on 283,540,000 ordinary shares (0.22 sen per ordinary share)	-	612,447	-	-	612,447
Final dividend for 2005: 3% less 28% taxation on 283,540,000 ordinary shares (0.22 sen per ordinary share)	-	612,447	-	612,447	-
	<u>-</u>	<u>612,447</u>	<u>-</u>	<u>612,447</u>	<u>-</u>
	<u>-</u>	<u>1,224,894</u>	<u>612,447</u>	<u>612,447</u>	<u>1,224,894</u>

The directors do not propose the payment of any dividend in respect of the current financial year ended 31 December 2006.

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land RM	Freehold buildings RM	Leasehold building RM	Motor vehicles RM	Furniture, fittings and equipment RM	Renovations RM	Total RM
COST							
At 1 January 2006	1,223,566	4,440,919	4,678,352	191,281	2,029,114	576,703	13,139,935
Additions	-	-	-	169,178	373,767	9,487	552,432
Disposals	-	-	(265,113)	(53,940)	(13,381)	-	(332,434)
Exchange differences	-	-	(163,181)	-	(2,663)	(4,208)	(170,052)
At 31 December 2006	1,223,566	4,440,919	4,250,058	306,519	2,386,837	581,982	13,189,881
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	-	156,914	52,258	132,328	1,130,496	38,216	1,510,212
Depreciation charge for the year	-	92,065	87,246	60,500	371,253	25,583	636,647
Disposals	-	-	(11,354)	(53,939)	(6,010)	-	(71,303)
Exchange differences	-	-	(4,179)	-	(665)	(188)	(5,032)
At 31 December 2006	-	248,979	123,971	138,889	1,495,074	63,611	2,070,524
NET BOOK VALUE							
As at 31 December 2006	1,223,566	4,191,940	4,126,087	167,630	891,763	518,371	11,119,357

The freehold land, freehold buildings, and leasehold buildings with a total net book value of RM5,815,255 (2005: RM3,970,858) are charged to licensed banks for banking facilities granted to the Group.

Included in motor vehicles are assets purchased under hire purchase contracts with an aggregate net book value of RM151,577 (2005: RM51,518).

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land RM	Freehold buildings RM	Leasehold buildings RM	Motor vehicles RM	Furniture, fittings and equipment RM	Renovations RM	Total RM
COST							
At 1 January 2005	1,469,475	4,440,919	782,055	263,740	2,446,920	444,949	9,848,058
Transfer to investment properties (Note 14)	(245,909)	(179,644)	(362,979)	-	-	-	(788,532)
Transfer to intangible assets (Note 15)	-	-	-	-	(633,426)	-	(633,426)
Restated at 1 January 2005	1,223,566	4,261,275	419,076	263,740	1,813,494	444,949	8,426,100
Additions	-	-	4,438,920	-	220,936	131,567	4,791,423
Disposals	-	-	-	(72,459)	(5,129)	-	(77,588)
Reclassification	-	179,644	(179,644)	-	(187)	187	-
At 31 December 2005	1,223,566	4,440,919	4,678,352	191,281	2,029,114	576,703	13,139,935
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	-	62,441	11,029	82,047	529,632	14,755	699,904
Transfer to investment properties (Note 14)	-	(32,177)	(6,012)	-	-	-	(38,189)
Transfer to intangible assets (Note 15)	-	-	-	-	(73,177)	-	(73,177)
Restated at 1 January 2005	-	30,264	5,017	82,047	456,455	14,755	588,538
Disposals	-	-	-	(28,539)	(3,177)	-	(31,716)
Depreciation charge for the year	-	100,970	72,921	78,820	677,339	23,340	953,390
Reclassification	-	25,680	(25,680)	-	(121)	121	-
At 31 December 2005	-	156,914	52,258	132,328	1,130,496	38,216	1,510,212
NET BOOK VALUE							
Restated as at 31 December 2005	1,223,566	4,284,005	4,626,094	58,953	898,618	538,487	11,629,723

14. INVESTMENT PROPERTIES

	Freehold Land RM	Freehold Building RM	Leasehold Building RM	Total RM
COST				
At 1 January 2006/				
At 31 December 2006	<u>245,909</u>	<u>179,644</u>	<u>362,979</u>	<u>788,532</u>
ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES				
At 1 January 2006	-	35,770	13,607	49,377
Depreciation charge	-	3,593	7,595	11,188
Impairment losses	95,909	-	232,308	328,217
At 31 December 2006	<u>95,909</u>	<u>39,363</u>	<u>253,510</u>	<u>388,782</u>
NET CARRYING VALUE				
At 31 December 2006	<u>150,000</u>	<u>140,281</u>	<u>109,469</u>	<u>399,750</u>
COST				
At 1 January 2005	-	-	-	-
Transfers from property, plant and equipment	245,909	179,644	362,979	788,532
At 31 December 2005	<u>245,909</u>	<u>179,644</u>	<u>362,979</u>	<u>788,532</u>
ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES				
At 1 January 2005	-	-	-	-
Transfers from property, plant and equipment	-	32,177	6,012	38,189
Depreciation charge	-	3,593	7,595	11,188
At 31 December 2005	<u>-</u>	<u>35,770</u>	<u>13,607</u>	<u>49,377</u>
NET CARRYING VALUE				
At 31 December 2005	<u>245,909</u>	<u>143,874</u>	<u>349,372</u>	<u>739,155</u>

14. INVESTMENT PROPERTIES (CONTD.)

The following investment property are held under lease terms:

	2006	2005
	RM	RM
Leasehold building	<u>109,469</u>	<u>349,372</u>

All investment properties are pledged as securities for borrowings (Note 28).

15. INTANGIBLE ASSETS

GROUP	Software	Development	Total
	RM	Cost	RM
		RM	
COST			
At 1 January 2005	-	-	-
Transfers from property, plant and equipment (Note 12)	633,426	-	633,426
Additions			
- internal development	-	458,179	458,179
- purchased	60,000	-	60,000
At 31 December 2005			
and 1 January 2006	693,426	458,179	1,151,605
Additions - internal development	-	2,455,236	2,455,236
As 31 December 2006	<u>693,426</u>	<u>2,913,415</u>	<u>3,606,841</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
At 1 January 2005	-	-	-
Transfers from property, plant and equipment (Note 12)	73,177	-	73,177
Amortisation for the year	140,494	-	140,494
At 31 December 2005			
and 1 January 2006	213,671	-	213,671
Amortisation for the year	140,494	57,445	197,939
At 31 December 2006	<u>354,165</u>	<u>57,445</u>	<u>411,610</u>
NET BOOK VALUE			
As at 31 December 2005	<u>479,755</u>	<u>458,179</u>	<u>937,934</u>
As at 31 December 2006	<u>339,261</u>	<u>2,855,970</u>	<u>3,195,231</u>

15. INTANGIBLE ASSETS (CONTD.)

The development costs relate to the development of Power Line Communication Controller for Smart Home Automation System and the MiCares e-Infrastructure System, where it is reasonably anticipated that the costs will be recovered through future commercial activity. The development costs for the Power Line Communication Controller were not amortised during the financial year as the product was in the stage of development.

16. INVESTMENT IN SUBSIDIARIES

	Company	
	2006	2005
	RM	RM
Unquoted shares, at cost	<u>27,671,155</u>	<u>26,281,942</u>

Details of the subsidiaries are as follows:

Name of Company	Country of Incorporation	Equity Interest held		Principal Activities
		2006	2005	
		%	%	
Metronic Engineering Sdn. Bhd.	Malaysia	100	100	System integration specialising in the field of intelligent building management systems and integrated security management systems; e-project management of mechanical and electrical services; and supply of engineering systems.
Metronic Integrated System Sdn. Bhd.	Malaysia	100	100	Procurement of contracts in relation to engineering work specialising in the field of intelligent building management systems, integrated security management systems, and sale of engineering equipment.
Metronic Microsystem (Beijing) Company Limited**	China	100	100	Design, production and sale of engineering systems for the Information and Communication Technology Industry, specialising in intelligent building management systems and telecommunication systems.

16. INVESTMENT IN SUBSIDIARIES (CONTD.)

Name of Company	Country of Incorporation	Equity Interest held		Principal Activities
		2006 %	2005 %	
Metronic Engineering Private Limited*	India	70	70	Design, production and sale of engineering systems for the Information and Communication Technology Industry, specialising in intelligent building management systems and integrated security management systems.
Metronic iCares Sdn. Bhd.	Malaysia	51	-	Third Party Administrator (TPA) & Managed Care Organisation (MCO) for healthcare sector via the connectivity applications & infrastructure for the exchange of transactional information through internet.
FeelingK Malaysia Sdn. Bhd.	Malaysia	100	-	Intended principal activities are provision of mobile internet service for deploying Card Notification Solutions, Bulk Short Message Services (SMS), Voice SMS including related consultancy and Implementation.
Trend Gate Systems Sdn. Bhd.	Malaysia	100	-	Intended principal activities are research, development, production and the marketing of building automation and security system products, modules and related parts.

16. INVESTMENT IN SUBSIDIARIES (CONTD.)

Name of Company	Country of Incorporation	Equity Interest held		Principal Activities
		2006 %	2005 %	
Metronic Australia Pty Ltd	Australia	60	-	Intended principal activities are provision, marketing and distribution of automation and energy systems.

* Audited by affiliate of Ernst & Young

** Audited by a firm of auditors other than Ernst & Young

(a) Acquisitions and incorporations of subsidiaries for the year ended 31 December 2006:

- (i) Effective on 14 April 2006, the Company holds a 51% equity interest in MiCares via an acquisition of 51 ordinary shares of RM1 each in MiCares for a cash consideration of RM51.

MiCares further increased its ordinary share capital from 100 to 2,704,100 ordinary shares via issuance of additional 2,704,000 ordinary shares at RM1 each at par for cash during the period. The Company subscribed to 1,379,000 of the said ordinary shares at RM1 each at par for a cash consideration of RM1,379,000, thus maintaining its 51% equity interest in MiCares.

- (ii) On 6 July 2006, the Company acquired 100 ordinary shares of RM1 each in FEELingK Sdn. Bhd. ("FKSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM100.

During the period, FKSB further increased its ordinary issued and paid up share capital from 100 ordinary shares to 10,000 ordinary shares by the allotment of 9,900 ordinary shares of RM1 each. The Company subscribed to all the allotted ordinary shares for a cash consideration of RM9,900, thus maintaining a 100% equity interest in FKSB.

- (iii) On 5 June 2006, the Company incorporated a foreign subsidiary in Australia via a subscription of 60 ordinary shares of Australian Dollar ("A\$")1.00 each for a cash consideration of A\$60, representing a 60% equity interest in Metronic Australia Pty Ltd.

- (iv) On 22 December 2006, the Company acquired 2 ordinary shares of RM1 each in Trend Gate Systems Sdn Bhd ("TRSSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.

16. INVESTMENT IN SUBSIDIARIES (CONTD.)

Further details of these incorporations and acquisitions are disclosed in Note 32 to the financial statements.

The financial results of the subsidiaries acquired and included in the consolidated financial statements for the year ended 31 December 2006:

	2006	Note (b)(i)
	RM	2005
		RM
Income statement		
Revenue	-	-
Loss before taxation	(493,846)	(143,920)

The effect of acquisitions to the financial position of the Group at the dates of acquisition were not material to the Group. Accordingly, no disclosures are made.

(b) Acquisition of subsidiary for the year ended 31 December 2005:

(i) The acquisition in 2005 is in relation to the acquisition of the 70% equity interest in Metronic Engineering Private Limited, a company incorporated in India, via a subscription of 100,000 shares of Rs10 each for a total cash consideration of RM60,185 (Indian Rupee 700,000).

The fair values of the assets acquired and liabilities assumed from the date of acquisition of the subsidiary in the previous financial year is as follows:

	Note (b)(i)
	above
	25.7.2005
	RM
Cash and bank balances	8,910
Net assets	8,910
Minority interest	(2,673)
Total purchase consideration to be satisfied by cash	6,237
Cash flow arising on acquisition:	
Purchase consideration satisfied by cash	(6,237)
Issuance of shares subscribed by a minority shareholder	23,121
Cash and cash equivalents of subsidiaries acquired	8,910
Net cash inflow to the Group	25,794

17. OTHER INVESTMENTS

	Group	
	2006	2005
	RM	RM
Quoted securities in Malaysia:		
Quoted shares, at cost	979,165	979,165
Irredeemable convertible unsecured loan stocks, at cost	210,000	210,000
Impairment loss	(736,683)	(869,016)
	<u>452,482</u>	<u>320,149</u>
Golf club membership	94,000	94,000
	<u>546,482</u>	<u>414,149</u>
Market value of quoted securities	<u>452,482</u>	<u>320,149</u>

18. DEFERRED TAX

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
At 1 January	1,341,000	1,140,000	-	-
Recognised in income statement (Note 10)	30,000	201,000	-	-
At 31 December	<u>1,371,000</u>	<u>1,341,000</u>	<u>-</u>	<u>-</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	1,550,000	1,551,000	-	-
Deferred tax liabilities	(179,000)	(210,000)	-	-
	<u>1,371,000</u>	<u>1,341,000</u>	<u>-</u>	<u>-</u>

18. DEFERRED TAX (CONTD.)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities of the Group:

	Property, plant and equipment RM	Total RM
At 1 January 2006	210,000	210,000
Recognised in income statement	<u>(31,000)</u>	<u>(31,000)</u>
At 31 December 2006	<u>179,000</u>	<u>179,000</u>
At 1 January 2005	380,000	380,000
Recognised in income statement	<u>(170,000)</u>	<u>(170,000)</u>
At 31 December 2005	<u>210,000</u>	<u>210,000</u>

Deferred Tax Assets of the Group:

	Provision for Defect Liabilities RM	Receivables RM	Others RM	Total RM
At 1 January 2006	802,000	498,000	251,000	1,551,000
Recognised in income statement	<u>(52,000)</u>	<u>182,000</u>	<u>(131,000)</u>	<u>(1,000)</u>
At 31 December 2006	<u>750,000</u>	<u>680,000</u>	<u>120,000</u>	<u>1,550,000</u>
	Provision for Defect Liabilities RM	Receivables RM	Others RM	Total RM
At 1 January 2005	850,000	450,000	220,000	1,520,000
Recognised in income statement	<u>(48,000)</u>	<u>48,000</u>	<u>31,000</u>	<u>31,000</u>
At 31 December 2005	<u>802,000</u>	<u>498,000</u>	<u>251,000</u>	<u>1,551,000</u>

18. DEFERRED TAX (CONTD.)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2006	2005
	RM	RM
Unused tax losses	295,404	-
Unabsorbed capital allowances	21,506	-
	<u>316,910</u>	<u>-</u>

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of a subsidiary is subject to no substantial changes in shareholding of the subsidiary under Section 44(5A) and (5B) of Income Tax Act, 1967.

19. INVENTORIES

	Group	
	2006	2005
	RM	RM
At cost		
Building automation equipment and parts	1,510,356	1,940,113
Computer servers	3,319,269	3,445,946
	<u>4,829,625</u>	<u>5,386,059</u>

20. TRADE AND OTHER RECEIVABLES**(A) TRADE RECEIVABLES:**

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Trade receivables	3,229,627	3,458,935	-	-
Progress billings receivable	78,951,058	52,253,653	-	-
Due from customers on contracts (Note 21)	9,730,019	5,435,479	-	-
Advances to sub contractors	-	-	-	-
Retention sums on contracts (Note 21)	15,661,215	12,588,061	-	-
	<u>107,571,919</u>	<u>73,736,128</u>	<u>-</u>	<u>-</u>
Provision for doubtful debts	(5,887,634)	(5,461,356)	-	-
	<u>101,684,285</u>	<u>68,274,772</u>	<u>-</u>	<u>-</u>

20. TRADE AND OTHER RECEIVABLES (CONTD.)**(B) OTHER RECEIVABLES:**

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Due from subsidiaries	-	-	19,904,280	5,462,886
Deposits and prepayment	2,919,873	768,243	1,232,825	142,402
Sundry receivables	1,605,494	1,217,823	52,993	1,594
Provision for doubtful debts	(329,889)	(329,889)	-	-
	<u>4,195,478</u>	<u>1,656,177</u>	<u>21,190,098</u>	<u>5,606,882</u>

The Group's normal credit terms range from 60 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentrations of credit risk that may arise from exposures to a single debtor or groups of debtors other than a balance due from a debtor of RM52,894,585 (2005: RM30,622,806) in which certain Directors have interest.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Included in sundry receivables of the Group is an amount of RM697,756 (2005: RM1,005,414) being purchase consideration for the acquisition of 51% equity interest in Infocon (Beijing) Environmental Control Technology Company Limited ("IBEC"). An amount of RM491,388 has been refunded by the shareholder of IBEC subsequent to the balance sheet date while pending renegotiation and finalisation of the terms and conditions of the acquisition.

Included in deposits and prepayment of the Group and of the Company is an amount of RM1,001,982 (2005: Nil) being expenses paid for the corporate proposals as disclosed in Note 32 (e) to the financial statements.

21. DUE FROM/TO CUSTOMERS ON CONTRACTS

	Group	
	2006	2005
	RM	RM
Contract costs incurred to date	209,776,930	131,553,144
Add: Attributable profits	36,098,202	20,453,653
	<u>245,875,132</u>	<u>152,006,797</u>
Less: Progress billings received and receivable	<u>(241,603,698)</u>	<u>(150,088,826)</u>
	<u>4,271,434</u>	<u>1,917,971</u>
Due from customers on contracts (Note 20)	9,730,019	5,435,479
Due to customers on contracts (Note 27)	<u>(5,458,585)</u>	<u>(3,517,508)</u>
	<u>4,271,434</u>	<u>1,917,971</u>
Retention sums on contracts, included within trade debtors (Note 20)	<u>15,661,215</u>	<u>12,588,061</u>
Advances received on contracts, included within trade payables (Note 27)	<u>-</u>	<u>517,001</u>
Contract costs recognised as an expense (Note 6)	<u>85,598,661</u>	<u>59,296,149</u>

Included in contract costs recognised as an expense is provision for defect liabilities of RM820,796 (2005: RM544,435) during the year.

22. SHORT TERM DEPOSITS

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Fixed deposits with licensed banks	<u>6,815,888</u>	<u>6,112,856</u>	<u>1,024,544</u>	<u>-</u>

All the fixed deposits with licensed banks are pledged as security for banking facilities granted to the Group as disclosed in Note 28.

The weighted average effective interest rate and maturities of deposits at the balance sheet date are as follows:

	Interest rate		Maturity	
	2006	2005	2006	2005
	%	%	day	day
Fixed deposits	<u>3.01</u>	<u>2.83</u>	<u>30</u>	<u>30</u>

23. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise the following as at the balance sheet date:

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Cash and bank balances	4,148,718	5,243,920	227,302	3,282,366
Bank overdrafts (Note 28)	(272,676)	(1,512,318)	-	-
Total cash and cash equivalents	<u>3,876,042</u>	<u>3,731,602</u>	<u>227,302</u>	<u>3,282,366</u>

24. SHARE CAPITAL

	Number of Ordinary Shares of RM0.10 Each		Amount	
	2006	2005	2006	2005
			RM	RM
Authorised:				
At 1 January and at 31 December	<u>500,000,000</u>	<u>500,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid:				
At 1 January and at 31 December	<u>283,540,000</u>	<u>283,540,000</u>	<u>28,354,000</u>	<u>28,354,000</u>

25. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operation, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

26. HIRE PURCHASE PAYABLES

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Amounts outstanding	130,274	4,762	-	-
Less: Due within twelve months (Note 27)	(23,237)	(4,762)	-	-
Due after twelve months	<u>107,037</u>	<u>-</u>	<u>-</u>	<u>-</u>

The commitment terms of more than one year under hire purchase agreements of the Group are summarised as follows:

	2006		2005	
	Minimum payments	Present value of liabilities	Minimum payments	Present value of liabilities
	RM	RM	RM	RM
Gross amounts payable				
Not later than 1 year	27,744	23,237	5,378	4,762
More than 1 year but not later than 5 years	134,075	107,037	-	-
	<u>161,819</u>	<u>130,274</u>	<u>5,378</u>	<u>4,762</u>
Less: Future finance charges	(31,545)	-	(616)	-
	<u>130,274</u>	<u>130,274</u>	<u>4,762</u>	<u>4,762</u>

27. TRADE AND OTHER PAYABLES**(A) TRADE PAYABLES:**

	2006	2005	2006	2005
	RM	RM	RM	RM
Trade payables	60,757,615	35,800,580	-	-
Advances received on contracts (Note 21)	-	517,001	-	-
Due to customer on contracts (Note 21)	5,458,585	3,517,508	-	-
	<u>66,216,200</u>	<u>39,835,089</u>	<u>-</u>	<u>-</u>

27. TRADE AND OTHER PAYABLES (CONTD.)**(B) OTHER PAYABLES:**

	2006	2005	2006	2005
	RM	RM	RM	RM
Other creditors and accruals	2,456,335	1,789,469	565,197	32,810
Provision for defect liability	2,884,567	2,864,497	-	-
Hire purchase creditors (Note 26)	23,237	4,762	-	-
	<u>5,364,139</u>	<u>4,658,728</u>	<u>565,197</u>	<u>32,810</u>

28. BANK BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Short term borrowings				
Bank overdraft (secured) (Note 23)	272,676	1,512,318	-	-
Bankers' acceptances (secured)	1,410,687	1,596,500	-	-
Revolving credit (secured)	1,353,180	-	-	-
	<u>3,036,543</u>	<u>3,108,818</u>	<u>-</u>	<u>-</u>

The bank borrowings are secured on the freehold land and buildings, leasehold buildings and all the fixed deposits with licensed banks of RM6,815,888 (2005: RM6,112,856) of the Group. The interest rates on these borrowings range between 4.1% to 8.0% (2005: 3.8% to 7.5%) per annum.

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions and outstanding balances arising from related parties during the financial year:

	2006		2005	
	Transactions RM	Balance Outstanding RM	Transactions RM	Balance Outstanding RM
GROUP				
Accounting fee received from Metronic Corporation Sdn. Bhd. ("MCSB") +	60,000	-	60,000	-
Rental received from MCSB +	12,000	-	12,000	-
Accounting fee received from Meditechnique Sdn. Bhd. ("Meditechnique") ^	12,000	-	24,000	-
Rental received from Meditechnique ^	12,000	-	24,000	-
Purchases from ITG Worldwide (M) Sdn. Bhd. ##	1,504,740	414,603	1,707,578	-
Rental received from ITG Worldwide (M) Sdn. Bhd. ##	6,000	-	-	-
Contract fee payable to Integrated Commerce Sdn. Bhd. *	14,475	14,475	-	4,514
Contract and maintenance services receivable from MH Projects Sdn. Bhd. ("MHP") #	69,635,807	52,894,585	44,346,895	30,622,806
Maintenance fee receivable from Integrated Commerce Sdn. Bhd.	20,550	20,550		
Subcontractor fee payable to Ledtronics Sdn. Bhd.**	111,889	43,832	615,852	-

29. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTD.)

COMPANY	2006		2005	
	Transactions RM	Balance Outstanding RM	Transactions RM	Balance Outstanding RM
Dividend income from subsidiaries	21,600,000	-	3,000,000	-
Office rental payable to a subsidiary	12,000	-	12,000	-

+ substantial shareholder of the Company where directors of the Company, Dato' Abd. Gani bin Yusof, Dr Ng Tek Che and Liew Chiap Hong have interest.

^ a company in which a director of the Company, Dr Ng Tek Che, has an interest

a company in which the directors of the Company, Dato' Abd. Gani bin Yusof and Tan Sri Dato' Kamaruzzaman bin Shariff are also directors.

a company in which a director of the Company, Liew Chiap Hong has an interest

* a company in which a director of the Company, Dato' Abd. Gani bin Yusof has an interest

** a company in which a director of the Company, Subhi bin Dziyauddin is also director.

The directors of the Company are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

30. CAPITAL COMMITMENTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Approved and contracted for:				
- Research and development expenditure	367,915	475,422	-	-

31. CONTINGENT LIABILITIES

	Company	
	2006	2005
	RM	RM
(a) Unsecured:		
Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries	19,883,125	19,000,000
(b) Lee Bee Leng & two (2) others vs (1) Metronic Engineering Sdn Bhd ("MESB") and (2) University Teknologi Petronas.		

On 15 November 2005, MESB, being the first (1st) defendant was served with a Writ of Summons by Lee Bee Leng & two (2) others ("Plaintiffs") claiming for among others general damages and special damages due to the death of the 1st Plaintiff's husband and 2nd & 3rd Plaintiff's father. The maximum exposure to liabilities of MESB and University Teknologi Petronas ("UTP") is therefore estimated at RM903,550. A Statement of Defence had been filed with the High Court of Malaysia in Ipoh.

In the opinion of MESB's solicitors, MESB should have a good arguable case to go to court.

- (c) Cworks Systems Berhad ("Cworks") vs Metronic Global Berhad ("Company")

On 9 January 2007, the Company through its solicitors, received a Writ of Summons and Statement of Claim issued by CWorks claiming an outstanding amount of RM1,751,617.27 from the Company pursuant to a Software Development Agreement dated 9 May 2005 ("the Agreement") for the development and provision of a software. The maximum exposure to MGB is estimated at RM1,751,617.27. The Company's solicitors are of the opinion that CWorks' claims are premature in nature and in breach of its own actual obligations and that the prospect of defending the suit is good.

The Directors of the Company are of the opinion that the claims referred to above in (b) and (c) are not probable and therefore no provision has been made as at 31 December 2006.

32. OTHER SIGNIFICANT EVENTS

- (a) On 14 April 2006, the Company signed a Joint Venture cum Shareholders' Agreement with iCare Health Services Pte Ltd to co-operate and collaborate on health care services via a joint venture company known as Metronic iCares Sdn Bhd (formerly known as Success Knowledge Sdn Bhd) ("MiCares") which was incorporated on 20 March 2006. The Company holds 51% equity interest in MiCares via an acquisition of 51 ordinary shares of RM1 each in MiCares for a cash consideration of RM51. MiCares further increased its paid up share capital from 100 ordinary shares to 2,704,100 ordinary shares at RM1 each at par during the period. The Company subscribed to 1,379,000 of the said ordinary shares at RM1 each for a cash consideration of RM1,379,000, thus maintaining its 51% equity interest in MiCares.

32. OTHER SIGNIFICANT EVENTS (CONTD.)

- (b) On 5 June 2006, the Company incorporated a foreign subsidiary in Australia via a subscription of 60 ordinary shares of Australian Dollar ("A\$")1 each representing 60% equity interest in Metronic Australia Pty Ltd for a cash consideration of A\$60.
- (c) On 17 May 2006, the Company entered into a binding Heads of Agreement with FEELingK Co., Ltd ("FEELingK") to set up a joint venture company, FEELingK Malaysia Sdn Bhd ("FKSB"), with the primary objective of deploying card notification solution, bulk short message services, voice SMS and 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 the Company and FEELingK ("Joint Venture Agreement"). The shareholdings of the respective joint venture partners shall be the Company (60%) and FEELingK (40%).

On 6 July 2006, the Company acquired 100 ordinary shares of RM1 each in FKSB representing 100% of its issued and paid-up share capital for a total cash consideration of RM100. During the period, FKSB further increased its ordinary issued and paid up share capital from 100 to 10,000 by allotment of 9,900 ordinary shares of RM1 each. The Company subscribed all the allotted ordinary shares for a cash consideration of RM9,900, thus maintaining 100% equity interest in FKSB.

At the date of this report, a new agreement is in the midst of being finalised to replace the said Joint Venture Agreement. Under the new agreement, the Company will acquire 100% equity interest in FKSB and FEELingK will charge FKSB licensing fee for solution provided.

- (d) On 11 June 2006, the Company entered into a deed of partnership with Tariq Mohammed Saeed Abdulla Al Jassmi ("Tariq"), a UAE national and Khalid Abdul Karim Faris ("Khalid"), a Jordanian national (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 African 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 the Company (50%), Tariq (25%) and Khalid (25%).

As at the date of the report, an initial approval to set up a Limited Liability Company ("LLC") has been obtained from the Department of Economic Development, Dubai and the LLC is in the midst of being set up.

32. OTHER SIGNIFICANT EVENTS (CONTD.)

- (e) On 3 November 2006, the Securities Commission ("SC") (Securities Issues Department and Equity Compliance Unit) approved the Company's following proposals, subject to the conditions as stated in the SC's letters dated 3 November 2006 and 19 January 2007:
- (i) Proposed acquisition of 125 ordinary shares of Hong Kong Dollar ("HK\$") 1.00 each in Unilink Development Limited ("Unilink") representing 12.5% equity interest in Unilink for a purchase consideration of Renminbi ("RMB") 15,000,000 (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 ordinary shares of RM0.10 each in MGB ("MGB Shares") at an issue price of RM0.30 per MGB Share;
 - (ii) Proposed acquisition of 10,000 ordinary shares of HK\$1.00 each in HK 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 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;
 - (iii) 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 which shall be satisfied by the issuance of up to 103,686,636 new MGB Shares at an issue price of RM0.30 and/or cash payment to be mutually agreed upon by Zonemax and MGB or, if the Proposed Bonus Issue (as defined hereinafter) is implemented, 182,976,416 new MGB Shares at an issue price of RM0.17 per MGB Share and/or cash payment to be mutually agreed by Zonemax and MGB;
 - (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 volume weighted average market price of Company's Shares;
 - (v) Proposed bonus issue of up to 318,989,098 new Company's Shares ("Bonus Shares") to be credited as fully paid-up on the basis of six (6) Bonus Shares for every seven (7) MGB Shares held ("Proposed Bonus Issue");
 - (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 Company's Shares;

32. OTHER SIGNIFICANT EVENTS (CONTD.)

- (vii) Proposed amendments to the Memorandum and Articles of Association of Company's;
and
- (viii) Proposed 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 Malaysia Securities Berhad.

All the proposals have been approved by the shareholders of the Company in the Extraordinary General Meeting held on 23 April 2007.

- (f) On 22 December 2006, the Company acquired 2 ordinary shares of RM1.00 each in Trend Gate Systems Sdn Bhd ("TRSSB") representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.

33. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- (a) On 17 April 2007, the Company entered into a Share Sale Agreement with the shareholders of Ariantec Sdn Bhd ("Ariantec"), to acquire 600,000 ordinary shares of RM1.00 each in Ariantec representing 40% equity interest in Ariantec for a cash consideration of RM5,400,000. The Company had on the even date also entered into a Put Option Agreement with the shareholders of Ariantec. Ariantec is a value-added provider of data network infrastructure and managed security systems and solutions.
- (b) On 23 April 2007, the Company entered into a Shareholders' Agreement with Daniel Lim Kim Chuan, Dominica Avril Miji and Adprima Sdn Bhd ("Adprima") ("the Parties") to carry out the activities of a special projects management consultancy company, performance contracting business and to participate in certain business which the Parties may from time to time agree. The Company shall subscribe for up to 120,000 new ordinary shares of RM1.00 each in Adprima Sdn Bhd for a total cash consideration of RM162,500, representing a 60% equity interest in Adprima.
- (c) Subsequent to the financial year ended 31 December 2006, corporate guarantees amounting to RM31,500,000 were provided to a licensed bank for credit facilities granted to a subsidiary.

34. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objective and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate (both fair value and cash flow), foreign currency risk, liquidity and credit risks. It is, and has been throughout the year under review, the Group's policy not to engage in speculative transactions.

(b) Interest Rate Risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no substantial long term interest-bearing assets as at 31 December 2006, the investments in financial assets are mainly short term in nature and they are not held for speculative purposes, but have been mostly placed in short term deposits.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group constantly reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a retail level of protection against rates hikes. The Group does not have any exposure in off balance sheet instruments.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

(c) Liquidity Risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash equivalents to meet its working capital requirements.

In addition, the Group also maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from financial institutions and prudently balances its portfolio with short term funding so as to achieve overall cost effectiveness.

34. FINANCIAL INSTRUMENTS (CONTD.)**(d) Foreign Currency Risk**

The Group incurs foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia. Exposure to foreign currency risks are monitored on an ongoing basis. Material foreign currency transaction exposures are hedged with derivative financial instruments such as forward foreign exchange contracts.

The unhedged financial liabilities of the Group that are not denominated in Ringgit Malaysia are as follows:

	United States Dollar RM	Great Britain Pound RM	Singapore Dollar RM	Total RM
At 31 December 2006:				
Trade payables	524,945	88,817	21,219	634,981
At 31 December 2005:				
Trade payables	1,802,621	166,744	28,006	1,997,371

(e) Credit Risk

Credit risk are minimised and monitored via strictly limiting the Group's associations to business partners with reasonably high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.

The Group does not have any significant exposure to any individual customer nor does it have any major concentration of credit risk related to any financial instruments other than a balance due from a debtor of RM52,894,585 (2005: RM30,662,806).

(f) Fair Values

The carrying amounts of financial assets and liabilities of the company at the balance sheet date approximated their fair values except for the following:

	Company Carrying Value RM	Fair Value RM
At 31 December 2006:		
Financial Assets		
Amount due from subsidiaries	19,904,280	#

34. FINANCIAL INSTRUMENTS (CONTD.)

(f) Fair Values (Contd.)

- # It is not practical to estimate the fair values of amount due from subsidiaries due principally to a lack of fixed repayment terms entered by the parties involved and without incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and cash equivalents, receivables, payables and short term borrowings

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) Investments

The fair values of quoted securities is determined by reference to stock exchange quoted market prices at the close of the business on the balance sheet date.

35. SEGMENTAL REPORTING

(a) Geographical segments

The primary segment reporting format is determined to be geographical as the Group's risks and rates of return are affected predominantly by the location of where revenue is generated. The operating businesses are organised and managed separately according to the geographical locations, where each segment represents a strategic business unit. The Group's geographical segments are divided into two categories.

(i) Malaysia

The operations in this area are intelligent building management systems, integrated security management systems, e-project management of mechanical and electrical services and supply of engineering systems.

(ii) Overseas

The Group has operations in Vietnam, India, The People's Republic of China and the Kingdom of Saudi Arabia. Contributions from operations in all these countries, with the exception of Vietnam, have been insignificant in the current financial year.

35. SEGMENTAL REPORTING (CONTD.)

Comparatives have not been presented as all of the Group's revenue in the last financial year was generated within Malaysia.

(b) Business segments

The Group's primary products are intelligent building management systems, integrated security management systems, e-project management of mechanical and electrical services and supply of engineering systems. Management considers these products to be integral and homogenous in nature. Revenues contributed during the financial year by other business segments other than the Groups primary products were not material. The secondary segmental reporting format is not prepared on this basis.

Geographical Segments

The following table provides an analysis of the Group's revenue, results, assets and liabilities by geographical segment.

	Malaysia RM	Overseas RM	Elimination RM	Total RM
31 December 2006				
Revenue				
Sales to external customers	100,569,621	10,372,094	-	110,941,715
Inter-segment sales	1,252	16,081	(17,333)	-
Total Revenue	<u>100,570,873</u>	<u>10,388,175</u>	<u>(17,333)</u>	<u>110,941,715</u>
Results				
Segment result	11,812,016	941,247		12,753,263
Finance cost				<u>(192,595)</u>
Profit before tax				12,560,668
Income tax expense				<u>(3,532,093)</u>
Net profit for the year				<u>9,028,575</u>
Assets				
Segment assets	132,945,743	9,379,714	(4,019,643)	<u>138,305,814</u>
Liabilities				
Segment liabilities	73,562,721	6,204,841	(4,019,643)	<u>75,747,919</u>

35. SEGMENTAL REPORTING (CONTD.)

	Malaysia RM	Overseas RM	Elimination RM	Total RM
Other segment information				
Capital expenditure	2,953,567	54,101	-	3,007,668
Depreciation	538,134	109,701	-	647,835
Amortisation	197,939	-	-	197,939
Other significant non-cash expenses				
Provisions	990,580	256,494	-	1,247,074