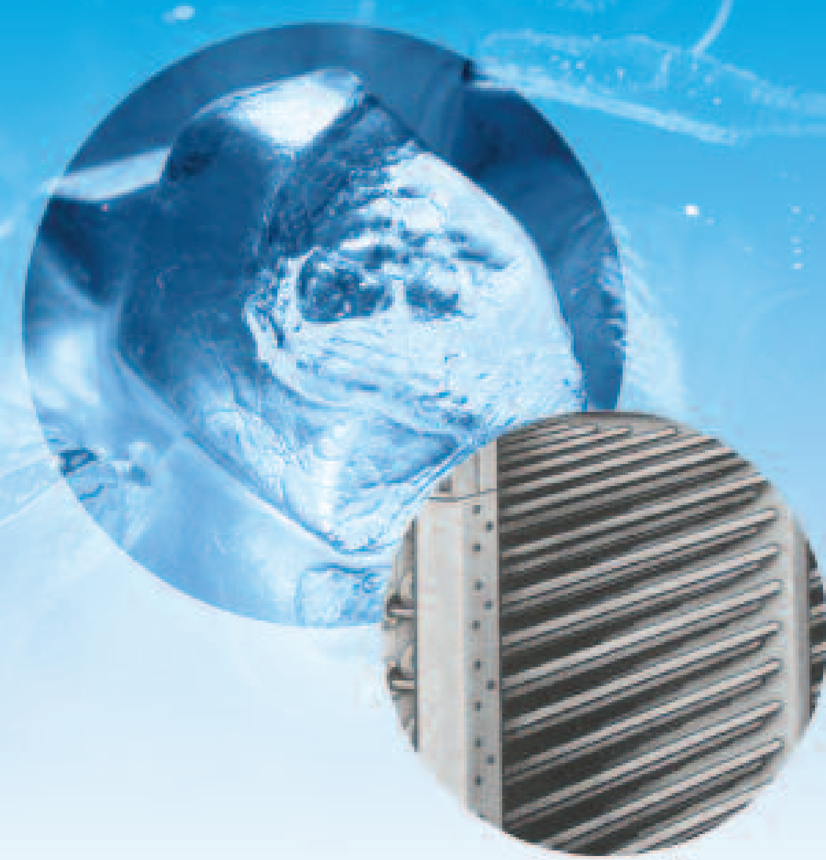
# ANNUAL REPORT 2006



LINEAR
cooling redefined

LINEAR CORPORATION BERHAD (288687-W)

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**NOTICE IS HEREBY GIVEN that the Thirteenth Annual General Meeting of Linear Corporation Berhad will be held at the Seminar Hall of the Head Office, 20A, Jalan Perusahaan, Prai Industrial Estate 4, 13600 Prai, Penang on Wednesday, 27 June 2007 at 9.00 a.m. for the following purposes:-**

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2006 together with the reports of the Directors and Auditors thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees for the financial year ended 31 December 2006. **(Resolution 2)**

3. To re-elect the following Directors retiring in accordance with Article 102 of the Company's Articles of Association:

   (i) Mr. Alan Rajendram A/L Jeya Rajendram **(Resolution 3)**
   (ii) Mr. Eswaramoorthy Pillay S/O Amuther **(Resolution 4)**
   (iii) Mr. Chin Soong Jin **(Resolution 5)**
   (iv) Mr. Pervez Rustim Manecksha @ Paul Manecksha **(Resolution 6)**
   (v) Mr. Heinrich August Diehl **(Resolution 7)**

4. To appoint Auditors and to authorize the Directors to fix the Auditors' remuneration **(Resolution 8)**

   Notice of nomination pursuant to Section 172(11) of the Companies Act, 1965, a copy of which is annexed in the Annual Report, has been received by the Company to nominate Messrs. UHY Diong, who has given their consent o act as Auditors of the Company in place of the retiring Auditors, and to propose the following ordinary resolution for approval by the shareholders of the Company :-

   "That Messrs. UHY Diong be appointed as Auditors of the Company in place of the retiring Auditors, Messrs. Deloitte KassimChan, and to hold office until the conclusion of the next Annual General Meeting at a remuneration to be agreed between the Directors and the Auditors."

***As Special Business***

To consider and if thought fit, pass the following Ordinary Resolutions:-

5. **Authority to allot shares**

   "THAT subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental and/or 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 upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (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." **(Resolution 9)**

6. **Proposed Renewal of Authorisation for the Company to Purchase its Own Shares**

"THAT, subject to the Companies Act, 1965, the Memorandum and Articles of Association of the Company, the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and all other relevant applicable laws, regulations and guidelines and the approvals of all relevant authorities, the Company be and is hereby authorised to purchase such amount of ordinary shares of RM1.00 each in the Company ("Proposed Share Buy-Back") as may be determined by the Directors from time to time through Bursa Securities and to enter into any agreements, arrangements and guarantees with any party/parties to implement, finalise and give full effect to the Proposed Share Buy-Back with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments as may be imposed by the relevant authorities from time to time and to do all such things and acts as the Directors may deem fit and expedient in the best interest of the Company subject further to the following:- **(Resolution 10)**

(i) the aggregate number of shares purchased pursuant to this resolution does not exceed ten per centum (10%) of the existing issued and paid-up share capital of the Company inclusive of the 2,949,700 ordinary shares already purchased and retained as treasury shares as at 28 May 2007;

(ii) the amount allocated for the Proposed Share Buy-Back shall not exceed the Company's audited retained profit and/or share premium account;

THAT upon completion of the Proposed Share Buy-Back, the Directors are authorised to retain the purchased shares as treasury shares or cancel the purchased shares or retain part of the purchased shares as treasury shares and cancel the remainder AND THAT the Directors are further authorised to resell the treasury shares on Bursa Securities or distribute the treasury shares as share dividends to the shareholders of the Company or subsequently cancel the treasury shares or any combination of the above.

AND THAT the authority conferred by this Resolution shall be effective immediately upon the passing of this Ordinary Resolution until:-

(i) the conclusion of the next Annual General Meeting ("AGM") of the Company to be held in 2008, at which time the said authority will lapse unless by an ordinary resolution passed at a general meeting of the Company, the authority is renewed, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next AGM is required by law to be held; or

(iii) revoked or varied by ordinary resolution passed by the shareholders in general meeting;

whichever occurs first but shall not prejudice the completion of purchase(s) by the Company before that aforesaid expiry date."

7. **Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

"THAT subject to the Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the Company's subsidiary to enter into the recurrent related party transactions of a revenue or trading nature with related party as set out in Section 2.2 of Part A of the Circular to Shareholders dated 5 June 2007 provided that:- **(Resolution 11)**

(a) the transactions are in the ordinary course of business and are transacted on normal commercial terms which are not more favourable to the related party than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and

(b) the disclosure of a breakdown of the aggregate value of the transactions conducted during a financial year will be made in the annual report for the said financial year based on the type of recurrent transactions made and the names of the related parties involved in each transaction and their relationship with the Group.

AND THAT the authority conferred by the shareholders' mandate shall continue to be in force until:-

(i) the conclusion of the next Annual General Meeting ("AGM") of the Company to be held in 2008, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;

(ii) 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 ("CA") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of CA); or

(iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

***As Special Business***

To consider and if thought fit, pass the following Special Resolution:-

8. **Proposed Amendments to the Articles of Association of the Company** **(Resolution 12)**

"THAT the proposed alteration, modifications, additions and deletions to the Articles of Association of the Company as detailed in Appendix II of the Circular to Shareholders dated 5 June 2007 be and are hereby approved.

THAT the Directors of the Company be and are hereby authorized to assent to any modifications, variations and/or amendments as may be required by the relevant authorities.

AND THAT the Directors and Secretary of the Company be and are hereby authorized to all acts and things and to take all steps as may be deemed necessary to give full effect to the proposed amendments to the Articles of Association of the Company."

9. To transact any other business of which due notice shall have been given.

BY ORDER OF THE BOARD

CHAN WAN MEI
(MAICSA 7024746)
Secretary

Penang
Date: 5 June 2007

Notes:-

1. A member eligible to attend and vote at the general meeting is entitled to appoint a proxy/proxies who may but need not be a member of the Company to vote in his/her stead. The provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.
2. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
4. An instrument appointing a proxy must be deposited at the Registered Office at 20A, Jalan Perusahaan, Prai Industrial Estate 4, 13600 Prai, Penang not less than 48 hours before the time set for holding the meeting or at any adjournment thereof.

Explanatory Notes on Special Business:-

(i) Ordinary Resolution 9, if passed, will give the Directors of the Company authority to issue shares up to an amount not exceeding 10% of the issued share capital of the Company at any time and at their absolute discretion without convening a general meeting. This authority, unless revoked or varied at a General Meeting, will expire at the next Annual General Meeting ("AGM") of the Company.

(ii) Ordinary Resolution 10, if passed, will empower the Company to buy back its own shares up to 10% of the issued and paid-up share capital of the Company. This authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of the next meeting. Further details on Resolution 10 are set out in the Share Buy-Back Statement dated 5 June 2007 despatched together with this Annual Report.

(iii) Ordinary Resolution 11, if passed, will empower the subsidiary of the Company to enter into recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations. This authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of the next AGM. Further details on Resolution 11 are set out in the Circular to Shareholders dated 5 June 2007 despatched together with this Annual Report.

(iv) Special Resolution 12, if passed, will streamline the Articles of Association of the Company with the recent amendments and enhancement to the Listing Requirements of Bursa Malaysia Securities Berhad. Further details on Special Resolution 12 are set out in the Circular to Shareholders dated 5 June 2007 despatched together with this Annual Report.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

pursuant to paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

The Directors standing for re-election at the Thirteeth Annual General Meeting of the Company to be held at the Seminar Hall of the Head Office, 20A, Jalan Perusahaan, Prai Industrial Estate 4, 13600 Prai, Penang on Wednesday, 27 June 2007 at 9.00 a.m. are as follows:-

| | | Shareholdings of Directors as at 30 April 2007 | | | |
|---|---|---|---|---|---|
| | | Direct Interest | | Indirect Interest | |
| **Name of Director** | **Details of Directors and Other Disclosure Requirements** | **No. of shares held** | **%** | **No. of shares held** | **%** |
| Alan Rajendram A/L Jeya Rajendram | Refer to page 10 of the Annual Report | - | - | 14,372,518* | 19.92 |
| Eswaramoorthy Pillay S/O Amuther | Refer to page 10 of the Annual Report | - | - | 14,372,518* | 19.92 |
| Chin Soong Jin | Refer to page 10 of the Annual Report | - | - | - | - |
| Pervez Rustim Maneckscha @ Paul Maneckscha | Refer to page 11 of the Annual Report | - | - | 100,000@ | 0.14 |
| Heinrich August Diehl | Refer to page 11 of the Annual Report | - | - | - | - |

*Notes*

* *Deemed interest by virtue of his direct interest in Linear Holding Sdn Bhd (fka Linac Strategic Sdn Bhd)*

@ *Deemed interest by virtue of his direct interest in Maneckscha Enterprises Sdn Bhd*

**Board of Directors**

Alan Rajendram A/L Jeya Rajendram
*(Executive Chairman)*

Eswaramoorthy Pillay S/O Amuther
*(Executive Director)*

Chin Soong Jin
*(Senior Independent Non-Executive Director)*

Pervez Rustim Manecksha @ Paul Manecksha
*(Independent Non-Executive Director)*

Heinrich August Diehl
*(Independent Non-Executive Director)*

**Company Secretary**

Chan Wan Mei (MAICSA 7024746)

**Registered Office**

20A, Jalan Perusahaan
Prai Industrial Estate 4
13600 Prai, Penang
Malaysia
Tel : (604) 5078822
Fax : (604) 5078359

**Head Office/Factory**

20A, Jalan Perusahaan
Prai Industrial Estate 4
13600 Prai, Penang
Malaysia
Tel : (604) 5078822
Fax : (604) 5078359

**Registrars**

PFA Registration Services Sdn Bhd
Level 13, Uptown 1
1 Jalan SS21/58, Damansara Uptown
47400 Petaling Jaya, Selangor
Tel : (603) 77254888
Fax : (603) 77222311

**Auditors**

Deloitte KassimChan
Chartered Accountants
4th Floor, Wisma Wang
251-A, Jalan Burma
10350 Penang, Malaysia

**Principal Bankers**

CIMB Bank Berhad
EON Bank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
RHB Bank Berhad

**Stock Exchange Listing**

Main Board of Bursa Malaysia Securities Berhad
Sector : Industrial Products
Stock Name : Linear
Stock Code : 9504

DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF DIRECTORS, WE PRESENT TO YOU THE ANNUAL REPORT AND FINANCIAL STATEMENTS OF THE COMPANY AND THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006.

IN GENERAL, the Malaysian economy and the global economy saw a slight positive momentum in year 2006 but was over shadowed by unpredictable oil price hikes that brought about corresponding broad based cost-push inflationary pressures. On the domestic front, the situation has improved slightly with the rolling out of the 9th Malaysia Plan and a slight improvement in the construction sector and the property sector.

**FINANCIAL REVIEW**

For the financial year ended 31 December 2006, the Group registered a revenue of RM44 million, a slight decrease of RM2 million from the previous year's revenue of RM46 million which included a District Cooling project in The Curve of RM3.7 million.

The Group's post-tax loss of RM20 million recorded in the year under review could be substantially traced to the write off of investments, fixed assets, inventory, bad debts, goodwill and provision for doubtful debts aggregating to RM14 million from the Engineering Division. Besides the aforesaid items, performance of the Group was also affected by the increase in cost of materials and other operating costs.

Further, the increasingly intense competition in the markets of our manufactured and traded products, locally and abroad, had narrowed profit margins despite the noticeable rise in revenues of the said segment.

**OPERATION REVIEW**

- **Manufacturing and Trading**

  The intense competition in Malaysia did not deter the Group's efforts in strengthening its market shares, where this division contribute RM38 million or 85%.

  Contributing to this along with the growth in local sales was the widening of market coverage through the established distribution networks, in particular in the booming Middle East and other Asia Pacific markets.

  Nevertheless, stiff competition, domestic and external, and the rise in cost of materials and operating costs had held back the follow through effect of revenue increase into profitability.

- **District Cooling**

  Developing the district cooling division continued to be the main strategic thrust of the Group during the year. Awareness and feasibility of district cooling services were the main emphasis on the marketing efforts undertaken during the year. Currently the Group has interests in two operating district cooling plants - one located at the Curve in Mutiara Damansara and the other in Bandar Perda - both of which have yet to reach their respective optimum capacity. Reasonable gestation period is needed, in tandem with the developments that the plants are serving, for them to contribute positively towards the Group's results. The Group has also now signed on to provide district cooling to "Solaris" Dutamas in Kuala Lumpur.

- **Engineering**

  Resulting from the completion of the district cooling plant at the Curve and phased completion of the district cooling plant in Bandar Perda, coupled with the lack luster of construction sector in Malaysia, the engineering division saw a decline in revenue for the financial year under review.

## MOVING FORWARD IN 2007

While the Group will strive to reap the most out of the stimulants to be availed under 9th Malaysia Plan ("9MP", 2006-2010), intensive effort will be made to globalize across all business segments of the Group. In a near future, we are positive in achieving a breakthrough in our district cooling system in the overseas market.

Nevertheless, year 2007 is expected to remain as challenging as the previous year in the wake of high oil prices, the interest rates rise regimes, escalating operating costs and gestation period for the benefits of the 9MP to flow through and political tensions in certain parts of the world.

Moving forward, the Group will maintain a cautiously optimistic approach in expanding and managing its various business segments as it endeavours to preserve and recoup the resources of the Group. At the same time, with the impending changes in the financial reporting landscape in Malaysia in 2007 more emphasis will be put in place on compliance to ensure better investor relations in every aspect of financial reporting.

## APPRECIATION

We extend our utmost gratitude to fellow members of the Board and staff members of the Group who had worked together as a team with integrity, courage, dedication and diligence that had ensured the Group remain resilient in overcoming the challenges faced.

Last but not least, we wish to thank our shareholders, customers, suppliers, business associates and bankers for their strong support.

Thank You.

Alan Rajendram
Executive Chairman

5 June 2007

**ALAN RAJENDRAM A/L JEYA RAJENDRAM**, aged 50, Malaysian
(Executive Chairman)
Non-Independent Executive Director

Mr. Rajendram, appointed to the Board of Linear on 8 December 2006 and became the Executive Chairman on 26 December 2006. He holds a Bachelor of Commerce from the University of Melbourne, Australia and is a Fellow Member of the Australian Society of Certified Practising Accountants, a Member of the Malaysian Institute Accountants and the Malaysian Institute of Taxation.

He received his early training in public accounting from Deloittes, Australia from 1977 to 1979. Upon graduation in 1981, Mr. Rajendram returned to Malaysia and worked with Messrs. Rajendram & Co. (Penang), an accounting practice owned by his family. In 1983, he left the practice to join The Elrond and Kredin Group of Companies as its Chief Executive Office. After a 5 years stint, he left The Elrond and Kredin Group in 1988 and returned to work for the Rajendram family-owned businesses within the Stanton Group of Companies which are involved in manufacturing, property development, investments and provision of corporate advisory, management, taxation, secretarial and accountancy services. He is still actively involved in the businesses of the Stanton Group. He also sits on the board of LFE Corporation Berhad and several private limited companies.

**ESWARAMOORTHY PILLAY S/O AMUTHER**, aged 41, Singaporean
(Executive Director)
Non-Independent Executive Director

Mr. Eswaramoorthy Pillay S/O Amuther, appointed to the Board of Linear on 8 December 2006 and became the Executive Director on 26 December 2006. He holds a Master in Business Studies from the University of Newport, United States of America and he has extensive experience in the field of information technology. He also sits on the board of several private limited companies.

**CHIN SOONG JIN**, aged 39, Malaysian
Senior Independent and Non-Executive Director

Mr. Chin was appointed to the Board of Linear on 22 December 2006 and was further appointed as Senior Independent Director on 13 February 2007. He holds a Double Degree in Bachelor of Economics (Accountancy) and Bachelor of Laws from the University of Monash, Melbourne, Australia. He is presently the Corporate Affairs Director of LFE Corporation Sdn Bhd and an Executive Director of LFE Corporation Berhad.

Mr. Chin started his career at Messrs. Chooi & Company and was admitted as an advocate and solicitor of the High Court of Malaya in 1991 and later joined Messrs. Khaw & Partners (then known as Messrs. Khaw & Hussein) until 1994. Thereafter he joined the corporate finance department of RHB Sakura Merchant Bankers for a period of six years until he left and joined LFE Corporation Berhad Group. He also sits on the board of LFE Corporation Berhad and several private limited companies.

**PERVEZ RUSTIM MANECKSHA @ PAUL MANECKSHA,**
aged 61, Malaysian — Independent and Non-Executive Director

Mr. Manecksha was appointed to the Board of Linear on 12 February 2007. He is a Barrister-at-Law of the Honourable Society of the Inner Temple, London, United Kingdom.

Mr. Manecksha was admitted as an Advocate and Solicitor of the High Court of Malaya in 1971 and has been in active practice since then and he is presently the Managing and Principal Partner in the firm of P.R.Manecksha & Babjan. His main area of practice is in civil and commercial litigation work. In 1978, Mr. Manecksha was also admitted as a Barrister and Solicitor in Canberra, Australia. He also sits on the board of several private limited companies.

**HEINRICH AUGUST DIEHL,**
aged 52, German — Independent and Non-Executive Director

Mr. Diehl was appointed to the Board of Linear on 12 February 2007. He graduated from Hotel School in Heidelberg, Germany.

Mr. Diehl has more than 20 years experience in the hotel and hospitality industry holding various managerial positions. He is specialized in projects and pre openings for international hotel chains and operators and holding the position of the General Manager of Concorde Reef Resort Kuda Haraa, Maldives in 1996 before setting up his own consulting company serving various hotels, development companies, breweries and tourist organizations worldwide with projects in Egypt, Maldives, and throughout Europe. He also sits on the board of several private limited companies.

## Other Information

(a) Other than the following, none of the directors are involved in any board committees:-

i) Pervez Rustim Manecksha @ Paul Manecksha
- Chairman of Audit Committee
- Chairman of Risk Management and Investment Committee
- Member of Remuneration Committee
- Member of Nomination Committee

ii) Chin Soong Jin
- Chairman of Remuneration Committee
- Chairman of Nomination Committee
- Member of Employees Share Option Scheme Committee

iii) Heinrich August Diehl
- Member of Audit Committee
- Member of Risk Management and Investment Committee

**Other Information (Cont'd)**

| | |
|---|---|
| iv) Alan Rajendram A/L Jeya Rajendram | - Chairman of Employees Share Option Scheme Committee<br>- Member of Audit Committee<br>- Member of Remuneration Committee<br>- Member of Risk Management and Investment Committee |
| v) Eswaramoorthy Pillay S/O Amuther | - Member of Risk Management and Investment Committee<br>- Member of Employees Share Option Scheme Committee |

(b) There are no family relationships among the Directors and/or substantial shareholders of the Company.

(c) None of the Directors has any conflict of interest with the Company.

(d) None of the Directors has convicted any offences within the past 10 years other than traffic offences (if any).

## DIRECTORS' RESPONSIBILITY STATEMENT

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

The Companies Act, 1965 (the "Act") and Listing Requirements of the Bursa Malaysia Securities Berhad require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of financial year and of the results and cash flows of the Company and the Group for the financial year, in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Act.

The Directors are satisfied that in preparing the financial statements of the Company and the Group for financial year ended 31 December 2006, the Directors' have made judgement and estimates that are prudent and reasonable and adopted the appropriate accounting policies and applied them consistently. The Directors also consider that relevant approved accounting standards have been followed in the preparation of these financial statements.

The Board of Directors is committed to ensuring and maintaining a high standard of corporate governance. Sets out below is the manner in which the Company has applied the principles and practices as set out in Part 1 and Part 2 of the Malaysian Code on Corporate Governance within the Group throughout the financial year ended 31 December 2006.

## Board of Directors

The Board is principally responsible for strategic planning and ensuring proper conduct of operations and affairs of the Group. Current Board composition reflects a mixed of experience, skills, technical and management expertise. A brief write-up on each Director is set out under the Directors' Profile.

### *i) Board Meetings*

Board meetings are generally held quarterly, with additional meetings convened as and when necessary. During the financial year ended 31 December 2006, five (5) meetings were held and the record of Directors' attendance is as follows:-

| Directors | Attendance |
|---|---|
| Alan Rajendram A/L Jeya Rajendram *(appointed wef 8/08/2006)* | - |
| Eswaramoorthy Pillay S/O Amuther *(appointed wef 8/08/2006)* | - |
| Pervez Rustim Manecksha @ Paul Manecksha *(appointed wef 12/02/2007)* | - |
| Heinrich August Diehl *(appointed wef 12/02/2007)* | - |
| Chin Soong Jin *(appointed wef 22/12/2006)* | - |
| Tan Ai Bee *(appointed wef 22/12/2006 and resigned wef 12/02/2007)* | - |
| Soh Yew Aun *(resigned wef 12/02/2007)* | 5/5 |
| Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar *(appointed wef 8/08/2006 and resigned wef 22/12/2006)* | 3/3 |
| Chuah Seong Phaik *(appointed wef 8/08/2006 and resigned wef 22/12/2006)* | 3/3 |
| Lum Weng Loy *(resigned wef 11/12/2006)* | 5/5 |
| Datuk Abdul Malek Bin Abdul Aziz *(resigned wef 11/12/2006)* | 5/5 |
| Datuk Ahmad Shalimin Bin Ahmad Shaffie *(resigned wef 11/12/2006)* | 3/5 |
| Chin Kuet Lee *(resigned wef 6/12/2006)* | 3/5 |
| Dato' Lee Kam Sun *(resigned wef 29/11/2006)* | 1/5 |
| Tan Sri Dato' Hanafiah Bin Hussain *(resigned wef 31/07/2006)* | 2/2 |

### *ii) Board balance*

Presently, the Board of Linear Corporation Berhad has five (5) members :-

The Executive Chairman
The Executive Director
Three (3) Independent Non-Executive Directors

The Board is led by the Executive Chairman and the Executive Director and their divisions of roles are clear and distinct in ensuring there is a balance of power and authority.

The Executive Chairman is responsible for the effectiveness of the Board and to put in place vision and direction of the Group based on Board collective decisions and he also acts as facilitator at Board Meetings as well as at Members' Meeting. The Executive Director is responsible for the day to day operations and management of the Group with the support within the agreed decisions, policies and strategy of the Board and under the directions of the Executive Chairman.

**Board of Directors (Cont'd)**

***ii) Board balance (Cont'd)***

The Independent Non-Executives Directors are not involved in the day to day management of the Group but played a significant role in exercising independent and unbiased judgement based on their knowledge and experience.

Mr. Chin Soong Jin has been identified as the Senior Independent Non-Executive Director of the Board to whom concerns may be conveyed.

To facilitate the smooth transaction of business within the Group, the Board has successfully delegated specific tasks to five (5) board committees, namely Audit Committee, Nomination Committee, Remuneration Committee, Risk Management and Investment Committee and Employees Share Option Scheme Committee.

***iii) Supply of Information***

Prior to Board meetings, board members are furnished with the agenda of the meeting and relevant board papers to facilitate decision making and sound judgement during the meeting.

Where necessary, senior management staff of the Group may be invited to attend Board meetings to furnish the Board with their comments and advise on the relevant matters tabled.

All Directors may obtained independent professional advice in furtherance of their duties and have access to the advice and services of the Company Secretary.

***iv) Appointment to the Board***

The Nomination Committee primarily responsible for proposing new nominees for the board appointment and assessing directors on an on-going basis to ensure the required mix of skills and experience for effective discharge of duties.

The Nomination Committee consists entirely of Independent Non-Executive Directors:-

| | | |
|---|---|---|
| Chin Soong Jin *(Senior Independent Non-Executive Director)* | - | Chairman |
| Pervez Rustim Manecksha @ Paul Manecksha *(Independent Non-Executive Director)* | - | Member |

***v) Directors' Training and Continuing Education***

All Directors have attended the Mandatory Accreditation Programme as prescribed by Bursa Malaysia Securities Berhad within the prescribed period.

During the financial year, the Company with Bursatra Sdn Bhd has conducted an in-house seminar on "Adopting Risk Management System Framework for Company Directors and Senior Management" and was attended by the Board and senior management of the Group.

The Company will continue to assess and to evaluate the training needs of the Directors to keep them abreast with the latest developments and updates in order to discharge their duties and responsibilities effectively.

**Board of Directors (Cont'd)**

***vi) Re-election***

In accordance with the Company's Articles of Association, all Directors appointed by the Board are subject to re-election at the first Annual General Meeting subsequent to their appointment. The Articles also provide that at least one-third (1/3) of the remaining Directors are subject to re-election by rotation at each Annual General Meeting provided always that all Directors including the Managing Director shall retire from office at least once in every three (3) years but shall be eligible for re-election. This is also in compliance with Bursa Malaysia Securities Berhad's Listing Requirements. The Directors standing for re-election at the Annual General Meeting are Mr. Alan Rajendram A/L Jeya Rajendram, Mr. Eswaramoorthy Pillay S/O Amuther, Mr. Chin Soong Jin, Mr. Pervez Rustim Manecksha @ Paul Manecksha and Mr. Heinrich August Diehl.

***vii) Directors' Remuneration***

The Remuneration Committee comprising mainly of Independent Non-Executive Directors will recommend to the Board the remuneration of the Executive Directors in all its forms and drawing from outside advice as necessary. The determination of remuneration packages of non-executive directors shall be a matter for the board as a whole. The Committee is responsible for establish a formal and transparent procedure for developing policy on remuneration so as to link rewards to corporate and individual performance.

The determination of the remuneration packages of each director is a matter of the Board and each Director concerned plays no part in the decisions on their own remuneration but may attend the Committee meetings by invitation.

The Remuneration Committee consists of mainly of Independent Non-Executive Directors with the Executive Chairman:-

| | | |
|---|---|---|
| Chin Soong Jin *(Senior Independent Non-Executive Director)* | - | Chairman |
| Pervez Rustim Manecksha @ Paul Manecksha *(Independent Non-Executive Director)* | - | Member |
| Alan Rajendram A/L Jeya Rajendram *(Executive Chairman)* | - | Member |

The aggregate remuneration of Directors paid or payable by the Company and the Group for the financial year ended 31 December 2006 are as follows:-

| | **Executive** **RM** | **Non-Executive** **RM** |
|---|---|---|
| Fees | - | 58,000 |
| Salary | 580,000 | - |
| Bonus | 64,000 | - |
| Other emoluments | 77,280 | - |

The number of Directors of the Company who served during the financial year and whose total remuneration from the Group falling within the respective band are as follows:-

| | **Executive** | **Non-Executive** |
|---|---|---|
| RM50,000 and below | - | 3 |
| RM50,001 - RM100,000 | - | - |
| RM100,001 - RM150,000 | - | - |
| RM150,001 - RM200,000 | 1 | - |
| RM200,001 - RM250,000 | 1 | - |
| RM250,001 - RM300,000 | - | - |
| RM300,001 - RM350,000 | 1 | - |

## Relationship with shareholders

The Company recognizes the importance of effective communications and timely dissemination of information to its shareholders. Annual Report, financial statements, circular to shareholders and announcements are some of the modes of reporting to the shareholders on the business activities, financial performance and major development of the Group to enable the shareholders to have an overview of the Group's performance and operations.

General Meetings provides an opportunity for shareholders to access their Board for clarification of issues relevant to the Company. Shareholders are encouraged to participate and communicate at the general meetings and to vote on all resolutions.

The Company maintains a website at www.linear.com.my for which the shareholders can access information of the Group.

## Accountability and Audit

### *i) Financial Reporting*

In presenting the Annual Report and quarterly financial statements to shareholders, the Board aims to provide a balanced and meaningful assessment of the Group's financial performance and prospect.

The Directors are also responsible for ensuring the annual financial statements are prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

### *ii) Internal Control*

The Board acknowledges their responsibility for the maintenance of a sound system of internal control, including risk assessment and reviewing its effectiveness to safeguard shareholders' investment and Group assets. As with any such system, controls can only provide reasonable but not absolute assurance against material misstatement or loss. The Group is continuously looking into the adequacy and integrity of its system of internal controls.

A statement on Internal Control of the Group is set out in this Annual Report.

### *iii) Relation with External Auditors*

The Company has always maintained a formal and transparent relationship with the external Auditors in seeking professional advice and ensuring compliance with the accounting standards.

## Corporate Social Responsibilities

During the financial year the Group had contributed a donation of RM10,000 to "The Late Ven K Sri Dhammananda - Lebanon Winter Relief Project" to help provide winter clothing to the war ravaged people of Lebanon and RM4,500 to other charitable projects.

## MEMBERSHIP

Members of the Audit Committee are as follows: -

**Chairman**
Pervez Rustim Manecksha @ Paul Manecksha
*(Independent Non-Executive Director)*

**Members**
Heinrich August Diehl
*(Independent Non-Executive Director)*
Alan Rajendram A/L Jeya Rajendram
*(Executive Chairman)*

## TERMS OF REFERENCE

The Audit Committee shall be governed by the following terms of reference.

**1. Composition of members**

The Board shall elect the Audit Committee members from amongst themselves, comprising no fewer than three (3) directors, where the majority shall be independent directors. The term of office of the audit committee is three (3) years and may be re-nominated and appointed by the Board of Directors.

In this respect, the Board adopts the definition of "independent director" as defined under the Bursa Malaysia Securities Berhad ("Bursa Securities or Exchange") Listing Requirements.

At least one (1) member of the Audit Committee must be:-

(a) a member of the Malaysian Institute of Accountant ("MIA"); or

(b) if he is not a member of MIA, he must have at least three (3) years of working experience and:

i. he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or

ii. he must be a member of one of the associations of the accountants specified in Part II of the First Schedule of the Accountants Act 1967; or

(c) fulfils such other requirements as prescribed by the Exchange.

No alternate director of the Board shall be appointed as a member of the Audit Committee.

**2. Retirement and resignation**

If a member of the Audit Committee resigns, dies, or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall within three (3) months of the event appoint such number of the new members as may be required to fill the vacancy.

TERMS OF REFERENCE (Cont'd)

**3. Chairman**

The Chairman of the Audit Committee, elected from amongst the Audit Committee members, shall be an independent director. The Chairman of the Committee shall be approved by the Board of Directors.

**4. Secretary**

The Secretary of the Audit Committee shall be the Company Secretary.

The Secretary shall be responsible for drawing up the agenda with concurrence of the Chairman and circulating it, supported by explanatory documentation to members of the Audit Committee prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, circulating them to members of the Audit Committee and to the other members of the Board of Directors and for following up outstanding matters.

**5. Meetings**

The Audit Committee meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate. In addition, the Chairman may call for additional meetings at any time at the Chairman's discretion.

In the absence of the Chairman, the other independent director shall be the Chairman for that meeting.

The members of the Audit Committee, General Manager (Corporate Affairs, Finance and Administration), Finance Manager and the head of internal audit will normally be in attendance at the meetings. Representatives of the external auditors are to be in attendance at meeting where matters relating to the audit of the statutory accounts and/or external auditors are to be discussed.

Other directors, officers and employees of the Company and/or Group may be invited to attend, except for those portions of the meetings where their presence is considered inappropriate, as determined by the Audit Committee. However, at least once a year the Audit Committee shall meet with the external auditors without any executive board member present.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee and also to the other members of the Board of Directors. The Audit Committee Chairman shall report on each meeting to the Board of Directors.

**6. Quorum**

The quorum for the Audit Committee meeting shall be the majority of members present whom must be independent directors.

**7. Reporting**

The Audit Committee shall report to the Board of Directors, either formally in writing, or verbally, as it considers appropriate on the matters within its terms of reference at least once a year, but more frequently if it so wishes.

The Audit Committee shall report to the Board of Directors on any specific matters referred to it by the Board for investigation and report.

## TERMS OF REFERENCE (Cont'd)

### 8. Objectives

The principal objective of the Audit Committee is to assist the Board of Directors in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the holding company and each of its subsidiaries. In addition, the Audit Committee shall:-

(a) evaluate the quality of the audits performed by the internal and external auditors;

(b) provide assurance that the financial information presented by management is relevant, reliable and timely;

(c) oversee compliance with laws and regulations and observance of a proper code of conduct;

(d) determine the quality, adequacy and effectiveness of the Group's control environment; and

(e) develop and maintain an effective risk management systems and processes are applied in the day to day business and activities

### 9. Authority

The Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the expense of the Company,

(a) authorise to investigate any activity within its terms of reference. All employees shall be directed to co-operate as requested by members of the Audit Committee.

(b) have full and unlimited/unrestricted access to all information and documents/resources which are required to perform its duties as well as to the internal and external auditors and senior management of the Company and Group.

(c) obtain, at the expense of the Company, other independent professional advice or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

(d) be able to convene meetings with the external auditors, without the attendance of the executive members of the Audit Committee, whenever deemed necessary.

(e) be able to make relevant reports when necessary to the relevant authorities if a breach of the Listing Requirements occurred.

(f) be kept informed as soon as possible of any adverse development arising from any event such as material litigation.

### 10. Duties and Responsibilities

The duties and responsibilities of the Audit Committee are as follows:-

(a) To review the maintenance and control of an effective accounting system;

(b) To review the Group's public accountability and compliance with the law;

## TERMS OF REFERENCE (Cont'd)

### 10. Duties and Responsibilities (Cont'd)

(c) To ensure the adequacy of internal and external audit procedures;

(d) To evaluate the quality of external auditors and make recommendations concerning their appointment and remuneration and to consider the nomination of a person or persons as external auditors;

(e) To provide liaison between the external auditors, the management and the Board of Directors and also to review the assistance given by the management to the external auditors;

(f) To review the findings of the internal and external auditors;

(g) To review the quarterly results and financial statements and annual report prior to submission to the Board of Directors;

(h) To monitor and to review any related party transactions that may arise within the Group and to report, if any, transactions between the Group and any related party outside the Group which are not based on arms-length terms and on terms which are disadvantageous to the Group;

(i) To verify the allocation of share options under the Employees Share Option Scheme ("ESOS") as being in compliance with the criteria set out in the ESOS bye-laws;

(j) To report its findings on the financial and management performance, and other material matters to the Board of Directors;

(k) To act in line with the directions of the Board of Directors;

(l) To consider and examine such other matters as the Audit Committee considers appropriate; and

(m) To review the reports of management in relation to the integrity and adequacy of the process for identifying principal risks and ensure the implementation of appropriate systems to manage these risks.

## MEETINGS AND SUMMARY OF ACTIVITIES

The Audit Committee met five times during the financial year ended 31 December 2006 and details of attendance are as follows:

| | |
|---|---|
| Alan Rajendram A/L Jeya Rajendram *(appointed wef 22/12/2006)* | - |
| Heinrich August Paul *(appointed wef 12/02/2007)* | - |
| Pervez Rustim Maneckshа @ Paul Maneckshа *(appointed wef 12/02/2007)* | - |
| Chuah Seong Phaik *(appointed wef 29/08/2006 and resigned wef 22/12/2006)* | 2/2 |
| Lum Weng Loy *(resigned wef 11/12/2006)* | 4/4 |
| Datuk Abdul Malek Bin Abdul Aziz *(resigned wef 11/12/2006)* | 6/6 |
| Datuk Ahmad Shalimin Bin Ahmad Shaffie *(resigned wef 11/12/2006)* | 6/6 |

## MEETINGS AND SUMMARY OF ACTIVITIES (Cont'd)

During the financial year, the Audit Committee carried out the following activities in accordance with its terms of reference:-

- Reviewed the quarterly audited reports and annual financial statements before recommended to the Board for approval.
- Reviewed scope and approach of audit plan under audit planning memorandum prepared by the external auditors.
- Reviewed adequacy of functions of external and internal auditors and assess their performance.
- Reviewed with the external auditors, the results of the annual audit, audit report, areas of concern and management letter.
- Reviewed internal audit report, which highlighted the audit issues, recommendations with regards to risk management, internal control and management's response thereto.
- Reviewed internal control statement and audit committee report for inclusion in the Annual Report.
- Reviewed recurrent related party transactions to ensure adherence of review procedures for recurrent related party transactions.

## INTERNAL AUDIT

The Group has an internal audit division whose primary responsibility is to undertake regular and systematic reviews of the system of internal controls so as to provide reasonable assurance that such system continues to operate satisfactorily and effectively within the Group.

During the financial year, the internal auditors reviewed and evaluated the control environment within the Group and carried out special reviews requested by the management.

## Introduction

The Malaysian Code on Corporate Governance stipulates that the Board of Directors of listed companies should maintain a sound system of internal controls to safeguard shareholders investments and the Group's assets. The Board of Directors is taking appropriate initiatives to further strengthen the transparency, accountability and efficiency of the Company's operations.

## Responsibility for risk and internal controls

The Board is responsible for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of the internal control system. The responsibility for reviewing the adequacy and integrity of the internal control system has been delegated to the Audit Committee by the Board.

There are inherent limitations in any system of internal controls. As such, the system of internal controls put into effect by Management can only reduce but not eliminate all risks that may impede the achievement of the Group's business objectives. Therefore, the internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

## Internal audit function

BDO Governance Advisory Sdn Bhd ("BDOGA") provides the Board with much of the assurance it requires regarding the adequacy and integrity of the system of internal controls. BDOGA independently reviews the system of internal controls and report to the Audit Committee on a quarterly basis. BDOGA review of the internal controls in the key activities of the Group's business is based on internal audit strategy and a detailed annual audit plan presented to the Audit Committee for approval. A risk-based approach is adopted and the audit strategy and plan is based on the risk profiles of the major business units of the Group. BDOGA has completed two (2) internal control reviews according to the annual internal audit plan and the overall opinion on the areas reviewed is needs improvement.

## Other key elements internal control

The Group's system of internal controls comprises the following key elements :-

- Quarterly financial reports are supplied to the Audit Committee and the Board for review and if necessary corrective actions to be taken.
- Accounting records are kept in an orderly, reliable, accessible manner and in compliance with the relevant approved applicable accounting standards and provisions of the Companies Act, 1965.
- The Group has a structured recruitment process, a performance appraisal system and training and development programs to ensure the Group attracts and retains competent and skilled employees.
- A clearly defined lines of accountability and responsibility, which sets out the decisions that need to be taken and the appropriate approving authority at various levels of management.
- Delegation of authority including authorisation limits at various levels of Management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility.
- Regular internal audit reviews by independent audit teams e.g. Standard and Industrial Research Institute of Malaysia who provide assurance that the systems of internal control are in place.

Regular detailed reporting, covering operational and financial performance and key business indicators, for effective monitoring and decision making.

**Risk Management**

The Board is fully aware of the principal risks faced and has put in place the appropriate controls to manage the risks through the involvement of the Executive Directors in the day to day operations of the Group. The Company's performance is monitored through strategic, management and operational level meetings. Significant matters identified during these meetings are highlighted to the Board on a timely basis.

**Weaknesses in internal controls that result in material losses**

There were no material losses incurred during the current financial year as a result of weaknesses in internal control. The Management of the Group continues to take measures to strengthen the internal control environment.

**Conclusion**

The development of the system of internal control is an ongoing process, and the Board and Management maintain an ongoing commitment to take pertinent measures to strengthen the existing internal control environment of the Group.

This statement is issued in accordance with the resolution of the Board dated 23 May 2007.

**(a) Share Buybacks**

During the financial year, the Company bought back a total of 2,949,600 of its issued shares from the open market at the minimum price of RM0.395 per share and maximum price of RM0.40 per share. The repurchased shares were financed by internally generated funds. The repurchased shares are all being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

**(b) Options, Warrants or Convertible Securities**

The Company's Employees Share Option Scheme ("ESOS") became effective on 14 August 2003. There were no exercise of ESOS during the financial year.

There were no exercise of Warrant 2003/2008 during the financial year.

**(c) American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme**

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

**(d) Non-Audit fees**

There were no non-audit fees paid to the external auditors or a firm or company affiliated to the external auditors by the Company and the Group during the financial year.

**(e) Material Contracts or Contract relating to Loans**

There were no material contracts entered into by the Company and its subsidiaries involving Directors and Major Shareholders.

**(f) Profit Guarantee**

The Company did not give any profit guarantee during the financial year.

**(g) Utilisation of proceeds**

There was no utilization of proceeds from any corporate exercise announced at the date of this report.

**(g) Revaluation policy**

There was no revaluation of landed properties undertaken by the Company during the financial year.

**(i) Variation in results**

There were no material variation between the unaudited quarterly results previously announced and the audited financial statements for the year ended 31 December 2006.

**(j) Sanctions and Penalties**

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

**(k) Recurrent Related Party Transactions of a Revenue or Trading Nature**

The recurrent related party transactions entered into by the Group during the financial year ended 31 December 2006 pursuant to the Shareholders' Mandate granted at the Annual General Meeting held on 27 June 2006 were as follows:-

| | **RM** |
|---|---|
| Purchase of cooling tower components from Baltimore Aircoil Company Inc.* | 2,024,096 |
| Royalty payable to Baltimore Aircoil Company Inc.* | 340,546 |

* Baltimore Aircoil Company Inc. is a major shareholder holding 30% equity interest in BAC Cooling Technology Sdn Bhd, a subsidiary of the Company.

# FINANCIAL STATEMENTS

The directors of LINEAR CORPORATION BERHAD have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended December 31, 2006.

## PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding and providing management services. The principal activities of the subsidiary companies are disclosed in Note 14 to the financial statements. There have been no significant changes in the nature of the activities of the Group and of the Company during the financial year except that two subsidiary companies, LETC Engineering Sdn. Bhd. and Times Engineering Systems Co. Ltd. ceased providing mechanical and engineering services and became dormant.

## RESULTS OF OPERATIONS

| | The Group RM | The Company RM |
|---|---|---|
| Loss for the year | 19,999,822 | 15,855,231 |
| Attributable to: | | |
| Equity holders of the Company | 20,270,864 | 15,855,231 |
| Minority interest | (271,042) | - |
| | 19,999,822 | 15,855,231 |

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the changes in accounting policies as disclosed in Notes 3 and 37 to the financial statements.

## DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors also do not recommend any dividend payment in respect of the current financial year.

## RESERVES AND PROVISIONS

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

## ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

## WARRANTS

On September 25, 2003, 17,249,444 detachable warrants were granted by the Company to the subscribers of the rights shares. The warrants may be exercised at any time on or after the issue date but not later than 5.00 p.m. on September 24, 2008. Each warrant entitles its registered holder, at any time during the exercise period of the warrants, to subscribe for one new ordinary share. The exercise price of each warrant is fixed at RM1.00 per share for cash subject to adjustments in accordance with the provisions of the Deed Poll. As of December 31, 2006, all the 17,249,444 warrants remained unexercised.

## EMPLOYEES' SHARE OPTION SCHEME

Under the Company's Employees' Share Option Scheme ("ESOS") which became effective on August 14, 2003, options to subscribe for unissued new ordinary shares of RM1 each in the Company were granted to eligible directors and employees of the Company and its subsidiary companies.

The principal features of the ESOS are as follows:

(a) The total number of share options offered under the scheme shall not exceed 10% of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS.

(b) Subject to any adjustments, which may be made under By-Law 13, the number of new shares that may be offered and allotted to any of the eligible employees of the Group who are entitled to participate in the Scheme shall be at the discretion of the Option Committee after taking into consideration the performance, seniority and length of service of the eligible employee in the Group subject to the following:

   (i) the number of shares allocated, in aggregate, to directors and senior management of the Group shall not exceed 50% of the total shares available under the Scheme; and

   (ii) the number of shares allocated to any individual director or employee who, either singly or collectively through his/her associates (as defined under the Act), hold 20% or more in the issued and paid-up capital of the Company shall not exceed 10% of the total shares available under the Scheme.

(c) Any employee (including executive directors) of the Group shall be eligible to participate in the Scheme, if as at the offer date, the executive:

   (i) has attained the age of eighteen (18) years;

   (ii) is employed full-time by and is on the payroll of a company within the Group (other than a company which is dormant); and

   (iii) is under such categories and of such criteria that the Option Committee may from time to time decide.

   Any allocation under the ESOS to an executive director of the Group shall require prior approval from the Company's shareholders in a general meeting.

## EMPLOYEES' SHARE OPTION SCHEME (Cont'd)

(d) The option price shall be determined at a discount of not more than 10% from the weighted average market price of the ordinary shares of the Company as shown in the daily official list issued by Bursa Malaysia Securities for the five preceding market days prior to the date of offer or at par value of the ordinary shares of the Company, whichever is higher.

(e) The options granted may be exercised within a period of five years from the effective date of the option or such shorter period as may be specifically stated in the offer upon giving notice in writing to the Company.

(f) The new ordinary shares of RM1 each to be allocated upon any exercise of the ESOS will upon allotment rank pari passu in all respects with the then existing ordinary shares of the Company except that these new ordinary shares will not be entitled to any dividends or distributions which may be declared prior to the allotment of these shares.

The share options granted and exercised during the financial year are as follows:

| | | No. of options over ordinary shares of RM1 each | | | | |
|---|---|---|---|---|---|---|
| **Date of offer** | **Exercise price per ordinary share RM** | **Balance as of 1.1.2006** | **Granted** | **Exercised** | **Cancelled** | **Balance as of 31.12.2006** |
| August 25, 2003 | 1.16 | 3,863,000 | - | - | (822,000) | 3,041,000 |
| October 15, 2003 | 1.22 | 486,000 | - | - | (407,000) | 79,000 |

According to Section 169 (11) of the Companies Act, 1965, the Company is required to disclose the name of persons to whom any option has been granted during the financial year. Pursuant to Section 169A of the Companies Act, 1965, the Company has applied and has been granted exemption by the Companies Commission of Malaysia from having to disclose the name of employees who have been granted options below 200,000. There is no employee who has been granted options above 200,000 during the current financial year.

## OTHER FINANCIAL INFORMATION

Before the income statements and balance sheets of the Group and of Company were made out, the directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values.

## OTHER FINANCIAL INFORMATION (Cont'd)

At the date of this report, the directors are not aware of any circumstances:

(a) which would render the amount written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

(d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year and secures the liability of any other person; or

(b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

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, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

In the opinion of the directors, 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 operations of the Group and of the Company for the succeeding financial year.

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

A summary of significant events which occurred during the financial year are as follows:

a. On July 25, 2006, the Company acquired the entire issued and paid-up capital of Linear Ice Solutions Sdn. Bhd. (formerly known as Ice Solutions Sdn. Bhd.) of RM2 divided into 2 ordinary shares of RM 1 each for a cash consideration of RM2.

b. On July 28, 2006, Linear Ice Solutions Sdn. Bhd. had entered into a Joint Venture and Shareholders' Agreement to undertake a joint venture business, the ownership and operation of a district cooling plant.

## DIRECTORS

The following directors served on the Board of the Company since the date of the last report:

| | |
|---|---|
| Alan Rajendram A/L Jeya Rajendram | (appointed on December 8, 2006) |
| Eswaramoorthy Pillay S/O Amuther | (appointed on December 8, 2006) |
| Pervez Rustim Manecksha @ Paul Manecksha | (appointed on February 12, 2007) |
| Heinrich August Diehl | (appointed on February 12, 2007) |
| Chin Soong Jin | (appointed on December 8, 2006) |
| Tan Ai Bee | (appointed on December 22, 2006, resigned on February 12, 2007) |
| Soh Yew Aun | (resigned on February 12, 2007) |
| Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar | (appointed on August 8, 2006, resigned on December 22, 2006) |
| Chuah Seong Phaik | (appointed on August 8, 2006, resigned on December 22, 2006) |
| Lum Weng Loy | (resigned on December 11, 2006) |
| Datuk Abdul Malek Bin Abdul Aziz | (resigned on December 11, 2006) |
| Ahmad Shalimin Bin Ahmad Shaffie | (resigned on December 11, 2006) |
| Chin Kuet Lee | (resigned on December 6, 2006) |
| Dato' Lee Kam Sun | (resigned on November 29, 2006) |
| Tan Sri Dato' Hanafiah Hussain | (resigned on July 31, 2006) |

## DIRECTORS' INTEREST

The shareholdings in the Company and in related companies of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

| | No. of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| **Shares in the Company** | **Balance as of 1.1.2006/ date of appointment** | **Bought** | **Sold** | **Balance as of 31.12.2006** |
| Direct interest: | | | | |
| Soh Yew Aun | 33,334 | 53,000 | - | 86,334 |
| Indirect interest: | | | | |
| Alan Rajendram A/L Jeya Rajendram* | 14,372,518 | - | - | 14,372,518 |
| Eswaramoorthy Pillay S/O Amuther* | 14,372,518 | - | - | 14,372,518 |

* Deemed interested by virtue of their shareholdings in Linear Holding Sdn. Bhd. (formerly known as Linac Strategic Sdn. Bhd.).

**DIRECTORS' INTEREST (Cont'd)**

| | No. of warrants of RM1 each | | | |
|---|---|---|---|---|
| **Warrants in the Company** | **Balance as of 1.1.2006** | **Bought** | **Sold** | **Balance as of 31.12.2006** |
| Direct interest: | | | | |
| Soh Yew Aun | 8,333 | 35,000 | - | 43,333 |

| | No. of options over ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| **Share options in the Company** | **Balance as of 1.1.2006** | **Granted** | **Exercised** | **Balance as of 31.12.2006** |
| Direct interest: | | | | |
| Soh Yew Aun | 400,000 | - | - | 400,000 |

By virtue of their interest in the shares of the Company, Mr. Alan Rajendram A/L Jeya Rajendram and Mr. Eswaramoorthy Pillay S/O Amuther are also deemed to have an interest in the shares of all the subsidiary companies of Linear Corporation Berhad to the extent the Company has an interest.

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than those disclosed as directors' remuneration in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate except for the warrants granted by the Company and options over shares granted by the Company to eligible employees including directors of the Company to subscribe for shares in the Company pursuant to the Company's Employees' Share Option Scheme.

Signed on behalf of the Board
in accordance with a resolution of the Directors,

**ALAN RAJENDRAM A/L**
**JEYA RAJENDRAM**

**ESWARAMOORTHY PILLAY**
**S/O AMUTHER**

Penang,

April 24, 2007

We have audited the accompanying balance sheets as of December 31, 2006, and the related statements of income, changes in equity and cash flows, for the year then ended. 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 these 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 towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These 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 financial statements presentation.

No allowance for doubtful debts has been made in respect of the amount owing by certain subsidiary companies of RM2,650,962 as of December 31, 2006. As of December 31, 2006, these subsidiary companies have incurred losses and are in capital deficiencies' position. Accordingly, we are unable to satisfy ourselves as to the full recoverability of the debts owing by these subsidiary companies.

The management accounts of two subsidiary companies, Times Engineering System Co. Ltd. ("TES") and Linear TES Co., Ltd. ("LTES") are used in the preparation of the consolidated financial statements as the audited financial statements of these subsidiary companies are not available for consolidation with the financial statements of the Company. Accordingly, we are unable to satisfy ourselves as to the fairness of the results, assets and liabilities, cash flow and changes in equity that have been consolidated with the financial statements of the Company. The net loss for the year, total assets and total liabilities as of December 31, 2006 of these two subsidiary companies that have been consolidated based on their management accounts amounted to RM5,237,751, RM1,775,664 and RM5,912,768 respectively.

The directors represented that all the accounting records of a subsidiary company, LETC Engineering Sdn. Bhd. ("LETC") were destroyed by a fire during the year. Although the accounting records of LETC were reconstructed subsequently, these are inadequate to enable us to carry out all the auditing procedures, or to obtain all the information and explanations that we considered necessary. We are unable to obtain adequate documentary evidence to satisfy ourselves as to the fairness of trade and other receivables of RM1,872,433 (including RM1,798,204 owing by related companies) and trade and other payables of RM4,419,029 (including RM2,960,689 owing to related companies) as of December 31, 2006 nor were we able to satisfy ourselves as to the fairness of these accounts by means of other auditing procedures. This subsidiary company was dormant during the year and has no definite plans for continuance of its operations and there are significant uncertainties as to the said subsidiary company's ability to continue as a going-concern. In view of the foregoing, we are unable to express an opinion on the financial statements of LETC that have been consolidated with the financial statements of the Company. The financial statements of LETC reported a net loss for the year of RM2,663,998 and net liabilities of RM1,721,449 as of December 31, 2006.

In our opinion, except for the effects of such adjustments that may be deemed necessary, had we been able to satisfy ourselves as to the recoverability of the debts owing by the subsidiary companies and the fairness of the results, assets and liabilities, cash flow and changes in equity of TES, LTES and LETC which have been consolidated based on the management prepared financial statements as mentioned in the preceding paragraphs, the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable MASB approved accounting standards in Malaysia so as to give a true and fair view of:

(i) the state of affairs of the Group and of the Company as of December 31, 2006 and of their results and cash flows for the year ended on that date; and

(ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements.

Except for the records of LETC, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

Except for TES and LTES for which the audited financial statements are not available, we have considered the financial statements and the auditors' reports of all the other subsidiary companies, of which we have not acted as auditors, being financial statements that have been included in the consolidated financial statements. The names of these subsidiary companies are indicated in Note 14 to the financial statements.

Except as discussed in the preceding paragraphs, we are satisfied that the financial statements of the subsidiary companies 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 as required by us for these purposes.

Our auditors' report on the financial statements of a subsidiary company, LETC were subject to material qualification and included comments made under Sub-Section (3) of Section 174 of the Act. The particulars of the material qualification and comments made under Sub-Section (3) have been included in the fifth paragraph above.

Also, the auditors' reports on the financial statements of certain subsidiary companies as mentioned in Note 14 to the financial statements have included an emphasis of matter as to the appropriateness of the going-concern assumption in the preparation of the financial statements of these subsidiaries. The ability of these subsidiaries to continue as a going-concern is dependent on their ability to obtain continued financial support from their shareholders.

Other than as stated above, the auditors' reports on the financial statements of the other subsidiary companies were not subject to any qualification and did not include any comments made under Sub-Section (3) of Section 174 of the Act.

**DELOITTE KASSIMCHAN**
**AF 0080**
**Chartered Accountants**

**LEE CHENG HEOH**
**2225/04/08 (J)**
**Partner**

Penang,

April 24, 2007

# INCOME STATEMENTS

For the Year Ended December 31, 2006





| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | Note | RM | RM | RM | RM |
| Revenue | 5 | 44,512,633 | 46,279,319 | 172,084 | 187,384 |
| Investment revenue | | 626,019 | 806,479 | 357,630 | 567,226 |
| Other gains and losses | 6 | (8,426,877) | (36,183,107) | (7,674) | (3,951,900) |
| Share of loss of associated companies | | (178,201) | (322,270) | - | - |
| Changes in inventories of finished goods and work-in-progress | | 1,077,891 | (987,084) | - | - |
| Purchase of trading goods | | (13,408) | (13,060) | - | - |
| Raw materials consumed | | (21,497,982) | (22,450,695) | - | - |
| Contract cost recognised | | (3,430,763) | (8,803,024) | - | - |
| Directors' remuneration | | (836,197) | (807,840) | (622,880) | (673,440) |
| Employee benefits expense | 7 | (6,662,651) | (6,626,279) | (716,014) | (590,129) |
| Depreciation of property, plant and equipment | | (3,544,447) | (2,953,209) | - | - |
| Finance costs | | (2,931,014) | (1,821,821) | - | - |
| Write-off/ amortisation of goodwill on consolidation | | - | (6,591,117) | - | - |
| Impairment of goodwill | | (6,729,671) | - | - | - |
| Impairment loss of investment in subsidiary companies | | - | - | (14,529,942) | (20,966,227) |
| Other expenses | | (12,300,857) | (10,115,825) | (508,435) | (243,593) |
| **Loss before tax** | 8 | (20,335,525) | (50,589,533) | (15,855,231) | (25,670,679) |
| Tax income/ (expense) | 9 | 335,703 | (363,442) | - | - |
| **Loss for the year** | | (19,999,822) | (50,952,975) | (15,855,231) | (25,670,679) |
| Attributable to: | | | | | |
| Equity holders of the Company | | (20,270,864) | (41,545,442) | (15,855,231) | (25,670,679) |
| Minority interest | | 271,042 | (9,407,533) | - | - |
| | | (19,999,822) | (50,952,975) | (15,855,231) | (25,670,679) |
| **Loss per share:** | | | | | |
| Basic (sen) | 10 | (28.09) | (56.83) | | |

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

| | Note | The Group 2006 RM | The Group 2005 RM | The Company 2006 RM | The Company 2005 RM |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 50,189,866 | 56,579,035 | - | - |
| Investment properties | 12 | - | - | - | - |
| Goodwill on consolidation | 13 | 2,198,337 | 7,473,784 | - | - |
| Investments in subsidiary companies | 14 | - | - | 34,181,080 | 48,711,020 |
| Investments in associated companies | 15 | 4,060,104 | 4,238,305 | 4,830,000 | 4,830,000 |
| Other investments | 16 | 4,127,821 | 4,127,821 | 2,325,059 | 2,325,059 |
| Deferred tax assets | 17 | 206,000 | - | - | - |
| **Total non-current assets** | | 60,782,128 | 72,418,945 | 41,336,139 | 55,866,079 |
| **Current assets** | | | | | |
| Inventories | 18 | 18,961,954 | 19,334,453 | - | - |
| Trade and other receivables | 19 | 43,169,126 | 35,135,192 | 51,587,983 | 39,127,617 |
| Other assets | 20 | 1,476,508 | 1,697,999 | 369,829 | 157,197 |
| Current tax assets | | 942,696 | 1,163,889 | 148,342 | 132,157 |
| Short-term deposits | 21 | 453,352 | 22,360,494 | - | 20,536,115 |
| Cash and bank balances | 21 | 3,412,599 | 2,999,529 | 693,091 | 714,469 |
| | | 68,416,235 | 82,691,556 | 52,799,245 | 60,667,555 |
| Non-current assets held for sale | 22 | 2,800,000 | - | - | - |
| **Total current assets** | | 71,216,235 | 82,691,556 | 52,799,245 | 60,667,555 |
| **Total assets** | | 131,998,363 | 155,110,501 | 94,135,384 | 116,533,634 |
| **EQUITY AND LIABILITIES** | | | | | |
| Share capital | 23 | 75,104,777 | 75,104,777 | 75,104,777 | 75,104,777 |
| Less: Treasury shares, at cost | 23 | (1,999,230) | (1,998,409) | (1,999,230) | (1,998,409) |
| (Accumulated losses)/ retained earnings | | (7,746,083) | 9,677,368 | (27,200,838) | (11,345,607) |
| Other reserves | 24 | 3,789,117 | 4,425,135 | 20,771,125 | 20,771,125 |
| Equity attributable to equity holders of the Company | | 69,148,581 | 87,208,871 | 66,675,834 | 82,531,886 |
| Minority interest | | 2,101,913 | 1,830,871 | - | - |
| **Total equity** | | 71,250,494 | 89,039,742 | 66,675,834 | 82,531,886 |

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | **Note** | **RM** | **RM** | **RM** | **RM** |
| **Non-current liabilities** | | | | | |
| Hire-purchase payables | 25 | 678,172 | 1,290,177 | - | - |
| Long-term loans | 26 | 9,000,000 | 5,042,756 | - | - |
| Deferred tax liabilities | 27 | 1,893,412 | 2,424,137 | - | - |
| | | 11,571,584 | 8,757,070 | - | - |
| **Current liabilities** | | | | | |
| Trade and other payables | 28 | 22,555,806 | 16,488,655 | 27,459,550 | 29,774,660 |
| Hire-purchase payables | 25 | 354,204 | 472,811 | - | - |
| Long-term loans | 26 | 1,000,000 | 48,068 | - | - |
| Bank overdrafts | 29 | 11,714,197 | 16,602,365 | - | 4,227,088 |
| Other bank borrowings | 30 | 12,718,352 | 22,040,279 | - | - |
| Current tax liabilities | | 833,726 | 1,661,511 | - | - |
| **Total current liabilities** | | 49,176,285 | 57,313,689 | 27,459,550 | 34,001,748 |
| **Total liabilities** | | 60,747,869 | 66,070,759 | 27,459,550 | 34,001,748 |
| **Total equity and liabilities** | | 131,998,363 | 155,110,501 | 94,135,384 | 116,533,634 |

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

**The Group**

| | Share capital RM | Share premium RM | Capital Redemption reserve RM | Revaluation reserve RM | Translation reserve RM | Treasury shares RM | Retained earnings RM | Attributable to equity holders of the parent RM | Minority interest RM | Total RM |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2005 | 75,104,777 | 1,439,631 | 301,000 | 2,782,645 | 493,287 | - | 51,062,754 | 131,184,094 | 11,406,404 | 142,590,498 |
| Repurchase of 2,947,600 treasury shares | - | - | - | - | - | (1,998,409) | - | (1,998,409) | - | (1,998,409) |
| Translation difference in subsidiary companies | - | - | - | - | (431,372) | - | - | (431,372) | - | (431,372) |
| Capital repayment by a subsidiary company to minority shareholders | - | - | - | - | - | - | - | - | (168,000) | (168,000) |
| Transfer of revaluation surplus | - | - | - | (160,056) | - | - | 160,056 | - | - | - |
| **Net income and expense recognised directly in equity** | - | - | - | (160,056) | (431,372) | - | 160,056 | (431,372) | (168,000) | (599,372) |
| Loss for the year | - | - | - | - | - | - | (41,545,442) | (41,545,442) | (9,407,533) | (50,952,975) |
| **Total recognised income and expense** | - | - | - | (160,056) | (431,372) | - | (41,385,386) | (41,976,814) | (9,575,533) | (51,552,347) |
| **Balance as of December 31, 2005** | 75,104,777 | 1,439,631 | 301,000 | 2,622,589 | 61,915 | (1,998,409) | 9,677,368 | 87,208,871 | 1,830,871 | 89,039,742 |

**The Group**

| | Share capital RM | Share premium RM | Capital Redemption reserve RM | Revaluation reserve RM | Translation reserve RM | Treasury shares RM | Retained earnings/ (accumulated losses) RM | Attributable to equity holders of the parent RM | Minority interest RM | Total RM |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2006 | 75,104,777 | 1,439,631 | 301,000 | 2,622,589 | 61,915 | (1,998,409) | 9,677,368 | 87,208,871 | 1,830,871 | 89,039,742 |
| Effect of change in accounting policies (Note 37): | | | | | | | | | | |
| FRS 3 | - | - | - | - | - | - | 1,451,701 | 1,451,701 | - | 1,451,701 |
| FRS 140 | - | - | - | (775,688) | - | - | 1,260,324 | 484,636 | - | 484,636 |
| As restated | 75,104,777 | 1,439,631 | 301,000 | 1,846,901 | 61,915 | (1,998,409) | 12,389,393 | 89,145,208 | 1,830,871 | 90,976,079 |
| Repurchase of 2,000 treasury shares | - | - | - | - | - | (821) | - | (821) | - | (821) |
| Translation difference in subsidiary companies | - | - | - | - | 275,058 | - | - | 275,058 | - | 275,058 |
| Transfer of revaluation surplus | - | - | - | (135,388) | - | - | 135,388 | - | - | - |
| **Net income and expense recognised directly in equity** | - | - | - | (135,388) | 275,058 | - | 135,388 | 275,058 | - | 275,058 |
| Loss for the year | - | - | - | - | - | - | (20,270,864) | (20,270,864) | 271,042 | (19,999,822) |
| **Total recognised income and expense** | - | - | - | (135,388) | 275,058 | - | (20,135,476) | (19,995,806) | 271,042 | (19,724,764) |
| **Balance as of December 31, 2006** | 75,104,777 | 1,439,631 | 301,000 | 1,711,513 | 336,973 | (1,999,230) | (7,746,083) | 69,148,581 | 2,101,913 | 71,250,494 |

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

**The Company**

| | Share capital RM | Share premium RM | Capital redemption reserve RM | Revaluation reserve RM | Treasury shares RM | Retained earnings/ (accumulated losses) RM | Total RM |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2005 | 75,104,777 | 1,439,631 | 301,000 | 19,030,494 | - | 14,325,072 | 110,200,974 |
| Repurchase of 2,947,600 ordinary shares | - | - | - | - | (1,998,409) | - | (1,998,409) |
| Loss for the year, representing total recognised income and expense | - | - | - | - | - | (25,670,679) | (25,670,679) |
| **Balance as of December 31, 2005** | 75,104,777 | 1,439,631 | 301,000 | 19,030,494 | (1,998,409) | (11,345,607) | 82,531,886 |
| Balance as of January 1, 2006 | 75,104,777 | 1,439,631 | 301,000 | 19,030,494 | (1,998,409) | (11,345,607) | 82,531,886 |
| Repurchase of 2,000 treasury shares | - | - | - | - | (821) | - | (821) |
| Loss for the year, representing total recognised income and expense | - | - | - | - | - | (15,855,231) | (15,855,231) |
| **Balance as of December 31, 2006** | 75,104,777 | 1,439,631 | 301,000 | 19,030,494 | (1,999,230) | (27,200,838) | 66,675,834 |

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

# CASH FLOW STATEMENTS

For the Year Ended December 31, 2006





| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM | RM | RM | RM |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Loss for the year | (19,999,822) | (50,952,975) | (15,855,231) | (25,670,679) |
| Adjustments for: | | | | |
| Impairment loss of goodwill | 6,729,671 | - | - | - |
| Allowance for doubtful debts | 4,674,328 | 16,748,420 | 1,224 | - |
| Depreciation of property, plant and equipment | 3,544,447 | 2,953,209 | - | - |
| Interest expenses | 2,686,156 | 1,704,328 | - | - |
| Allowance for slow moving inventories | 2,642,256 | - | - | - |
| Bad debts written off | 1,391,999 | 244,149 | 6,450 | - |
| Impairment loss of non-current assets held for sale | 538,710 | - | - | - |
| Unrealised loss/ (gain) on foreign exchange | 259,087 | (102) | - | - |
| Share of loss of associated companies | 178,201 | 322,270 | - | - |
| Property, plant and equipment written off | 108,163 | 1,619 | - | - |
| Interest income | (396,019) | (779,365) | (357,630) | (567,226) |
| Tax (income)/ expense | (335,703) | 363,442 | - | - |
| Gross dividend income | (105,684) | (105,684) | (105,684) | (105,684) |
| (Gain)/ loss on disposal of property, plant and equipment | (55,508) | 36,767 | - | (64,112) |
| Allowance for diminution in value of other investments | - | 19,990,170 | - | 4,016,012 |
| Write-off/ amortisation of goodwill on consolidation | - | 6,591,117 | - | - |
| Inventories written off | - | 724,642 | - | - |
| Impairment loss of investment in subsidiary companies | - | - | 14,529,940 | 20,966,227 |
| | 1,860,282 | (2,157,993) | (1,780,931) | (1,425,462) |
| Movement in working capital: | | | | |
| (Increase)/ decrease in: | | | | |
| Inventories | (2,269,757) | (64,372) | - | - |
| Trade and other receivables | (14,372,426) | 5,462,673 | (12,468,040) | - |
| Other assets | 15,257 | (76,727) | (212,632) | (14,801,364) |
| Increase/ (decrease) in trade and other payables | 5,931,724 | (7,310,918) | (2,315,110) | 56,701 |
| Cash used for operations | (8,834,920) | (4,147,337) | (16,776,713) | (16,170,125) |
| Tax refunded | 139,414 | 985,232 | 13,407 | - |
| Tax paid | (632,800) | (1,108,849) | - | - |
| Net cash used for operating activities | (9,328,306) | (4,270,954) | (16,763,306) | (16,170,125) |

| | Note | The Group 2006 RM | The Group 2005 RM | The Company 2006 RM | The Company 2005 RM |
|---|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from disposal of property, plant and equipment | | 718,450 | 1,981,108 | - | 1,750,000 |
| Interest received | | 602,253 | 779,365 | 357,630 | 567,226 |
| Dividend received | | 76,092 | 76,092 | 76,092 | 76,092 |
| Purchase of property, plant and equipment | 11 | (1,082,115) | (10,328,999) | - | (1,685,888) |
| Goodwill arising on acquisition of subsidiary companies | | (2,523) | - | - | - |
| Decrease in amount owing by a subsidiary company | | - | - | - | 2,048,382 |
| Capital repayment by a subsidiary company | 14 | - | - | - | 312,000 |
| Net cash generated from/ (used for) investing activities | | 312,157 | (7,492,434) | 433,722 | 3,067,812 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Short-term deposit released from/ (held as) security value | | 7,037,706 | (5,216,983) | 6,000,000 | (5,000,000) |
| Proceeds from long-term loan | | 5,000,000 | 5,000,000 | - | - |
| Increase/ (decrease) in amount owing to directors | | 197,428 | (117,045) | - | - |
| (Decrease)/ increase in bank borrowings | | (9,321,927) | 2,626,833 | - | - |
| Interest paid | | (2,723,319) | (2,422,170) | - | - |
| Repayment of hire-purchase | | (782,712) | (595,958) | - | - |
| Repayment of long-term loans | | (90,824) | (337,411) | - | - |
| Repurchase of treasury shares | | (821) | (1,998,409) | (821) | (1,998,409) |
| Capital repayment by a subsidiary company to minority shareholders | 14 | - | (168,000) | - | - |
| Increase in amount owing to subsidiary companies | | - | - | - | 4,474,691 |
| Net cash (used for)/ generated from financing activities | | (684,469) | (3,229,143) | 5,999,179 | (2,523,718) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (9,700,618) | (14,992,531) | (10,330,405) | (15,626,031) |
| Effect of exchange differences | | 132,420 | (274,058) | - | - |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 1,266,600 | 16,533,189 | 11,023,496 | 26,649,527 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 21 | (8,301,598) | 1,266,600 | 693,091 | 11,023,496 |

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

## 1. GENERAL INFORMATION

The Company is principally involved in investment holding and providing management services. The principal activities of the subsidiary companies are as stated in Note 14. There have been no significant changes in the nature of the activities of the Group and of the Company during the financial year except that two subsidiary companies, LETC Engineering Sdn. Bhd. and Times Engineering Systems Co. Ltd. ceased providing mechanical and engineering services and became dormant.

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

The Company's registered office and principal place of business are at Plot 20A, Jalan Perusahaan, Prai Industrial Estate 4, 13600 Prai, Malaysia.

The financial statements of the Group and of the Company were authorised for issue by the Board of Directors in accordance with a resolution of the directors on April 24, 2007.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of accounting

The financial statements of the Group expressed in Ringgit Malaysia ("RM") have been prepared under the historical cost convention unless stated otherwise in the accounting policies mentioned below.

During the financial year, the Group has adopted all the new and revised Financial Reporting Standards ("FRSs") and Issues Committee ("IC") Interpretations issued by MASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2006.

The adoption of these new and revised FRSs and IC Interpretations has no material effect on the financial statements of the Group and of the Company except for those disclosed in Note 37.

Standards and IC Interpretations that are not yet effective and have not been early adopted are as follows:

(a) FRS 117 Leases (Effective for annual periods beginning on or after October 1, 2006). This standard requires the classification of leasehold land as prepaid lease payments. The Company will apply this standard from financial periods beginning on January 1, 2007.

(b) FRS 124 Related Party Disclosures (Effective for annual periods beginning on or after October 1, 2006). This standard will affect the identification of related parties and some other related party disclosures. The Company will apply this standard from financial periods beginning January 1, 2007.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Basis of accounting (Cont'd)**

(c) FRS 139 Financial Instruments: Recognition and Measurement (Effective date yet to be determined by MASB). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Company will apply this standard when effective.

(d) Amendments to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net investment in a Foreign Operation (Effective for annual periods beginning on or after July 1, 2007). The amendment requires when a monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements shall be recognised in profit or loss in the period in which they arise. The Company will apply this standard from financial periods beginning January 1, 2008.

(e) IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (Effective for annual periods beginning on or after July 1, 2007). This Interpretation addresses how the effect of the changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for.

(f) IC Interpretation 8 Scope of FRS 2 (Effective for annual periods beginning on or after July 1, 2007). This interpretation set out that the scope of FRS 2 shall also applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. The Group will apply this standard from financial periods beginning January 1, 2008.

The impact of the adoption of FRS 117, FRS 124 and FRS 139 on the effective date, on the financial statements of the Group and of the Company is not disclosed by virtue of the exemption given by these FRSs. IC Interpretations 1 and 8 and amendments to FRS 121 are expected to have no significant impact on the financial statements of the Group and of the Company upon their initial application.

Standards and IC Interpretations that are not yet effective and not relevant to the Company's operations are as follows:

(a) FRS 6 Exploration for and Evaluation of Mineral Resources (Effective for annual periods beginning on or after January 1, 2007).

(b) Amendment to FRS $119_{2004}$ Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures (Effective for annual periods beginning on or after January 1, 2007).

(c) IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Effective for annual periods beginning on or after July 1, 2007).

(d) IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (Effective for annual periods beginning on or after July 1, 2007).

(e) IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (Effective for annual periods beginning on or after July 1, 2007).

(f) IC Interpretation 7 Applying the Restatement Approach under FRS $129_{2004}$ Financial Reporting in Hyperinflationary Economies (Effective for annual periods beginning on or after July 1, 2007).

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Business combination and basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary companies). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiary companies are consolidated using the purchase method of accounting. Under the purchase method accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statements.

All intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

**Revenue and revenue recognition**

Revenue of the Group represents gross invoiced values of sales less return and discounts. Revenue of the Company represents gross dividend income and gross service fees from the rendering of management services.

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
(ii) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(iii) the amount of revenue can be measured reliably;
(iv) it is probable that the economic benefits associated with the transaction will flow to the Group; and
(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognised on a time proportion basis that takes into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

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

Management fee and other operating income are recognised on an accrual basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

### Foreign currency conversion

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Ringgit Malaysia, which is the functional currency of the Company, and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, are included in profit or loss for the period. For non-monetary items that are measured in terms of historical cost in foreign currency, any exchange component of that gain or loss is recognised directly in equity.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Foreign currency conversion (Cont'd)**

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Ringgit Malaysia using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Employee benefits costs**

**(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 the employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined contribution plans**

As required by law, companies in Malaysia and Singapore make contributions to the state pension scheme, the employees' provident fund and central provident fund respectively. Such contributions are recognised as expenses in the income statements as incurred.

**(iii) Equity compensation benefits**

The Company has an Employee's Share Option Scheme whereby options to subscribe for ordinary shares in the Company were granted by the Company to eligible employees, including directors of the Group.

Prior to January 1, 2006, no compensation expense was recognised in income statements for share options granted. The Group and the Company recognised an increase in share capital and share premium when the options were exercised. Upon the adoption of FRS 2 Share-based Payment, the total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period.

The Group has applied FRS 2 in accordance with its transitional provisions which allow this change in accounting policy to be applied to share options that were granted after December 31, 2004 but had not yet vested on January 1, 2006. The adoption of FRS 2 has no material effect on the financial statements of the Group and of the Company for the current year and previous year as the Company has not granted any option after December 31, 2004.

**Borrowing costs**

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

**Research and development expenditure**

Research and development expenditure is recognised in the income statements as an expense when it is incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Freehold land and assets in progress are not depreciated. All other property, plant and equipment are depreciated on a straight-line method in order to write off the cost of each asset to its residual value over its estimated useful life.

The annual depreciation rates are as follows:

| | |
|---|---|
| Leasehold land | 2% |
| Buildings | 2% |
| Flats | 2% |
| District cooling plant | 2% to 5% |
| Plant and machinery | 10% to 20% |
| Moulds, tools and equipment | 5% to 20% |
| Office equipment, furniture and fittings | 8% to 20% |
| Motor vehicles | 20% |
| Apartments | 2% to 5% |
| Renovation | 10% |

The Group carried its short leasehold land, buildings, apartments and flats at revalued amounts. These assets shall be revalued at a regular interval of at least once in every five years with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued property differs materially from the market value.

An increase in the carrying amount arising from revaluation of property, plant and equipment is credited to the revaluation reserve account as revaluation surplus. Any deficit arising from revaluation is charged against the revaluation reserve account to the extent of a previous surplus held in the revaluation reserve account for the same asset. In all other cases, a decrease in carrying amount is charged to the income statements. An increase in revaluation directly related to a previous decrease in carrying amount for that same asset that was recognised as an expense, is credited to income statements to the extent that it offsets the previously recorded decrease.

Gain or loss arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements. On disposal of revalued assets or crystallisation of deferred tax liabilities on revalued assets, the amounts in revaluation reserve account relating to such assets are transferred to retained earnings account.

### Leased assets

Assets under leases which in substance transfer the risks and benefits of ownership of the assets are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the fair value of the leased assets which approximates the present value of the minimum lease payments, at the beginning of the respective lease terms. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statements over the term of the relevant lease period so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. All other leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statements as incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Hire-purchase

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations are treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed todate bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that agreed with the customers.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are probable of recovery. Contract costs are recognised as expenses in the period in which they are incurred.

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

Amount owing by contract customers represents the excess of cost incurred todate and portion of profit or loss attributable to work performed todate over progress billings while amount owing to contract customers represents the excess of progress billings over costs incurred todate and portion of profit or loss attributable to work performed todate.

### Investments in subsidiary companies

Subsidiary companies are companies where the Group has control through the power to govern the financial and operating policies of the companies so as to obtain benefits therefrom. Control is presumed to exist when the Group owns, directly or indirectly through subsidiary companies, more than one half of the voting rights of the company.

Investment in subsidiary companies, which are eliminated on consolidation, is stated at cost or at 1999 valuation by the directors on the basis of net tangible asset values of the subsidiary companies as approved by the Securities Commission. It was not the intention of the directors then to adopt a policy for revaluation of its long-term investments in subsidiary companies at a regular interval. Accordingly, the Company continues to state its investments in subsidiary companies at its 1998 valuation which was approved by Securities Commission in 1999. Where there is an indication of impairment in the value of the assets, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Gain or loss arising from the disposal of an investment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the investment, and is recognised in the income statements. On disposal of revalued investments, the amounts in revaluation reserve account relating to the investments disposed are transferred to retained earnings account.

When there is an indication of impairment in the value of the assets, the carrying amount of the investment are assessed and written down immediately to its recoverable amount.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Investments in associated companies**

An associated company is a non-subsidiary company in which the Group holds not less than 20% of the equity voting rights as long-term investment and in which the Group is in a position to exercise significant influence in its management.

The Group's investment in associated companies is accounted for under the equity method of accounting based on the latest audited financial statements of the associated companies made up to December 31, 2006. Under this method of accounting, the Group's interest in the post-acquisition profit and reserves of the associated companies is included in the consolidated results while dividend received is reflected as a reduction of the investment in the consolidated balance sheet.

Unrealised profits and losses arising on transactions between the Group and its associated companies are eliminated to the extent of the Group's equity interest in the relevant associated companies except where unrealised losses provide evidence of an impairment of the asset transferred.

When there is an indication of impairment in the value of the assets, the carrying amount of the investment are assessed and written down immediately to its recoverable amount.

**Other investments**

Other investments in quoted and unquoted shares are stated at cost less allowance for diminution in value of investments to recognise any decline, other than a temporary decline, in the value of the investments.

Investments in club memberships are stated at cost.

Where there is an indication of impairment in the value of the assets, the carrying amounts of the investments are assessed and written down immediately to its recoverable amount.

**Investment properties**

Investment properties, are properties held to earn rentals and/ or for capital appreciation, or both rather than for use in the production or supply of goods or service or for administrative purposes.

Investment properties are stated at fair value, representing open-market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Gain or loss arising from changes in the fair value of investment properties is included in income statements for the period in which it arises.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised. The difference between the net disposal proceeds and the carrying amount is recognised in income statements in the period of the retirement or disposal.

**Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Goodwill (Cont'd)**

Negative goodwill on consolidation is recognised in the income statements at the date of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

Cost of raw materials, spare and components, construction materials, trading goods and indirect materials consists of purchase price plus the cost of bringing the inventories to their present location. Cost of work-in-progress and finished goods consists of cost of raw materials, direct labour and an appropriate proportion of factory overheads.

**Receivables**

Receivables are stated at nominal value as reduced by the appropriate allowance for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivables accounts.

**Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

**Borrowings**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Payables

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

### Equity instruments

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

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

### Treasury shares

Where the Company reacquires its own equity share capital, the consideration paid, including attributable transaction costs on repurchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

### Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, bank overdrafts, demand deposits which are not pledged and highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Financial instruments

Financial instruments carried on the balance sheets include cash and bank balances, demand deposits, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as 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 set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Contingent liabilities

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Determining whether goodwill is impaired requires an estimation of the value in use of cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was RM2,198,337 after an impairment loss of RM6,729,671 was recognised during 2006.

## 5. REVENUE

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Sales of manufacturing goods | 25,578,720 | 24,174,763 | - | - |
| Sales of trading goods | 13,140,909 | 12,205,031 | - | - |
| Gross dividend income from quoted shares in Malaysia | 105,684 | 105,684 | 105,684 | 105,684 |
| Contract revenue | 4,540,684 | 9,074,056 | - | - |
| Management fee | - | - | 66,400 | 81,700 |
| Others | 1,146,636 | 719,785 | - | - |
| | 44,512,633 | 46,279,319 | 172,084 | 187,384 |

## 6. OTHER GAINS AND LOSSES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM** | **RM** | **RM** | **RM** |
| Gain/ (loss) on disposal of property, plant and equipment | 55,508 | (36,767) | - | 64,112 |
| Allowance for doubtful debts | (4,674,328) | (16,748,420) | (1,224) | - |
| Allowance for slow moving inventories | (2,642,256) | - | - | - |
| Bad debts written off | (1,391,999) | (244,149) | (6,450) | - |
| Impairment of non-current assets held for sale | (538,710) | - | - | - |
| Property, plant and equipment written off | (108,163) | (1,619) | - | - |
| Allowance for diminution in value of other investments | - | (19,990,170) | - | (4,016,012) |
| Inventories written off | - | (724,642) | - | - |
| Other income | 873,071 | 1,562,660 | - | - |
| | (8,426,877) | (36,183,107) | (7,674) | (3,951,900) |

## 7. EMPLOYEE BENEFITS EXPENSE

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM** | **RM** | **RM** | **RM** |
| Employees' provident fund contributions | 436,976 | 455,581 | 70,144 | 60,740 |
| Other staff costs | 6,225,675 | 6,170,698 | 645,870 | 529,389 |
| | 6,662,651 | 6,626,279 | 716,014 | 590,129 |

Employee benefits expense includes salaries, bonuses, contributions to employees' provident fund and all other staff related expenses.

## 8. LOSS BEFORE TAX

Loss before tax is arrived at:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM** | **RM** | **RM** | **RM** |
| After charging: | | | | |
| Allowance for doubtful debts | 4,674,328 | 16,748,420 | 1,224 | - |
| Allowance for slow moving inventories | 2,642,256 | - | - | - |

## 8. LOSS BEFORE TAX

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Interest on: | | | | |
| Bank borrowings | 1,915,800 | 1,608,967 | - | - |
| Hire-purchase | 86,431 | 83,141 | - | - |
| Long-term loans | 683,925 | 12,220 | - | - |
| Bad debts written off | 1,391,999 | 244,149 | 6,450 | - |
| Directors' remuneration: | | | | |
| Directors of the company: | | | | |
| Provision for fees | 36,000 | 30,000 | 36,000 | 30,000 |
| Employees' provident fund contributions | 85,680 | 83,340 | 62,880 | 68,940 |
| Other emoluments | 714,517 | 694,500 | 524,000 | 574,500 |
| Impairment loss of non-current asset held for sales | 538,710 | - | - | - |
| Rental of: - | | | | |
| Premises | 441,597 | 598,501 | - | - |
| Plant and machinery | 57,520 | - | - | - |
| Equipment | 5,202 | 5,067 | - | - |
| Unrealised loss on foreign exchange | 259,087 | - | - | - |
| Realised loss on foreign exchange | 127,622 | 207,078 | - | - |
| Audit fee: | | | | |
| Current year | 120,908 | 96,075 | 30,000 | 23,000 |
| Underprovision in prior year | (1,000) | 6,000 | - | - |
| Property, plant and equipment written off | 108,163 | 1,619 | - | - |
| Research and development expenditure | 8,745 | - | - | - |
| Allowance for diminution in value of other investments | - | 19,990,170 | - | 4,016,012 |
| Inventories written off | - | 724,642 | - | - |
| Hire of crane and machinery | - | 50,132 | - | - |
| Loss on disposal of property, plant and equipment | - | 36,767 | - | - |
| And crediting: | | | | |
| Interest income | 396,019 | 779,365 | 357,630 | 567,226 |
| Rental income | 230,000 | 240,000 | - | - |
| Gain on disposal of property, plant and equipment | 55,508 | - | - | 64,112 |
| Unrealised gain on foreign exchange | - | 102 | - | - |

## 9. TAX INCOME/ (EXPENSE)

| | The Group | |
|---|---|---|
| | **2006 RM** | **2005 RM** |
| Current tax expense: | | |
| Malaysian | (158,000) | (442,000) |
| Foreign | - | - |
| | (158,000) | (442,000) |
| Deferred tax relating to origination and reversal of temporary differences in current year | 252,089 | 56,844 |
| Overprovision of current tax expense in prior year | 241,614 | 21,714 |
| Tax income/ (expense) | 335,703 | (363,442) |

The numerical reconciliations between tax expense and the product of accounting loss multiplied by the applicable tax rates are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 RM** | **2005 RM** | **2006 RM** | **2005 RM** |
| Accounting loss | (20,335,525) | (50,589,535) | (15,855,231) | (25,670,679) |
| Tax at the applicable tax rate of 28% | (5,694,000) | (14,165,000) | (4,439,000) | (7,188,000) |
| Tax effect on non-deductible/ (non-taxable) items: | | | | |
| Non-deductible expenses | 3,770,507 | 13,030,198 | 4,439,000 | 7,206,000 |
| Non-taxable income | (176,000) | (222,801) | - | (18,000) |
| Utilisation of net deferred tax assets previously not recognised | 412,000 | - | - | - |
| Net deferred tax income not recognised | 1,984,600 | 1,518,800 | - | - |
| Change in tax rate | 107,000 | - | - | - |
| Tax saving from double deduction on promotion of export and marine insurance | (402,000) | - | - | - |
| Effect of different tax rates of subsidiary companies | (96,196) | 223,959 | - | - |
| | (94,089) | 385,156 | - | - |
| Overprovision of current tax expense in prior year | (241,614) | (21,714) | - | - |
| Tax (income)/ expense | (335,703) | 363,442 | - | - |

The current corporate income tax rate for the year ended December 31, 2006 for Malaysia is 28%. In September 2006, the Malaysian government announced in the yearly budget a reduction in the corporate income tax rate to 27% for the year of assessment 2007 and 26% for the year of assessment 2008.

## 9. TAX INCOME/ (EXPENSE) (Cont'd)

As of December 31, 2006, the approximate amount of carryforward tax losses and unabsorbed capital allowances of the Group and of the Company are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Carryforward tax losses | 13,207,200 | 11,986,400 | 1,888,000 | 822,000 |
| Unabsorbed capital allowances | 14,478,900 | 6,671,000 | - | - |

The carryforward tax losses and unabsorbed capital allowances are subject to agreement by the tax authorities.

## 10. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year, excluding treasury shares held by the Company.

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| Loss attributable to ordinary equity holders of the Company (RM) | (20,270,864) | (41,545,442) |
| Weighted average number of ordinary shares in issue (units) | 72,155,177 | 73,098,405 |
| Basic loss per share (sen) | (28.09) | (56.83) |

The diluted loss per ordinary share in 2006 and 2005 has not been presented as the effect of the conversions of warrants and employee share options to ordinary shares would be anti-dilutive due to the fair value of the ordinary shares is currently lower than the subscription price.

## 11. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| Cost | Beginning of year RM | Additions RM | Translation reserve RM | Disposals RM | End of year RM |
|---|---|---|---|---|---|
| 2005: | | | | | |
| At 2004 valuation: | | | | | |
| Short leasehold land | 6,200,000 | - | - | - | 6,200,000 |
| Buildings | 16,750,000 | - | - | - | 16,750,000 |
| Flats | 395,000 | - | - | - | 395,000 |
| Apartments | 1,559,041 | - | (97,432) | - | 1,461,609 |

## 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

**The Group**

| **Cost** | **Beginning of year RM** | **Additions RM** | **Translation reserve RM** | **Disposals RM** | **End of year RM** |
|---|---|---|---|---|---|
| At cost: | | | | | |
| Leasehold land and building | - | 1,685,888 | - | (1,685,888) | - |
| Freehold land | 2,085,520 | - | (6,154) | - | 2,079,366 |
| Buildings | - | 54,185 | - | - | 54,185 |
| Plant and machinery | 12,641,983 | 781,715 | (132,693) | - | 13,291,005 |
| Moulds, tools and equipment | 5,542,287 | 131,992 | (12,768) | - | 5,661,511 |
| Office equipment, furniture and fittings | 2,408,938 | 105,832 | (16,364) | (14,738) | 2,483,668 |
| Motor vehicles | 3,448,617 | 592,540 | (29,399) | (399,912) | 3,611,846 |
| Renovation | 700,107 | - | - | (276,949) | 423,158 |
| Assets in progress | 14,879,796 | 8,416,345 | (1,861) | - | 23,294,280 |
| | 66,611,289 | 11,768,497 | (296,671) | (2,377,487) | 75,705,628 |

| **Cost** | **Beginning of year RM** | **Transfer to investment properties RM** | **Transfer RM** | **Additions RM** | **Disposals RM** | **Translation reserve RM** | **End of year RM** |
|---|---|---|---|---|---|---|---|
| 2006: | | | | | | | |
| At 2004 valuation: | | | | | | | |
| Short leasehold land | 6,200,000 | (1,700,000) | - | - | - | - | 4,500,000 |
| Buildings | 16,750,000 | (1,750,000) | - | - | - | - | 15,000,000 |
| Flats | 395,000 | - | - | - | - | - | 395,000 |
| Apartments | 1,461,609 | - | - | - | - | 98,723 | 1,560,332 |
| At cost: | | | | | | | |
| Freehold land | 2,079,366 | - | - | - | | 6,234 | 2,085,600 |
| Buildings | 54,185 | | - | - | - | - | 54,185 |
| District cooling plant | - | - | 24,116,377 | - | - | - | 24,116,377 |
| Plant and machinery | 13,291,005 | - | - | 33,285 | (2,293,606) | 117,166 | 11,147,850 |
| Moulds, tools and equipment | 5,661,511 | - | - | 14,949 | (255,184) | 13,255 | 5,434,531 |
| Office equipment, furniture and fittings | 2,483,668 | - | - | 98,156 | (36,658) | 16,434 | 2,561,600 |
| Motor vehicles | 3,611,846 | - | - | 76,100 | (1,202,887) | 22,588 | 2,507,647 |
| Renovation | 423,158 | - | - | - | | - | 423,158 |
| Assets in progress | 23,294,280 | - | (24,116,377) | 911,725 | - | 5,667 | 95,295 |
| | 75,705,628 | (3,450,000) | - | 1,134,215 | (3,788,335) | 280,067 | 69,881,575 |

## 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

| Accumulated depreciation | Beginning of year RM | Charge for the year RM | Translation reserve RM | Disposals RM | End of year RM |
|---|---|---|---|---|---|
| 2005: | | | | | |
| At 2004 valuation: | | | | | |
| Short leasehold land | - | 144,838 | - | - | 144,838 |
| Buildings | - | 356,452 | - | - | 356,452 |
| Flats | - | 7,900 | - | - | 7,900 |
| Apartments | - | 83,501 | (18,652) | - | 64,849 |
| At cost: | | | | | |
| Buildings | - | 955 | - | - | 955 |
| Plant and machinery | 8,789,951 | 1,203,757 | (89,360) | - | 9,904,348 |
| Moulds, tools and equipment | 4,873,327 | 216,595 | (6,418) | - | 5,083,504 |
| Office equipment, furniture and fittings | 1,545,137 | 243,797 | (11,780) | (2,251) | 1,774,903 |
| Motor vehicles | 1,213,991 | 632,327 | (13,147) | (245,352) | 1,587,819 |
| Renovation | 248,328 | 63,087 | - | (110,390) | 201,025 |
| | 16,670,734 | 2,953,209 | (139,357) | (357,993) | 19,126,593 |

| Accumulated depreciation | Beginning of year RM | Transfer to investment properties RM | Charge for the year RM | Disposals RM | Translation reserve RM | End of year RM |
|---|---|---|---|---|---|---|
| 2006: | | | | | | |
| At 2004 valuation: | | | | | | |
| Short leasehold land | 144,838 | (54,838) | 90,000 | - | - | 180,000 |
| Buildings | 356,452 | (56,452) | 300,000 | - | - | 600,000 |
| Flats | 7,900 | - | 7,900 | - | - | 15,800 |
| Apartments | 64,849 | - | 86,181 | - | 22,827 | 173,857 |
| At cost: | | | | | | |
| Buildings | 955 | - | 1,084 | - | - | 2,039 |
| District cooling plant | - | - | 904,168 | - | - | 904,168 |
| Plant and machinery | 9,904,348 | - | 1,182,811 | (2,286,989) | 94,527 | 8,894,697 |
| Moulds, tools and equipment | 5,083,504 | - | 172,136 | (168,259) | 6,906 | 5,094,287 |
| Office equipment, furniture and fittings | 1,774,903 | - | 226,206 | (22,036) | 13,205 | 1,992,278 |
| Motor vehicles | 1,587,819 | - | 531,645 | (539,946) | 11,724 | 1,591,242 |
| Renovation | 201,025 | - | 42,316 | - | - | 243,341 |
| | 19,126,593 | (111,290) | 3,544,447 | (3,017,230) | 149,189 | 19,691,709 |

## 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| **Net Book Value** | | |
| At 2004 valuation: | | |
| Short leasehold land | 4,320,000 | 6,055,162 |
| Buildings | 14,400,000 | 16,393,548 |
| Flats | 379,200 | 387,100 |
| Apartments | 1,386,475 | 1,396,760 |
| At cost: | | |
| Freehold land | 2,085,600 | 2,079,366 |
| Buildings | 52,146 | 53,230 |
| District cooling plant | 23,212,209 | - |
| Plant and machinery | 2,253,153 | 3,386,657 |
| Moulds, tools and equipment | 340,244 | 578,007 |
| Office equipment, furniture and fittings | 569,322 | 708,765 |
| Motor vehicles | 916,405 | 2,024,027 |
| Renovation | 179,817 | 222,133 |
| Assets in progress | 95,295 | 23,294,280 |
| | 50,189,866 | 56,579,035 |

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM1,134,215 (2005: RM11,768,497) of which RM52,100 (2005: RM793,200) was acquired by mean of hire-purchase with the balance of RM1,082,115 (2005: RM10,975,297) was paid by cash.

In 2005, interest expense on bank borrowings specifically related to assets in progress that has been capitalised within additions of the Group amounted to RM646,298 at capitalisation rates ranging from 4.75% to 7.50% per annum.

As of December 31, 2006, the carrying values of property, plant and equipment of the Group which are acquired under hire-purchase arrangements of which installments are still outstanding are as follows:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| Motor vehicles | 819,751 | 1,749,011 |
| Plant and equipment | 423,192 | 475,092 |
| | 1,242,943 | 2,224,103 |

## 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

As of December 31, 2006:

i. the unexpired lease period of the short leasehold land is 46 years.
ii. the strata titles of the flats and apartments have not yet been issued to the subsidiary companies by the relevant authority.
iii. certain property, plant and equipment of the Group with carrying values of RM25,643,578 (2005: RM25,266,068) are charged to a bank for term loan granted to a subsidiary company as mentioned in Note 26.

The short leasehold land, buildings, flats and apartments of the Group were revalued by the directors in 2004 based on valuations carried out by independent firms of professional valuers, using open market value on existing use basis. The resulting revaluation surplus net of related deferred tax has been credited to revaluation reserve account.

Had these assets been carried at historical cost, the carrying amounts of the revalued leasehold land, buildings, flats and apartments of the Group will be as follows:

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Cost | 17,840,559 | 20,360,032 |
| Accumulated depreciation | (4,324,641) | (4,885,193) |
| Carrying amount | 13,515,918 | 15,474,839 |

## 12. INVESTMENT PROPERTIES

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| **At fair value:** | | |
| At beginning of year | | |
| Transfer from property, plant and equipment | 3,338,710 | - |
| Reclassified as non-current assets held for sale | (3,338,710) | - |
| At end of year | - | - |

The investment properties which consist of short leasehold land together with building erected thereon of the Group were rented to a third party during the year.

The rental income earned by the Group from its investment properties is RM230,000. Direct operating expenses incurred by the Group arising on the investment properties during the year amounted to RM29,213.

The investment properties have been reclassified as non-current assets held for sale as of December 31, 2006.

## 13. GOODWILL ON CONSOLIDATION

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| At beginning of year | 7,473,784 | 14,064,901 |
| Effect of changes in accounting policy (Note 37) | 1,451,701 | - |
| Goodwill on consolidation arising from the acquisition of a subsidiary company | 2,523 | - |
| Impairment loss | (6,729,671) | - |
| Amortisation of goodwill on consolidation | - | (6,591,117) |
| At end of year | 2,198,337 | 7,473,784 |

During the year, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with two subsidiary companies was impaired by RM6,729,671 (2005: Nil). The recoverable amount of these two subsidiary companies was assessed by reference to value in use.

The main factor contributing to the impairment of the cash-generating unit was due to ceasation of operations by these two subsidiary companies.

## 14. INVESTMENTS IN SUBSIDIARY COMPANIES

| | The Company | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Unquoted shares | | |
| At cost | 37,578,233 | 37,578,231 |
| Less: Accumulated impairment loss | (35,496,169) | (20,966,227) |
| | 2,082,064 | 16,612,004 |
| At 1999 valuation | 32,099,016 | 32,099,016 |
| | 34,181,080 | 48,711,020 |

The subsidiary companies are as follows:

| Direct Subsidiary Companies | Place of Incorporation | Principal Activity | Percentage of Ownership 2006 | 2005 |
|---|---|---|---|---|
| Linear Cooling Industries Sdn. Bhd. | Malaysia | Manufacture and trading of cooling towers and parts thereof and involved in designing and building district cooling system plant | 100% | 100% |

## 14. INVESTMENTS IN SUBSIDIARY COMPANIES (Cont'd)

| Direct Subsidiary Companies | Place of Incorporation | Principal Activity | Percentage of Ownership 2006 | 2005 |
|---|---|---|---|---|
| Linear Water Treatment Sdn. Bhd. | Malaysia | Providing water treatment services | 100% | 100% |
| PrimeAce Holdings Sdn. Bhd. | Malaysia | Investment holdings in information and communications technology (ICT) related services | 100% | 100% |
| Linear Ice Solutions Sdn. Bhd. | Malaysia | Develop, design, manufacture, distribution and maintenance of district cooling facilities | 100% | - |
| Linear Ventures Sdn. Bhd. | Malaysia | Investment holdings | 100% | 100% |
| Aseania Linear District Cooling System Sdn. Berhad | Malaysia | Construct, own and operate a district cooling plant to produce and supply chilled water | 100% | 100% |
| Imux (Asia) Limited | Labuan | Dormant | 100% | 100% |
| BAC Cooling Technology Sdn. Bhd. | Malaysia | Manufacture and trading of cooling towers | 70% | 70% |
| PrimeAce Venture Limited | British Virgin Islands | Investment holdings in ICT related services | 65% | 65% |
| Linear Water Tank Sdn. Bhd.# | Malaysia | Sales and distributor of and dealer in water tank, however, the Company did not carry out any further trading activity since February 2005 | 100% | 100% |
| Linear Composites Sdn. Bhd.# | Malaysia | Investment holdings | 100% | 100% |
| LETC Engineering Sdn. Bhd.© | Malaysia | Providing mechanical and engineering services. During the year, the company ceased operations and become dormant | 70% | 70% |

## 14. INVESTMENTS IN SUBSIDIARY COMPANIES (Cont'd)

| Direct Subsidiary Companies | Place of Incorporation | Principal Activity | Percentage of Ownership 2006 | 2005 |
|---|---|---|---|---|
| Linear Cooling Technology Sdn. Bhd.* | Malaysia | Trading of cooling towers | 100% | 100% |
| Nihon Spindle (M) Sdn. Bhd.* | Malaysia | Trading of cooling towers and spare parts | 100% | 100% |
| Quantum Water Heaters Sdn. Bhd.* | Malaysia | Manufacture energy efficient hot water system | 59.5% | 59.5% |
| Linear Cooling Industries Pte. Ltd.* | Singapore | Dormant | 100% | 100% |
| Unified Systems Pte. Ltd.* | Singapore | Providing computer programming, consultancy and other computer related services | 70% | 70% |
| Times Engineering Systems Co. Ltd.*Ω | Thailand | Providing mechanical and engineering services and construction. During the year, the Company ceased operations and become dormant. | 70% | 70% |
| Linear TES Co. Ltd.^*Ω | Thailand | Investment holdings | 43.75% | 43.75% |
| **Indirect Subsidiary Companies** | | | | |
| Idea-Hub Dotcom Sdn. Bhd. | Malaysia | During the year, this company had been struck off pursuant to Section 308 of the Companies Act, 1965 | - | 51% |
| Ko Lim BAC Sdn. Bhd.# | Malaysia | Investment holdings | 100% | 100% |
| Linear Composites Marketing Sdn. Bhd.# | Malaysia | Dormant | 100% | 100% |

## 14. INVESTMENTS IN SUBSIDIARY COMPANIES (Cont'd)

| Indirect Subsidiary Companies | Place of Incorporation | Principal Activity | Percentage of Ownership 2006 | Percentage of Ownership 2005 |
|---|---|---|---|---|
| Idea-Hub.Com Limited# | Hong Kong | Investment holdings and providing ICT related services | 51% | 51% |
| BAC Cooling Technology Pte. Ltd.* | Singapore | The Company is in the process of striking off its name from the register of Accounting and Corporate Regulatory Authority of Singapore | 100% | 100% |

^ The directors consider this company as a subsidiary company as the Company has more than one half of the voting rights of the company.

* The financial statements of these companies were examined by auditors other than the auditors of the Company.

Ω The audited financial statements of these companies are not available.

# An emphasis of matter was given on the preparation of the financial statements on a going concern basis.

© A disclaimer opinion was given on the financial statements of this company in view that all the accounting records of the company were destroyed by a fire and the accounting records reconstructed subsequently are inadequate and there is uncertainty as to the Company's ability to continue as a going-concern.

In 2005, a subsidiary company, PrimeAce Venture Limited, pursuant to Section 35 of the International Business Companies Act (CAP.291), reduced its paid-up share capital from 5,600,002 ordinary shares of USD1 each to 5,473,686 ordinary shares of USD1 each. Such reduction of capital was effected by cash payment of USD126,316 (equivalent to RM480,000) of which RM312,000 was paid to the Company with the balance of RM168,000 paid to minority shareholders.

On July 25, 2006, the Company acquired the entire issued and paid-up capital of Linear Ice Solutions Sdn. Bhd. of RM2 divided into 2 ordinary shares of RM1 each, for cash consideration of RM2.

## 14. INVESTMENTS IN SUBSIDIARY COMPANIES (Cont'd)

The effect of this acquisition on the financial results of the Groups for the year is as follows:

| | 2006 RM |
|---|---|
| Post-acquisition results of a subsidiary company acquired: | |
| Other expenses | 6,912 |
| Loss for the year | 6,912 |
| Increase in Group's loss attributable to shareholders | 6,912 |

On November 3, 2006, the Group deemed disposed off a subsidiary company as the subsidiary company had been struck off from the register of Companies Commission of Malaysia Pursuant to Section 308 of the Companies Act, 1965.

## 15. INVESTMENTS IN ASSOCIATED COMPANIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Unquoted shares – at cost | 4,830,000 | 4,830,000 | 4,830,000 | 4,830,000 |
| Share of post-acquisition results and reserves, net of dividends received | (769,896) | (591,695) | - | - |
| | 4,060,104 | 4,238,305 | 4,830,000 | 4,830,000 |

The summarised audited financial information of associate companies, Boustead Linear Corporation Sdn. Bhd. and Borneo Pacific Linear Sdn. Bhd. are as follows:

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Total assets | 32,091,585 | 30,101,464 |
| Total liabilities | 8,099,446 | 4,647,666 |
| Revenue | 8,299,472 | 6,831,280 |
| Loss for the year | (446,182) | (793,754) |

## 15. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

The associated companies are as follows:

| Associated Companies | Place of Incorporation | Principal Activity | Percentage of Ownership 2006 | Percentage of Ownership 2005 |
|---|---|---|---|---|
| Boustead Linear Corporation Sdn. Bhd. | Malaysia | Construct, own and operate a district cooling plant to produce and supply chilled water | 40% | 40% |
| Borneo Pacific Linear Sdn. Bhd. | Malaysia | Retail of cooling technology products and parts, and provision of related services | 30% | 30% |

## 16. OTHER INVESTMENTS

| | The Group 2006 RM | The Group 2005 RM | The Company 2006 RM | The Company 2005 RM |
|---|---|---|---|---|
| Quoted shares in Malaysia, at cost | 15,979,165 | 15,979,165 | 6,341,071 | 6,341,071 |
| Less: Allowance for diminution in value of investments | (11,947,819) | (11,947,819) | (4,016,012) | (4,016,012) |
| | 4,031,346 | 4,031,346 | 2,325,059 | 2,325,059 |
| Unquoted shares, at cost | 13,860,000 | 13,860,000 | - | - |
| Less: Allowance for diminution in value of investments | (13,860,000) | (13,860,000) | - | - |
| | - | - | - | - |
| Investment in club memberships | 96,475 | 96,475 | - | - |
| | 4,127,821 | 4,127,821 | 2,325,059 | 2,325,059 |
| Market value of: Quoted shares in Malaysia | 4,488,936 | 4,032,266 | 2,583,482 | 2,325,059 |

## 17. DEFERRED TAX ASSETS

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| At beginning of year | - | - |
| Transfer from income statements (Note 9) | 206,000 | - |
| At end of year | 206,000 | - |

The Group's deferred tax assets are in respect of the following:

| | The Group Deferred tax assets/ (liabilities) | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Tax effect of temporary differences in respect of property, plant and equipment | (43,000) | - |
| Tax effect in respect of: | | |
| Allowance for slow moving inventories | 51,000 | - |
| Other temporary differences | 198,000 | - |
| | 206,000 | - |

## 18. INVENTORIES

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Raw materials | 7,695,711 | 7,303,026 |
| Spare and components | 2,665,591 | 2,688,429 |
| Construction materials | - | 1,709,131 |
| Trading goods | - | 69,406 |
| Indirect materials | 48,844 | 85,090 |
| Work-in-progress | 3,067,886 | 1,987,289 |
| Finished goods | 5,483,922 | 5,492,082 |
| | 18,961,954 | 19,334,453 |

The cost of inventories of the Group recognised as an expense during the year was RM32,477,469 (2005: RM36,433,943).

The cost of inventories of the Group recognised as an expense included RM2,642,256 (2005: Nil) in respect of write-downs of inventory to net realisable value.

## 19. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Trade receivables | 28,679,430 | 26,661,238 | - | - |
| Less: Allowance for doubtful debts | (18,533,036) | (14,756,127) | - | - |
| | 10,146,394 | 11,905,111 | - | - |
| Amount owing by subsidiary companies | - | - | 27,194,665 | 24,304,130 |
| Less: Allowance for doubtful debts | - | - | (5,228) | - |
| | - | - | 27,189,437 | 24,304,130 |
| Amount owing by associated companies | 3,353,780 | 1,117,750 | 1,224 | 1,224 |
| Less: Allowance for doubtful debts | (5,942) | - | (1,224) | - |
| | 3,347,838 | 1,117,750 | - | 1,224 |
| Amount owing by contract customers | 42,532 | 936,692 | - | - |
| Other receivables | 30,609,676 | 23,169,912 | 24,398,546 | 14,822,263 |
| Less: Allowance for doubtful debts | (2,977,314) | (1,994,273) | - | - |
| | 29,632,362 | 21,175,639 | 24,398,546 | 14,822,263 |
| | 43,169,126 | 35,135,192 | 51,587,983 | 39,127,617 |

Trade receivables comprise amounts receivable for the sale of goods, services rendered and progress billings. The credit periods granted range from 30 to 120 days (2005: 30 to 120 days). An allowance has been made for estimated irrecoverable amounts of RM18,533,036 (2005: RM14,756,127).

The amount owing by subsidiary companies arose mainly from advances which are unsecured and interest free.

The amount owing by subsidiary companies are as follows:

| | The Company | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Aseania Linear District Cooling System Sdn. Berhad | 15,107,296 | 14,325,902 |
| Ko Lim BAC Sdn. Bhd. | 4,000,000 | 4,000,000 |
| Quantum Water Heaters Sdn. Bhd. | 3,001,550 | 3,001,550 |
| Times Engineering Systems Co. Ltd. | 2,529,361 | 479,760 |
| Linear Ventures Sdn. Bhd. | 2,276,220 | 2,276,220 |

## 19. TRADE AND OTHER RECEIVABLES (Cont'd)

| | The Company | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| BAC Cooling Technology Sdn. Bhd. | 134,400 | 64,400 |
| LETC Engineering Sdn. Bhd. | 108,425 | 84,935 |
| Imux (Asia) Limited | 10,204 | 10,204 |
| Linear Cooling Technology Sdn. Bhd. | 10,500 | 8,900 |
| Linear Cooling Industries Pte. Ltd. | 5,228 | 5,228 |
| Linear Cooling Industries Sdn. Bhd. | 5,250 | - |
| Linear Water Treatment Sdn. Bhd. | 2,300 | 3,600 |
| Linear Composites Marketing Sdn. Bhd. | 1,748 | 1,748 |
| Linear Composites Sdn. Bhd. | 1,224 | 1,224 |
| PrimeAce Venture Limited | 959 | 959 |
| Nihon Spindle (M) Sdn. Bhd. | - | 39,500 |
| | 27,194,665 | 24,304,130 |
| Les: Allowance for doubtful debts | (5,228) | - |
| | 27,189,437 | 24,304,130 |

The financial statements of the Company reflect the following significant intercompany transactions which were based on terms negotiated between the Company and its subsidiary companies:

| | The Company | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Management fee received/ receivable | | |
| Linear Cooling Industries Sdn. Bhd. | 52,300 | 55,700 |
| Nihon Spindle (M) Sdn. Bhd. | 10,200 | 20,500 |
| Linear Cooling Technology Sdn. Bhd. | 1,600 | 3,900 |
| Linear Water Treatment Sdn. Bhd. | 2,300 | 1,600 |

The amount owing by associated companies arose mainly from trade transactions.

The amount owing by associated companies is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM | RM | RM | RM |
| Boustead Linear Corporation Sdn. Bhd. | 3,347,838 | 1,111,808 | - | - |
| Borneo Pacific Linear Sdn. Bhd. | 5,942 | 5,942 | 1,224 | 1,224 |
| Less: Allowance for doubtful debts | (5,942) | - | (1,224) | - |
| | - | 5,942 | - | 1,224 |
| | 3,347,838 | 1,117,750 | - | 1,224 |

## 19. TRADE AND OTHER RECEIVABLES (Cont'd)

The financial statements of the Group reflect the following significant intercompany transactions which were based on terms negotiated between the Group and its associated companies:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| Boustead Linear Corporation Sdn. Bhd. | | |
| Facility maintenance received/ receivable | 611,761 | 1,367,532 |
| Contract revenue received/ receivable | - | 3,734,003 |

The amount owing by contract customers is as follows:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| Contract costs incurred plus recognised profits | 40,005,691 | 37,395,691 |
| Less: Progress billings received/ receivable | (39,963,159) | (36,458,999) |
| | 42,532 | 936,692 |

Included in contract costs incurred during the financial year are the following charges:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| Interest expenses | 264,979 | 265,321 |

Included in the other receivables is an amount of RM10,000,000 advance payment made by the Company to a third party in relation to a contract awarded to the Company for the supply of air-conditioning products for a total contract value of RM11,000,000.

Analysis of trade and other receivables by currencies:

| | **2006** | **2005** | **2006** | **2005** |
|---|---|---|---|---|
| | **RM** | **RM** | **RM** | **RM** |
| Ringgit Malaysia | 27,537,959 | 17,423,552 | 42,958,969 | 30,498,603 |
| United States Dollar | 12,240,111 | 12,527,663 | 8,629,014 | 8,629,014 |
| Singapore Dollar | 2,897,004 | 2,897,004 | - | - |
| Thai Baht | 271,806 | 2,286,973 | - | - |
| Euro | 222,246 | - | - | - |
| | 43,169,126 | 35,135,192 | 51,587,983 | 39,127,617 |

## 20. OTHER ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Deposits | 139,762 | 787,624 | 770 | 770 |
| Prepaid interest | 7,834 | 214,068 | - | - |
| Other prepaid expenses | 1,328,912 | 696,307 | 369,059 | 156,427 |
| | 1,476,508 | 1,697,999 | 369,829 | 157,197 |

## 21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements consist of the following balance sheets items:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Short-term deposits with licensed banks | 453,352 | 22,360,494 | - | 20,536,115 |
| Cash and bank balances | 3,412,599 | 2,999,529 | 693,091 | 714,469 |
| Bank overdrafts | (11,714,197) | (16,602,365) | - | (4,227,088) |
| | (7,848,246) | 8,757,658 | 693,091 | 17,023,496 |
| Less: Short-term deposits held as security value | (453,352) | (7,491,058) | - | (6,000,000) |
| | (8,301,598) | 1,266,600 | 693,091 | 11,023,496 |

The short-term deposits held as security value are pledged to certain banks as securities for bank guarantees facilities granted to the Group.

The annual effective interest rates are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 % | 2005 % | 2006 % | 2005 % |
| Short-term deposits with licensed banks | 2.30 – 3.70 | 2.50 – 3.70 | 2.30 – 3.70 | 2.50 – 3.70 |

The short-term deposits of the Group are maturing in January 2007.

## 21. CASH AND CASH EQUIVALENTS (Cont'd)

Analysis of cash and cash equivalents by currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| United States Dollar | 144,614 | 741,272 | - | - |
| Singapore Dollar | 623 | 109 | - | - |
| Ringgit Malaysia | (6,985,591) | 3,559,542 | 693,091 | 11,023,496 |
| Thai Baht | (1,465,245) | (3,037,913) | - | - |
| Others | 4,001 | 3,590 | - | - |
| | (8,301,598) | 1,266,600 | 693,091 | 11,023,496 |

On July 25, 2006, the Company acquired the entire issued and paid-up capital of Linear Ice Solutions Sdn. Bhd. of RM2 divided into 2 ordinary shares of RM1 each, for cash consideration of RM2.

The assets and liabilities arising from the acquisitions are as follows:

| | The Group 2006 RM |
|---|---|
| Net assets acquired as of date of acquisitions: | |
| Cash balance | 2 |
| Other payables | 2,523 |
| Net assets acquired | 2,525 |
| Goodwill on consolidation | (2,523) |
| Total purchase consideration | 2 |
| Net cash outflow arising on acquisitions: | |
| Cash consideration | (2) |
| Cash and cash equivalents acquired | 2 |
| Acquisition of subsidiary company, net of cash and cash equivalents acquired | - |

## 22. NON-CURRENT ASSETS HELD FOR SALE

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Short leasehold land and building held for sale | 3,338,710 | - |
| Less: Impairment loss | (538,710) | - |
| Carrying amount at end of year | 2,800,000 | - |

During the financial year, the management of a subsidiary company had committed a plan to dispose off its short leasehold land and building at a consideration of RM2,800,000. An impairment loss of RM538,710 was recognised on reclassification of those assets as held for sale.

As of December 31, 2006, the unexpired lease periods of this sort leasehold land of the Group is 29 years.

## 23. SHARE CAPITAL

| | The Group and the Company | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | No. of shares of RM1 each | RM | No. of shares of RM1 each | RM |
| Authorised: | | | | |
| Ordinary shares | 500,000,000 | 500,000,000 | 500,000,000 | 500,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares: | 75,104,777 | 75,104,777 | 75,104,777 | 75,104,777 |

At an Annual General Meeting held on June 23, 2004, the Company's shareholders approved the Company's plan to repurchase its own shares. Under the share buyback exercise, the Company is authorised to purchase up to a maximum of 10% of the total issued and paid-up share capital. The share buyback exercise is undertaken to enhance the value of the Company and is applied in the best interests of the Company and its shareholders. This mandate requires annual renewal and was extended annually at the Annual General Meeting held on June 27, 2005.

During the financial year, the Company repurchased 2,000 (2005: 2,947,600) of its issued and fully paid ordinary shares from the open market. The average price paid for the shares repurchased was approximately RM0.41 (2005: RM0.68) per ordinary share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

As of December 31, 2006, out of the total 75,104,777 issued and paid-up share capital, 2,949,600 (2005: 2,947,600) are held as treasury shares. Hence, the number of outstanding ordinary shares in issue and fully paid is 72,155,177 (2005:72,157,177) ordinary shares of RM1 each.

On September 25, 2003, 17,249,444 detachable warrants were granted by the Company to the subscribers of the rights shares. The warrants may be exercised at any time on or after the issue date but not later than 5.00 p.m. on September 24, 2008. Each warrant entitles its registered holder, at any time during the exercise period of the warrants, to subscribe for one new ordinary share. The exercise price of each warrant is fixed at RM1.00 per share for cash subject to adjustments in accordance with the provisions of the Deed Poll. As of December 31, 2006, all the 17,249,444 warrants remained unexercised.

Under the Company's ESOS which became effective on August 14, 2003, options to subscribe for unissued new ordinary shares of RM1 each in the Company were granted to eligible directors and employees of the Company and its subsidiary companies.

The principal features of the ESOS are as follows:

(a) The total number of share options offered under the scheme shall not exceed 10% of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS.

**23. SHARE CAPITAL (Cont'd)**

(b) Subject to any adjustments, which may be made under By-Law 13, the number of new shares that may be offered and allotted to any of the eligible employees of the Group who are entitled to participate in the Scheme shall be at the discretion of the Option Committee after taking into consideration the performance, seniority and length of service of the eligible employee in the Group subject to the following:

(i) the number of shares allocated, in aggregate, to directors and senior management of the Group shall not exceed 50% of the total shares available under the Scheme; and

(ii) the number of shares allocated to any individual director or employee who, either singly or collectively through his/her associates (as defined under the Act), hold 20% or more in the issued and paid-up capital of the Company shall not exceed 10% of the total shares available under the Scheme.

(c) Any employee (including executive directors) of the Group shall be eligible to participate in the Scheme, if as at the offer date, the executive:

(i) has attained the age of eighteen (18) years;

(ii) is employed full-time by and is on the payroll of a company within the Group (other than a company which is dormant); and

(iii) is under such categories and of such criteria that the Option Committee may from time to time decide.

Any allocation under the ESOS to an executive director of the Group shall require prior approval from the Company's shareholders in a general meeting.

(d) The option price shall be determined at a discount of not more than 10% from the weighted average market price of the ordinary shares of the Company as shown in the daily official list of the Bursa Malaysia Securities for the five preceding market days prior to the date of offer or at par value of the ordinary shares of the Company, whichever is higher.

(e) The options granted may be exercised within a period of five years from the effective date of the option or such shorter period as may be specifically stated in the offer upon giving notice in writing to the Company.

(f) The new ordinary shares of RM1 each to be allocated upon any exercise of the ESOS will upon allotment rank pari passu in all respects with the then existing ordinary shares of the Company except that these new ordinary shares will not be entitled to any dividends or distributions which may be declared prior to the allotment of these shares.

**23. SHARE CAPITAL (Cont'd)**

The share options granted were as follows:

| | | No. of options over ordinary shares of RM1 each | | | | |
|---|---|---|---|---|---|---|
| **Date of offer** | **Exercise price per ordinary share RM** | **Balance as of 1.1.2006** | **Granted** | **Exercised** | **Cancelled** | **Balance as of 31.12.2006** |
| August 25, 2003 | 1.16 | 3,863,000 | - | - | (822,000) | 3,041,000 |
| October 15, 2003 | 1.22 | 486,000 | - | - | (407,000) | 79,000 |

**24. OTHER RESERVES**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 RM** | **2005 RM** | **2006 RM** | **2005 RM** |
| Translation reserve | 336,973 | 61,915 | - | - |
| Capital redemption reserve | 301,000 | 301,000 | 301,000 | 301,000 |
| Revaluation reserve | 1,711,513 | 2,622,589 | 19,030,494 | 19,030,494 |
| Share premium | 1,439,631 | 1,439,631 | 1,439,631 | 1,439,631 |
| | 3,789,117 | 4,425,135 | 20,771,125 | 20,771,125 |

The translation reserve is used to record exchange differences arising on translation of foreign subsidiary companies.

The capital redemption reserve was created in 1998 as a result of the amount of the nominal value of shares cancelled on repurchase.

The revaluation reserve is used to record increase and decrease in revaluation of non-current assets as described in the accounting policies. Revaluation reserve of the Group represents surplus arising from revaluation of property, plant and equipment, net of the related deferred tax liabilities. Revaluation reserve of the Company represents surplus arising from revaluation of investment in subsidiary companies.

Share premium of the Group and of the Company arose from allotment of ordinary shares at premium, net of share issue expenses.

## 25. HIRE-PURCHASE PAYABLES

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Total outstanding | 1,228,763 | 2,085,653 |
| Less: Interest-in-suspense outstanding | (196,387) | (322,665) |
| Principal outstanding | 1,032,376 | 1,762,988 |
| Less: Portion due within one year | (354,204) | (472,811) |
| Non-current portion | 678,172 | 1,290,177 |

The non-current portion is repayable as follows:

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Later than 1 year and not later than 2 years | 263,429 | 405,876 |
| Later than 2 years and not later than 5 years | 414,743 | 742,766 |
| Later than 5 years | - | 141,535 |
| | 678,172 | 1,290,177 |

It is the Group's policy to acquire certain of its property, plant and equipment under hire-purchase arrangements. The average term for hire-purchase is about three to seven years. The effective borrowing rates range from 4.69% to 8.72% (2005: 4.69% to 8.72%) per annum. Interest rates are fixed at the inception of the hire-purchase arrangements.

The Group's hire-purchase payables are secured by the financial institutions' charges over the assets under hire-purchase and personal guarantee from a director of the Company.

## 26. LONG-TERM LOANS

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Long-term loans: | | |
| Secured | 10,000,000 | 5,000,000 |
| Unsecured | - | 90,824 |
| Amount outstanding | 10,000,000 | 5,090,824 |
| Less: Portion due within one year | (1,000,000) | (48,068) |
| Non-current portion | 9,000,000 | 5,042,756 |

## 26. LONG-TERM LOANS (Cont'd)

The non-current portion is repayable as follows:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| Later than 1 year and not later than 2 years | 2,000,000 | 399,900 |
| Later than 2 years and not later than 5 years | 7,000,000 | 4,642,856 |
| | 9,000,000 | 5,042,756 |

The Group's secured long-term loan together with bank guarantee facility obtained from a local bank are secured and covered as follows:

i) A legal charge over the Group's freehold land and district cooling plant;

ii) Debenture on all current and future assets of a subsidiary company; and

iii) Corporate guarantee from the Company.

In 2005, the Group's unsecured long-term loan obtained from a local bank is covered by a corporate guarantee from the Company.

The Group's long-term loans bear interest at a rate of 1.5% per annum above the lending banks' base lending rates.

The effective interest rates for the long-term loans of the Group range from 4.75% to 7.50% (2005: 4.75% to 7.50%).

## 27. DEFERRED TAX LIABILITIES

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| At beginning of year | 2,424,137 | 2,480,981 |
| Transfer to income statements (Note 9) | (46,089) | (56,844) |
| Effect of changes in accounting policy (Note 37) | (484,636) | - |
| At end of year | 1,893,412 | 2,424,137 |

A deferred tax income of RM46,089 (2005: RM62,224) was recognised by the Group by a transfer from the deferred tax liabilities of the Group to the income statements. This relates to the difference between the actual depreciation on the revalued properties and equivalent depreciation based on the cost of the properties of the Group. In addition, an amount of RM135,388 (2005: RM160,056) was transferred from revaluation reserve of the Group to retained earnings.

## 27. DEFERRED TAX LIABILITIES (Cont'd)

The deferred tax liabilities are in respect of the following:

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Tax effect of revaluation surplus | 1,874,412 | 2,405,137 |
| Tax effect of temporary differences arising from property, plant and equipment | 19,000 | 19,000 |
| | 1,893,412 | 2,424,137 |

As mentioned in Note 3, the tax effects of temporary differences which give rise to net deferred tax assets are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered. As of December 31, 2006, the amount of deferred tax assets, calculated at applicable tax rates, which is not recognised in the financial statements, is as follows:

| | Deferred Tax Assets/ (Liabilities) | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Tax effect of: | | | | |
| Carryforward tax losses | 3,831,400 | 3,249,700 | 230,000 | 230,000 |
| Unabsorbed capital allowances | 3,369,300 | 1,866,000 | - | - |
| Temporary differences arising from: | | | | |
| Inventories | 380,000 | 343,000 | - | - |
| Property, plant and equipment | (1,468,000) | (1,513,300) | - | - |
| Others | 58,300 | 241,000 | 12,000 | 12,000 |
| | 6,171,000 | 4,186,400 | 242,000 | 242,000 |

## 28. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Trade payables | 13,019,543 | 8,239,013 | - | - |
| Amount owing to a subsidiary company | - | - | 26,351,797 | 29,636,149 |
| Amount owing to directors | 2,391,791 | 2,194,363 | - | - |
| Other payables | 4,214,195 | 2,876,686 | 972,123 | 22,514 |
| Accrued expenses | 2,851,113 | 2,640,014 | 135,630 | 115,997 |
| Deposit received | 79,164 | 501,416 | - | - |
| Accrued interest | - | 37,163 | - | - |
| | 22,555,806 | 16,488,655 | 27,459,550 | 29,774,660 |

## 28. TRADE AND OTHER PAYABLES (Cont'd)

Trade payables comprise amounts outstanding for trade purchases. The credit periods granted to the Group for trade purchases range from 30 to 90 days (2005: 30 to 90 days).

The amount owing to a subsidiary company arose mainly from interest free advances which are unsecured and with no fixed repayment term.

The amount owing to directors arose mainly from advances from subsidiary companies' directors which are unsecured, interest free and have no fixed term of repayment.

Other payables comprise mainly amount outstanding for ongoing costs.

Analysis of trade and other payables by currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Ringgit Malaysia | 20,173,133 | 13,540,269 | 27,459,550 | 29,774,660 |
| United States Dollar | 1,477,701 | 899,957 | - | - |
| Singapore Dollar | - | 160,028 | - | - |
| Thai Baht | 904,972 | 1,882,292 | - | - |
| Japanese Yen | - | 6,109 | - | - |
| | 22,555,806 | 16,488,655 | 27,459,550 | 29,774,660 |

## 29. BANK OVERDRAFTS -Unsecured

The bank overdrafts bear interest at a rate of 1.50% per annum above the lending banks' base lending rate and are covered as mentioned in Note 30.

The effective interest rates are ranging from 7.75% to 8.75% (2005: 7.00% to 8.40%) per annum.

## 30. OTHER BANK BORROWINGS

| | The Group | |
|---|---|---|
| | 2006 RM | 2005 RM |
| Unsecured: | | |
| Bankers acceptance | 9,993,000 | 18,624,000 |
| Revolving credit | 1,500,000 | 3,000,000 |
| Trust receipt | 1,225,352 | 416,279 |
| | 12,718,352 | 22,040,279 |

## 30. OTHER BANK BORROWINGS (Cont'd)

The Group's bank borrowings bear interests at rates ranging from 1% to 2% (2005: 1% to 2%) per annum above the lending banks' base lending rates or cost of fund. The Group's bank borrowings are generally covered by the following:

a) negative pledge on all assets of certain subsidiary companies, both present and future;
b) corporate guarantees from the Company;
c) blanket counter indemnity;
d) general security agreement relating to goods;
e) trade financing general agreement; and
f) blanket deed of assignment of contract proceeds.

The currency of trust receipt is in United States Dollar and the other bank borrowings are denominated in Ringgit Malaysia.

The effective interest rates are as follows:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **%** | **%** |
| Bankers acceptance | 3.62 -6.97 | 3.62 -5.85 |
| Revolving credit | 8.00 -8.25 | 4.90 -8.00 |
| Trust receipt | 7.00 -8.75 | 4.50 -7.00 |

The bankers acceptance, revolving credit and trust receipt are maturing within January 2007 to June 2007.

## 31. CONTINGENT LIABILITIES – Unsecured

As of December 31, 2006, the Company is contingently liable to an amount of RM32,964,471 (2005: RM39,687,228) in respect of corporate guarantees given to certain local banks on banking facilities granted to and utilised by the subsidiary companies.

## 32. CAPITAL COMMITMENT

As of December 31, 2006, the Group has capital expenditure contracted but not provided for in the financial statements in respect of the following:

| | The Group | |
|---|---|---|
| | **2006** | **2005** |
| | **RM** | **RM** |
| Machinery | 328,000 | - |
| Construction of district cooling plant | - | 716,000 |
| Technical assistance services | - | 413,000 |

## 33. LEASE COMMITMENTS

As of December 31, 2006, non-cancellable long-term lease commitments in respect of rental of premises and equipment are as follows:

| | The Group | |
|---|---|---|
| | 2006 | 2005 |
| | RM | RM |
| Not later than 1 year | - | 406,320 |

## 34. FINANCIAL INSTRUMENTS

### a. Financial Risk Management Objectives and Policies

The operations of the Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, market risk, credit risk, liquidity risk and cash flow risk. The Group has formulated a financial risk management framework whose principal objective is to minimise the Group's exposures to risks and/ or costs associated with the financing, investing and operating activities of the Group.

Various risk management policies are made and approved by the Board for observation in the day-to-day operations for the controlling and management of the risks associated with financial instruments.

#### i. Foreign currency risk

The Group has exposure to foreign exchange risk as a result of transactions, receivables and payables in foreign currencies arising from normal operating activities. The Group does not speculate in foreign currencies.

#### ii. Interest rate risk

The Group's exposures to changes in interest rate risk relates primarily to the Group's short-term deposits with licensed banks and financing through bank overdraft, bank borrowings, hire-purchase payables and long-term loans. The short-term deposits are placed with reputable banks. The Group does not use derivative financial instruments to hedge its risk.

#### iii. Market risk

The Group has in place policies to manage the Group's exposures to fluctuation in the prices of the key raw materials used in the operations.

#### iv. Credit risk

The Group is exposed to credit risk mainly from trade receivables. The Group extends credit to its customers based upon careful evaluation of the customers' financial conditions and credit histories. The Group also ensures a number of customers so as to limit high credit concentration in a customer or customers from a particular market.

The Group is also exposed to credit risk arising from the depositing of surplus cash in banks. However, the Group seeks to invest its surplus cash safely by depositing them with reputable local licensed banks.

## 34. FINANCIAL INSTRUMENTS (Cont'd)

### a. Financial Risk Management Objectives and Policies (Cont'd)

#### v. Liquidity risk

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

#### vi. Cash flow risk

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

### b. Credit Risk

The maximum credit risk associated with recognised financial assets is the carrying amount shown in the balance sheets.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

### c. Fair Values

The carrying amounts and the estimated fair values of the Group's financial instruments as of December 31, 2006 are as follows:

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| **The Group** | | | | |
| Financial assets: | | | | |
| Other investments | | | | |
| Quoted shares | 4,031,346 | 4,031,346 | 4,488,936 | 4,032,266 |
| Investment in club memberships | 96,475 | 160,500 | 96,475 | 160,500 |
| Financial liabilities: | | | | |
| Hire-purchase payables | 1,032,376 | 1,762,988 | 1,032,376 | 1,762,988 |
| Long-term loan | 10,000,000 | 5,090,824 | 10,000,000 | 5,090,824 |
| Contingent liabilities | 32,964,471 | 39,687,228 | 32,964,471 | 39,687,228 |
| **The Company** | | | | |
| Financial assets: | | | | |
| Other investments | | | | |
| Quoted shares | 2,325,059 | 2,325,059 | 2,583,482 | 2,325,059 |

## 34. FINANCIAL INSTRUMENTS (Cont'd)

### c. Fair Values (Cont'd)

The fair values of investment in club memberships are estimated using current membership entrance fee.

The fair values of hire-purchase payables and long-term loans are estimated using discounted cash flow analysis based on current borrowing rates for similar types of borrowing arrangements.

The fair value of contingent liabilities in respect of corporate guarantee given by the Company to certain local banks was determined based on the quotation from the bank on the amount required to settle the contingent obligations at the balance sheet date.

The fair values of other financial assets and other financial liabilities approximate their carrying amounts because of the short maturity of these instruments.

## 35. SUBSEQUENT EVENTS

Subsequent to year end:

a. a wholly owned subsidiary company had entered into a sale and purchase agreement to dispose of a piece of leasehold land with building erected thereon for a total sale consideration of RM2,800,000.

b. a wholly owned subsidiary company had entered into a design and building contract to design, construct, test, commission and complete the district cooling plant for a total estimated contract price of RM55.7 million.

c. a wholly owned subsidiary company had subscribed for 100,000 new ordinary shares of RM1.00 each in the share capital of Sunrise Linear DCS Sdn. Bhd., the jointly established joint venture company with Sunrise Oscar, representing 20% of the issued and paid-up share capital of Sunrise Linear DCS Sdn. Bhd. for total cash consideration of RM100,000.

## 36. SEGMENTAL REPORTING

### Business Segments

For management purposes, the Group is organised into the following operating divisions:

- investment holdings
- manufacturing of cooling towers
- engineering (includes designing and building district cooling system plants)
- trading of cooling towers
- others (includes providing water treatment services, trading of water tank, sales and distributor of and dealer of fibreglass reinforce plastics (FRP or GRP), composites and other compounds and information and communications technology (ICT) services)

Inter-segment sales are charged at cost plus a percentage profit mark-up.

## 36. SEGMENTAL REPORTING (Cont'd)

**The Group**

| | Investment holdings RM | Manufacturing RM | Engineering RM | Trading RM | Others RM | Elimination RM | Consolidated RM |
|---|---|---|---|---|---|---|---|
| **2006** | | | | | | | |
| Revenue | | | | | | | |
| External sales | 105,684 | 25,803,433 | 4,540,684 | 13,140,909 | 921,923 | - | 44,512,633 |
| Inter-segment sales | 66,400 | 15,674,480 | - | - | 224,713 | (15,965,593) | - |
| Total revenue | 172,084 | 41,477,913 | 4,540,684 | 13,140,909 | 1,146,636 | (15,965,593) | 44,512,633 |
| **Results** | | | | | | | |
| Segment results | (2,091,943) | (304,795) | (19,359,814) | (320,117) | 943,243 | 3,281,097 | (17,852,329) |
| Investments revenue | | | | | | | 626,019 |
| Finance costs | | | | | | | (2,931,014) |
| Share of loss of associated companies | | | | | | | (178,201) |
| Loss before tax | | | | | | | (20,335,525) |
| Tax income | | | | | | | 335,703 |
| Loss for the year | | | | | | | (19,999,822) |
| **Other information** | | | | | | | |
| Capital additions | - | 215,072 | 919,143 | - | - | - | 1,134,215 |
| Depreciation of property, plant and equipment | 114,214 | 1,829,890 | 1,554,755 | 52,026 | 13,562 | - | 3,544,447 |
| Impairment loss on non-current assets held for sale | - | 538,710 | - | - | - | - | 538,710 |
| Impairment of goodwill | 6,729,671 | - | - | - | - | - | 6,729,671 |
| Non-cash expenses other than depreciation and impairment loss | 194,453 | 1,788,913 | 16,535 | 6,980,932 | 95,000 | - | 9,075,833 |
| **Assets** | | | | | | | |
| Segment assets | 33,170,005 | 58,548,084 | 29,526,353 | 5,095,710 | 449,411 | - | 126,789,563 |
| Investment in associated companies | 4,060,104 | - | - | - | - | - | 4,060,104 |
| Income tax assets | 146,721 | 848,389 | - | 153,586 | - | - | 1,148,696 |
| Total assets | 37,376,830 | 59,396,473 | 29,526,353 | 5,249,296 | 449,411 | - | 131,998,363 |

## 36. SEGMENTAL REPORTING (Cont'd)

**The Group**

| | Investment holdings RM | Manufacturing RM | Engineering RM | Trading RM | Others RM | Elimination RM | Consolidated RM |
|---|---|---|---|---|---|---|---|
| **2006** | | | | | | | |
| **Liabilities** | | | | | | | |
| Segment liabilities | 1,477,997 | 14,486,136 | 6,217,457 | 232,614 | 141,602 | - | 22,555,806 |
| Borrowings | 248,837 | 21,908,100 | 13,307,988 | - | - | - | 35,464,925 |
| Income tax liabilities | - | 2,209,187 | 500,701 | - | 17,250 | - | 2,727,138 |
| Total liabilities | 1,726,834 | 38,603,423 | 20,026,146 | 232,614 | 158,852 | - | 60,747,869 |
| **2005** | | | | | | | |
| **Revenue** | | | | | | | |
| External sales | 105,684 | 24,174,763 | 9,074,056 | 12,205,031 | 719,785 | - | 46,279,319 |
| Inter-segment sales | 81,700 | 17,330,665 | 1,326,493 | - | 72,412 | (18,811,270) | - |
| Total revenue | 187,384 | 41,505,428 | 10,400,549 | 12,205,031 | 792,197 | (18,811,270) | 46,279,319 |
| **Results** | | | | | | | |
| Segment results | (22,536,848) | (1,308,750) | (19,762,100) | (258,160) | 107,935 | (5,493,998) | (49,251,921) |
| Investments revenue | | | | | | | 806,479 |
| Finance costs | | | | | | | (1,821,821) |
| Share of loss of associated companies | | | | | | | (322,270) |
| Loss before tax | | | | | | | (50,589,533) |
| Tax expense | | | | | | | (363,442) |
| Loss for the year | | | | | | | (50,952,975) |
| **Other information** | | | | | | | |
| Capital additions | 1,685,888 | 1,583,371 | 152,653 | - | 8,346,585 | - | 11,768,497 |
| Depreciation of property, plant and equipment | 114,213 | 1,832,639 | 949,292 | 43,537 | 13,528 | - | 2,953,209 |
| Amortisation of goodwill | 6,591,117 | - | - | - | - | - | 6,591,117 |
| Non-cash expenses other than depreciation and amortisation | 20,170,207 | 142,793 | 17,446,548 | - | (13,781) | - | 37,745,767 |

## 36. SEGMENTAL REPORTING (Cont'd)

**The Group**

| | Investment holdings RM | Manufacturing RM | Engineering RM | Trading RM | Others RM | Elimination RM | Consolidated RM |
|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | |
| **Assets** | | | | | | | |
| Segment assets | 49,360,515 | 57,413,355 | 10,967,498 | 5,427,400 | 26,539,539 | - | 149,708,307 |
| Investment in associated companies | 4,238,305 | - | - | - | - | - | 4,238,305 |
| Income tax assets | 130,536 | 742,996 | 136,771 | 153,586 | - | - | 1,163,889 |
| Total assets | 53,728,356 | 58,156,351 | 11,104,269 | 5,580,986 | 26,539,539 | - | 155,110,501 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 145,311 | 9,195,742 | 373,779 | 260,999 | 6,512,824 | - | 16,488,655 |
| Borrowing | 4,528,836 | 32,358,798 | 8,608,822 | - | - | - | 45,496,456 |
| Income tax liabilities | - | 2,977,762 | 1,107,886 | - | - | - | 4,085,648 |
| Total liabilities | 4,674,147 | 44,532,302 | 10,090,487 | 260,999 | 6,512,824 | - | 66,070,759 |

**Geographical segments**

The Group's manufacturing and trading of cooling towers is located in Malaysia, investment activity is located in Malaysia and British Virgin Island, engineering activity is located in Thailand and Malaysia, whereas other activities are located in Malaysia, British Virgin Island and Singapore.

The following is an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/ services:

| | Sales revenue by geographical market 2006 RM | 2005 RM |
|---|---|---|
| Malaysia | 22,478,754 | 24,450,641 |
| Other Asia Pacific Countries | 19,523,313 | 20,515,585 |
| Middle East | 2,510,566 | 1,313,093 |
| | 44,512,633 | 46,279,319 |

## 36. SEGMENTAL REPORTING (Cont'd)

The following is an analysis of the carrying amount of segment assets and capital additions by the geographical area in which the assets are located.

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Carrying amount of segment assets RM | Capital additions RM | Carrying amount of segment assets RM | Capital additions RM |
| Malaysia | 122,606,173 | 1,132,447 | 140,647,607 | 11,618,744 |
| Thailand | 3,651,728 | 1,768 | 8,437,131 | 149,753 |
| British Virgin Island | 531,662 | - | 623,560 | - |
| Singapore | - | - | 9 | - |
| | 126,789,563 | 1,134,215 | 149,708,307 | 11,768,497 |

## 37. CHANGES IN ACCOUNTING POLICIES

The adoption of new and revised FRSs and IC Interpretations as set out in Note 3 has no material impact on the financial statements of the Group and of the Company except for the adoption of the following FRSs:

### a. FRS 3 Business Combinations and FRS 136 Impairment of Assets

**Goodwill**

Prior to January 1, 2006, goodwill was amortised on a straight line basis over its estimated useful life of 25 years and at each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating unit in which the goodwill is attached to. The adoption of FRS 3 and FRS 136 has resulted in the Group ceasing annual goodwill amortisation. Goodwill is now carried at cost less accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired.

In accordance with the transitional provisions of FRS 3, the Group has applied the revised accounting policy for goodwill prospectively from January 1, 2006. The transitional provisions of FRS 3 also required the Group to eliminate the carrying amount of the accumulated amortisation at January 1, 2006 against the carrying amount of goodwill. The net carrying amount of goodwill as of January 1, 2006 of RM7,473,784 ceased to be amortised thereafter.

**Negative goodwill**

Prior to January 1, 2006, negative goodwill was taken directly to reserve on consolidation and set off against goodwill on consolidation. Under FRS 3, any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisition, after reassessment, is now recognised immediately in the income statements. In accordance with the transitional provisions of FRS 3, the negative goodwill as of January 1, 2006 of RM1,451,701 was derecognised with a corresponding increase in retained earnings.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. This change has no impact on the Group's and the Company's financial results for the year ended December 31, 2006.

## 37. CHANGES IN ACCOUNTING POLICIES (Cont'd)

### (b) FRS 5 Non-current Assets Held for Sale and Discontinued Operations

Prior to January 1, 2006, non-current assets held for sale were neither classified nor presented as current assets or liabilities. There were no differences in the measurement of non-current assets held for sale and those for continuing use. Upon the adoption of FRS 5, non-current assets held for sale are classified as currents assets and are stated at the lower of carrying amount and fair value less cost to sell. The Group has applied FRS 5 prospectively in accordance with the transitional provisions.

Loss arising from change in the fair value of non-current assets held for sale recognised in the Group's income statement for the year ended December 31, 2006 is RM538,710. The impact of this loss on the amount reported for basic loss per share is insignificant.

### (c) FRS 101 Presentation of Financial Statements

Prior to January 1, 2006, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon adoption of the revised FRS 101, minority interests are now presented within equity. In the consolidated income statement, minority interests are presented as an allocation of the profit or loss for the year. In the consolidated statement of changes in equity, total recognised income and expenses for the year are presented, showing separately the amounts attributable to equity holders of the parent and to minority interests. Under FRS 101, the Group's share of associated companies' results are now shown net of tax.

### (d) FRS 140 Investment Property

The definition of investment properties under FRS 140 has resulted in identification of additional assets of the Group that meet the definition of investment properties. These properties are now classified into a separate asset category on the balance sheet. Previously, investment properties were included in property, plant and equipment.

Investment properties are now stated at fair value, representing open market value determined by external valuers. Gains or losses arising from changes in the fair values of investment properties are recognised in income statements in the period in which they arise. Previously, investment properties were included within property, plant and equipment and stated at valuation less accumulated depreciation and impairment losses. Revaluation was carried out at least one in every five years and any revaluation increase is taken to equity as revaluation surplus.

In accordance with the transitional provisions of FRS 140, this change in accounting policy is applied prospectively and the comparatives as of December 31, 2005 are not restated. Instead, the changes have been accounted for by restating the following opening balances as of January 1, 2006:

| | **As of January 1, 2006 RM** |
|---|---|
| **The Group** | |
| Decrease in deferred tax liabilities | (484,636) |
| Decrease in revaluation reserve | (775,688) |
| Increase in retained earnings | 1,260,324 |

The investment properties have been reclassified as non-current assets held for sale as of December 31, 2006.

## STATEMENT BY DIRECTORS



The directors of **LINEAR CORPORATION BERHAD** state that, in their opinion, the accompanying balance sheets and the related statements of income, changes in equity and cash flows, are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable MASB approved accounting standards in Malaysia, so as to give a true and fair view of the state of affairs of the Group and of the Company as of December 31, 2006 and of their results and cash flows for the year ended on that date.

Signed in accordance with
a resolution of the Directors,

ALAN RAJENDRAM A/L
JEYA RAJENDRAM

ESWARAMOORTHY PILLAY
S/O AMUTHER

Penang,
April 24, 2007

## DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE

For the Financial Management of the Company

I, **ALAN RAJENDRAM A/L JEYA RAJENDRAM**, the director primarily responsible for the financial management of **LINEAR CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying balance sheet and related statements of income, changes in equity and cash flows, 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 ALAN RAJENDRAM A/L JEYA
RAJENDRAM at GEORGETOWN in the
State of PENANG on April 24, 2007

Before me,

Govindasamy A/L G. Muttusamy, PJM
COMMISSIONER FOR OATHS

# LIST OF GROUP PROPERTIES





| Location | Particulars of title | Tenure | Land/ Build up Area | Description | Age of building (years) | Net Book Value RM |
|---|---|---|---|---|---|---|
| Plot 20A, Jalan Perusahaan Prai Industrial Estate 4 Prai, Penang | PT 458 HS(D) 37842 (Old - HS(D) 570), Mukim 6, Daerah Seberang Perai Tengah, Pulau Pinang | Leasehold (60 years - expiring on 11.5.2052) | 6.42913 acres | Head Office and Factory Building | 14 | 15,250,000 |
| Plot 20B, Jalan Perusahaan Prai Industrial Estate 4 Prai, Penang | PT 475, HS(D) 37866, Mukim 6, PT 2994, HS(D) 17962, Mukim 11 (Old - HS(D) 596), Daerah Seberang Perai Tengah, Pulau Pinang | Leasehold (60 years - expiring on 9.5.2054) | 5,412.70 square metres | Factory Building | 9 | 4,250,000 |
| T-3-1, T-3-2, T-3-15, T-3-16, T-4-1, T-4-16 Jalan Pelangi 2 Taman Pelangi Prai, Penang | Parcel Nos. 193, 194, 207, 208, 209, 224, Parent Lot No. 5797, Mukim 11, Daerah Seberang Perai Tengah, Pulau Pinang | Leasehold (99 years - expiring on 22.4.2092) | 689 sq ft each | Workers Quarters | 11 | 395,000 |
| 3A-F, Marina Crescent Condominium, Bt 5 1/2, Jalan Pantai, Si Rusa, Port Dickson, Seremban | Lot 6100, PN 11176 (Old - PT 3088, HS(D) 13639) Mukim of Si Rusa, District of Port Dickson, Negeri Sembilan | Leasehold (99 years- expiring on 27.7.2094) | 62 square metres | Condominium | 12 | 190,000 |
| Mukim 6 & 7 Seberang Perai Tengah Pulau Pinang | Mukim 6 & 7 Seberang Perai Tengah Pulau Pinang | Freehold | 1.85 acre | District Cooling Systems Plant Under Construction | - | 16,860,533 |
| No. 898/16, Rama 3 Road Bangpongpang, Yannawa Bangkok 10120 Thailand | T/D No. 449, 450, 4491, 6579, 8680 No. 898/16 Chong Nonsi, Yannawa Bangkok | Freehold | 292.55 square metres | Condominium | 11 | 684,521 |
| No. 898/34, Rama 3 Road Bangpongpang, Yannawa Bangkok 10120 Thailand | T/D No. 449, 450, 4491, 6579, 8680 No. 898/34 Chong Nonsi, Yannawa Bangkok | Freehold | 292.55 square metres | Condominium | 11 | 684,520 |
| No. 61285 Bangyai, Nonthaburi | No 61285 Bangyai, Nonthaburi | Freehold | 2,400 square metres | Land | - | 104,783 |
| Total | | | | | | 38,419,357 |

| | | |
|---|---|---|
| Authorised Share Capital | : | RM100,000,000 |
| Issued and Paid-up Share Capital | : | RM75,104,777 |
| Class of Shares | : | Ordinary Shares of RM1.00 each |
| Voting Rights | : | One vote for every share |
| No. of Shareholders | : | 4,877 |

**DISTRIBUTION OF SHAREHOLDINGS**

| Size of Shareholdings | No. of Shareholders | % | No. of Ordinary Shares | % |
|---|---|---|---|---|
| 1 - 99 | 224 | 4.59 | 8,713 | 0.01 |
| 100 - 1,000 | 1,007 | 20.65 | 900,912 | 1.25 |
| 1,001 - 10,000 | 2,851 | 58.46 | 11,303,830 | 15.67 |
| 10,001 - 100,000 | 733 | 15.03 | 21,266,199 | 29.47 |
| 100,001 to less than 5% of issued shares | 61 | 1.25 | 24,303,005 | 33.68 |
| 5% and above of issued shares | 1 | 0.02 | 14,372,518 | 19.92 |
| | 4,877 | 100 | 72,155,177 | 100# |

*Note :*

*# Excluding 2,949,600 shares bought back by the Company and held as treasury shares.*

**SUBSTANTIAL SHAREHOLDERS AS PER REGISTER OF SUBSTANTIAL SHAREHOLDERS**

| | Direct | | Indirect | |
|---|---|---|---|---|
| **Name of Shareholders** | **No. of Ordinary Shares** | **%#** | **No. of Ordinary Shares** | **%#** |
| Linear Holding Sdn Bhd (fka Linac Strategic Sdn Bhd) | 14,372,518 | 19.92 | - | - |
| Alan Rajendram A/L Jeya Rajendram | - | - | 14,372,518 (1) | 19.92 |
| Eswaramoorthy Pillay S/O Amuther | - | - | 14,372,518 (1) | 19.92 |
| Lum Weng Loy | 1,832,900 | 2.54 | 15,262,518 (2) | 21.15 |

*Note:-*

*(1) By virtue of his shareholdings in Linear Holding Sdn Bhd (fka Linac Strategic Sdn Bhd)*

*(2) By virtue of his shareholdings in Linear Holding Sdn Bhd (fka Linac Strategic Sdn Bhd) and spouse's shareholdings.*

*# Excluding 2,949,600 shares bought back by the Company and held as treasury shares.*

**DIRECTORS' SHAREHOLDING AS PER REGISTER OF DIRECTORS' SHAREHOLDINGS**

| | Direct | | Indirect | |
|---|---|---|---|---|
| **Name of Directors** | **No. of Ordinary Shares** | **%#** | **No. of Ordinary Shares** | **%#** |
| Alan Rajendram A/L Jeya Rajendram | - | - | 14,372,518 (1) | 19.92 |
| Eswaramoorthy Pillay S/O Amuther | - | - | 14,372,518 (1) | 19.92 |
| Pervez Rustim Maneckshaw @ Paul Maneckshaw | - | - | 100,000 (2) | |

*Note:-*

*(1) By virtue of his shareholdings in Linear Holding Sdn Bhd (fka Linac Strategic Sdn Bhd)*

*(2) By virtue of his shareholdings in Maneckshaw Enterprises Sdn Bhd*

*# Excluding 2,949,600 shares bought back by the Company and held as treasury shares.*

## THIRTY (30) LARGEST ORDINARY SHAREHOLDERS

| Name of Shareholders | No. of Ordinary Shares | Percentage %# |
|---|---|---|
| 1. Linear Holding Sdn Bhd | 14,372,518 | 19.918 |
| 2. HDM Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Lim Oon Cheng | 2,822,000 | 3.911 |
| 3. Ong Peng Chor | 2,251,149 | 3.120 |
| 4. Ong Peng Nam | 1,561,556 | 2.164 |
| 5. Lum Weng Loy | 1,491,600 | 2.067 |
| 6. Ong Soo Cheng | 1,362,033 | 1.888 |
| 7. Cimsec Nominees (Tempatan) Sdn Bhd - CIMB Bank for Kee Ju-Hun | 1,281,100 | 1.775 |
| 8. Cimsec Nominees (Asing) Sdn Bhd - ING Asia Private Bank Limited for Lim Oon Hock | 1,026,800 | 1.423 |
| 9. Tengku Rethwan Bin Tengku Mansor | 1,000,000 | 1.386 |
| 10. Koh Kah Wou | 890,000 | 1.233 |
| 11. Mayban Nominees (Asing) Sdn Bhd - Nomura Singapore Limited for Nihon Spindle Manufacturing Company Ltd | 833,333 | 1.155 |
| 12. TA Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chua Eng Ho Waa @ Chua Eng Wah | 566,900 | 0.786 |
| 13. Lim Tiong Chin | 538,000 | 0.746 |
| 14. Tan Ah Huat @ Tan Say Huat | 387,551 | 0.537 |
| 15. Amanda Alise Barnabas | 377,300 | 0.523 |
| 16. HSBC Nominees (Asing) Sdn Bhd - Exempt An for Credit Suisse | 362,800 | 0.503 |
| 17. Lum Weng Loy | 341,300 | 0.473 |
| 18. Mohd Salleh Bin Hashim | 335,000 | 0.464 |
| 19. TCL Nominees (Asing) Sdn Bhd - OCBC Securitries Private Limited for Anson Wang | 270,300 | 0.375 |
| 20. Kam Lai Yong | 237,200 | 0.329 |
| 21. Ratna Krishnan A/L Perumal | 229,000 | 0.317 |
| 22. Mayban Securities Nominees (Asing) Sdn Bhd - OCBC Securities Private Limited for Lim Oon Hock | 227,000 | 0.315 |
| 23. Kee Ju-Ven | 215,000 | 0.298 |
| 24. TA Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chua Eng Kui | 214,000 | 0.297 |
| 25. Klang Wood Industries Sdn Bhd | 208,000 | 0.288 |
| 26. Loh Yoke Peng | 200,000 | 0.277 |
| 27. Lee Hoo Leng | 194,666 | 0.270 |
| 28. HDM Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Gay Soon Watt | 191,000 | 0.265 |
| 29. Ong Chin Hock | 188,000 | 0.260 |
| 30. Chan Kin Hua | 182,400 | 0.253 |
| | 34,357,506 | 47.616 |

*Note :*

*# Excluding 2,949,600 shares bought back by the Company and held as treasury shares.*

## DISTRIBUTION OF WARRANTHOLDINGS

| Size of Warrant Holdings | No. of Warrant Holders | % | No. of Warrants | % |
|---|---|---|---|---|
| 1 - 99 | 114 | 6.00 | 5,467 | 0.03 |
| 100 - 1,000 | 832 | 43.81 | 629,568 | 3.65 |
| 1,001 - 10,000 | 751 | 39.55 | 2,573,334 | 14.92 |
| 10,001 - 100,000 | 183 | 9.64 | 5,843,657 | 33.88 |
| 100,001 to less than 5% of Warrants | 18 | 0.95 | 3,377,900 | 19.58 |
| 5% and above of Warrants | 1 | 0.05 | 4,819,518 | 27.94 |
| | 1,899 | 100.000 | 17,249,444 | 100.000 |

## THIRTY (30) LARGEST WARRANTHOLDERS

| Name of Warrantholders | No. of Warrants | Percentage % |
|---|---|---|
| 1. Linear Holding Sdn Bhd | 4,819,518 | 27.940 |
| 2. Lum Weng Loy | 814,000 | 4.719 |
| 3. Mayban Nominees (Tempatan) Sdn Bhd - Pledged securities account for Tan Choon Kwan | 300,000 | 1.739 |
| 4. Mayban Securities Nominees (Tempatan) Sdn Bhd - Pledged securities account for Hoo Khee Leng | 209,300 | 1.213 |
| 5. Chan Siew Hong | 196,000 | 1.136 |
| 6. HLG Nominee (Tempatan) Sdn Bhd - Pledged securities account for Lee Chong Hing @ Yen Chong Hing | 160,000 | 0.927 |
| 7. Chai Siew Wee | 157,600 | 0.914 |
| 8. HDM Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Lim Oon Cheng | 157,000 | 0.910 |
| 9. Public Invest Nominees (Tempatan) Sdn Bhd - Pledged securities account for Othman Bin Merican | 150,000 | 0.869 |
| 10. Kong Hon Chin @ Kang Hun Chan | 142,600 | 0.827 |
| 11. Public Nominees (Tempatan) Sdn Bhd - Pledged securities account for Oi Bee Tin | 135,200 | 0.784 |
| 12. ECM Libra Avenue Nominees (Asing) Sdn Bhd - Pledged securities account for Ng Chong Jin | 133,700 | 0.775 |
| 13. Tan Chuan Li | 130,000 | 0.753 |
| 14. Chean Seng Hong | 126,400 | 0.733 |
| 15. United Overseas Nominees (Tempatan) Sdn Bhd - Pledge securities account for Chong Kian Teck | 125,200 | 0.726 |
| 16. Muniamah A/P Periasamy | 120,400 | 0.698 |
| 17. HLB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Saw Guat Choo | 115,000 | 0.667 |
| 18. Chua Chin Chyang | 104,600 | 0.606 |
| 19. Siau Huat Lian | 100,900 | 0.585 |
| 20. A.A. Anthony Nominees (Tempatan) Sdn Bhd - Pledged securities account for Teo Poh Boon | 100,000 | 0.580 |

## THIRTY (30) LARGEST WARRANTHOLDERS (Cont'd)

| Name of Warrantholders | No. of Warrants | Percentage % |
|---|---|---|
| 21. Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Merill Lynch Pierce Fenner & Smith | 100,000 | 0.580 |
| 22. Lim Tiong Chin | 100,000 | 0.580 |
| 23. Mayban Securities Nominees (Tempatan) Sdn Bhd - Pledged securities account for Ho Sey Chen | 100,000 | 0.580 |
| 24. Tan Hong Siang | 96,800 | 0.561 |
| 25. Law Boon Leong | 93,100 | 0.540 |
| 26. Yap Chee Kuan | 91,400 | 0.530 |
| 27. Lee Ha Ming | 89,900 | 0.521 |
| 28. Ong Peng Chor | 88,837 | 0.515 |
| 29. Ooi Teng Hai | 87,000 | 0.504 |
| 30. Alliancegroup Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chong Yiew On | 86,700 | 0.503 |
| | 9,231,155 | 53.515 |

23 May 2007

The Board of Directors
Linear Corporation Berhad
No. 20A, Jalan Perusahaan
Prai Industrial Estate 4
13600 Prai, Penang

Dear Sirs

**NOTICE OF NOMINATION OF AUDITORS**

We, the undersigned, being the registered holder of 14,372,518 ordinary shares of RM1-00 each and fully paid-up, representing 19.92% of the issued and paid-up share capital of Linear Corporation Berhad, hereby give notice pursuant to Section 172(11) of the Companies Act, 1965 of our nomination of Messrs. UHY Diong as Auditors of the Company in place of the retiring Auditors, Messrs. Deloitte KassimChan.

Therefore, we propose that the following as an ordinary resolution at the forthcoming Annual General Meeting of the Company :-

"That Messrs. UHY Diong be appointed as Auditors of the Company in place of the retiring Auditors, Messrs. Deloitte KassimChan, and to hold office until the conclusion of the next Annual General Meeting at a remuneration to be agreed between the Directors and the Auditors."

Yours faithfully,
for LINEAR HOLDING SDN BHD
(FORMERLY KNOWN AS LINAC STRATEGIC SDN BHD)

....................................
Authorised Signatory(s)

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LINEAR
cooling redefined
LINEAR CORPORATION BERHAD (288687-W)

# PROXY FORM

| NO. OF SHARES HELD |
|---|
| |

*I/We,______________________________________________________________
(Full Name In Block Letters)

of ______________________________________________________________
(Address)

being a member/members of LINEAR CORPORATION BERHAD hereby appoint______________________

______________________________________________________________
(Full Name In Block Letters)

of ______________________________________________________________
(Address)

or failing* him/her______________________________________________________
(Full Name In Block Letters)

of ______________________________________________________________
(Address)

or failing *him/her, the Chairman of the meeting, as *my/our proxy, to vote for *me/us on *my/our behalf at the Thirteenth Annual General Meeting of the Company to be held at the Seminar Hall of the Head Office, 20A, Jalan Perusahaan, Prai Industrial Estate 4, 13600 Prai, Penang on Wednesday, 27 June 2007 at 9.00 a.m. and at any adjournment thereof in the manner indicated below.

| | | For | Against |
|---|---|---|---|
| Resolution 1 | To receive the Audited Financial Statements for the year ended 31 December 2006, together with the Reports of the Directors and Auditors thereon | | |
| Resolution 2 | To approve the payment of Directors' fees | | |
| Resolution 3 | To re-elect Alan Rajendram A/L Jeya Rajendram | | |
| Resolution 4 | To re-elect Eswaramoorthy Pillay S/O Amuther | | |
| Resolution 5 | To re-appoint Chin Soon Jin | | |
| Resolution 6 | To re-elect Pervez Rustim Manecksha @ Paul Manecksha | | |
| Resolution 7 | To re-elect Heinrich August Diehl | | |
| Resolution 8 | To appoint Auditors and to authorize the Directors to fix the Auditors' remuneration | | |
| Resolution 9 | Authority pursuant to Section 132D of the Companies Act, 1965 for the Directors to issue shares | | |
| Resolution 10 | Proposed Share Buy-Back | | |
| Resolution 11 | Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature | | |
| Resolution 12 | Proposed Amendments to the Articles of Association | | |

* Please strike off whichever is not applicable
Please indicate with an 'X' in the spaces provided, how you wish your vote to be cast. In the absence of specific directions, your proxy may vote or abstain from voting at his/her discretion.

Signed this____________day of________________2007

..............................................................................
Signature(s) / Common Seal of shareholder(s)

Notes:-
1. A member eligible to attend and vote at the general meeting is entitled to appoint a proxy/proxies who may but need not be a member of the Company to vote in his/her stead. The provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.
2. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
4. An instrument appointing a proxy must be deposited at the Registered Office at 20A, Jalan Perusahaan, Prai Industrial Estate 4, 13600 Prai, Penang not less than 48 hours before the time set for holding the meeting or at any adjournment thereof.

fold here

Affix
stamp
here


The Company Secretary
**Linear Corporation Berhad** (288687 W)
20A, Jalan Perusahaan
Prai Industrial Estate 4
13600 Prai, Penang
Malaysia


fold here

**LINEAR CORPORATION BERHAD** (288687-W)
Head Office & Factory
20A, Jalan Perusahaan, Prai Industrial Estate 4
13600 Prai, Penang, Malaysia.
www.linear.com.my