

EG Industries Berhad 222897-W
ANNUAL REPORT
2006



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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FIFTEENTH ANNUAL GENERAL MEETING of the Company will be held at Level 2, Sri Intan Room, The City Bayview Hotel, 25-A Farquhar Street, 10200 Penang on Thursday, 28 December, 2006 at 11:30 a.m. for the following purposes:-

AGENDA

- | | | |
|----|--|--------------|
| 1. | To receive and adopt the Audited Financial Statements for the year ended 30 June 2006 and the Reports of the Directors and the Auditors thereon. | Resolution 1 |
| 2. | To approve the payment of Directors' Fees of RM26,000.00 for the year ended 30 June 2006. | Resolution 2 |
| 3. | To re-elect the following directors retiring in accordance with Article 98(1) of the Company's Articles of Association:- | |
| | a) NIK AZALAN BIN NIK A. KADIR | Resolution 3 |
| | b) TAI LEE KEOW | Resolution 4 |
| 4. | To re-appoint Ernst & Young as auditors and to authorize the Directors to fix their remuneration. | Resolution 5 |

As Special Business:-

- | | | |
|----|---|--------------|
| 5. | <p>Ordinary Resolution
To consider and if thought fit, to pass the following as an Ordinary Resolution:-</p> <p>“THAT subject to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the Bursa Malaysia Securities Berhad and other relevant governmental/regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time at such price, upon such terms and conditions, for such purposes and to such person or persons whomsoever as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”</p> | Resolution 6 |
| 6. | <p>Ordinary Resolution
Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature</p> <p>“THAT subject to the Listing Requirements of the Bursa Malaysia Securities Berhad, approval be and is hereby given for the Company and its subsidiary companies, to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 3.2 of the Circular to Shareholders dated 6 December 2006 which are necessary for the day-to-day operations and/or in the ordinary course of business of the Company and its subsidiary companies on terms not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders of the Company (“Proposed Mandate”) and that such approval shall continue to be in force until:-</p> <p>(a) the conclusion of the next Annual General Meeting (“AGM”) of the Company following the AGM at which the ordinary resolution for the Proposed Mandate will be passed, at which time it will lapse, unless by a resolution passed at a general meeting, the authority is renewed; or</p> <p>(b) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143 (1) of the Companies Act, 1965 (“the Act”) (but shall not extend to such extension as may be allowed pursuant to Section 143 (2) of the Act); or</p> <p>(c) revoked or varied by resolution passed by the shareholders at a general meeting, whichever is the earlier.</p> <p>And Further That authority be and is hereby given to the Directors of the Company and its subsidiary companies to complete and do all such acts and things (including executing such documents as may be required) to give effect to such transactions as authorised by this Ordinary Resolution.</p> | Resolution 7 |
| 7. | To transact any other business for which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965. | |



NOTICE OF MEETING (contd.)

By Order of the Board

CHAI CHURN HWA (MAICSA 0811600)

Company Secretary

Penang
6 December 2006

NOTES:

1. A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy, and in the case of a corporation, a duly authorized representative to attend and vote in his stead. A proxy may but need not be a member of the Company.

The instrument appointing a proxy shall be in writing under the hand of the appointer or if such appointer is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorized.

A member who appoints two or more proxies shall specify the proportion of his shareholdings to be represented by each proxy.

The instrument appointing a proxy must be deposited at the Registered Office of the Company at Suite 18.01, 18th Floor, MWE Plaza, No. 8, Lebuhr Farquhar, 10200 Penang not less than forty-eight (48) hours before the time fixed for holding this meeting or at any adjournment thereof.

2. Explanatory notes on Special Business

Ordinary Resolution

- Resolution 6

The proposed Resolution No. 6 is in line with the Company's expansion plan which may involve the issue of new shares. Under the Companies Act, 1965, the Directors would have to call a general meeting to approve the issue of new shares even though the number of shares involved is less than 10% of the total issued capital. In order to avoid any delay and cost involved in convening such a general meeting, it is considered appropriate to seek the shareholders' approval for the Directors to issue shares in the Company up to an aggregate amount not exceeding 10% of the total issued capital of the Company for the time being. This authority, unless revoked or varied at a general meeting, will expire at the next annual general meeting of the Company.

- Resolution 7

The proposed Resolution No. 7 in relation to the Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature, if passed will renew the power given to the Group to transact with the parties related to the Group. Please refer to the Circular to the Shareholders dated 6 December 2006.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Directors who are standing for re-election at the Fifteenth Annual General Meeting of the Company :-

- NIK AZALAN BIN NIK A. KADIR (Resolution 3)
- TAI LEE KEOW (Resolution 4)

Profile of Directors who are standing for re-election:-

• **Nik Azalan Bin Nik A. Kadir**

Age	55
Nationality	Malaysian
Qualification	Degree in Electronics Data Processing Caulfield Institute of Technology Melbourne
Position	Independent Non-Executive Director
Working Experience & Occupation	Businessman Bank Officer
Date appointed to the Board	14 July 1993
Other Board Committee	Chairman of Audit Committee, Chairman of Remuneration Committee and Nomination Committee Member
Other Directorships (in Public Companies)	Emico Holdings Bhd
Family relationships with other Directors	Nil
Conflict of interest with listed issuer	Nil
Offences convicted for the past 10 years	Nil
No. of Board Meeting attended during the financial year	4

• **Tai Lee Keow**

Age	40
Nationality	Malaysian
Qualification	Bachelor of Commerce Degree, University of Melbourne Master of Business Administration
Position	Executive Director
Working Experience & Occupation	General Manager Executive Director
Date appointed to the Board	14 July 1993
Other Board Committee	Nil
Other Directorships (in Public Companies)	Nil
Family relationships with other Directors	Daughter of Tai Keik Hock Niece of Tai Keng Eng
Conflict of interest with listed issuer	Nil
Offences convicted for the past 10 years	Nil
No. of Board Meeting attended during the financial year	4



STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING (contd.)

Attendance at Board Meeting

Four Meetings were held during the financial year from 1 July 2005 to 30 June 2006. The details of attendance of Directors at the Board Meetings are as follows:-

Name of Directors	Date of Meetings			
	30/8/05	29/11/05	27/2/06	30/5/06
Tai Keik Hock	√	√	√	√
Tai Keng Eng	√	-	√	√
Tai Lee Keow	√	√	√	√
Nik Azalan Bin Nik A. Kadir	√	√	√	√
Khoo Boo Yeang	√	√	√	√

Place, date and time of the Fifteenth Annual General Meeting

The Fifteenth Annual General Meeting of the Company is scheduled to be held on Thursday, 28 December 2006 at 11:30 a.m. at Level 2, Sri Intan Room, The City Bayview Hotel, 25A Lebuhr Farquhar, 10200 Penang.

Directors' Remunerations

The details of remuneration for Directors of the Company comprising remuneration received/receivable from the Company and subsidiary companies during the financial year ended 30 June 2006 are as follows:-

Aggregate remuneration categorized into components -

	Executive Directors	Non-Executive Directors	Total
Fees (RM)	6,000	20,000	26,000
Salaries (RM)	401,280	-	401,280
Bonuses and Allowances (RM)	-	-	-
Benefits-in-kind (RM)	-	-	-
Total (RM)	407,280	20,000	427,280

The number of Directors of the Company whose total remuneration fall within the following bands -

	Executive Directors	Non-Executive Directors	Total
0 to RM50,000	-	2	2
RM50,001 to RM100,000	2	-	2
RM100,001 to RM150,000	-	-	-
RM150,001 to RM200,000	-	-	-
RM200,001 to RM250,000	1	-	1
RM250,001 to RM300,000	-	-	-

Statement of Directors' Responsibilities

Pursuant to Paragraph 15.27(a) of the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the results and cash flows of the Group and of the Company for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group for the year ended 30 June 2006, the Group has used appropriate accounting policies and applied them consistently and prudently. The Directors also consider that all relevant accounting standards have been followed in the preparation of these financial statements.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING(contd.)

Utilisation of Proceeds

During the financial year ended 30 June 2005, the Company has raised RM25,005,533 through the issuance of the 5-Year 5.0% coupon Irredeemable Convertible Unsecured Loan Stocks 2005/2010 and the fund was utilized by the first quarter of this financial year as follows:

i) Payment of expenses relating to the rights issue	1,186,781
ii) Repayment of bank borrowings	10,000,000
iii) Financing of expansion and upgrade of production facilities	2,495,579
iv) Working capital	11,323,173
Total	<u>25,005,533</u>

Share Buybacks

During the financial year, there were no share buybacks by the Company.

Options, Warrants Or Convertible Securities

During the financial year, 1,674,746 new ordinary shares of RM1 each were issued pursuant to conversion of Irredeemable Convertible Unsecured Loan Stocks at the conversion price of RM1 each but there were no exercise of Employee Share Option Scheme and Warrants.

American Depository Receipt (ADR) Or Global Depository Receipt (GDR) Programme

During the financial year, the Company did not sponsor any ADR or GDR programme.

Imposition of Sanctions/Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies.

Non-audit Fees

Nil.

Profit Estimate, Forecast or Projection

The Company did not make any release on the profit estimate, forecast or projection for the financial year.

Profit Guarantees

During the year, there were no profit guarantees given by the Company.

Material Contracts

- Underwriting Agreement dated 8 April 2005 entered into between EG and underwriters whereby the underwriters agreed to underwrite RM15,293,770 nominal value of the RM25,005,533 nominal value of 5-year 5% Irredeemable Convertible Unsecured Loan Stocks 2005/2010 issued pursuant to the renounceable rights issue ("ICULS") for an underwriting commission at a rate of 2.75% and for a managing underwriter's management fee of 0.25% of the nominal value of the ICULS to be underwritten.
- Trust Deed dated 12 April 2005 constituting the ICULS.
- Deed Poll dated 12 April 2005 constituting the 16,670,355 free detachable new warrants to be issued pursuant to the renounceable rights issue.

Recurrent Related Party Transactions of a Revenue or Trading Nature

Details of transactions with related parties undertaken by the Group during the year are disclosed in Note 30 to the financial statements.

Revaluation of Landed Properties

The Company does not have a revaluation policy on landed properties.



CORPORATE INFORMATION

EXECUTIVE CHAIRMAN / MANAGING DIRECTOR

TAI KEIK HOCK

EXECUTIVE DIRECTORS

• Non-Independent

TAI KENG ENG

TAI LEE KEOW

INDEPENDENT NON-EXECUTIVE DIRECTORS

NIK AZALAN BIN NIK A. KADIR

KHOO BOO YEANG

COMPANY SECRETARY

CHAI CHURN HWA [MAICSA 0811600]

AUDIT COMMITTEE

Chairman

NIK AZALAN BIN NIK A. KADIR

(Independent Non-Executive Director)

Members

TAI KEIK HOCK

(Non-Independent Executive Director)

KHOO BOO YEANG

(Independent Non-Executive Director)

REGISTERED OFFICE

Suite 18.01, 18th Floor, MWE Plaza

No. 8 Lebuhr Farquhar

10200 Penang

Tel: 04-263 7762 & 262 5424

Fax: 04-263 5901

REGISTRAR FOR SHARES, ICULS & WARRANTS

SYMPHONY SHARE REGISTRARS SDN. BHD.

Level 26, Menara Multi-Purpose

Capital Square

No.8 Jalan Munshi Abdullah

50100 Kuala Lumpur

Tel : 03-2721 2222

Fax : 03-2721 2530

AUDITORS

ERNST & YOUNG

BANKERS

UNITED OVERSEAS BANK (MALAYSIA) BERHAD

CIMB BANK BERHAD

(formerly known as Bumiputra - Commerce Bank Berhad)

STOCK EXCHANGE LISTING

BURSA MALAYSIA SECURITIES BERHAD SECOND BOARD

PROFILE OF DIRECTORS

EXECUTIVE CHAIRMAN & MANAGING DIRECTOR

TAI KEIK HOCK

Age	68
Nationality	Malaysian
Qualification	Secondary School
Position	Chairman, Managing Director
Working Experience & Occupation	Businessman, Company Director
Date appointed to the Board	14 July 1993
Other Board Committee	Audit Committee Member, Remuneration Committee Member
Other Directorships (in Public Companies)	Nil
Family relationships with other Directors	Brother of Tai Keng Eng Father of Tai Lee Keow
Conflict of interest with listed issuer	Nil
Offences convicted for the past 10 years	Nil
No. of Board Meeting attended during the financial year	4

EXECUTIVE DIRECTOR

	TAI KENG ENG	TAI LEE KEOW
Age	49	40
Nationality	Malaysian	Malaysian
Qualification	Form Six	Bachelor of Commerce Degree, University of Melbourne Master of Business Administration
Position	Executive Director	Executive Director
Working Experience & Occupation	General Manager Executive Director	General Manager Executive Director
Date appointed to the Board	14 July 1993	14 July 1993
Other Board Committee	Nil	Nil
Other Directorships (in Public Companies)	Nil	Nil
Family relationships with other Directors	Sister of Tai Keik Hock Aunty of Tai Lee Keow	Daughter of Tai Keik Hock Niece of Tai Keng Eng
Conflict of interest with listed issuer	Nil	Nil
Offences convicted for the past 10 years	Nil	Nil
No. of Board Meeting attended during the financial year	3	4



PROFILE OF DIRECTORS (contd.)

INDEPENDENT NON-EXECUTIVE DIRECTOR

NIK AZALAN BIN NIK A. KADIR

Age	55
Nationality	Malaysian
Qualification	Degree in Electronics Data Processing Caulfield Institute of Technology Melbourne
Position	Independent Non-Executive Director
Working Experience & Occupation	Businessman Bank Officer
Date appointed to the Board	14 July 1993
Other Board Committee	Chairman of Audit Committee, Chairman of Remuneration Committee and Nomination Committee Member
Other Directorships (in Public Companies)	Emico Holdings Bhd
Family relationships with other Directors	Nil
Conflict of interest with listed issuer	Nil
Offences convicted for the past 10 years	Nil
No. of Board Meeting attended during the financial year	4

KHOO BOO YEANG

Age	41
Nationality	Malaysian
Qualification	Qualified Public Accountant Member of the Malaysian Institute of Accountants Member of the Malaysian Institute of Certified Public Accountants Master in Business Administration, Heriot Watt University Doctorate in Business Administration
Position	Independent Non-Executive Director
Working Experience & Occupation	Attached to KPMG for 9 years Served as Financial Controller in two public listed companies Management Consultant with Horwath TY Consulting Sdn. Bhd.
Date appointed to the Board	31 December 2001
Other Board Committee	Audit Committee Member, Chairman of Nomination Committee and Remuneration Committee Member
Other Directorships (in Public Companies)	Nil
Family relationships with other Directors	Nil
Conflict of interest with listed issuer	Nil
Offences convicted for the past 10 years	Nil
No. of Board Meeting attended during the financial year	4

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of EG Industries Berhad is pleased to report to shareholders on the manner the Company has applied the Principles, and the extent of compliance with the Best Practices as set out in Part 1 and Part 2 respectively of the Malaysian Code on Corporate Governance (the "Code").

The Board is supportive of the recommendations of the Code, which sets out the Principles and Best Practices on structures and processes that the Company may use in its operations towards achieving optimal governance framework.

The following paragraphs describe how the Company has applied the principles and complied with the best practices of the Code.

1. DIRECTORS

1.1a Composition and Balance

As at the date of this statement, the Board consists of 5 members, comprising 1 (one) Managing Director, two (2) Executive Directors and two (2) Independent Non-Executive Directors. With this Board composition, the Company complies with paragraph 15.02 of the Listing Requirements of the Bursa Malaysia Securities Berhad where at least 2 Directors or 1/3 of the Board whichever is higher, are independent Directors.

The Directors from different backgrounds and specialization collectively bring depth and diversity in experience to the Group's operations. The Independent Non-Executive Directors are independent from Management and have no relationships that could interfere with the exercise of their independent judgment. They bring to bear objective and independent judgment to the decision making of the Board and provide an effective check and balance for the Executive Directors.

The profiles of the members of the Board are set out in this Annual Report under the section named Profile of Directors.

1.1b Duties and Responsibilities

The Board is primarily responsible for:-

- Reviewing and adopting a strategic plan for the Group;
- Overseeing the conduct of the Company's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;
- Developing and implementing an investor relations program or shareholder communications policy for the Company; and
- Reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

1.2 Supply of Information

The Board has unrestricted access to timely and accurate information necessary in the furtherance of their duties. All Directors are furnished with the meeting agenda and other documents on matters requiring their consideration prior to and in advance of each meeting. The documents are comprehensive and include qualitative and quantitative information to enable the Board members to make an informed decision. Senior management is invited to attend these meetings to explain and clarify matters being tabled.

During the financial year ended 30 June 2006, the Board met 4 times where it deliberated on and considered matters relating to the Group's financial performance, significant investments, corporate development, strategic issues and business plan. Details of each Director's attendance of Board meetings are set out below.

Name of Director	No. of meetings attended
Tai Keik Hock	4
Tai Keng Eng	3
Tai Lee Keow	4
Nik Azalan Bin Nik A. Kadir	4
Khoo Boo Yeang	4

All the Directors have access to the advice and services of the Company Secretary. If required, the Directors may engage independent professionals at the Group's expense, in the furtherance of their duties.

1.3 Appointments to the Board

On 28 May 2002 the Board established a Nomination Committee, the members of which are as follows:



CORPORATE GOVERNANCE STATEMENT (contd.)

Mr Khoo Boo Yeang – Chairman, Independent Non-Executive Director
En Nik Azalan Bin Nik A. Kadir - Independent Non-Executive Director

The duties and functions of the Nomination Committee are:-

1. Recommending to the Board, candidates for directorships to be filled;
2. Recommending to the Board, Directors to fill seats on Board committees;
3. Reviewing annually the required skills and experience and other qualities and core competencies of non-executive directors which should be brought to the Board; and
4. Assessing annually the effectiveness of the Board as a whole and the contribution of each individual Director.

The decision on appointment of new Directors rests with the Board after considering the recommendations of the Nomination Committee.

During the year under review, there was one meeting held by the Nomination Committee.

1.4 Re-election of Directors

In accordance with the Company's Articles of Association, one third of the Directors shall retire from office and be eligible for re-election at the annual general meeting. Furthermore, each Director shall retire from office at least once in every three years.

Information of the Directors who will be retiring at the forthcoming Annual General Meeting is disclosed in the Statement Accompanying Notice of Annual General Meeting.

1.5 Directors' Training

All members of the Board have attended the Mandatory Accreditation Programme conducted by the Research Institute of Investment Analysts Malaysia. The Directors have also attended the Continuous Education Program to enhance their skills and knowledge.

2. THE AUDIT COMMITTEE

The Board has on 21 July 1994 established the Audit Committee. The present Audit Committee comprises 3 members. Please refer to the Audit Committee Report for further details.

3. DIRECTORS' REMUNERATION

The remuneration of Directors is determined at levels, which will enable the Company to attract and retain Directors with the relevant experience and expertise to run the Company successfully. The remuneration of Executive Directors is structured to link rewards to corporate and individual performance.

On 28 May 2002 the Board established the Remuneration Committee which comprises the following members:

En Nik Azalan Bin Nik A. Kadir – Chairman, Independent Non-Executive Director
Mr Khoo Boo Yeang – Independent Non-Executive Director
Mr Tai Keik Hock – Chairman & Managing Director

The primary duty of the Remuneration Committee is to review and recommend remuneration packages of Executives Directors for the Board's approval and the individual Directors are required to abstain from discussion on their own remuneration.

Details of the remuneration for Directors during the financial year ended 30 June 2006 are disclosed in the Statement Accompanying Notice of Annual General Meeting.

4. SHAREHOLDERS

4.1 Dialogue with investors

The Board recognizes the importance of timely dissemination of information to shareholders and other stakeholders. The primary tools of communication with the shareholders of the Company are through the annual report, announcements through Bursa Malaysia Securities Berhad and circulars. All queries from shareholders and members of the public received through phone calls or letters are handled by the Corporate Affairs Manager and Company Secretary. Additional information about the Company is made available at its website: <http://www.eg.com.my>

CORPORATE GOVERNANCE STATEMENT (contd.)

4.2 General Meeting

At the annual general meeting and extraordinary general meeting, the Chairman gives shareholders ample opportunity to participate through questions on the prospects, performance of the Group and other matters of concern addressed to the Board.

5. ACCOUNTABILITY AND AUDIT

5.1 Financial Reporting

The Board is responsible for presenting a balanced and meaningful assessment of the Group's financial performance and prospects primarily through the annual report, financial statements and quarterly announcements of the Group's results.

The Responsibility Statement by the Directors pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad is set out on page 5.

5.2 Internal Control

The Board is ultimately responsible for the overall system of internal controls, which includes not only financial controls but also controls relating to operations, compliance and risk management. The internal control system which is designed to meet the needs of the Company and to manage risks to which the Company is exposed can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

Further details relating to internal control are set out in the Statement on Internal Control on page 13 and the Audit Committee Report on pages 14 and 15.

5.3 Relationship with Auditors

The external auditor, Messrs Ernst & Young, has continued to report to members of the Company on its findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements. In doing so, the Company has established a transparent arrangement with the auditor to meet its professional requirements.

The role of the Audit Committee in relation to the external auditors is described in the Audit Committee Report.



STATEMENT ON INTERNAL CONTROL

INTRODUCTION

Pursuant to paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors is pleased to provide the following statement on the state of internal controls of the Group.

BOARD RESPONSIBILITY

It is the Board's view that the Group's objectives, its internal organization and the environment in which it operates continuously evolve and, as a result, the risks that it faces also change. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks that threatens the Group's continuous growth and financial viability.

The Board further believes that the Group's system of internal control and risk management practices are vital to good corporate governance. The internal controls, financial or otherwise, as embedded in the Group provide reasonable assurance regarding the achievement of the Group's objectives on :

- The effectiveness and efficiency of operations;
- Reliability and transparency of financial information;
- Compliance with laws and regulations;
- Safeguarding of the Group's assets;
- Realising the Group's strategic objectives; and
- Optimising the returns to and protecting the interest of stakeholders.

The Board acknowledges its responsibility for maintaining a sound system of internal control. However, it recognises that reviewing the Group's system of internal control is a concerted and continuing process, designed to manage rather than eliminate the risk of failure to achieve business objectives. Accordingly, the Board is also of the view that the Group's system of internal control can only provide reasonable but not absolute assurance against material misstatement or loss. The concept of reasonable assurance also recognizes that the cost of control procedures should not exceed the expected benefits.

RISK MANAGEMENT FRAMEWORK

A firm of consultants was engaged by the Company in year 2005 to assist the Board in establishing a risk management framework for the Group. The risk profiles of the various operating units in the Group were compiled. Since then, major business risks and their possible impact and likelihood of crystallization have been evaluated by the key executives, reviewed and endorsed by senior management and subsequently by the Board of Directors.

AUDIT COMMITTEE & INTERNAL AUDIT

During the financial year, the Group outsourced the Internal Audit function to an independent firm of consultants to assist the Audit Committee (the "Committee") in discharging the Committee's duties with respect to the adequacy and integrity of the system of internal controls within the Group. During the financial year under review, the Internal Audit function carried out a cycle of risk-based internal audit in accordance with an internal audit plan approved by the Committee. Observations noted from internal audit were deliberated with Management and recommended action plans discussed for deployment to improve the system of internal control within the Group. The Audit Committee, on behalf of the Board, reviews internal control issues identified and recommendations from reports prepared by the internal auditor on a regular basis.

CONCLUSION

The Board is satisfied with the ongoing process for identifying, evaluating, managing and monitoring significant risks, and is of the opinion that the existing internal control systems are adequate to address and manage the risks faced by the Group.

AUDIT COMMITTEE REPORT

Composition

Members of the Audit Committee, their respective designations and directorships are as follow:-

NIK AZALAN BIN NIK A. KADIR
Chairman, Independent Non-Executive Director

KHOO BOO YEANG
Independent Non-Executive Director

TAI KEIK HOCK
Non-Independent Executive Director

Terms of Reference

Objective

The principal objective of the Audit Committee (as a committee of the Board) is to assist the Board in the effective discharge of its fiduciary responsibilities for corporate governance, financial reporting and internal control.

Reporting Responsibility

The Audit Committee will report to the Board on the nature and extent of the functions performed by it and may make such recommendations to the Board on any audit and financial reporting matters as it may think fit.

Quorum

Two and the majority of members present must be independent non-executive directors.

Frequency of Meetings

Meetings shall be held not less than four times a year and as many times as the Committee deems necessary.

Rights of the Audit Committee

The Company shall ensure that wherever necessary and reasonable for the performance of the Committee's duties, the committee shall, in accordance with procedure determined by the Board of Directors and at the cost of the Company:-

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

Functions of the Audit Committee

The functions of the Audit Committee include the following:-

- a) to recommend the appointment, to consider the audit and suitability of re-appointment of the external auditor and any questions of resignation or dismissal.
- b) to discuss with the external auditor before the commencement of audit, their audit plan, nature and scope of the audit.
- c) to discuss problems and reservations (including level of assistance given by the employees) arising from the interim and final audits and any matter the external auditor may wish to discuss (in the absence of management, where necessary).
- d) to review the external auditor's reports, its management letter and management's response.
- e) to review the quarterly and year end financial statements, prior to the approval of the Board, focusing particularly on :-
 - (i) any changes in accounting policies and practices;
 - (ii) significant adjustments arising from the audit, significant and unusual events;
 - (iii) the going concern assumption; and
 - (iv) compliance with accounting standards and other legal requirements.



AUDIT COMMITTEE REPORT (contd.)

- f) to review the adequacy of the scope, functions, authority and resources of the internal audit function.
- g) to review the internal audit program and results, ensuring the appropriate action is taken on the recommendations of the internal audit function.
- h) to approve any appointments or termination of the internal auditor / senior staff members of the internal audit function.
- i) to consider related party transactions and review the procedures to ensure appropriateness and adequacy.
- j) to consider the major findings of internal investigations and management's response.
- k) to consider other topics as defined by the Board from time to time.

Summary of Activities

The Audit Committee met four times during the financial year ended 30 June 2006. Details on the attendance of each member are outlined below:-

	Date of Meetings			
	30/8/05	29/11/05	27/2/06	30/5/06
Nik Azalan Bin Nik A. Kadir - Chairman	√	√	√	√
Khoo Boo Yeang	√	√	√	√
Tai Keik Hock	√	√	√	√

In discharging its functions and duties, the Committee has considered, reviewed and discussed the following:-

- a) the quarterly and yearly results / announcements of the Company and making relevant recommendations to the Board for approval;
- b) the unusual and significant related parties transactions;
- c) the external audit plan with the external auditors;
- d) the assistance given by the company's officers and staff to the external auditors;
- e) the findings of the external auditors and their reports;
- f) the nomination of external auditors for Board's approval;
- g) reviewed related party transactions and report the same to the Board; and
- h) reviewed the scope of internal audit function to ensure that risk-based approach is being adopted.

Summary of Activities of the Internal Audit Function

The Group has outsourced the Internal Audit function, which reports to the Audit Committee and assists the Board in monitoring and managing risks and internal control. The department carries out its duties impartially and independently of the activities reviewed. It has the principal responsibility for carrying out audits on the operations within the Group and provided general assurances to the management and Audit Committee. The Audit Committee approves the coming year internal audit plan during the Audit Committee meeting. The internal audit plan is derived based on a risk-based assessment of all units and operations, including subsidiaries. The internal audit reports highlight any deficiencies or findings which are discussed with management and relevant action plans agreed and implemented. Significant findings are presented in the Audit Committee Meetings for consideration and reporting to the Board. A follow-up audit review is also conducted to determine whether all audit recommendations are effectively implemented.

STATISTICS OF SHAREHOLDINGS AS AT 1 NOVEMBER 2006

AUTHORISED SHARE CAPITAL	:	RM200,000,000-00
PAID-UP CAPITAL	:	RM51,685,813-00
CLASS OF SHARES	:	ORDINARY SHARES OF RM1-00 EACH
VOTING RIGHTS	:	ONE VOTE PER SHARE

Size of Holdings	No. of Holders	%	No. of Shares	%
1 – 99	3	0.12	133	0.00
100 – 1,000	920	37.11	899,955	1.74
1,001 – 10,000	1,212	48.89	5,186,458	10.04
10,001 – 100,000	284	11.46	8,281,345	16.02
100,001 – 2,584,289 (*)	59	2.38	32,359,963	62.61
2,584,290 and above (**)	1	0.04	4,957,959	9.59
TOTAL	2,479	100.00	51,685,813	100.00

Remarks:

- * Less than 5% of issued shares
** 5% and above of issued shares

DIRECTORS' SHAREHOLDINGS

Name of Directors	No. of Ordinary Shares Held			
	Direct Interest	%	Indirect Interest	%
Tai Keik Hock	2,683,715	5.19	9,549,550 (a)	18.48
Tai Keng Eng	104,920	0.20	-	-
Tai Lee Keow	2,017,379	3.90	9,549,550 (a)	18.48
Nik Azalan Bin Nik A. Kadir	206,500	0.40	-	-
Khoo Boo Yeang	-	-	-	-

(a) 9,549,550 shares held through Jupax Enterprise Sdn Bhd

SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders	No. Of Ordinary Shares Held			
	Direct Interest	%	Indirect Interest	%
1. Jupax Enterprise Sdn Bhd	9,549,550	18.48	-	-
2. Giap Seng Auto Supply Sdn Bhd	3,812,714	7.38	-	-
3. Yeoh Sian Kok	3,360,747	6.50	-	-
4. Tai Keik Hock	2,683,715	5.19	9,549,550(a)	18.48
5. Tai Lee Keow	2,017,379	3.90	9,549,550(a)	18.48
6. Tai Lee See	1,454,153	2.81	3,812,714(b)	7.38
7. Eng Giat Yang @ Ng Geek Hiang	-	-	9,549,550(a)	18.48
8. Tai Lee Sun	900,901	1.74	3,812,714(b)	7.38
9. Tai Chee Seong	587,322	1.14	3,812,714(b)	7.38
10. Tai Lee Bee	306,126	0.59	3,812,714(b)	7.38

(a) 9,549,550 shares held through Jupax Enterprise Sdn Bhd

(b) 3,812,714 shares held through Giap Seng Auto Supply Sdn Bhd



STATISTICS OF SHAREHOLDINGS AS AT 1 NOVEMBER 2006 (contd.)

30 LARGEST SHAREHOLDERS AS AT 1 NOVEMBER 2006

Name	No. of Shares Held	%
1. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Jupax Enterprise Sdn Bhd	4,957,959	9.59
2. Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Jupax Enterprise Sdn Bhd	2,250,000	4.35
3. Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Giap Seng Auto Supply Sdn Bhd	2,008,785	3.89
4. EB Nominees (Tempatan) Sdn Bhd Pledged securities account for Giap Seng Auto Supply Sdn Bhd	1,803,929	3.49
5. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Keik Hock	1,700,000	3.29
6. Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged securities account for Yeoh Sian Kok	1,611,200	3.12
7. Jupax Enterprise Sdn Bhd	1,591,591	3.08
8. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Yeoh Sian Kok	1,475,865	2.86
9. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee Keow	1,410,000	2.73
10. RHB Nominees (Tempatan) Sdn. Bhd. RHB Asset Management Sdn. Bhd. for Kumpulan Wang Simpanan Pekerja	1,068,300	2.07
11. Lembaga Tabung Haji	983,000	1.90
12. EB Nominees (Tempatan) Sdn Berhad Pledged securities account for Tai Keik Hock	980,000	1.90
13. OSK Nominees (Tempatan) Sdn Berhad Pledged securities account for Mohd Isa Bin Ismail	934,100	1.81
14. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn. Bhd. for Tai Lee See	928,628	1.80
15. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn. Bhd. for Tai Lee Fung	900,000	1.74
16. EB Nominees (Tempatan) Sdn Bhd Pledged securities account for Azimah Binti Aiyub Ghazali	872,000	1.69
17. Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged securities account for Ang Poh Lay	826,100	1.60
18. Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Jupax Enterprise Sdn. Bhd.	750,000	1.45
19. Tai Lee Keow	607,379	1.18
20. Tai Chee Seong	587,322	1.14
21. Tai Lee See	525,525	1.02
22. Tai Lee Fung	513,338	0.99
23. Tai Lee Sun	500,901	0.97
24. A.A. Anthony Securities Sdn. Bhd.	475,000	0.92
25. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee Sun	400,000	0.77
26. Lee Suat Wuat	386,900	0.75
27. Dallab Capital Sdn Bhd	359,300	0.70
28. Koo Hong @ Ku Hong Hai	340,000	0.66
29. Citigroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim Chiew Hwa	280,000	0.54
30. Kok Chin Poh	274,400	0.53

STATISTICS OF IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (ICULS) 2005/2010 HOLDINGS AS AT 1 NOVEMBER 2006

NO. OF ICULS	:	23,330,787
DATE OF ISSUE	:	17 JUNE 2005
INTEREST	:	5% PER ANNUM

Size of Holdings	No. of Holders	%	No. of ICULS	%
1 – 99	0	0.00	0	0.00
100 – 1,000	61	46.92	43,700	0.19
1,001 – 10,000	52	40.00	186,900	0.80
10,001 – 100,000	8	6.15	226,600	0.97
100,001 – 1,166,538 (*)	4	3.08	1,960,700	8.40
1,166,539 and above (**)	5	3.85	20,912,887	89.64
TOTAL	130	100.00	23,330,787	100.00

Remarks:

* Less than 5% of issued holdings

** 5% and above of issued holdings

DIRECTORS' ICULS HOLDINGS

Name of Directors	No. of ICULS Held			
	Direct Interest	%	Indirect Interest	%
Tai Keik Hock	1,350,000	5.79	4,840,000(a)	20.75
Tai Keng Eng	-	-	-	-
Tai Lee Keow	1,010,000	4.33	4,840,000(a)	20.75
Nik Azalan Bin Nik A. Kadir	-	-	-	-
Khoo Boo Yeang	-	-	-	-

(a) 4,840,000 ICULS held through Jupax Enterprise Sdn Bhd

SUBSTANTIAL ICULS HOLDERS

Name of Substantial ICULS Holders	No. Of ICULS Held			
	Direct Interest	%	Indirect Interest	%
1. Alliance Investment Bank Berhad	9,755,028	41.81	-	-
2. Jupax Enterprise Sdn Bhd	4,840,000	20.75	-	-
3. A.A. Anthony Securities Sdn Bhd	3,477,859	14.91	-	-
4. Yeoh Sian Kok	1,592,000	6.82	-	-
5. Tai Keik Hock	1,350,000	5.79	4,840,000(a)	20.75
6. Tai Lee Keow	1,010,000	4.33	4,840,000(a)	20.75
7. Eng Giat Yang @ Ng Geek Hiang	-	-	4,840,000(a)	20.75

(a) 4,840,000 ICULS held through Jupax Enterprise Sdn Bhd



STATISTICS OF IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (ICULS) 2005/2010 HOLDINGS AS AT 1 NOVEMBER 2006(contd.)

30 LARGEST ICULS HOLDERS AS AT 1 NOVEMBER 2006

Name	No. of ICULS Held	%
1. Alliancegroup Nominees (Tempatan) Sdn Bhd Alliance Investment Bank Berhad	9,755,028	41.81
2. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Jupax Enterprise Sdn Bhd	4,840,000	20.75
3. A.A. Anthony Securities Sdn Bhd	3,477,859	14.91
4. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd For Yeoh Sian Kok	1,490,000	6.39
5. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd For Tai Keik Hock	1,350,000	5.79
6. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee Keow	1,010,000	4.33
7. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee See	726,000	3.11
8. Dallab Capital Sdn Bhd	122,700	0.53
9. Yeoh Sian Kok	102,000	0.44
10. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee Bee	63,000	0.27
11. Eu Mui @ Ee Soo Mei	52,500	0.23
12. Tan Ah Nya @ Tan Seo Kim	31,000	0.13
13. Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chia Khai Huan	22,500	0.10
14. Goh Leong Chuan	18,000	0.08
15. Foong Yuen Kai Lorry Service Company Sdn Bhd	15,000	0.06
16. Choo Kim Kiong	14,000	0.06
17. PM Nominees (Tempatan) Sdn Bhd PCB Asset Management Sdn. Bhd. for Mary Tan @ Tan Hui Ngoh	10,600	0.05
18. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ong Tiam Teck	9,000	0.04
19. Tai Yeong Sheng	9,000	0.04
20. Lim Laong Eng	9,000	0.04
21. Lim Chiew Hwa	7,500	0.03
22. Mohamed A' Azam bin Shair Mohamed	7,000	0.03
23. Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Michael Yong	6,500	0.03
24. Hoo Yang Hwa @ Ho Yang Hwa	6,000	0.03
25. Tan Chai Hock	6,000	0.03
26. Yap Yok Foo	5,400	0.02
27. Au Tiang Seng	5,000	0.02
28. Khu Hwa Leng	5,000	0.02
29. Lim Ah Kim	5,000	0.02
30. Fong Kim Sing	5,000	0.02

STATISTICS OF WARRANTS 2005/2015 HOLDINGS AS AT 1 NOVEMBER 2006

NO. OF WARRANTS	:	16,670,355
VOTING RIGHTS	:	ONE VOTE PER WARRANT

Size of Holdings	No. of Holders	%	No. of Warrants	%
1 – 99	6	2.32	263	0.00
100 – 1,000	71	27.41	39,665	0.24
1,001 – 10,000	111	42.86	545,066	3.27
10,001 – 100,000	57	22.01	1,819,900	10.92
100,001 – 833,516(*)	10	3.86	2,642,107	15.85
833,517 and above (**)	4	1.54	11,623,354	69.72
TOTAL	259	100.00	16,670,355	100.00

Remarks:

* Less than 5% of issued warrants

** 5% and above of issued warrants

DIRECTORS' WARRANTHOLDINGS

Name of Directors	No. of Warrants Held			
	Direct Interest	%	Indirect Interest	%
Tai Keik Hock	900,000	5.40	3,226,668(a)	19.36
Tai Keng Eng	-	-	-	-
Tai Lee Keow	673,334	4.04	3,226,668(a)	19.36
Nik Azalan Bin Nik A. Kadir	-	-	-	-
Khoo Boo Yeang	-	-	-	-

(a) 3,226,668 warrants held through Jupax Enterprise Sdn Bhd

SUBSTANTIAL WARRANTHOLDERS

Name of Substantial Warrants Holders	No. Of Warrants Held			
	Direct Interest	%	Indirect Interest	%
1. Alliance Investment Bank Berhad	6,503,352	39.01	-	-
2. Jupax Enterprise Sdn Bhd	3,226,668	19.36	-	-
3. Yeoh Sian Kok	1,061,334	6.37	-	-
4. Tai Keik Hock	900,000	5.40	3,226,668 (a)	19.36
5. Tai Lee Keow	673,334	4.04	3,226,668 (a)	19.36
6. Eng Giat Yang @ Ng Geek Hiang	-	-	3,226,668 (a)	19.36

(a) 3,226,668 warrants held through Jupax Enterprise Sdn Bhd



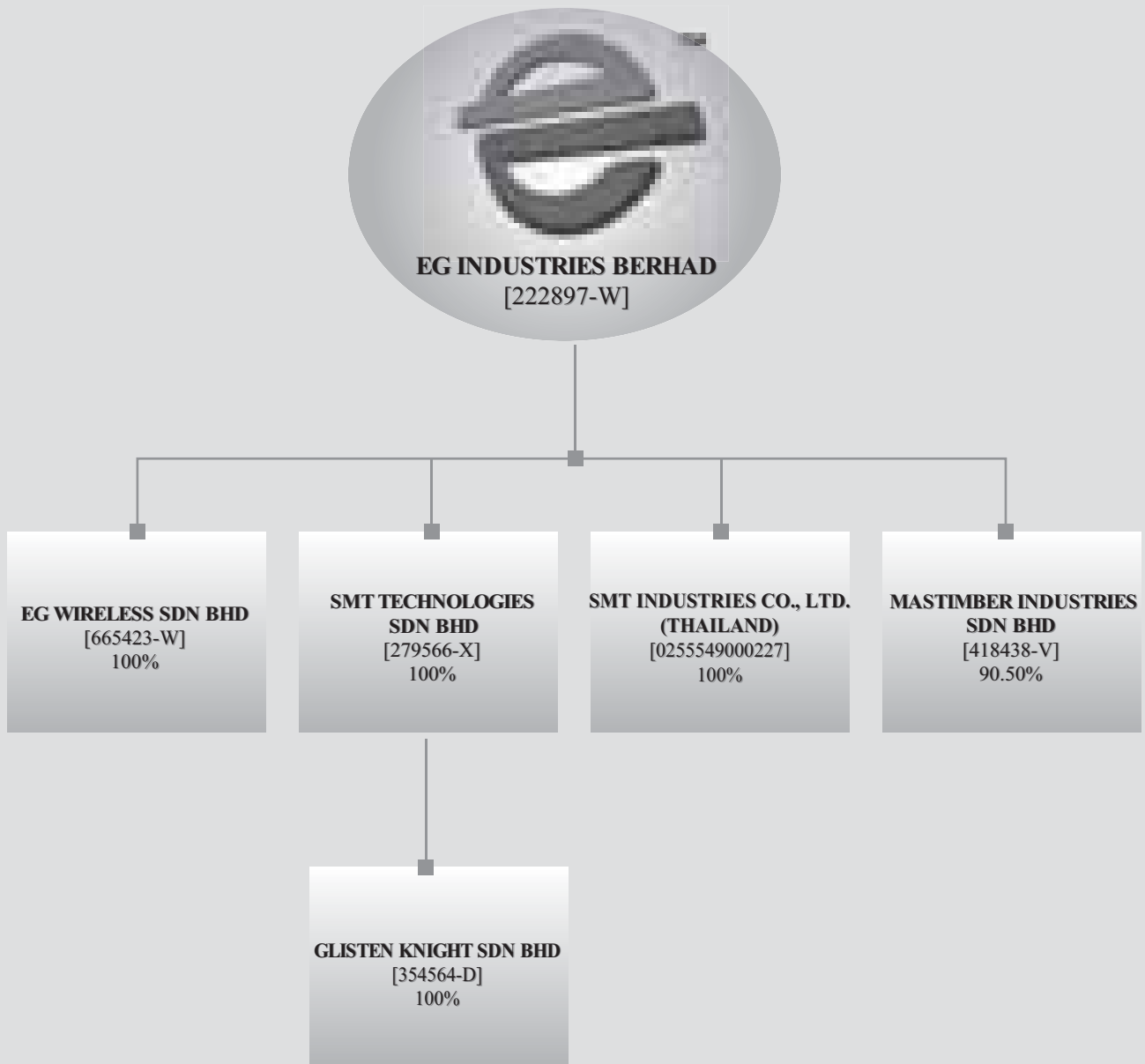
STATISTICS OF WARRANTS

2005/2015 HOLDINGS AS AT 1 NOVEMBER 2006(contd.)

30 LARGEST WARRANTHOLDERS 2005/2015 AS AT 1 NOVEMBER 2006

Name	No. of Warrants Held	%
1. Alliancegroup Nominees (Tempatan) Sdn Bhd Alliance Investment Bank Berhad	6,503,352	39.01
2. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Jupax Enterprise Sdn Bhd	3,226,668	19.36
3. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd For Yeoh Sian Kok	993,334	5.96
4. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd For Tai Keik Hock	900,000	5.40
5. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee Keow	673,334	4.04
6. A.A. Anthony Securities Sdn. Bhd.	521,273	3.13
7. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee See	484,000	2.90
8. Public Nominees (Tempatan) Sdn Berhad Pledged Securities Account for Wong Khong Ling	293,200	1.76
9. Alliancegroup Nominees (Tempatan) Sdn Berhad Pledged Securities Account for Lee Soon Heng	131,000	0.79
10. Pang Swee Chien	130,700	0.78
11. Koh Keah Kwang	104,000	0.62
12. Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Jok Kuwi	102,000	0.61
13. Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ooi May Fong	101,600	0.61
14. Tan Phee Mun @ Tan Phui Mun	101,000	0.61
15. Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chua Hock Keng	100,000	0.60
16. Yeoh Sian Kok	68,000	0.41
17. Dallab Capital Sdn Bhd	66,800	0.40
18. Lim Poh Hock	60,000	0.36
19. Fong Tuck Seng	59,000	0.35
20. Ng Ah Chung	58,000	0.35
21. HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Fong Tuck Seng	55,000	0.33
22. Chong Chye Neo	50,000	0.30
23. AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Foo Sai Heng	50,000	0.30
24. Kong Sook Fun	46,500	0.28
25. Chua Vin Teck	46,000	0.28
26. RHB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tong Kin Yoong	45,000	0.27
27. Tan Heng Lam	45,000	0.27
28. Pang Swee Chien	42,000	0.25
29. OSK Nominees (Tempatan) Sdn Berhad OSK Capital Sdn Bhd for Tai Lee Bee	42,000	0.25
30. Esabella Kon Fun Soh	42,000	0.25

GROUP STRUCTURE





GROUP FINANCIAL HIGHLIGHTS

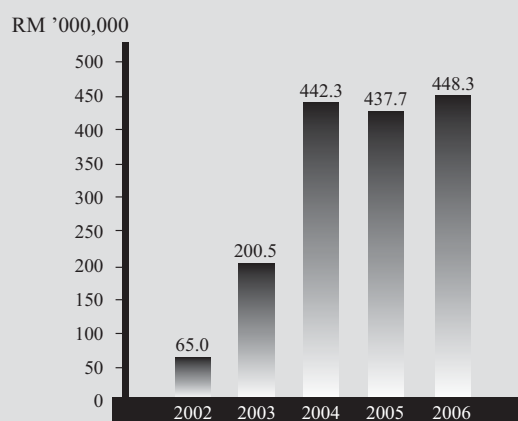
Year ended June 30	2002	2003	2004	2005	2006
Revenue	65.0	200.5	442.3	437.7	448.3
Shareholders' Fund	(0.1)	35.9	50.5**	78.6**	84.6
Profit/(Loss) Before Tax	(5.2)	(3.7)	14.1*	9.0	8.3

* Includes gain on disposal of loss making subsidiaries of RM13.4 million

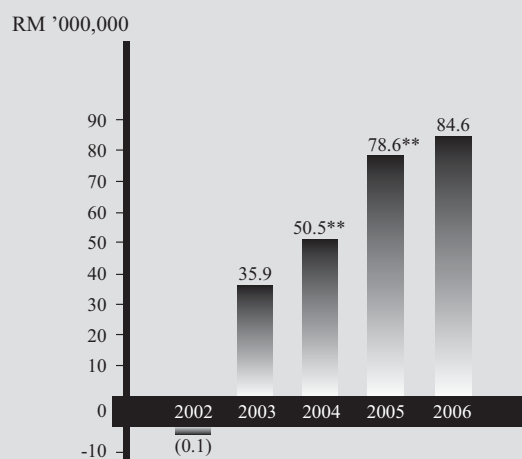
** As restated

Amount in RM '000,000

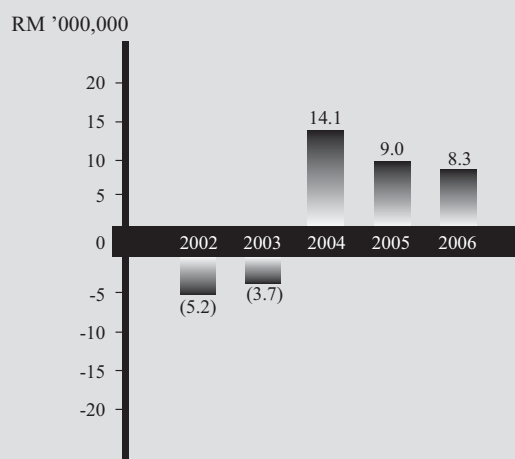
REVENUE



SHAREHOLDERS' FUND



PROFIT/(LOSS) BEFORE TAX



LIST OF PROPERTIES HELD BY THE GROUP

Location	Age of Building	Date of Last Revaluation/ (Acquisition)	Area (sq. ft.)	Existing Use	Tenure	Net Book Value As at 30/06/06 (RM)
<u>KEDAH</u>						
Lot No. 23, 24, 26 & 31, Kawasan Perusahaan Kuala Ketil, Mukim of Tawar, District of Baling, Kedah	-	28/04/03	466,917	Vacant Land	Leasehold (60 years)	1,435,123
Lot No. 25 & 32 Kawasan Perusahaan Kuala Ketil, Mukim of Tawar, District of Baling, Kedah	7	28/04/03	209,154	Factory, Office Building & Warehouse	Leasehold (60 years)	3,343,490
H.S.(M) 343/89 P.T.No.8543, Mukim Sg. Pasir, Daerah Kuala Muda Kedah	13	01/06/06	174,240	Factory, Office Building & Warehouse	Sub-leasehold (08/10/2088)	13,559,028
Lot 2, 8 & 16 Mukim of Bujang Daerah Kuala Muda Kedah	-	28/09/05	4,216,741	Vacant Land	Freehold	3,423,097
H.S. (M) 90/1983 No. P.T. Plot 35 Mukim Sg. Pasir Tempat Bakar Arang, Kedah	-	-	121,968	Vacant Land	Sub-leasehold (09/01/2044)	679,870



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of the Group and the Company for the financial year ended 30 June 2006.

There were significant changes in the business environment which the Group operated in financial year 2006. The RM/USD exchange rate which was previously pegged to US Dollar had been lifted and became managed float. The appreciation of RM reduces the competitiveness of the products produced by the Group. The commodity prices and interest rates had escalated and it increased the cost of doing business such as transportation cost and finance cost.

FINANCIAL OVERVIEW

For the financial year under review, the Group recorded a turnover of RM448.3 million as compared to RM437.7 million in the preceding year. The profit before tax was RM8.3 million as compared to a profit before tax of RM9.0 in the preceding year. The marginal reduction in profit before tax was due to a lower profit margin recorded by the Group.

Group Shareholders' Fund as at 30 June 2006 increased to RM84.558 million from RM78.591 million in 2005.

CORPORATE DEVELOPMENT

On 7 April 2006, the Company incorporated a wholly owned subsidiary in Bangkok, Thailand – SMT Industries Co., Ltd. It would provide the Electronics Manufacturing Services (“EMS”) for computer peripheral, telecommunication, consumer electronic/ electrical and automotive industrial products industries in Thailand.

The Proposed Private Placement (“PP”) of 5,001,100 new ordinary shares of RM1.00 each in EG had expired on 28 April 2006 and had not been extended by the Securities Commission.

During the year, there was a new issuance of 1,674,746 new ordinary shares as a result of the conversion of ICULS 2005/2015 to ordinary shares. In the mean time, the total number of ICULS outstanding reduced from 25,005,533 to 23,330,787.

FUTURE OUTLOOK

The year 2007 will pose yet another challenging year for the local and global economies due to the volatilities in commodity prices, the managed float exchange rates, the possible slowdown in consumer demand due to higher interest rate and inflation pressure. Despite these challenges, the Group will take pre-emptive measures to enhance the existing customer base by continued focusing on two major industries which are data storage industry and telecommunication industry. Both of these industries have proven track record of high demand consumption yearly. In addition, they have replacement market due to continuous upgrade of personal computer and peripherals, introduction of new technology mobile phone, smart phone capabilities to the market. The Group is also taking several initiatives that would rationalize its existing business model and simplify and streamline its cost structure.

The plant in Thailand is currently under construction and is expected to be completed by the second quarter of Financial Year 2007. The plant is expected to contribute to the bottom line of the Group in Financial Year 2008.

For the parquet flooring division, the Group plans to increase contribution from overseas and local sales by adding more wood-related products such as solid parquet, outdoor decking, skirting and furniture, and will also promote its own brand name more extensively overseas.

DIVIDEND

Due to the expansion plan taken by the Group to venture into Thailand, the Board does not recommend any dividend for the financial year ended 30 June 2006.

APPRECIATION

On behalf of the Board of Directors, I wish to thank my fellow Directors, Employees, Shareholders, Customers, Suppliers, Financiers, Professionals and all those who have given the Group their continued commitment, dedication, contributions and support during the financial year ended 30 June 2006.

TAI KEIK HOCK
Executive Chairman

6 December 2006

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FINANCIAL STATEMENTS



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 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 9 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Group and of the Company during the financial year other than the incorporation of a new subsidiary in Thailand during the year. The intended principal activity of the new subsidiary is that of the provision of Electronic Manufacturing Services (EMS) for computer peripheral, telecommunication, consumer electronic/electrical and automotive industrial products industries in Thailand.

RESULTS

	Group RM	Company RM
Profit/(Loss) after taxation	5,844,201	(465,689)
Minority interest	<u>(144,489)</u>	<u>-</u>
Net profit/(loss) for the year	<u>5,699,712</u>	<u>(465,689)</u>

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

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 as disclosed in Note 4 to the financial statements and the change in accounting policy as disclosed in Note 28 to the financial statements.

SHARE CAPITAL

During the financial year, the issued and paid-up capital of the Company was increased from RM50,011,067 to RM51,685,813 by the issuance of 1,674,746 new ordinary shares of RM1 each pursuant to conversion of Irredeemable Convertible Unsecured Loan Stock (ICULS) at the conversion price of RM1 each.

The new ordinary shares issued during the financial year rank parri passu in all respects with the existing ordinary shares of the Company.

DIRECTORS

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

Tai Keik Hock
 Tai Keng Eng
 Tai Lee Keow
 Nik Azalan bin Nik A. Kadir
 Khoo Boo Yeang

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 the acquisition of shares in or warrants or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors shown in the Group 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 the director is a member or with a company in which the director has a substantial financial interest, except for certain directors who are deemed to derive a benefit by virtue of the related party transactions as disclosed in Note 30 to the financial statements.

DIRECTORS' REPORT (contd.)

DIRECTORS' INTERESTS

According to the register of directors shareholding, the interests of directors in office at the end of the financial year in shares, stock options, warrants or ICULS in the Company or its subsidiaries during the financial year were as follows:

The Company	Number of ordinary shares of RM1 each			30 June 2006
	1 July 2005	Bought	Sold	
Direct interest:				
Tai Keik Hock	2,683,715	-	-	2,683,715
Tai Keng Eng	104,920	-	-	104,920
Tai Lee Keow	2,017,379	-	-	2,017,379
Nik Azalan bin Nik A. Kadir	236,500	-	30,000	206,500
Indirect interest:				
Tai Keik Hock	13,362,264	-	3,812,714	9,549,550
Tai Lee Keow	9,549,550	-	-	9,549,550

Messrs Tai Keik Hock and Tai Lee Keow by virtue of their substantial interest in the shares of the Company are also deemed to have a substantial interest in the shares of the subsidiaries to the extent the Company has an interest.

The Company	Number of Warrants 1995/2005			30 June 2006
	1 July 2005	Bought	Expired	
Direct interest:				
Tai Keik Hock	964,800	-	964,800	-
Tai Lee Keow	146,000	-	146,000	-
Nik Azalan bin Nik A. Kadir	16,666	-	16,666	-

The warrants 1995/2005 had expired on 14 December 2005.

The Company	Number of Warrants 2005/2015			30 June 2006
	1 July 2005	Bought	Sold	
Direct interest:				
Tai Keik Hock	900,000	-	-	900,000
Tai Lee Keow	673,334	-	-	673,334
Indirect interest:				
Tai Keik Hock	3,226,668	-	-	3,226,668
Tai Lee Keow	3,226,668	-	-	3,226,668

The Company	Number of RM1 nominal value of 5% ICULS 2005/2010			30 June 2006
	1 July 2005	Bought	Sold	
Direct interest:				
Tai Keik Hock	1,350,000	-	-	1,350,000
Tai Lee Keow	1,010,000	-	-	1,010,000
Indirect interest:				
Tai Keik Hock	4,840,000	-	-	4,840,000
Tai Lee Keow	4,840,000	-	-	4,840,000



DIRECTORS' REPORT (contd.)

WARRANTS

As at the end of the financial year, the Company has the following outstanding warrants:

Warrants	Exercise price(s) per ordinary share	Expiry date	Number of warrants outstanding as of 30/6/2006
Warrants 2005/2015	RM1.00	16/6/2015	16,670,355

Warrants 2005/2015 were issued on 17 June 2005 in conjunction with the issuance of RM25,005,533 nominal value of 5 year 5% ICULS 2005/2010. The warrants entitle the holders to subscribe for new ordinary shares in the Company on the basis of one new ordinary share of RM1.00 each for every warrant held at an exercise price of RM1.00 per ordinary share within 10 years from the date of the issue of the warrant. The exercise price of the warrants is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll created on 12 April 2005.

EMPLOYEES' SHARE OPTIONS SCHEME ("ESOS")

The Company implemented an ESOS which is governed by the bye-laws approved by the shareholders at the Extraordinary General Meeting held on 6 December 2004.

There was no ESOS granted during the financial year.

The salient features and other terms of the ESOS are disclosed in Note 27 to the financial statements.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets 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 provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary; 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 have 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 to make any provision for doubtful debts in respect of these accounts; 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 and consolidated financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or 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 of the Group or of the Company which has arisen since the end of the financial year.

DIRECTORS' REPORT(contd.)

OTHER STATUTORY INFORMATION (CONTD.)

- (f) In the opinion of the directors:
- (i) no contingent 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 their obligations 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 and of the Company for the financial year for which this report is made.

AUDITORS

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

Signed in accordance with a resolution of the directors:

TAI KEIK HOCK

TAI LEE KEOW

Kedah, Malaysia

Date: 18 October 2006



STATEMENT BY DIRECTORS STATUTORY DECLARATION

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

We, TAI KEIK HOCK and TAI LEE KEOW, being two of the directors of EG INDUSTRIES BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 33 to 66 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed in accordance with a resolution of the directors:

TAI KEIK HOCK

TAI LEE KEOW

Kedah, Malaysia
Date: 18 October 2006

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

I, TAI KEIK HOCK, being the director primarily responsible for the financial management of EG INDUSTRIES BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 33 to 66 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 abovenamed TAI KEIK HOCK
at Sungai Petani in the state of Kedah
on 18 October 2006

TAI KEIK HOCK

Before me,

Commissioner for Oaths

REPORT OF THE AUDITORS

REPORT OF THE AUDITORS TO THE MEMBERS OF EG INDUSTRIES BERHAD (Incorporated in Malaysia)

We have audited the financial statements set out on pages 33 to 66. 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 so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 30 June 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 and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' report thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 9 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 and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG
AF : 0039
Chartered Accountants

LIM ENG HUAT
2403/04/07 (J)
Partner

Penang, Malaysia
Date: 18 October 2006



INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Group	As restated	Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	3	448,382,581	437,645,762	90,853	10,965,924
Cost of sales		(431,816,383)	(421,690,583)	-	-
Gross profit		16,566,198	15,955,179	90,853	10,965,924
Other operating (expenses) / income - net		(418,828)	1,458,365	708,964	1,467,000
Administration and general expenses		(4,692,424)	(5,335,853)	(579,078)	(1,726,680)
Selling and distribution expenses		(1,178,044)	(1,441,597)	-	-
Profit from operations	4	10,276,902	10,636,094	220,739	10,706,244
Finance income		103,825	54,488	-	-
Finance cost		(2,083,665)	(1,647,966)	(359,592)	(906,308)
Net finance costs	5	(1,979,840)	(1,593,478)	(359,592)	(906,308)
Profit/(Loss) before taxation		8,297,062	9,042,616	(138,853)	9,799,936
Taxation	6	(2,452,861)	(693,090)	(326,836)	57,929
Profit/(Loss) after taxation		5,844,201	8,349,526	(465,689)	9,857,865
Minority interests		(144,489)	(569,900)	-	-
Net profit/(loss) for the year		5,699,712	7,779,626	(465,689)	9,857,865
Earnings per ordinary share (sen)					
- Basic	7	11	16		
- Diluted	7	6	8		

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

BALANCE SHEETS

AS AT 30 JUNE 2006

	Note	Group		Company	
		2006 RM	As restated 2005 RM	2006 RM	2005 RM
NON-CURRENT ASSETS					
Property, plant and equipment	8	65,751,474	39,220,705	1,440,391	1,462,372
Investment in subsidiaries	9	-	-	48,005,012	46,238,261
Investments	10	368,237	368,237	368,237	368,237
Goodwill on consolidation	11	10,147,672	10,781,902	-	-
Deferred tax assets	22	1,074,905	1,401,741	1,074,905	1,401,741
		<u>77,342,288</u>	<u>51,772,585</u>	<u>50,888,545</u>	<u>49,470,611</u>
CURRENT ASSETS					
Inventories	12	25,494,457	25,858,155	-	-
Trade receivables	13	13,093,929	9,637,971	-	-
Other receivables	14	8,888,810	15,688,965	79,810	13,909
Tax recoverable		543,225	153,406	355,551	153,405
Amounts due by subsidiaries	15	-	-	27,285,940	21,522,604
Fixed deposits with licensed banks	16	5,580,000	20,732,628	-	8,852,628
Cash and bank balances		2,663,371	4,907,428	103,304	8,835
		<u>56,263,792</u>	<u>76,978,553</u>	<u>27,824,605</u>	<u>30,551,381</u>
CURRENT LIABILITIES					
Trade payables	17	1,456,945	1,182,832	-	-
Other payables	18	3,159,053	6,908,891	80,357	479,898
Amount due to a subsidiary	15	-	-	455,722	-
Taxation	-	230,766	-	-	-
Short term borrowings	19	23,544,104	21,437,325	1,080,129	1,202,194
		<u>28,160,102</u>	<u>29,759,814</u>	<u>1,616,208</u>	<u>1,682,092</u>
NET CURRENT ASSETS		<u>28,103,690</u>	<u>47,218,739</u>	<u>26,208,397</u>	<u>28,869,289</u>
		<u>105,445,978</u>	<u>98,991,324</u>	<u>77,096,942</u>	<u>78,339,900</u>
FINANCED BY:					
Share capital	20	51,685,813	50,011,067	51,685,813	50,011,067
Reserves	21	32,871,693	28,579,552	22,651,551	24,524,811
Shareholders' equity		<u>84,557,506</u>	<u>78,590,619</u>	<u>74,337,364</u>	<u>74,535,878</u>
Minority interests		714,389	569,900	-	-
Long term liabilities	19	16,640,939	18,270,686	2,759,578	3,804,022
Deferred tax liabilities	22	3,533,144	1,560,119	-	-
		<u>105,445,978</u>	<u>98,991,324</u>	<u>77,096,942</u>	<u>78,339,900</u>

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



STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

Group	Share capital RM	Non-distributable		Accumulated loss RM	Total RM
		Capital reserve RM	Share premium RM		
At 1 July 2004					
As previously stated	50,011,067	-	16,357,095	(14,463,646)	51,904,516
Prior year adjustment (Note 28)	-	-	-	(1,374,964)	(1,374,964)
At 1 July 2004 (As restated)	50,011,067	-	16,357,095	(15,838,610)	50,529,552
Issue of ICULS (equity component)	-	21,401,058	-	-	21,401,058
Expenses incurred on issue of ICULS	-	-	(1,119,617)	-	(1,119,617)
Profit after tax for the year (As restated)	-	-	-	7,779,626	7,779,626
At 30 June 2005	50,011,067	21,401,058	15,237,478	(8,058,984)	78,590,619
At 1 July 2005					
As previously stated	50,011,067	21,401,058	15,237,478	(6,498,865)	80,150,738
Prior year adjustment (Note 28)	-	-	-	(1,560,119)	(1,560,119)
At 1 July 2005 (As restated)	50,011,067	21,401,058	15,237,478	(8,058,984)	78,590,619
Issue of shares					
- Conversion of ICULS	1,674,746	(1,340,407)	-	-	334,339
Expenses incurred on issue of ICULS	-	-	(67,164)	-	(67,164)
Profit after tax for the year	-	-	-	5,699,712	5,699,712
At 30 June 2006	51,685,813	20,060,651	15,170,314	(2,359,272)	84,557,506
Company					
At 1 July 2004					
As previously stated	50,011,067	-	16,357,095	(21,971,590)	44,396,572
Issue of ICULS (equity component)	-	21,401,058	-	-	21,401,058
Expenses incurred on issue of ICULS	-	-	(1,119,617)	-	(1,119,617)
Profit after tax for the year	-	-	-	9,857,865	9,857,865
At 30 June 2005	50,011,067	21,401,058	15,237,478	(12,113,725)	74,535,878
At 1 July 2005					
As previously stated	50,011,067	21,401,058	15,237,478	(12,113,725)	74,535,878
Issue of shares					
- Conversion of ICULS	1,674,746	(1,340,407)	-	-	334,339
Expenses incurred on issue of ICULS	-	-	(67,164)	-	(67,164)
Loss after tax for the year	-	-	-	(465,689)	(465,689)
At 30 June 2006	51,685,813	20,060,651	15,170,314	(12,579,414)	74,337,364

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(Loss) before taxation	8,297,062	9,042,616	(138,853)	9,799,936
Adjustments for:				
Amortisation of goodwill on consolidation	634,230	634,228	-	-
Depreciation	6,104,445	6,472,173	27,881	27,249
Interest expense	1,865,563	1,520,614	358,825	902,255
Provision for doubtful debts	-	1,191,319	-	1,191,319
Provision for impairment loss in value of investments in a subsidiary written back	-	-	(624,000)	(1,430,000)
Dividend income	(11,857)	(7,867)	(11,857)	(10,007,867)
Gain on disposal of property, plant and equipment	-	(36,135)	-	-
Gain on disposal of quoted investments	-	(30,973)	-	-
Gain on redemption of bonds	-	(37,000)	-	(37,000)
Interest income	(134,821)	(66,896)	(30,996)	(958,057)
Operating profit/(loss) before working capital changes	16,754,622	18,682,079	(419,000)	(512,165)
Increase/(Decrease) in inventories	363,698	(10,948,028)	-	-
Decrease/(Increase) in trade and other receivables	3,344,197	(11,548,822)	(65,901)	440,472
(Increase)/Decrease in trade and other payables	(3,475,723)	4,136,793	(399,541)	227,841
Increase in amounts due by subsidiaries	-	-	(5,763,336)	(5,658,111)
Increase/(Decrease) in amount due to a subsidiary	-	-	455,722	(2,787,738)
Cash generated from/(used in) operations	16,986,794	322,022	(6,192,056)	(8,289,701)
Interest paid	(2,697,733)	(1,520,614)	(1,190,995)	(902,255)
Income tax paid	(773,587)	(706,302)	(202,146)	(173)
Net cash from/(used in) operating activities	13,515,474	(1,904,894)	(7,585,197)	(9,192,129)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(32,635,214)	(12,057,220)	(5,900)	-
Interest received	134,821	66,896	30,996	958,057
Dividends received (net)	11,857	6,784	11,857	10,006,784
Proceeds from disposal of property, plant and equipment	-	36,135	-	-
Proceeds from disposal of quoted investments	-	530,973	-	-
Proceeds from redemption of bonds	-	37,000	-	37,000
Acquisition of a subsidiary (Note 9.1)	-	-	(1,042,753)	(2)
Purchase of additional shares in subsidiaries	-	-	(99,998)	(4,000,000)
Net cash (used in)/from investing activities	(32,488,536)	(11,379,432)	(1,105,798)	7,001,839
Balance carried forward	(18,973,062)	(13,284,326)	(8,690,995)	(2,190,290)



CASH FLOW STATEMENTS (contd.)

FOR THE YEAR ENDED 30 JUNE 2006 (CONTD.)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Balance brought forward	(18,973,062)	(13,284,326)	(8,690,995)	(2,190,290)
CASH FLOWS FROM FINANCING ACTIVITIES				
Withdrawal of fixed deposits pledged	-	30,000	-	-
Net drawdown of bankers' acceptances	1,728,000	3,589,000	-	-
Net (repayment)/drawdown of revolving credits	(1,500,000)	13,500,000	-	-
Payment of hire purchase creditors	(22,675)	(22,674)	-	-
Net proceeds from issuance of ICULS	-	23,885,916	-	23,885,916
Drawdown of loan	1,028,404	6,971,596	-	-
Repayment of term loans	(1,007,676)	(14,959,862)	-	(12,834,658)
Expenses incurred on issue of ICULS transferred to share premium	(67,164)	-	(67,164)	-
Net cash from/(used in) financing activities	<u>158,889</u>	<u>32,993,976</u>	<u>(67,164)</u>	<u>11,051,258</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u>(18,814,173)</u>	<u>19,709,650</u>	<u>(8,758,159)</u>	<u>8,860,968</u>
CASH AND CASH EQUIVALENTS AT 1 JULY	<u>24,934,950</u>	<u>5,225,300</u>	<u>8,861,463</u>	<u>495</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u>6,120,777</u>	<u>24,934,950</u>	<u>103,304</u>	<u>8,861,463</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE				
Fixed deposits with licensed banks	5,580,000	20,732,628	-	8,852,628
Cash and bank balances	2,663,371	4,907,428	103,304	8,835
Bank overdrafts	(1,842,594)	(425,106)	-	-
	<u>6,400,777</u>	<u>25,214,950</u>	<u>103,304</u>	<u>8,861,463</u>
Fixed deposits pledged	(280,000)	(280,000)	-	-
	<u>6,120,777</u>	<u>24,934,950</u>	<u>103,304</u>	<u>8,861,463</u>

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

1. CORPORATE INFORMATION

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 9 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Group and of the Company during the financial year other than the incorporation of a new subsidiary in Thailand during the year. The intended principal activity of the new subsidiary is that of the provision of Electronic Manufacturing Services (EMS) for computer peripheral, telecommunication, consumer electronic/electrical and automotive industrial products industries in Thailand.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Second Board of the Bursa Malaysia Securities Berhad.

The principal place of business is located at Lot 102, Jalan 4, Bakar Arang Industrial Estate, 08000 Sungai Petani, Kedah.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 October 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention.

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

Minority interests in the consolidated balance sheet consist of the minority share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minority share of movements in the acquiree's equity since then.

(c) Goodwill or Reserve on Consolidation

Goodwill or reserve on consolidation represents the difference between the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill or reserve on consolidation is stated at cost less accumulated amortisation and impairment losses and is amortised or credited on a straight-line basis over its estimated useful life of 20 years.



NOTES TO THE FINANCIAL STATEMENTS (contd.)

(d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives based on the original cost or subsequent valuation.

The annual rates used are:

Buildings	2%
Plant and machinery	10% - 33%
Furniture and fittings	10% - 33%
Office equipment	10% - 33%
Tools and equipment	10% - 20%
Motor vehicles	20%
Factory renovation	10%

Freehold land and capital work-in-progress are not depreciated. Leasehold land are amortised over the unexpired lease periods of between 45 to 56 years.

Upon disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to accumulated loss.

(e) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its 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. Recoverable amount is the higher of the net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

(f) Investments in Subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses.

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value after due provision is made for any obsolete or slow moving items. Cost of raw materials, packing materials and consumables is determined on the first-in first-out basis while direct labour and manufacturing overheads for work-in-progress and finished goods are determined on the average cost basis.

Cost of raw materials consists of the original purchase cost plus the cost of bringing the inventories to their present location. Cost of finished goods and work-in-progress includes cost of raw materials, direct labour and an appropriate proportion of manufacturing overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and the estimated costs to make the sale.

(h) 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Leases (Contd.)

i. Hire Purchase

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 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 cost 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 recognized 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 consistent with that for depreciable property, plant and equipment as described in Note 2(d).

ii. Operating Lease

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

(i) Provisions for Liabilities

Provisions for liabilities 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. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(j) Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date are as follows:

	2006 RM	2005 RM
EURO Dollar	4.67	5.15
Singapore Dollar	2.25	2.33
United States Dollar	<u>3.72</u>	<u>3.82</u>

(k) 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.

Deferred tax is provided for, by the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 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 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.



NOTES TO THE FINANCIAL STATEMENTS (contd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Income Tax (Contd.)

Deferred tax is measured at the tax rates that are expected to apply in the year 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 in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case deferred tax is included in the resulting goodwill or negative goodwill.

(l) Employee Benefits

i. Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the year 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. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

ii. Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

iii. Equity Compensation Benefits

The Company's Employees' Share Options Scheme ("ESOS") allows eligible employees of the Group to acquire ordinary shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

(m) 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 and 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. Other Non-Current Investments

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

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

ii. 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 and decreases in the carrying amount of marketable securities are recognised in the income statement. On disposal of marketable securities, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

iii. Receivables

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

NOTES TO THE FINANCIAL STATEMENTS (contd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Financial Instruments (contd.)

iv. Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

v. Interest-Bearing Borrowings

Interest-bearing bank borrowings and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining another qualifying asset.

For borrowings made specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the year less any investment income on the temporary investment of that borrowing.

All other borrowing costs are recognised as an expense in the income statement in the year in which they are incurred.

vi. Equity Instruments

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

vii. Irredeemable Convertible Unsecured Loan Stocks ("ICULS")

In accordance with the principal terms of issuance, ICULS as issued by the Company are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar debt. The differences between the proceeds of issue of the ICULS and the fair value assigned to the liability component, representing the conversion option is included in the shareholders' equity. The liability component is subsequently stated at amortised cost using the effective interest rate method until extinguished on conversion or redemption whilst the value of the equity component is not adjusted in subsequent years. Attributable transaction costs are apportioned and deductible directly from the liability and equity component based on their carrying amounts at the date of issue.

Under the effective interest rate method, the interest expense on the liability component is calculated by applying the prevailing market interest rate for a similar non-convertible loan stocks to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan stocks.

(n) Revenue Recognition

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

i. Sale of Goods

Revenue relating to sale of goods is recognised net of discounts upon the transfer of risks and rewards.

ii. Interest Income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

iii. Dividend Income

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



NOTES TO THE FINANCIAL STATEMENTS (contd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Revenue Recognition (Contd.)

iv. Rental Income

Revenue from rental are recognised on an accrual basis.

(o) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

3. REVENUE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Sale of goods	448,339,728	437,625,487	-	-
Dividend income	11,857	7,867	11,857	10,007,867
Interest income	30,996	12,408	30,996	958,057
Management fee received	-	-	48,000	-
	<u>448,382,581</u>	<u>437,645,762</u>	<u>90,853</u>	<u>10,965,924</u>

4. PROFIT FROM OPERATIONS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit from operations is stated:				
After charging:				
Auditors' remuneration				
- current year	81,500	61,775	20,000	17,000
- underprovision in prior year	9,156	19,308	4,756	3,150
Amortisation of goodwill	634,230	634,228	-	-
Depreciation	6,104,445	6,472,173	27,881	27,249
Directors' fees				
- current year	26,000	28,000	26,000	28,000
- overprovided in prior year	(5,000)	(8,000)	(5,000)	(8,000)
Directors' other emoluments	685,835	694,210	240,000	240,000
Foreign exchange loss	62,038	-	-	-
Preliminary expenses written off	-	2,000	-	-
Provision for doubtful debts	-	1,191,319	-	1,191,319
Rental of equipment	763,961	977,279	-	-
Rental of premises	87,878	113,030	16,000	20,000
Unrealised loss on foreign exchange	88,383	-	-	-
and crediting:				
Gross dividends received from				
- investments quoted in Malaysia	11,857	7,867	11,857	7,867
- a subsidiary	-	-	-	10,000,000
Gain on redemption of bonds	-	37,000	-	37,000
Gain on disposal of property, plant and equipment	-	36,135	-	-
Gain on disposal of quoted investments	-	30,973	-	-

NOTES TO THE FINANCIAL STATEMENTS (contd.)

4. PROFIT FROM OPERATIONS (CONTD.)

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Interest income	30,996	12,408	30,996	958,057
Provision for impairment loss in value of investments in a subsidiary written back	-	-	624,000	1,430,000
Realised gain on foreign exchange	28,538	113,983	-	-
Unrealised gain on foreign exchange	88,395	-	84,964	-
Waiver of interest incurred in previous years	-	2,124,704	-	-
	<u>-</u>	<u>2,124,704</u>	<u>-</u>	<u>-</u>

5. NET FINANCE COSTS

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Included herein are:				
Interest income	103,825	54,488	-	-
Interest expense on borrowings	(1,865,563)	(1,520,614)	(358,825)	(902,255)
	<u>(1,865,563)</u>	<u>(1,520,614)</u>	<u>(358,825)</u>	<u>(902,255)</u>

6. TAXATION

	Group		Company	
	2006	As restated 2005	2006	2005
	RM	RM	RM	RM
Based on results for the year:				
- current tax	159,000	594,256	-	4,256
- deferred tax				
- relating to origination and reversal of temporary difference	1,967,559	185,155	-	-
- relating to crystallisation of deferred tax assets	326,836	-	326,836	-
	<u>2,294,395</u>	<u>185,155</u>	<u>326,836</u>	<u>-</u>
	<u>2,453,395</u>	<u>779,411</u>	<u>326,836</u>	<u>4,256</u>
(Over)/Underprovision in prior years				
- income tax	(6,000)	(86,321)	-	(62,185)
- deferred tax	5,466	-	-	-
	<u>(534)</u>	<u>(86,321)</u>	<u>-</u>	<u>(62,185)</u>
	<u>2,452,861</u>	<u>693,090</u>	<u>326,836</u>	<u>(57,929)</u>

The tax charge for the Company is in respect of non tax-exempt dividend income and interest income received.

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year.

A reconciliation of income tax expense/(benefit) applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense/(benefit) at the effective income tax rate of the Group and of the Company is as follows:



NOTES TO THE FINANCIAL STATEMENTS (contd.)

6. TAXATION (CONTD.)

	Group		Company	
	2006 RM	As restated 2005 RM	2006 RM	2005 RM
Group				
Profit/(Loss) before taxation	8,297,062	9,042,616	(138,853)	9,799,936
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	2,323,178	2,531,932	(38,879)	2,743,982
Difference in foreign tax rate	(4,246)	-	-	-
Expenses not deductible for tax purposes	607,322	710,559	38,879	471,034
Income not subject to tax	-	(21,032)	-	(3,210,760)
Deferred tax relating to ICULS	326,836	-	326,836	-
Deferred tax assets recognised on unutilised business loss	(444,000)	(109,000)	-	-
Utilisation of reinvestment allowances	(355,695)	(2,333,048)	-	-
(Over)/Underprovision in prior years				
- income tax	(6,000)	(86,321)	-	(62,185)
- deferred tax	5,466	-	-	-
Tax expense/(benefit) for the year	2,452,861	693,090	326,836	(57,929)
Tax savings recognised during the year arising from:				
Utilisation of capital allowances brought forward	720,000	1,444,000		
Tax losses are analysed as follows:				
Unutilised tax losses	4,052,000	4,052,000		
Unabsorbed capital allowances	3,208,000	5,785,000		
Unutilised reinvestment allowances	26,824,000	11,480,000		

The availability of the unutilised tax losses and unabsorbed capital allowances for offsetting against future taxable profits in the Group are subject to no substantial changes in shareholdings of the subsidiaries under Section 44(5A) and (5B) of the Income Tax Act, 1967.

7. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on the Group's profit after taxation and minority interests of RM5,699,712 (2005: RM7,779,626) and 50,796,599 (2005: 50,011,067) weighted average number of ordinary shares during the year.

The calculation of diluted earnings per ordinary share is based on the Group's profit after taxation and minority interests and after adjusting for savings on interest arising from ICULS of RM6,058,537 (2005: RM7,779,626) and 98,417,230 (2005: 101,069,736) weighted average number of ordinary shares during the year after adjusting for the dilutive effects of all potential ordinary shares, i.e. unconverted warrants, ESOS and ICULS.

NOTES TO THE FINANCIAL STATEMENTS (contd.)

8. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and building RM	Short term leasehold land and buildings RM		Long term leasehold land and buildings RM	Plant and machinery RM	Furniture and fittings RM	Office equipment RM	Tools and equipment RM	Motor vehicles RM	Factory renovation RM	Capital work-in-progress RM	Total RM
		land and buildings RM	land and buildings RM									
At 1 July 2005	3,366,122	6,876,440	5,579,796	69,985,870	582,260	1,794,465	2,397,126	931,084	1,059,746	7,113,716	99,686,625	
Additions	736,845	-	-	18,719,359	22,603	595,872	87,401	136,500	1,495,012	10,841,622	32,635,214	
Disposals/Written off	-	-	-	(4,200)	-	(1,050)	-	-	-	-	(5,250)	
Reclassification	-	8,127,019	-	-	-	-	-	-	-	(8,127,019)	-	
At 30 June 2006	4,102,967	15,003,459	5,579,796	88,701,029	604,863	2,389,287	2,484,527	1,067,584	2,554,758	9,828,319	132,316,589	
Accumulated depreciation												
At 1 July 2005	-	1,201,210	697,492	53,773,277	472,415	987,952	2,101,313	566,811	665,450	-	60,465,920	
Charge for the year	-	243,221	103,691	5,149,477	38,330	264,636	74,480	131,590	99,020	-	6,104,445	
Disposals/Written off	-	-	-	(4,200)	-	(1,050)	-	-	-	-	(5,250)	
At 30 June 2006	-	1,444,431	801,183	58,918,554	510,745	1,251,538	2,175,793	698,401	764,470	-	66,565,115	
Net book value												
At 30 June 2006	4,102,967	13,559,028	4,778,613	29,782,475	94,118	1,137,749	308,734	369,183	1,790,288	9,828,319	65,751,474	
At 30 June 2005	3,366,122	5,675,230	4,882,304	16,212,593	109,845	806,513	295,813	364,273	394,296	7,113,716	39,220,705	
Details as at 1 July 2004												
Cost	3,304,433	6,876,440	5,579,796	66,276,500	578,553	1,540,614	2,354,546	945,234	936,060	-	88,392,176	
Accumulated depreciation	-	1,071,933	590,968	48,781,283	434,982	815,265	1,957,266	516,066	588,755	-	54,756,518	
Depreciation charge for 2005												
	-	129,277	106,524	5,691,265	37,433	172,687	144,047	114,245	76,695	-	6,472,173	



NOTES TO THE FINANCIAL STATEMENTS (contd.)

8. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Company	Long term leasehold land RM	Office equipment RM	Total RM
Cost			
At 1 July 2005	1,634,949	-	1,634,949
Addition	-	5,900	5,900
At 30 June 2006	1,634,949	5,900	1,640,849
Accumulated depreciation			
At 1 July 2005	172,577	-	172,577
Charge for the year	27,249	632	27,881
At 30 June 2006	199,826	632	200,458
Net book value			
At 30 June 2006	1,435,123	5,268	1,440,391
At 30 June 2005	1,462,372	-	1,462,372
Details as at 1 July 2004			
Cost	1,634,949	-	1,634,949
Accumulated depreciation	145,328	-	145,328
Depreciation charge for 2005	27,249	-	27,249

- 8.1** Motor vehicles of the Group with a net book value of RM136,918 (2005: RM75,810) are held in trust by the directors and a third party on behalf of certain subsidiaries.
- 8.2** A motor vehicle of the Group with a net book value of RM39,585 (2005: RM59,377) is acquired under the instalment purchase plan.
- 8.3** The following property, plant and equipment are charged as securities to financial institutions for bank borrowings obtained as disclosed in Note 19 to the financial statements:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At net book value				
Freehold land	4,102,967	3,366,122	-	-
Short and long term leasehold land and buildings	16,902,518	10,557,534	-	1,462,372
Plant and machinery	29,782,475	16,212,593	-	-
Tools and equipment	308,734	295,813	-	-
Furniture and fittings	92,524	109,845	-	-
Office equipment	1,132,481	806,513	-	-
Motor vehicles	369,183	364,273	-	-
Factory renovation	1,790,288	394,296	-	-
Capital work in progress	9,281,417	7,113,716	-	-
	63,762,587	39,220,705	-	1,462,372

The charge on the Company's long term leasehold land had been discharged on 8 August 2005.

NOTES TO THE FINANCIAL STATEMENTS (contd.)

9. INVESTMENT IN SUBSIDIARIES

	Company	
	2006	2005
	RM	RM
Unquoted shares, at cost	51,001,012	49,858,261
Accumulated impairment losses	(2,996,000)	(3,620,000)
	<u>48,005,012</u>	<u>46,238,261</u>

In the financial year 2006, the Company acquired 100% equity interest in SMT Industries Co., Ltd., a company incorporated in Thailand for a total consideration of RM1,042,753.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Equity interest held (%)		Principal activities
		2006	2005	
Direct interest				
SMT Technologies Sdn. Bhd.	Malaysia	100	100	Provision of Electronic Manufacturing Services (EMS) for computer peripheral, telecommunication and consumer electronic/electrical products industries
Mastimber Industries Sdn. Bhd.	Malaysia	90.5	90.5	Manufacture and sale of 2-layer solid wood parquet flooring
EG Wireless Sdn. Bhd. *	Malaysia	100	100	Original Equipment Manufacturer/Original Design Manufacturer (OEM/ODM) in complete box built wireless technologies products
SMT Industries Co., Ltd.	Thailand	100	-	Provision of Electronic Manufacturing Services (EMS) for computer peripheral, telecommunication, consumer electronic/electrical and automotive industrial products industries in Thailand
Indirect interest				
Glisten Knight Sdn. Bhd. *	Malaysia	100	100	Investment holding company

* Not audited by Ernst & Young

9.1 The effect of the acquisition on the financial results of the Group from the date of acquisition to 30 June 2006 is as follows:

	2006	2005
	RM	RM
Revenue	-	-
Operating costs	(212,282)	(3,225)
Net loss	<u>(212,282)</u>	<u>(3,225)</u>



NOTES TO THE FINANCIAL STATEMENTS (contd.)

9. INVESTMENT IN SUBSIDIARIES (CONDT.)

The effect of the acquisition on the financial position of the Group as at 30 June 2006 is as follows:

	2006 RM	2005 RM
Other receivables	865	-
Cash and bank balances	30,643	1,944
Other payables	(25,392)	(5,167)
	<u>6,116</u>	<u>(3,223)</u>

The fair value of the asset acquired from the acquisition of the subsidiary is as follows:

	2006 RM	2005 RM
Net asset acquired:		
Cash and bank balances	1,042,753	2
Fair value of total asset	<u>1,042,753</u>	<u>2</u>
Group's share of net assets	1,042,753	2
Goodwill on acquisition	-	-
Total consideration	<u>1,042,753</u>	<u>2</u>
Satisfied by:		
Cash	1,042,753	2
Shares issued	<u>-</u>	<u>-</u>
	<u>1,042,753</u>	<u>2</u>
Net cash outflow arising on acquisition:		
Cash consideration	1,042,753	2
Cash and cash equivalents of the subsidiary acquired	<u>(1,042,753)</u>	<u>(2)</u>
	<u>-</u>	<u>-</u>

10. INVESTMENTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Quoted shares, at cost	655,747	655,747	655,747	655,747
Accumulated impairment losses	(491,510)	(491,510)	(491,510)	(491,510)
	<u>164,237</u>	<u>164,237</u>	<u>164,237</u>	<u>164,237</u>
Unquoted shares, at cost	300,000	300,000	300,000	300,000
Accumulated impairment losses	(96,000)	(96,000)	(96,000)	(96,000)
	<u>204,000</u>	<u>204,000</u>	<u>204,000</u>	<u>204,000</u>
	<u>368,237</u>	<u>368,237</u>	<u>368,237</u>	<u>368,237</u>
Market value at 30 June:				
Quoted shares	<u>230,735</u>	<u>152,275</u>	<u>230,735</u>	<u>152,275</u>

NOTES TO THE FINANCIAL STATEMENTS (contd.)

11. GOODWILL ON CONSOLIDATION

	Group	
	2006	2005
	RM	RM
At 1 July	10,781,902	11,416,130
Amortisation of goodwill	(634,230)	(634,228)
At 30 June	<u>10,147,672</u>	<u>10,781,902</u>

12. INVENTORIES

	Group	
	2006	2005
	RM	RM
Cost:		
Raw materials	11,942,591	15,434,181
Work-in-progress	7,791,254	6,918,668
Finished goods	5,616,206	3,329,325
Consumables	123,606	146,246
Packing materials	20,800	29,735
	<u>25,494,457</u>	<u>25,858,155</u>

All inventories are pledged as securities to a licensed bank for bank borrowings granted to the subsidiaries.

13. TRADE RECEIVABLES

	Group	
	2006	2005
	RM	RM
Trade receivables	<u>13,093,929</u>	<u>9,637,971</u>

The Group's normal trade credit terms range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has a significant concentration of credit risk that may arise from exposures to a group of debtors which represents approximately 50% (2005 -55%) of the total trade receivables as at 30 June 2006.

14. OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Other receivables	8,612,722	16,708,966	75,810	1,191,319
Provision for doubtful debts	-	(1,191,319)	-	(1,191,319)
	<u>8,612,722</u>	<u>15,517,647</u>	<u>75,810</u>	<u>-</u>
Deposits	23,020	36,910	2,000	1,000
Prepayments	253,068	134,408	2,000	12,909
	<u>8,888,810</u>	<u>15,688,965</u>	<u>79,810</u>	<u>13,909</u>

Included in other receivables of the Group are as follows:

- (i) amount due from a third party of RM7,593,538 (2005: RM11,949,129) in respect of raw materials purchased which are borne by the third party due to non cancellation of purchase orders; and
- (ii) amount due from a third party of RM Nil (2005: RM3,155,542) for design fees borne by it.

The Group has a significant concentration of credit risk that may arise from exposures to debtors amounting to RM7,593,538 (2005: RM15,104,671) as at 30 June 2006.



NOTES TO THE FINANCIAL STATEMENTS (contd.)

15. AMOUNTS DUE BY/(TO) SUBSIDIARIES

The amounts due by/(to) subsidiaries are trade and non trade related and unsecured with no fixed terms of repayment. Interest is charged to a subsidiary at the rates ranging from Nil% (2005: 4% to 7.75%) per annum.

16. FIXED DEPOSITS WITH LICENSED BANKS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Fixed deposits	280,000	280,000	-	-
Repo	5,300,000	20,452,628	-	8,852,628
	<u>5,580,000</u>	<u>20,732,628</u>	<u>-</u>	<u>8,852,628</u>

Included herein are fixed deposits amounting to RM280,000 (2005: RM280,000) which are registered in the name of certain directors of the subsidiaries and are pledged to the financial institutions as securities for bank guarantees issued to third parties on behalf of the subsidiaries.

The range of interest rates earned and maturities of deposits at the balance sheet date were as follows:

	Interest rate - % per annum			
	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Fixed deposits	3 - 3.7	3 - 3.7	-	-
Repo	<u>2.45 - 3.7</u>	<u>2.35 - 3.7</u>	<u>-</u>	<u>2.6</u>

	Maturities			
	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Fixed deposits	150 days to 365 days	150 days to 365 days	-	-
Repo	<u>2 - 7 days</u>	<u>4 - 7 days</u>	<u>-</u>	<u>4 days</u>

17. TRADE PAYABLES

	Group	
	2006 RM	2005 RM
Trade payables	<u>1,456,945</u>	<u>1,182,832</u>

The Group's normal trade credit terms range from 30 to 90 days.

18. OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Accruals	1,612,841	1,402,981	45,600	72,755
Amounts due to directors	32,182	87,953	17,000	41,000
Other payables	1,514,030	5,417,957	17,757	366,143
	<u>3,159,053</u>	<u>6,908,891</u>	<u>80,357</u>	<u>479,898</u>

Included in other payables of the Group is design fee amounting to RM Nil (2005: RM3,231,436) owing to a related party.

NOTES TO THE FINANCIAL STATEMENTS (contd.)

19. BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Short Term Borrowings				
Secured:				
Bank overdrafts	1,842,594	425,106	-	-
Bankers' acceptances	5,702,000	3,974,000	-	-
Revolving credits	13,000,000	14,500,000	-	-
Term loans	1,917,516	1,313,350	-	-
Hire purchase payables (Note 19.1)	1,865	22,675	-	-
	<u>22,463,975</u>	<u>20,235,131</u>	<u>-</u>	<u>-</u>
Unsecured:				
ICULS (liability component) (Note 25)	1,080,129	1,202,194	1,080,129	1,202,194
	<u>23,544,104</u>	<u>21,437,325</u>	<u>1,080,129</u>	<u>1,202,194</u>
Long Term Borrowings				
Secured:				
Revolving credits	8,000,000	8,000,000	-	-
Term loans	5,881,361	6,464,799	-	-
Hire purchase payables (Note 19.1)	-	1,865	-	-
	<u>13,881,361</u>	<u>14,466,664</u>	<u>-</u>	<u>-</u>
Unsecured:				
ICULS (liability component) (Note 25)	2,759,578	3,804,022	2,759,578	3,804,022
	<u>16,640,939</u>	<u>18,270,686</u>	<u>2,759,578</u>	<u>3,804,022</u>
Total Borrowings				
Bank overdrafts	1,842,594	425,106	-	-
Bankers' acceptances	5,702,000	3,974,000	-	-
Revolving credits	21,000,000	22,500,000	-	-
Term loans	7,798,877	7,778,149	-	-
Hire purchase payables (Note 19.1)	1,865	24,540	-	-
	<u>36,345,336</u>	<u>34,701,795</u>	<u>-</u>	<u>-</u>
Unsecured:				
ICULS (liability component) (Note 25)	3,839,707	5,006,216	3,839,707	5,006,216
	<u>40,185,043</u>	<u>39,708,011</u>	<u>3,839,707</u>	<u>5,006,216</u>
Maturity of borrowings (excluding hire purchase payables)				
Within 1 year	23,542,239	21,414,650	1,080,129	1,202,194
More than 1 year and less than 2 years	11,277,303	10,989,427	1,000,119	1,071,911
More than 2 years and less than 5 years	4,946,951	6,399,623	1,759,459	2,732,111
5 years or more	416,685	879,771	-	-
	<u>40,183,178</u>	<u>39,683,471</u>	<u>3,839,707</u>	<u>5,006,216</u>
	Group		Company	
	2006	2005	2006	2005
	% per annum	% per annum	% per annum	% per annum
Bank overdrafts	8.00% - 8.25%	7.25%	-	-
Revolving credits	5.40% - 5.90%	4.40% - 7.65%	-	-
Bankers' acceptances	5.15% - 5.65%	4.02% - 4.22%	-	-
Term loans	6.35% - 8.00%	6.35% - 7.50%	-	-



NOTES TO THE FINANCIAL STATEMENTS (contd.)

19. BORROWINGS (CONTD.)

The secured portion of the bank borrowings (except hire purchase payables) are secured by way of:

- (i) a debenture creating fixed and floating charges over all the assets of the subsidiaries;
- (ii) a legal charge over a subsidiary's freehold land;
- (iii) legal charges over the leasehold land and buildings of the subsidiaries;
- (iv) first fixed legal charge over a subsidiary's plant and machinery; and
- (v) joint and several guarantee by the directors of a subsidiary.

19.1 Hire Purchase Payables

	Group	
	2006 RM	2005 RM
Minimum lease payments		
Not later than 1 year	1,865	24,912
Later than 1 year and not later than 2 years	-	1,865
Later than 2 years and not later than 5 years	-	-
	1,865	26,777
Future finance charges	-	(2,237)
	1,865	24,540
Present value of hire purchase liabilities		
Not later than 1 year	1,865	22,675
Later than 1 year and not later than 2 years	-	1,865
Later than 2 years and not later than 5 years	-	-
	1,865	24,540
Analysed as		
Due within 12 months	1,865	22,675
Due after 12 months	-	1,865
	1,865	24,540

The hire purchase liabilities bore interest at the balance sheet date of 3.29% (2005: 3.28%) per annum.

19.2 Term Loans

The term loans are repayable by monthly instalments of RM13,960, RM62,500 and RM83,333 each over a period of 96 months, 48 months and 60 months respectively.

20. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2006	2005	2006 RM	2005 RM
Authorised:				
At 1 July	200,000,000	100,000,000	200,000,000	100,000,000
Created during the year	-	100,000,000	-	100,000,000
At 30 June	200,000,000	200,000,000	200,000,000	200,000,000
Issued and fully paid				
At 1 July	50,011,067	50,011,067	50,011,067	50,011,067
Issued during the year:				
- Conversion of ICULS	1,674,746	-	1,674,746	-
At 30 June	51,685,813	50,011,067	51,685,813	50,011,067

During the financial year, the issued and paid-up capital of the Company was increased from RM50,011,067 to RM51,685,813 by issuance of 1,674,746 new ordinary shares of RM1 each pursuant to conversion of Irredeemable Convertible Unsecured Loan Stock (ICULS) at the conversion price of RM1 each.

NOTES TO THE FINANCIAL STATEMENTS (contd.)

21. RESERVES

	Group		Company	
	2006 RM	As restated 2005 RM	2006 RM	2005 RM
Accumulated loss	(2,359,272)	(8,058,984)	(12,579,414)	(12,113,725)
Non-distributable:				
Share premium	15,170,314	15,237,478	15,170,314	15,237,478
Capital reserve				
- ICULS (equity component) (Note 25)	20,060,651	21,401,058	20,060,651	21,401,058
	<u>32,871,693</u>	<u>28,579,552</u>	<u>22,651,551</u>	<u>24,524,811</u>

22. DEFERRED TAX

	Group		Company	
	2006 RM	As restated 2005 RM	2006 RM	2005 RM
At 1 July	158,378	1,374,964	(1,401,741)	-
Recognised in income statement	2,299,861	185,155	326,836	-
Credited to equity:				
ICULS (equity component) (Note 25)	-	(1,401,741)	-	(1,401,741)
At 30 June	<u>2,458,239</u>	<u>158,378</u>	<u>(1,074,905)</u>	<u>(1,401,741)</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	(1,074,905)	(1,401,741)	(1,074,905)	(1,401,741)
Deferred tax liabilities	3,533,144	1,560,119	-	-
	<u>2,458,239</u>	<u>158,378</u>	<u>(1,074,905)</u>	<u>(1,401,741)</u>

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

Deferred Tax Assets of the Group

	At 1 July 2004 RM	Prior year adjustment RM	As restated At 1 July 2005 RM	Recognised in income statements RM	At 30 June 2006 RM
Unabsorbed capital allowances			(1,620,000)	780,000	(840,000)
Unutilised tax losses			(109,000)	(505,000)	(614,000)
ICULS (equity component)			(1,401,741)	326,836	(1,074,905)
			<u>(3,130,741)</u>	<u>601,836</u>	<u>(2,528,905)</u>
	At 1 July 2004 RM	Prior year adjustment RM	Recognised in income statements RM	Credited to equity RM	At 30 June 2005 RM
Unutilised tax losses	-	-	(109,000)	-	(109,000)
Unabsorbed capital allowances	(2,059,000)	-	439,000	-	(1,620,000)
Unutilised reinvestment allowances	(1,374,964)	1,374,964	-	-	-
ICULS (equity component)	-	-	-	(1,401,741)	(1,401,741)
	<u>(3,433,964)</u>	<u>1,374,964</u>	<u>330,000</u>	<u>(1,401,741)</u>	<u>(3,130,741)</u>



NOTES TO THE FINANCIAL STATEMENTS (contd.)

22. DEFERRED TAX (CONTD.)

Deferred Tax Asset of the Company

	At 1 July 2005 RM	Recognised in income statements RM	At 30 June 2006 RM
ICULS (equity component)	(1,401,741)	326,836	(1,074,905)

	At 1 July 2004 RM	Credited to equity RM	At 30 June 2005 RM
ICULS (equity component)	-	(1,401,741)	(1,401,741)

Deferred Tax Liabilities of the Group

	At 1 July 2005 RM	Recognised in income statements RM	At 30 June 2006 RM
Capital allowances	3,289,119	1,698,025	4,987,144

	At 1 July 2004 RM	Recognised in income statements RM	At 30 June 2005 RM
Capital allowances	3,433,964	(144,845)	3,289,119

Deferred tax asset has not been recognised in respect of the following item:

	Group 2006 RM	2005 RM
Unutilised tax losses	2,071,000	3,664,000

23. STAFF COSTS AND NUMBER OF EMPLOYEES

	Group 2006 RM	2005 RM
Wages and salaries	10,442,951	9,510,445
Social security costs	145,683	99,971
Pension costs - defined contribution plans	980,046	903,675
Other staff related expenses	1,755,083	1,955,788
	<u>13,323,763</u>	<u>12,469,879</u>

Staff cost include executive directors' emoluments of RM685,835 (2005: RM694,210).

The number of employees in the Group at the end of the financial year was 966 (2005: 948).

The Company does not have any employee and hence no staff cost was incurred in 2006 and 2005.

NOTES TO THE FINANCIAL STATEMENTS (contd.)

24. WARRANTS

As at the end of the financial year, the Company has the following outstanding warrants:

Warrants	Exercise price(s) per ordinary share	Expiry date	Number of warrants outstanding as of 30/6/2006
Warrants 2005/2015	RM1.00	16/6/2015	16,670,355

Warrants 2005/2015 were issued on 17 June 2005 in conjunction with the issuance of RM25,005,533 nominal value of 5 year 5% ICULS 2005/2010. The warrants entitle the holders to subscribe for new ordinary shares in the Company on the basis of one new ordinary share of RM1.00 each for every warrant held at an exercise price of RM1.00 per ordinary share within 10 years from the date of the issue of the warrant. The exercise price of the warrants is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll created on 12 April 2005.

25. IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (“ICULS”)

On 17 June 2005, the Company issued RM25,005,533 nominal value of 5 year 5% ICULS at 100% of its nominal value, together with 16,670,355 free detachable new warrants on the basis of RM3.00 nominal value of ICULS with two new warrants for every six existing original shares of RM1.00 each held in the Company.

The main features of the ICULS are as follows:

- (a) The ICULS are in multiples of RM1.00 and constituted by a Trust Deed dated 12 April 2005 made between the Company and the Trustee for the holders of the ICULS;
- (b) The ICULS will be convertible into new ordinary shares in the Company at any time from the date of issue of the ICULS until the maturity date on 16 June 2010;
- (c) Upon conversion of the ICULS into new ordinary shares, such shares shall rank pari passu in all respects with the existing ordinary shares of the Company except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of conversion of the ICULS; and
- (d) The interest on ICULS is payable semi-annually in arrears.

The ICULS have been split between the liability component and the equity component, representing the fair value of the conversion option. The ICULS are accounted for in the balance sheets of the Group and of the Company as follows:

	Group and Company		Total RM
	Equity component RM	Liability component RM	
At the date of Issuance of ICULS			
- nominal value	19,999,317	5,006,216	25,005,533
- deferred tax asset	1,401,741	-	1,401,741
At 30 June 2005	<u>21,401,058</u>	<u>5,006,216</u>	<u>26,407,274</u>
At 1 July 2005	21,401,058	5,006,216	26,407,274
Interest paid	-	(1,190,995)	(1,190,995)
Interest expense	-	358,825	358,825
	<u>21,401,058</u>	<u>4,174,046</u>	<u>25,575,104</u>
Effect of conversion	(1,340,407)	(334,339)	(1,674,746)
At 30 June 2006	<u>20,060,651</u>	<u>3,839,707</u>	<u>23,900,358</u>
Analysis at 30 June 2006			
- carrying value			22,498,617
- deferred tax asset			1,401,741
			<u>23,900,358</u>



NOTES TO THE FINANCIAL STATEMENTS (contd.)

25. IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (“ICULS”) (CONTD.)

The liability component at 30 June 2006 is further analysed as follows:

	2006 RM	2005 RM
Within 1 year	1,080,129	1,202,194
After 1 year and not later than 5 years	2,759,578	3,804,022
	<u>3,839,707</u>	<u>5,006,216</u>

Interest expense on the ICULS is calculated on the effective yield basis by applying a coupon interest rate of 8% which is assumed to be equivalent to the prevailing market interest rate for non-convertible loan stocks at the date of issue.

26. CONTINGENT LIABILITIES (UNSECURED)

	Company	
	2006 RM	2005 RM
Corporate guarantees given to financial institutions for banking facilities granted to the subsidiaries	<u>34,155,419</u>	<u>26,471,596</u>

27. EMPLOYEES’ SHARE OPTIONS SCHEME (“ESOS”)

The Company implemented an ESOS which is governed by the bye-laws approved by the shareholders at the Extraordinary General Meetings held on 6 December 2004.

The salient features of the ESOS are as follows:

- (i) Employees of the Group (including executive directors) who have attained the age of 18 years and above, have been confirmed in the employment of the Group and are employed full time by and on the payroll of any company in the Group are eligible to participate in the ESOS. The eligibility for participation in the ESOS shall be at the discretion of the Options Committee appointed by the Board of Directors.

In the case of executive directors, major shareholders and/or persons connected with an executive director or major shareholders of the Company, their specific entitlement under the Scheme shall be approved by the shareholders of the Company in a general meeting.

- (ii) The total number of shares to be offered shall not exceed in aggregate 15% of the total issued and paid-up share capital of the Company (or such maximum percentage as allowable by the relevant authorities) at any point of time during the tenure of the ESOS, which shall be in force for a period of five years.
- (iii) Not more than 50% (or such percentage as allowable by the relevant authorities) of new shares of the Company available under the Scheme should be allocated in aggregate to the director and senior management of the Group and not more than 10% (or such percentage as allowable by the relevant authorities) of new shares of the Company available under the Scheme should be allocated to any individual director or employee who, either singly or collectively through persons connected with him, holds 20% or more in the issued and paid-up share capital of the Company.
- (iv) The option price for each share shall be subject to a discount of not more than 10% from the 5 day weighted average market price of the shares of the Company immediately preceding the offer date, or the par value of the shares of the Company of RM1, whichever is the higher.
- (v) No option shall be granted for less than 100 shares to any eligible employee and shall always be in multiples of 100 shares.
- (vi) An option granted under the ESOS shall be capable of being exercised by the grantee by notice in writing to the Company before the expiry of five years from the date of the offer or such shorter period as may be specified in such offer.
- (vii) The new shares to be issued upon any exercise of the option shall, upon allotment and issuance, rank pari passu in all respects with the existing shares of the Company save and except that the new shares will not be entitled to any dividends, rights, allotments and/ or other distributions where the entitlement date precedes the date of allotment of the new shares. The option shall not carry any rights to vote at any general meeting of the Company.
- (viii) The eligible employees of the Group who have been granted options shall not sell, transfer, assign or charge the new ordinary shares of the Company obtained through the exercise of the options offered to him under the ESOS from the date of offer of such options.

NOTES TO THE FINANCIAL STATEMENTS (contd.)

27. EMPLOYEES' SHARE OPTIONS SCHEME ("ESOS") (CONTD.)

There was no ESOS granted during the financial year.

The shareholders have also at the Extraordinary General Meeting held on 6 December 2004 approved to offer stock options to the directors of the Company and its subsidiaries as follows:

	Maximum percentage (%) of the total number of ordinary shares of RM1.00 each in the Company available under the Employee Share Option Scheme offered to each eligible directors
Tai Keik Hock	8%
Tai Keng Eng	8%
Tai Lee Keow	8%
Tai Lee See	8%
Yeoh Sian Kok	8%
Tan Bak Seng	8%
Tai Yeong Sheng	8%

As at 30 June 2006, the Company has yet to grant any ESOS to the above directors.

28. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENTS

In prior years, the Group recognised deferred tax assets on unutilised reinvestment allowances as required by FRS 112 -Income Taxes. During the current year, the Group changed its accounting policy and accordingly, deferred tax assets on unused reinvestment allowances are no longer recognised.

The change in accounting policy has been applied retrospectively and comparatives have been restated. The effects of this change in accounting policy are as follows:

	2005	
	As previously stated RM	As restated RM
Income statement		
Profit after taxation for the year	7,964,781	7,779,626
Balance sheet		
Retained earnings	30,139,671	28,579,552
Deferred taxation	-	1,560,119

29. COMMITMENTS

	Group	
	2006	2005
	RM	RM
Capital commitments:		
Contracted but not provided for	7,120,805	230,238
Approved and contracted for	1,210,910	-
Non-Cancellable Operating Lease Commitments:		
Future minimum lease rental payables		
Not later than 1 year	84,012	977,279
Later than 1 year and not later than 5 years	154,022	-
	238,034	977,279
	8,569,749	1,207,517

Operating lease payments represent rental payable by a subsidiary for use of plant and machineries. The leases are negotiated at a fixed rental for a period of 3 years.



NOTES TO THE FINANCIAL STATEMENTS (contd.)

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

Group	2006	Amount	2005	Amount
	RM	outstanding as at 30/6/2006 RM	RM	outstanding as at 30/6/2005 RM
Advances to a company connected by a common director				
- Dai-Ichi Electronics (M) Sdn. Bhd.	-	-	906,364	336,364
Sales to a company in which certain directors have an interest				
- Dallab Sdn. Bhd.	802,337	456,202	25,967,208	441,245
- FA Technology Sdn. Bhd.	38,946	25,006	-	-
- Dallab Sales & Marketing Sdn. Bhd.	2,721,545	2,333,445	-	-
Purchases from companies in which certain directors have an interest				
- Exzone Plastic Manufacturers Sdn. Bhd.	30,100	13,622	338,880	84,922
- FA Technology Sdn. Bhd.	2,073	-	-	-
Tooling and non-recurring engineering cost charged to a company in which certain directors have an interest				
- Dallab Inc. Sdn. Bhd.	100,887	-	143,148	112,558
Design fees charged by a company in which certain directors have an interest				
- Dallab Inc. Sdn. Bhd.	300,000	-	3,231,436	3,231,436
Waiver of interest to companies connected by a common director				
- Dai-Ichi Electronics (M) Sdn. Bhd.	-	-	45,950	-
- Dynamic Electronics (M) Sdn. Bhd.	-	-	213,659	-
Sub-contract charge to a company in which certain directors have an interest				
- FA Technology Sdn. Bhd.	8,001	-	-	-
Scrap sales to a company connected by a common director				
- Dai-Ichi Electronics (M) Sdn. Bhd.	12,205	12,205	-	-
Rental paid to a company connected by a common director				
- Dai-Ichi Electronics (M) Sdn. Bhd.	16,000	-	-	-
Purchase of property, plant and equipment from companies in which certain directors have an interest				
- Exzone Plastic Manufacturers Sdn. Bhd.	361,550	2,800	-	-
- Dai-Ichi Electronics (M) Sdn. Bhd.	23,900	-	-	-
Company				
Gross dividend received from a subsidiary				
- SMT Technologies Sdn. Bhd.	-	-	10,000,000	-
Interest receivable from a subsidiary				
- Mastimber Industries Sdn. Bhd.	-	-	945,649	945,649
Interest payable to a subsidiary				
- SMT Technologies Sdn. Bhd.	-	-	398,420	398,420
Advances received from a subsidiary				
- SMT Technologies Sdn. Bhd.	-	-	11,521,609	-
Advances given to subsidiaries				
- Mastimber Industries Sdn. Bhd.	948,565	948,565	837,166	837,166
- EG Wireless Sdn. Bhd.	415,000	395,000	-	-
- Glisten Knight Sdn. Bhd.	640,000	640,000	-	-
- SMT Technologies Sdn. Bhd.	7,054,541	4,548,842	-	-
- SMT Industries Company Ltd. (Thailand)	502,067	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (contd.)

30. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTD.)

Company	2006	Amount	2005	Amount
	RM	outstanding as at 30/6/2006 RM	RM	outstanding as at 30/6/2005 RM
Waiver of interest to companies connected by a common director				
- Dai-Ichi Electronics (M) Sdn. Bhd.	-	-	45,950	-
- Dynamic Electronics (M) Sdn. Bhd.	-	-	213,659	-
Waiver of interest to a subsidiary				
- Mastimber Industries Sdn. Bhd.	-	-	2,124,704	-
Management fees receivable from a subsidiary				
- Mastimber Industries Sdn. Bhd.	48,000	-	-	-
Rental paid to a company connected by a common director				
- Dai-Ichi Electronics (M) Sdn. Bhd.	16,000	-	-	-

The directors 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.

The related parties above which the Group/the Company has transacted with during the financial year are deemed to be related by virtue of the following related parties connected with the directors:

- (i) Ms Tai Lee Keow is also a director of Dai-Ichi Electronics (M) Sdn. Bhd. and Dynamic Electronics (M) Sdn. Bhd.;
- (ii) Mr. Yeoh Sian Kok and Ms Tai Lee See are directors and/or substantial shareholders of Dallab Sdn. Bhd., Dallab Inc. Sdn. Bhd. and Dallab Sales & Marketing Sdn. Bhd. and
- (iii) Madam Tai Keng Eng is a director of the company and Exzone Plastics Manufacturers Sdn Bhd and is the spouse of the director and major shareholder of Exzone Plastics Manufacturers Sdn. Bhd., Mr. Teh Lian Hock.

31. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives 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, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

(b) Interest Rate Risk

The Group's primary interest rate risk relates to interest-bearing debts; the Group had no substantial long term interest-bearing assets as at 30 June 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 fixed deposits or occasionally, in short term commercial papers which yield better returns than cash at bank.

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

(c) Foreign Exchange Risk

The Group is exposed to various foreign currencies, mainly EURO Dollar, Hong Kong Dollar, Singapore Dollar, United States Dollar and Thai Baht. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than the functional currency of the operating entities are kept to an acceptable level.



NOTES TO THE FINANCIAL STATEMENTS (contd.)

31. FINANCIAL INSTRUMENTS (CONTD.)

(e) Foreign Exchange Risk (Contd.)

The net unhedged financial assets and financial liabilities of the Group companies that are not denominated in its functional currency are as follows:

Functional Currency of the Group	2006 Ringgit Malaysia RM	2005 Ringgit Malaysia RM
Trade receivables		
EURO Dollar	1,125,507	1,105,089
United States Dollar	468,085	81,610
Other receivables		
United States Dollar	155,821	-
Thai Baht	865	-
Cash and bank balances		
United States Dollar	239,003	544,110
Thai Baht	30,643	-
Trade payables		
EURO Dollar	437,564	1,975
Singapore Dollar	-	506
United States Dollar	319,831	803,257
Other payables		
EURO Dollar	5,104	38,035
Singapore Dollar	1,343	1,761
Hong Kong Dollar	-	7,901
United States Dollar	9,483	1,179,307
Thai Baht	28,393	-

(d) 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 convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

(e) Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with 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 or counterparty nor does it have any major concentration of credit risk related to any financial instruments other than those disclosed on Note 13 and 14 to the financial statements.

(f) Fair Values

The aggregate net fair values of financial assets and financial liabilities which are not carried at fair value on the balance sheet of the Group and of the Company as at the end of the financial year are represented as follows:

NOTES TO THE FINANCIAL STATEMENTS (contd.)

31. FINANCIAL INSTRUMENTS (CONTD.)

(f) Fair Values (Contd.)

	Notes	Group	Fair value RM	Company	Fair value RM
		Carrying amount RM		Carrying amount RM	
Financial assets					
At 30 June 2006					
Marketable securities	10	164,237	230,735	164,237	230,735
Non-current unquoted shares	10	204,000	*	204,000	*
Amounts due from subsidiaries	15	-	-	27,285,940	#
At 30 June 2005					
Marketable securities	10	164,237	152,275	164,237	152,275
Non-current unquoted shares	10	204,000	*	204,000	*
Amounts due from subsidiaries	15	-	-	21,522,604	#
Financial liabilities					
At 30 June 2006					
Term loans	19	7,798,877	7,086,013	-	-
Hire purchase payable	19	1,865	1,865	-	-
ICULS	25	22,498,617	19,831,169	22,498,617	19,831,169
At 30 June 2005					
Amounts due to					
Term loans	19	7,778,149	6,994,258	-	-
Hire purchase payable	19	24,540	24,487	-	-
ICULS	25	25,005,533	25,005,533	25,005,533	25,005,533

* It is not practical to estimate the fair value of the Group's non-current unquoted shares because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

It is also not practical to estimate the fair values of amounts due to/from subsidiaries due principally to a lack of fixed repayment terms entered by the parties involved and without incurring excessive costs.

The nominal notional amounts and net fair value of financial instruments not recognised in the balance sheets of the Company as at the end of the financial year are:

	Notes	Company	Net fair value RM
		Nominal notional amount RM	
At 30 June 2006			
Contingent liabilities	26	34,155,419	-
At 30 June 2005			
Contingent liabilities	26	26,471,596	-

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



NOTES TO THE FINANCIAL STATEMENTS (contd.)

31. FINANCIAL INSTRUMENTS (CONTD.)

(f) Fair Values (Contd.)

i. Cash and Cash Equivalents, Trade and Other Receivables/Payables and Short Term Borrowings

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

ii. Borrowings

The fair value of borrowings is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.

iii. Quoted loan stocks

The fair value of quoted ICULS are determined by reference to stock exchange quoted market prices at the close of the business on the balance sheet date.

32. SEGMENT INFORMATION

During the financial year, the Group principally operates in Malaysia in the following main industry segments:

Industry Segment	Description
Manufacturing	Provision of electronic manufacturing services Manufacturing and sales of solid wood parquet

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

2006	Provision of electronic manufacturing services RM	Solid wood parquet RM	Total RM	Elimination/ adjustment RM	Consolidated RM
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REVENUE AND EXPENSES

Revenue

External sales	439,042,293	9,297,435	448,339,728	-	448,339,728
Inter company sales	-	-	-	-	-
	439,042,293	9,297,435	448,339,728	-	448,339,728
Unallocated revenue					42,853
Total revenue					448,382,581

2006	Provision of electronic manufacturing services RM	Solid wood parquet RM	Consolidated RM
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Results

Segment results	10,037,681	1,745,084	11,782,765
Unallocated expenses			(1,505,863)
Profit from operations			10,276,902
Net finance costs			(1,979,840)

NOTES TO THE FINANCIAL STATEMENTS (contd.)

32. SEGMENT INFORMATION (CONTD.)

REVENUE AND EXPENSES (CONTD.)

2006	Provision of electronic manufacturing services RM	Solid wood parquet RM	Consolidated RM
Taxation			(2,452,861)
Profit after taxation			5,844,201
Minority interests			(144,489)
Net profit for the year			5,699,712

ASSETS AND LIABILITIES

Segment assets	92,570,386	22,678,524	115,248,910
Unallocated assets			18,357,170
Consolidated total assets			133,606,080
Segment liabilities	2,810,396	1,588,793	4,399,189
Unallocated liabilities			43,934,996
Consolidated total liabilities			48,334,185

2006	Provision of electronic manufacturing services RM	Solid wood parquet RM	Corporate RM	Consolidated RM
Capital expenditure	30,296,362	1,047,531	1,291,321	32,635,214
Depreciation	4,583,586	1,492,898	27,961	6,104,445

OTHER INFORMATION

Capital expenditure	30,296,362	1,047,531	1,291,321	32,635,214
Depreciation	4,583,586	1,492,898	27,961	6,104,445

During the financial year, the Group principally operates in Malaysia in the following main industry segments:

Industry Segment	Description
Manufacturing	Provision of electronic manufacturing services Manufacturing and sales of solid wood parquet

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

As restated 2005	Provision of electronic manufacturing services RM	Solid wood parquet RM	Total RM	Elimination/ adjustment RM	Consolidated RM
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REVENUE AND EXPENSES

Revenue

External sales	425,554,110	12,071,377	437,625,487	-	437,625,487
Inter company sales	-	-	-	-	-
Unallocated revenue	425,554,110	12,071,377	437,625,487	-	437,625,487
Total revenue					20,275
					437,645,762



NOTES TO THE FINANCIAL STATEMENTS (contd.)

32. SEGMENT INFORMATION (CONTD.)

As restated 2005	Provision of electronic manufacturing services RM	Solid wood parquet RM	Consolidated RM	
REVENUE AND EXPENSES				
Results				
Segment results	7,330,875	5,160,966	12,491,841	
Unallocated expenses			(1,855,747)	
Profit from operations			10,636,094	
Net finance costs			(1,593,478)	
Taxation			(693,090)	
Profit after taxation			8,349,526	
Minority interests			(569,900)	
Net profit for the year			7,779,626	
ASSETS AND LIABILITIES				
Segment assets	82,837,009	19,502,232	102,339,241	
Unallocated assets			26,411,897	
Consolidated total assets			128,751,138	
Segment liabilities	6,621,639	980,679	7,602,318	
Unallocated liabilities			41,988,301	
Consolidated total liabilities			49,590,619	
2005	Provision of electronic manufacturing services RM	Solid wood parquet RM	Corporate RM	Consolidated RM
OTHER INFORMATION				
Capital expenditure	11,907,451	88,080	61,689	12,057,220
Depreciation	5,061,520	1,383,404	27,249	6,472,173
Provision for doubtful debts	-	-	1,191,319	1,191,319

(a) Primary Reporting Format - Business Segment

Segment results represent segment revenue less segment expenses. Unallocated expenses represent corporate operating and administrative expenses, rental and interest income.

Segment assets consist primarily of property, plant and equipment, inventories, receivables, cash and bank balances and other investments. Segment liabilities consist mainly of payables and exclude items such as interest bearing borrowings and taxation. Unallocated liabilities consist of interest bearing borrowings and deferred taxation.

Capital expenditure comprise additions to property, plant and equipment.

(b) Secondary Reporting Format - Geographical Segments

The Group's operations are mainly located in Malaysia. The customers are located in Malaysia and Europe as shown below:

NOTES TO THE FINANCIAL STATEMENTS (contd.)

32. SEGMENT INFORMATION (CONTD.)

(b) Secondary Reporting Format - Geographical Segments (Contd.)

	Total Revenue from External Customers	
	2006 RM	2005 RM
Malaysia	439,085,146	425,574,385
Europe	9,297,435	12,071,377
Consolidated	<u>448,382,581</u>	<u>437,645,762</u>

33. COMPARATIVES

The following comparative amounts as at 30 June 2005 have been reclassified to conform with current year's presentation:

Group	As restated RM	Adjustment RM	As previously stated RM
Income statement			
Cost of sales	421,690,583	(3,629,558)	425,320,141
Other operating income/(expenses) (net)	1,458,365	(3,477,174)	4,935,539
Selling and distribution expenses	1,441,597	206,872	1,234,725
Finance income	<u>54,488</u>	<u>54,488</u>	<u>-</u>
Balance sheet			
Trade payables	1,182,832	13,300	1,169,532
Other payables	<u>6,908,891</u>	<u>(13,300)</u>	<u>6,922,191</u>

34. SUBSEQUENT EVENTS

- (a) Subsequent to the Budget 2007 announcement, the domestic statutory tax rate is reduced from the current year's rate of 28% to 27%, effective year of assessment 2007 and to 26% effective year of assessment 2008. This change will have significant effects on the Group's computation of deferred tax as at balance sheet date as follows:

	Group RM
Decrease in deferred tax liabilities	(126,184)
Decrease in deferred tax expense	(126,184)
Increase in net profit for the year	<u>126,184</u>

The financial statements for the current financial year do not reflect the above effects. These effects will be accounted for in the financial year ending 30 June 2007.

- (b) Subsequent to the year end, a subsidiary obtained additional secured banking facilities of RM5,000,000 from a licensed bank.



PROXY FORM

NO. OF SHARES

I/We _____ I.C. No. _____

of _____

being a member / members of EG INDUSTRIES BERHAD do hereby appoint Mr / Mrs / Ms

I.C. No. _____ of _____

or failing him the Chairman of the meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Fifteenth Annual General Meeting of the Company to be held at Level 2, Sri Intan Room, The City Bayview Hotel, 25-A Farquhar Street, 10200 Penang on Thursday, 28 December 2006 at 11:30 a.m. and at any adjournment thereof.

In case of vote taken by a show of hands, my/our proxy shall vote on my/our behalf.

Please indicate with an 'X' in the spaces provided below how you wish your votes to be cast on the resolutions specified in the Notice of Meeting.

	Ordinary Resolutions	For	Against
1.	Adoption of Reports and Audited Financial Statements		
2.	Payment of Directors' Fees		
3.	Re-election of Director, NIK AZALAN BIN NIK A. KADIR		
4.	Re-election of Director, TAI LEE KEOW		
5.	Re-appointment of Auditors, ERNST & YOUNG		
6.	Authority pertaining to Section 132D of the Companies Act, 1965		
7.	Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature		

Subject to any voting instruction given, the proxy/proxies will vote, or abstain from voting, on the resolutions as he may think fit.

Signed this _____ day of _____, 2006.

Signature: _____

NOTES:

1. A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy, and in the case of a corporation, a duly authorized representative to attend and vote in his stead. A proxy may but need not be a member of the Company.

The instrument appointing a proxy shall be in writing under the hand of the appointer or if such appointer is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorized.

A member who appoints two or more proxies shall specify the proportion of his shareholdings to be represented by each proxy.

The instrument appointing a proxy must be deposited at the Registered Office of the Company at Suite 18.01, 18th Floor, MWE Plaza, No. 8, Lebuhraya Farquhar, 10200 Penang not less than forty-eight (48) hours before the time fixed for holding this meeting or at any adjournment thereof.

2. Explanatory notes on Special Business

Ordinary Resolution

- Resolution 6

The proposed Resolution No. 6 is in line with the Company's expansion plan which may involve the issue of new shares. Under the Companies Act, 1965, the Directors would have to call a general meeting to approve the issue of new shares even though the number of shares involved is less than 10% of the total issued capital. In order to avoid any delay and cost involved in convening such a general meeting, it is considered appropriate to seek the shareholders' approval for the Directors to issue shares in the Company up to an aggregate amount not exceeding 10% of the total issued capital of the Company for the time being. This authority, unless revoked or varied at a general meeting, will expire at the next annual general meeting of the Company.

Ordinary Resolution

- Resolution 7

The proposed Resolution No. 7 is in relation to the Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature, if passed will renew the power given to the Group to transact with the parties related to the Group. Please refer to the Circular to the Shareholders dated 6 December 2006.

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Stamp

The Secretary
EG INDUSTRIES BERHAD (222897-W)
c/o **SYMPHONY CORPORATEHOUSE SDN. BHD. (476777-A)**
(Formerly Known as Corporatehouse Services Sdn. Bhd.)

Suite 18-01, 18th Floor, MWE Plaza,
8, Lebuq Farquhar,
10200 Penang.

Fold along this line



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E-mail: eg@eg.com.my
Website: <http://www.eg.com.my>