



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

**ANNOUNCEMENT TO BURSA MALAYSIA**

**Control No: MGB/A/26/2007**

**SUBJECT MATTER:**

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

- **Proposed Restructuring of Unilink Development Limited (“Proposed Restructuring”)**

**CONTENTS:**

**1. INTRODUCTION**

On 2 August 2007, MGB announced that the Company had on 1 August 2007 entered into a Restructuring Agreement (“the Agreement”) with Zonemax Holdings Limited (“Zonemax”), Newtron Company Limited (“Newtron”), Edmund Chuah Choong Eng Huat (“Edmund Chuah”) and Unilink Development Limited (“Unilink”) (collectively the “Parties” and individually a “Party”) to carry out the share swaps and the restructuring exercise of Unilink (“Proposed Restructuring”).

**2. DETAILS OF THE PROPOSED RESTRUCTURING**

The Proposed Restructuring entails the following:

- (i) MGB proposes to acquire 125 ordinary shares of Hong Kong Dollar (“HK\$”) 1.00 each in Unilink (“Unilink Shares”) representing 12.5% equity interest in Unilink from Newtron and/or its nominee; in consideration, MGB shall dispose 10,000 ordinary shares of HK\$1.00 each in Hong Kong Broadway Electronics Company Limited (“HK Broadway”) representing 100% equity interest in HK Broadway to Newtron and/or its nominee;
- (ii) Newtron proposes to sell 25 Unilink Shares representing 2.5% equity interest in Unilink to Edmund Chuah and/or his nominee for a cash consideration, or such mode of payment to be agreed between the parties; and
- (iii) Edmund Chuah proposes to sell 190,000 ordinary shares of USD1.00 each in Hangzhou Heng-Ai Electronics Co, Ltd (“Heng-Ai”) representing 5% of the registered capital in Heng-Ai to Unilink, and in consideration, Unilink shall issue 26 new Unilink Shares representing 2.5% equity interest in Unilink to Edmund Chuah.

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

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

No liabilities will be assumed by MGB pursuant to the Proposed Restructuring. In addition, there are no gains or losses arising from the Proposed Restructuring.

## **2.1 Background information on Unilink and HK Broadway**

### **Unilink**

Unilink was incorporated as a private limited company in Hong Kong, People's Republic of China ("PRC") on 15 February 2005. The authorised share capital of Unilink is HK\$10,000 comprising 10,000 Unilink Shares of which 1,000 Unilink Shares are issued and fully paid-up.

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

- (i) USD3,384,000 registered capital representing 80% equity interest in Newtronics Hangzhou Co, Ltd ("Newtronics"); and
- (ii) USD3,040,000 registered capital representing 80% equity interest in Heng-Ai.

### **HK Broadway**

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

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

- (i) USD423,000 registered capital representing 10% equity interest in Newtronics; and
- (ii) USD380,000 registered capital representing 10% equity interest in Heng-Ai.

## **2.2 Background information on Newtronics and Heng-Ai**

### **Newtronics**

Newtronics was registered as a limited liability company in Hangzhou, PRC on 5 June 2003 in accordance with the PRC Sino-foreign Equity Joint Venture Enterprises Law and the PRC Company Law. On 23 November 2006, Newtronics became a Wholly Foreign Owned Enterprise. As at 31 July 2007, the total investment and registered capital in Newtronics is USD4,230,000. Newtronics is principally engaged in high volume printed circuit board assembly, cellular phone and other electronics products assembly.

Newtronics had net assets of Renminbi ("RMB") 39,664,470 (equivalent to approximately RM17,891,055 at the exchange rate of RM1.00 : RMB2.217 ) and recorded profit after taxation ("PAT") of RMB13,814,415 (equivalent to approximately RM6,357,301 at the exchange rate of RM1.00 : RMB2.173) and did not have any borrowings based on its latest audited financial statements for the financial year ended 31 December 2006

### **Heng-Ai**

Heng-Ai was incorporated as a limited liability company in Hangzhou, PRC on 15 September 2004 in accordance with the PRC Sino-foreign Equity Joint Venture Enterprises Law and the PRC Company Law. As at 31 July 2007, the current total investment and the registered capital in Heng-Ai is USD3,800,000. The principal business of Heng-Ai is the assembly of mobile telecommunication component products.

Heng-Ai had net assets of RMB34,020,451 (equivalent to RM15,345,264 at the exchange rate of RM1.00 : RMB2.217) and recorded PAT of RMB9,920,722 (equivalent to approximately RM4,565,449 at the exchange rate of RM1.00 : RMB2.173) and did not have any borrowings based on its latest audited financial statements for FYE 31 December 2006

## **2.3 Basis of arriving at the purchase consideration**

The consideration for the acquisition of additional 12.5% equity interest in Unilink in exchange for the sale of MGB's 100% equity interest in HK Broadway was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:

- (i) the latest available audited PAT of Newtronics for the financial year ended 31 December 2006 of RMB13,814,415 (equivalent to approximately RM6,357,301);
- (ii) the latest available audited PAT of Heng-Ai for the financial year ended 31 December 2006 of RMB9,920,722 (equivalent to approximately RM4,565,449);
- (iii) the latest available audited net assets of Newtronics as at 31 December 2006 of RMB39,664,470 (equivalent to approximately RM17,891,055);
- (iv) the latest available audited net assets of Heng-Ai as at 31 December 2006 of RMB34,020,451 (equivalent to approximately RM15,345,264);
- (v) aggregate audited PAT of RMB30,000,000 (equivalent to RM13,824,884 at the exchange rate of RM1: RMB2.17) of Newtronics and Heng-Ai guaranteed by the Zonemax and Newtron for the FYE 31 December 2007.

## **2.4 Salient terms of the Restructuring Agreement**

The salient terms of the Restructuring Agreement are as follows:

### **a) Completion**

On the Completion Date, ie a date within 2 months from the date of the Sale and Purchase Agreement dated 11 May 2007 between TSH Corporation Limited and Zonemax or such other date as may be agreed in writing by the Parties and subject to all such approvals necessary for the share swaps being obtained, the Parties shall effect the share swaps and do all such necessary to complete the restructuring exercise of Unilink as mentioned in Clause 2.

### **b) Warranties**

Each of the Parties hereby represents, warrants and undertakes to the other Parties as an inducement to the other Parties to enter into the Agreement that they are the registered shareholders of the Company or any of the other relevant companies at the date of the Agreement as reflected herein and are entitled to sell and transfer to the corresponding Parties the full legal and beneficial ownership of the shares of and/or the Unilink Shares and that such shares are, and will on the Completion Date be, free from all encumbrances

### **c) No waiver**

No failure on the part of any of the Parties to exercise, and no delay on its/his part in exercising, any right or remedy under this Agreement will operate as a waiver thereof nor will any single or partial exercise or attempted exercise of any right or remedy preclude any other or further exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

### **d) Governing law and jurisdiction**

- i) The Agreement shall be governed by, and construed in accordance with, the laws of Hong Kong ; and
- ii) Each of the Parties hereby submit irrevocably to the non-exclusive jurisdiction of the courts of Hong Kong.

## **2.5 Background information on the Vendors**

### **Newtron**

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

The substantial shareholders of Newtron are Gu Ying, Cui Jun and Jin Yao Quan, who are also the Directors of Newtron.

## **2.6 Original cost and date of investment**

The original cost and dates of investment of Newtron in Unilink are provided in Table 1(a) attached herewith.

The original cost and dates of investment of MGB in HK Broadway are provided in Table 1(b) attached herewith.

## **3. RATIONALE**

The rationale of Proposed Restructuring to rationalise MGB’s shareholding in Unilink and to streamline MGB’s effective equity interest of 20% each in Newtronics and Heng-Ai by holding the shares via one investment holding company, Unilink.

## **4. INDUSTRY OVERVIEW AND PROSPECTS**

### **4.1 INDUSTRY OVERVIEW**

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

#### **4.1.1 EMS Industry**

According to a market assessment by a leading market researcher, worldwide EMS revenue was approximated at USD117.30 billion in 2005. The global EMS industry is expected to register a compounded annual growth rate (“CAGR”) of 11.92% from 2004 to 2007.

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

- An ongoing trend by multi-national companies to adopt outsourced manufacturing model which provides efficiency and cost-saving benefits;
- Additional service offerings by the EMS industry such as more comprehensive design solutions and services, delivery and inventory logistics and aftermarket services, which provides further avenues for EMS players to increase their revenue and profitability growth; and
- Continuing growth of the existing customer base of the EMS players.

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

Within the Asia Pacific EMS market, the PRC is the imminent dominant player with an estimated 69% market share in 2005. The PRC’s EMS revenue is expected to grow at an estimated annual growth rate

of 30% over the period of 2005 to 2009 in line with expected continuous migration of manufacturing operations to the PRC in the near term.

*(Source: SIM Technology Group Ltd's prospectus dated 21 June 2005)*

#### **4.1.2 Printed Circuit Boards Industry**

The global PCB industry is estimated at USD40.1 billion in 2005, based on production value. The industry is expected to grow at CAGR of 6.3% for the period 2006-2010. As the end-market of the PCB industry is in the electronics equipment industry, the demand for PCB is driven by the demand for electronics equipment. Since 2002, the world electronics equipment market has been recovering from a downturn. Backed by solid demand, specifically from the PRC, the global electronics equipment market is expected to reach USD1,645 billion in 2008 from USD1,106 billion in 2003, or to grow at a CAGR of 8.3%. Among the various market segments of electronics equipment, the communication segment is expected to grow at a faster rate than the other segments at an expected CAGR of 9.6% from 2003 to 2008.

The PCB industry in the PRC is primarily driven by the growing demand for electronics products such as mobile phones, personal computers, automobiles, electronics software and semiconductor packaging and components. The PRC Printed Circuit Association ("CPCA") estimates that in 2005, the PRC's PCB output was 110.57 million square meters with production value at RMB86.8 billion (approximately USD10.7 billion) or approximately a quarter of the world's PCB production. The Chinese PCB industry is expected to grow steadily at an estimated CAGR of 11.7% from 2005 to 2010.

It is estimated that there is an approximately 1,000 PCB manufacturers in the PRC, representing 35% of a total of approximately 2,860 PCB manufacturers worldwide in 2004. However, in terms of revenue, the PCB manufacturers in the PRC accounted for only approximately 20% of the global revenue of approximately US\$40 billion and thus, indicating room for the PRC manufacturers to increase their market share globally. The PCB market in the PRC is one of the highest growth markets as production, procurement and final assembly are shifting to Asia from high-cost locations such as the United States and Europe in line with the ongoing outsourcing trend and the rising domestic demand in the PRC.

*(Source: TC Interconnect Holdings Ltd's prospectus dated 23 June 2006)*

#### **4.1.3 PRC Mobile Handset Market**

According to a market assessment by a leading market researcher, the PRC has become the largest mobile handset market worldwide. The number of mobile phone subscribers in the PRC increased from approximately 25.3 million in 1998 to estimated 378.2 million in 2005. It is estimated that the growth trend in mobile handset subscribers and penetration rate in the PRC will continue with a CAGR of 14.6% between 2003 and 2008.

*(Source: Longcheer Holdings Limited's prospectus dated 3 May 2005)*

The total production output and sales volume of mobile handsets in the PRC have experienced similar growth. In 2004, the total production output of mobile handsets in PRC was 226 million units, representing a growth rate of 31.3% over 2003. The total sales volume of mobile handsets manufactured in the PRC was 78.7 million units in 2004, representing a growth rate of 6.7% over 2003. The increase in the total sales volume of mobile handsets in the PRC is expected to continue to 83 million units in 2005 and 89 million units in 2006 at a growth rate of 5.5% and 7.2% respectively.

*Source: SIM Technology Group Ltd's prospectus dated 21 June 2005*

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

- Continued growth of the PRC economy will continue to spur the growth in the telecommunications industry
- High growth of mobile telecommunications driven by increasing mobile subscriptions and mobile telecom network coverage. The penetration rate of 20.9% in 2003 as compared to that of

developed countries at 60-70% penetration rate indicates a large potential for growth in the PRC mobile handset market

- Developing the PRC's mobile handset replacement and secondhand markets provides an alternative channel for revenue growth in addition to the new mobile handset sales market. The typical replacement market in the PRC is approximately 18 months

*(Source: Longcheer Holdings Limited's prospectus dated 3 May 2005)*

It is expected that the number of mobile handset subscribers and the mobile handset demand in the PRC will continue to grow in the near term. However, in line with the maturing PRC mobile handset market, the production growth rate and sales growth rate of mobile handsets in the PRC have seen a year-on-year decrease but the decline is expected to be mitigated by the mobile handset short product life cycle which would entail continuous production and sales demand.

## **4.2 PROSPECTS**

### **4.2.1 The PRC Economy**

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

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

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

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

### **4.2.2 Prospects of the PRC EMS Industry**

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

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

### **4.2.3 Prospects of Newtronics and Heng-Ai**

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

Newtronics and Heng-Ai are in the process of diversifying their customer base and product offerings. While the companies are currently primarily manufacturing mobile handset-related products, Newtronics and Heng-Ai have started the manufacturing services for other electronic products such as wireless modules in line with the flexibility of its production facilities. In addition, Newtronics and Heng-Ai have also commenced the development of its own value-added products such as the Bluetooth mobile headsets, which is expected to be ready for commercialisation in the very near term. The aforementioned efforts of Newtronics and Heng-Ai would serve to diversify and expand its revenue base while mitigating the risk of reliance on any particular customer, product or industry and thus, ensuring the sustainability of profitability and growth of Newtronics and Heng-Ai.

## **5. RISK FACTORS**

### **5.1 Risks related to the business**

#### **5.1.1 Limited operating track record**

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

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

Should any of the above risks are failed to be addressed successfully, the businesses of Newtronics and Heng-Ai may be materially and adversely affected. Therefore, there is no assurance that the Proposed Restructuring will necessarily result in an outcome in favour of the MGB Group in future.

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

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

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

reduction in demand from the customers of Newtronics and Heng-Ai. In such event, the revenue and profitability of the two companies will be adversely affected.

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

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

### **5.1.3 Dependence on the PRC mobile handset market**

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

### **5.1.4 Dependence on major customers**

The customers of Newtronics and Heng-Ai are mainly design houses for mobile handsets in the PRC. Newtronics derives a significant portion of its revenue from a few major customers. As Heng-Ai primarily serves as a manufacturing arm to Newtronics, Heng-Ai has only one customer being Newtronics. The loss of a significant portion of the sales to the major customers of Newtronics would have a material adverse effect on the business, financial condition and operating results of Newtronics and Heng-Ai. Although the Directors and management of both Newtronics and Heng-Ai believe that the relationship with these major customers are good, there can be no assurance that the good business rapport would translate into orders/revenue in the future and that the sales to the major customers would be able to be maintained at the current level.

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

### **5.1.5 Dependence on key management and skilled personnel**

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

The Vendors who are also key management of Newtronics and Heng-Ai shall remain indirect substantial shareholders of the two companies pursuant to the Proposed Restructuring and thus, have a vested interest in ensuring the continual profitability and operations of the two companies. The ability of Newtronics and Heng-Ai to attract and retain key employees generally depends on their ability to offer

competitive compensation, training, fair advancement opportunities and other incentives. Thus far, Newtronics and Heng-Ai have been enjoying good employer-employee relationship with its employees and shall endeavour. Nonetheless, no assurance can be given that the two companies will be able to retain their key management and skilled personnel in the future, and to successfully hire the requisite skilled personnel.

#### **5.1.6 Competition from existing competitors and new entrants**

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

#### **5.1.7 Insurance Coverage**

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

### **5.2 Risks Related to the PRC**

#### **5.2.1 Political and economic conditions in the PRC**

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

The PRC government has undergone various reforms of its economic system since 1978. Many of the reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. The refinement and readjustment process may consequently have a material impact on the operating or financial performance of Newtronics and Heng-Ai. Any changes in the PRC's social, economic, political and regulatory conditions as well as changes in the policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof may adversely affect the financial results and financial position of the two companies.

#### **5.2.2 PRC foreign exchange control**

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

purposes, the capital expenditure plan and thus the future growth of the two companies may be adversely affected.

### 5.2.3 Electricity shortages in the PRC

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

## 6. FINANCIAL EFFECTS

The Proposed Restructuring will not have any material effects on the share capital, net assets, earnings, major shareholders' shareholdings, or gearing of MGB.

## 7. APPROVALS REQUIRED

The Proposed Restructuring is conditional upon approval being obtained from the following:

- (i) the shareholders of MGB at an extraordinary general meeting to be convened; and
- (ii) any other relevant authorities/parties.

## 8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

Save as disclosed below, none of the other Directors and Major Shareholders of MGB has any interest, direct or indirect, in the Proposed Restructuring.

Dato' Abd Gani bin Yusof and Dr Ng Tek Che are the Major Shareholders of MGB and Directors of MGB, HK Broadway and Unilink.

Gu Ying is a Director of MGB, Newtron and Unilink. Gu Ying is also a Major Shareholder of Newtron which in turn is a Major Shareholder in MGB.

Edmund Chuah is a Director of MGB and Unilink.

Dato' Abd Gani bin Yusof, Dr Ng Tek Che, Gu Ying and Edmund Chuah (collectively the "Interested Directors") are therefore interested in the Proposed Restructuring. The Interested Directors have abstained and will continue to abstain from all board deliberations and voting on the resolutions pertaining to the Proposed Restructuring. The Interested Directors will also ensure that persons connected to them, namely, Vivien Saw Siew Yen will abstain from voting in respect of their direct shareholdings in MGB, on the resolution pertaining to the Proposed Restructuring.

The shareholdings of the Interested Directors and persons connected to them in MGB as at 30 July 2007 are as follows:

	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
<b>Interested Major Shareholder:</b>				

Metronic Corporation Sdn Bhd (“MCSB”)	78,987,176	12.440	-	-
Newtron	36,391,308	5.731	-	-
<b>Interested Directors:</b>				
Dato’ Abd. Gani bin Yusof	139,146,651	21.916	78,987,176 <sup>(1)</sup>	12.440
Dr. Ng Tek Che	41,863,583	6.594	78,987,176 <sup>(1)</sup>	12.440
Edmund Chuah Choong Eng Huat <sup>(2)</sup>	-	-	558,999	0.088
Gu Ying <sup>(3)</sup>	-	-	36,391,308	5.731

Note:

1. Deemed interest by virtue of Section 6A(4) of the Act (shareholding held through MCSB).
2. Deemed interest by virtue of Section 6A(4) of the Act (shareholding held through his spouse, Vivien Saw Siew Yen).
3. Deemed interest by virtue of Section 6A(4) of the Act (shareholding held through Newtron)

## 9. ESTIMATED TIME FRAME FOR COMPLETION

The Proposed Restructuring is expected to be completed by third quarter of 2007

## 10. INDEPENDENT ADVISER

Pursuant to Para 10.08 of the Listing Requirements of Bursa Securities Malaysia Berhad, PM Securities Sdn Bhd has been appointed as the independent adviser to advise the non-interested shareholders of MGB.

## 11. DEPARTURES FROM THE POLICIES AND GUIDELINES ISSUED BY THE SC (“SC GUIDELINES”)

There is no departure from the SC’s Guidelines in respect of the Proposed Restructuring.

## 12. DIRECTORS’ STATEMENT

The Board of MGB (excluding [Interested Directors]), after careful deliberation, is of the opinion that the Proposed Restructuring is in the best interest of the MGB Group.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

The Restructuring Agreement is available for inspection at the registered office of MGB at 650, Block A, Kelana Centre Point, No.3, Jalan SS 7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan during the normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 2 August 2007.

**Table 1 (a)**

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

<b>Date of investment</b>	<b>No of Unilink Shares</b>	<b>Cost of investment (HK\$)</b>	<b>Approximate RM equivalent</b>
01.06.2006	20	20	9.48*
28.06.2006	130	130	61.61*
Total	150	150	71.09*

**Table 1 (b)**

The original cost and dates of investment of MGB in HK Broadway are as follows:

<b>Date of investment</b>	<b>No of HK Broadway Shares</b>	<b>Cost of investment (RMB)</b>	<b>Approximate RM equivalent</b>
3.7.2007	10,000	15,000,000	6,912,442 <sup>#</sup>

The investment in HK Broadway by MGB was pursuant to the Share Sale Agreement dated 14 August 2006.

*Note:*

\* Assuming an exchange rate of RM1.00 : HK\$2.11.

# Assuming an exchange rate of RM1.00 : HK\$2.17