



LITYAN

HOLDINGS BERHAD

(260002-W)

<http://www.lityan.com.my>

ANNUAL REPORT

2006

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CORPORATE INFORMATION

BOARD OF DIRECTORS

- Dato' Mohd Noh Bin Rajab
(Independent Non-Executive Chairman)
- Rahmat Bin Harun
(Group Managing Director & Chief Executive Officer)
- Lim Teik Ee
(Executive Director)
- Wong Wing Kui @ Wong Weng Kwai
(Independent Non-Executive Director)
- Pikri Bin Haji Mohd Amin
(Independent Non-Executive Director)
- Dato' Syed Sidi Idid Bin Syed Abdullah Idid
(Independent Non-Executive Director)
- Adi Azuan Bin Abdul Ghani
(Non-Independent Non-Executive Director)

COMPANY SECRETARY

Heng Wai Shen (MIA 9667)

AUDIT COMMITTEE

- Dato' Syed Sidi Idid Bin Syed Abdullah Idid
(Chairman)
- Pikri Bin Haji Mohd Amin
- Adi Azuan Bin Abdul Ghani

NOMINATION COMMITTEE

- Wong Wing Kui @ Wong Weng Kwai
(Chairman)
- Dato' Syed Sidi Idid Bin Syed Abdullah Idid
- Pikri Bin Haji Mohd Amin

REMUNERATION COMMITTEE

- Wong Wing Kui @ Wong Weng Kwai
(Chairman)
- Dato' Syed Sidi Idid Bin Syed Abdullah Idid
- Pikri Bin Haji Mohd Amin

REGISTERED OFFICE

Bangunan C, Peremba Square
Saujana Resort, Section U2
40150 Shah Alam
Selangor Darul Ehsan
Tel: 603-7622 1188
Fax: 603-7622 1200
<http://www.lityan.com.my>

AUDITORS

Wong Weng Foo & Co
Chartered Accountants
41, Damai Complex
Jalan Dato Haji Eusoff
50400 Kuala Lumpur

SHARE REGISTRAR

Tenaga Koperat Sdn Bhd
20th Floor, Plaza Permata
Jalan Kampar
Off Jalan Tun Razak
50400 Kuala Lumpur
Tel: 603-4041 6522
Fax: 603-4042 6352

PRINCIPAL BANKERS

United Overseas Bank (M) Berhad
Bank Islam Malaysia Berhad,
Labuan Offshore Branch

SOLICITORS

Onn & Partners

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Board

STOCK CODE

9075

NOTICE IS HEREBY GIVEN THAT the Fourteenth Annual General Meeting of LITYAN HOLDINGS BERHAD ("Company") will be held at The Greens I Room, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Thursday, 21 June 2007 at 10.00 a.m. for the following purposes:-

As Ordinary Businesses

1. To receive the audited financial statements together with the reports of the Directors and Auditors for the year ended 31 December 2006. **(Resolution 1)**
2. To re-elect En. Rahmat Bin Harun who retires in accordance with Article 96 of the Company's Articles of Association. **(Resolution 2)**
3. To re-elect En. Pikri Bin Haji Mohd Amin who retires in accordance with Article 96 of the Company's Articles of Association. **(Resolution 3)**
4. To re-elect En. Adi Azuan Bin Abdul Ghani who retires in accordance with Article 96 of the Company's Articles of Association. **(Resolution 4)**
5. To approve the payment of Directors' fees for the year ended 31 December 2006. **(Resolution 5)**
6. To re-appoint Messrs Wong Weng Foo & Co. as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

As Special Businesses

7. To consider and if thought fit, pass the following ordinary resolution:-

ORDINARY RESOLUTION - AUTHORITY TO ISSUE SHARES

"**THAT** subject always to the Companies Act, 1965 and the approvals of the regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to issue shares in the Company, at any time and 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 issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next annual general meeting of the Company."

(Resolution 7)

8. To consider and if thought fit, pass the following special resolution:-

SPECIAL RESOLUTION

Proposed Amendments to the Articles of Association of the Company

"**THAT** the proposed alterations, modifications, additions and/or deletions to the Articles of Association of the Company as contained in Appendix I of the Annual Report 2006 be and are hereby approved."

(Resolution 8)

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

By Order of the Board,

Heng Wai Shen
Company Secretary

30 May 2007
Shah Alam

NOTICE OF ANNUAL GENERAL MEETING (Cont'd)

Notes:-

Appointment of Proxy

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and vote in his stead and such a proxy need not be a member of the Company. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
2. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. The Proxy Form shall be under the hand of the appointor or of his attorney duly authorised in writing. In the case of a corporate member, the instrument appointing a proxy must be either under its common seal or under the hand of its officer or its duly authorised attorney.
4. The instrument appointing a proxy must be deposited with the Share Registrar, Tenaga Koperat Sdn Bhd, 20th Floor, Plaza Permata, Jalan Kampar, Off Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time set for holding the meeting or adjourned meeting.

Explanatory Notes:-

1. Authority to allot shares under Section 132D (Resolution 7)

The Resolution 7, if approved, will renew the authorisation given to the Directors at the last annual general meeting pursuant to Section 132D of the Companies Act, 1965, to issue not more than 10% of its issued share capital. The authorisation, unless revoked or varied by the Company in general meeting will expire at the next annual general meeting.

2. Proposed Amendments to the Articles of Association of The Company (Resolution 8)

The proposed amendments will bring the Articles of Association of the Company in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad. The details relating to Special Resolution 8 are set out in Appendix I of the Annual Report 2006.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. The Directors who are standing for re-election at the Fourteenth Annual General Meeting of the Company are:

| | |
|-------------------------------------|-----------------------|
| (i) En. Rahmat Bin Harun | (Resolution 2) |
| (ii) En. Pikri Bin Haji Mohd Amin | (Resolution 3) |
| (iii) En. Adi Azuan Bin Abdul Ghani | (Resolution 4) |
2. Details of the Directors who are standing for re-election are set out from page 11 to 12 of the annual report.
3. Seven (7) Board of Directors' Meetings were held during the financial year ended 31 December 2006. The details of attendance of Directors at board meetings are set out under the Statement on Corporate Governance on page 20 of the annual report. The shareholdings of Directors in the company and/or its subsidiaries are the same as stated on page 86.
4. The Fourteenth Annual General Meeting of the Company will be held at The Greens I Room, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Thursday, 21 June 2007 at 10.00 a.m.

The Articles of Association of the Company are proposed to be amended in the following manner:-

1(a) Part of the existing Interpretation in Article 2

Part of Existing Article 2
Interpretation

| WORDS | MEANINGS |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Central Depository | - The Malaysian Central Depository Sdn. Bhd. (165570-W) |
| Depositor | - A holder of securities account. |
| Market Day | - Any day between Mondays and Fridays (inclusive) which is not a market holiday of the Stock Exchange or a public holiday. |
| The Stock Exchange | - The Kuala Lumpur Stock Exchange and such other stock exchange if any, upon which the shares of the Company may be listed and quoted. |

1(b) Part of the existing Interpretation in Article 2 as stated above be amended to read as follows:-

Amended Part of Article 2
Interpretation

| WORDS | MEANINGS |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Central Depository | - <u>Bursa Malaysia Depository Sdn. Bhd. (165570-W) (formerly known as</u> The Malaysian Central Depository Sdn. Bhd.) |
| Depositor | - A holder of securities account <u>established by the Central Depository.</u> |
| Market Day | - <u>a day on which the stock market of the Stock Exchange is open for trading in securities.</u> |
| The Stock Exchange | - <u>Bursa Malaysia Securities Berhad (formerly known as</u> The Kuala Lumpur Stock Exchange) and such other stock exchange if any, upon which the shares of the Company may be listed and quoted. |

2(a) Part of the existing Interpretation in Article 2

Part of Existing Article 2
Interpretation

| WORDS | MEANINGS |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Approved Market Place | - A stock exchange which is specified to be an approved market place in the Securities Industry (Central Depositories) Exemption (No. 2) Order, 1998. |

2(b) The above existing interpretation for “Approved Market Place” in Article 2 be deleted in its entirety.

3(a) Existing Article 3(2)(a)
Issue of Shares

No Director shall participate in an issue of shares to employees of the Company unless the shareholders in general meeting have approved of the specific allotment to be made to such Director and unless he holds office in the Company in an executive capacity;

3(b) The existing Article 3(2)(a) be amended by deleting “and unless he holds office in the Company in an executive capacity” to read as follows:-

Amended Article 3(2)(a)
Issue of Shares

No Director shall participate in an issue of shares to employees of the Company unless the shareholders in general meeting have approved of the specific allotment to be made to such Director;

APPENDIX I (Cont'd)

Proposed Amendments to the Articles of Association

4(a) Existing Article 3(2)(b)**Issue of Shares**

No issue of preference shares shall be made which would result in the total nominal value of issued preference shares exceeding the total nominal value of the issued ordinary shares at any time;

4(b) The existing Article 3(2)(b) be deleted in its entirety.5(a) Existing Article 4(3)**Preference Shares**

The preference shareholders are entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up.

5(b) The existing Article 4(3) be deleted in its entirety.6(a) Existing Article 6**Power to deal in its own shares**

Subject to and in accordance with the provisions of the Act, the rules, regulations and orders made pursuant thereto and the requirements of the Kuala Lumpur Stock Exchange and/or any other relevant authorities or in respect thereof for the time being in force, the Company may purchase its own shares. Any shares so purchased by the Company shall be dealt with as provided by the Act, the rules, regulations and orders made pursuant thereto, and the requirements of the Kuala Lumpur Stock Exchange and/or other relevant authorities.

6(b) The existing Article 6 be amended by replacing “Kuala Lumpur Stock Exchange” with “Bursa Malaysia Securities Berhad” to read as follows:-**Amended Article 6****Power to deal in its own shares**

Subject to and in accordance with the provisions of the Act, the rules, regulations and orders made pursuant thereto and the requirements of the **Bursa Malaysia Securities Berhad** and/or any other relevant authorities or in respect thereof for the time being in force, the Company may purchase its own shares. Any shares so purchased by the Company shall be dealt with as provided by the Act, the rules, regulations and orders made pursuant thereto, and the requirements of the **Bursa Malaysia Securities Berhad** and/or other relevant authorities.

7(a) Existing Article 28**Fixing of books closing date**

The Register of Transfers may be closed at such time and for such period as the Directors may from time to time determine provided always that it shall not be closed for more than thirty (30) days in any year. Any notice of intention to fix a books closing date and the reason therefor shall be published in a daily newspaper circulating in Malaysia and shall also be given to the Stock Exchange, such notice shall state the books closing date, which shall be at least twelve (12) clear market days after the date of notification to the Stock Exchange, and the address of the share registry at which documents will be accepted for registration. At least three (3) market days' prior notice shall be given to the Central Depository to prepare the appropriate Record of Depositor.

7(b) The existing Article 28 be amended by replacing “twelve (12) clear market days” with “ten (10) market days” to read as follows:-**Amended Article 28****Fixing of books closing date**

The Register of Transfers may be closed at such time and for such period as the Directors may from time to time determine provided always that it shall not be closed for more than thirty (30) days in any year. Any notice of intention to fix a books closing date and the reason therefor shall be published in a daily newspaper circulating in Malaysia and shall also be given to the Stock Exchange, such notice shall state the books closing date, which shall be at least **ten (10) market days** after the date of notification to the Stock Exchange, and the address of the share registry at which documents will be accepted for registration. At least three (3) market days' prior notice shall be given to the Central Depository to prepare the appropriate Record of Depositor.

8(a) TRANSMISSION OF SECURITIES FROM FOREIGN REGISTERExisting Article 36**Transmission of securities from Foreign Register**

(1) Where :

- (a) the securities of the Company are listed on an Approved Market Place; and
- (b) the Company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories)(Amendment) Act, 1998 as the case may be, under the Rules in respect of such securities;

the Company shall, upon request of a securities holder, permit a transmission of securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the Approved Market Place (hereinafter referred to as "the Foreign Register"), to the register of holders maintained by the registrar of the Company in Malaysia (hereinafter referred to as "the Malaysian Register") subject to the following conditions :-

- (i) there shall be no change in the ownership of such securities; and
 - (ii) the transmission shall be executed by causing such securities to be credited directly into the securities account of such securities holder.
- (2) For the avoidance of doubt, no company which fulfills the requirements of subparagraphs 1(a) and (b) above shall allow any transmission of securities from the Malaysian Register into the Foreign Register.

8(b) The heading "TRANSMISSION OF SECURITIES FROM FOREIGN REGISTER" and existing Article 36 (1) be deleted in its entirety and amended to read as follows:**New Article 36****Transmission of securities**

Where :

- (a) the securities of the Company are listed on an **another stock exchange**; and
- (b) the Company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories)(Amendment) Act, 1998 as the case may be, under the Rules in respect of such securities;

the Company shall, upon request of a securities holder, permit a transmission of securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the **other stock exchange**, to the register of holders maintained by the registrar of the Company in Malaysia **and vice versa** subject to the following conditions :-

- (i) there shall be no change in the ownership of such securities; and
- (ii) the transmission shall be executed by causing such securities to be credited directly into the securities account of such securities holder.

8(c) The existing Article 36(2) be deleted in its entirety.**9(a) Existing Article 62(4)****Contents of notice**

At least 14 days' notice or 21 days' notice in the case where any special resolution is proposed or where it is the Annual General Meeting, of every such meeting shall be given by advertisement in the daily press and in writing to each stock exchange upon which the Company is listed.

APPENDIX I (Cont'd)

Proposed Amendments to the Articles of Association

- 9(b) The existing Article 62(4) be amended by replacing “the daily press” with “at least one (1) nationally circulated Bahasa Malaysia or English daily newspaper” to read as follows:-

Amended Article 62(4)**Contents of notice**

At least 14 days' notice or 21 days' notice in the case where any special resolution is proposed or where it is the Annual General Meeting, of every such meeting shall be given by advertisement in **at least one (1) nationally circulated Bahasa Malaysia or English daily newspaper** and in writing to each stock exchange upon which the Company is listed.

- 10(a) Existing Article 67(A)

Record of Depositors

The Company shall request the Central Depository in accordance with the Rules to issue a Record of Depositors to whom notices of general meetings shall be given by the Company and a Record of Depositors as at a date not less than 3 market days before the general meeting (“the General Meeting Record of Depositors”).

- 10(b) The existing Article 67(A) be amended by replacing “a date not less than 3 market days before the general meeting (“the General Meeting Record of Depositors”)” with “the latest date which is reasonably practicable which shall in any event be not less than 3 market days before the general meeting (hereinafter referred to as “the General Meeting Record of Depositors”)” to read as follows:-

Amended Article 67(A)**Record of Depositors**

The Company shall request the Central Depository in accordance with the Rules to issue a Record of Depositors to whom notices of general meetings shall be given by the Company and a Record of Depositors as at **the latest date which is reasonably practicable which shall in any event be not less than 3 market days before the general meeting (hereinafter referred to as “the General Meeting Record of Depositors”)**.

- 11(a) Existing Article 78

Votes of members

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at meetings of Members or classes of Members, each Member entitled to vote may vote in person or by proxy or by attorney and on a show of hands every person present who is a Member or representative or proxy of a Member shall have one (1) vote, and on a poll every Member present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each share he holds.

- 11(b) The existing Article 78 be amended to read as follows:-

Amended Article 78**Votes of members**

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at meetings of Members or classes of Members, each **holder of ordinary or preference shares** entitled to vote may vote in person or by proxy or by attorney and **on a show of hands, a holder of ordinary or preference shares who is personally present or represented by proxy or by attorney or representative of a holder of ordinary or preference shares and entitled to vote shall be entitled to one (1) vote**, and on a poll every Member present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each share he holds.

- 12(a) Existing Article 87

Number of Directors

Until otherwise determined by general meeting, the number of Directors shall not be less than two (2) and not more than fifteen (15), all of whom shall be natural persons. The first Directors of the Company are Choong Kwok Shoong and Rahmat Bin Harun.

12(b) The existing Article 87 be amended by deleting “all of whom shall be natural persons.” to read as follows:-

Amended Article 87

Number of Directors

Until otherwise determined by general meeting, the number of Directors shall not be less than two (2) and not more than fifteen (15). The first Directors of the Company are Choong Kwok Shoong and Rahmat Bin Harun.

13(a) Existing Article 91

Disqualification of a Director

The office of Director shall become vacant, if the Director :-

- (a) becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (b) becomes of unsound mind or a person liable to be dealt with in any way under the law relating to mental disorder;
- (c) becomes prohibited by law from acting as a Director;
- (d) resigns from his office by notice in writing given to the Company;
- (e) is removed from his office by ordinary resolution of the Company in general meeting; or
- (f) absents himself from the meetings of Directors for more than 50% of the total board of directors' meetings held during a financial year without special leave of absence from the other Directors and such Directors have passed a resolution that he has by reason of such absence vacated his office.

13(b) The existing Article 91 be deleted in its entirety and amended to read as follows:-

New Article 91

Disqualification of a Director

(1) No person shall be appointed or is allowed to act as a Director or be involved whether directly or indirectly in the management of the Company, including acting in an advisory capacity in relation to the Company, if he:-

- (a) has been convicted by a court of law, whether within Malaysia or elsewhere, of an offence in connection with the promotion, formation or management of a company;**
- (b) has been convicted by a court of law, whether within Malaysia or elsewhere, of an offence, involving fraud or dishonesty or where the conviction involved a finding that he acted fraudulently or dishonestly; or**
- (c) has been convicted by a court of law of an offence under the securities laws or the Act,**

within a period of 5 years from the date of conviction or if sentenced to imprisonment, from the date of release from prison, as the case may be.

For the purpose of this Article, “securities laws” means the Securities Industry Act, 1983, the Securities Industry (Central Depositories) Act 1991, the Securities Commission Act 1993 and the Futures Industry Act 1993.

(2) The office of Director shall become vacant, if the Director :-

- (a) becomes bankrupt or makes any arrangement or composition with his creditors generally during his term of office;**
- (b) becomes of unsound mind or a person liable to be dealt with in any way under the law relating to mental disorder during his term of office;**
- (c) becomes prohibited by law from acting as a Director;**

APPENDIX I (Cont'd)

Proposed Amendments to the Articles of Association

- (d) resigns from his office by notice in writing given to the Company;
- (e) is removed from his office by ordinary resolution of the Company in general meeting;
- (f) absents himself from the meetings of Directors for more than 50% of the total board of directors' meetings held during a financial year **unless with** special leave of absence from the other Directors and such Directors have passed a resolution that he has by reason of such absence vacated his office **and unless an exemption or waiver is obtained from the Stock Exchange; or**
- (g) **is convicted by a court of law, whether within Malaysia or elsewhere, in relation to the offences set out in Article 91(1).**

14(a) Existing Article 139

Copies of accounts

A copy of every balance sheet and profit and loss account which is to be laid before the Company in general meeting (including every document required by law to be annexed thereto) together with a copy of the Auditors' report relating thereto and of the Directors' report shall, not more than six (6) months after the close of the financial year and not less than twenty-one (21) days before the date of the meeting be sent to every Member of, and every holder of debentures of, the Company and to every other person who is entitled to receive notices from the Company under the provisions of the Act or of these Articles. The requisite number of copies of each such document as may be required by the Stock Exchange shall at the same time be likewise sent to the Stock Exchange. Provided that this Article shall not require a copy of these documents to be sent to any person of whose address the Company is not aware of but any Member to whom a copy of these documents has not been sent shall be entitled to receive a copy free of charge on application to the Office.

14(b) The existing Article 139 be amended to read as follows:-

Amended Article 139**Copies of accounts**

A copy of every balance sheet and profit and loss account which is to be laid before the Company in general meeting (including every document required by law to be annexed thereto) together with a copy of the Auditors' report relating thereto and of the Directors' report **in printed form or in compact disc read-only memory ("CD-ROM") form or such other form of electronic media or any combination thereof shall,** not more than six (6) months after the close of the financial year and not less than twenty-one (21) days before the date of the meeting be sent to every Member of, and every holder of debentures of, the Company and to every other person who is entitled to receive notices from the Company under the provisions of the Act or of these Articles. The requisite number of copies of each such document as may be required by the Stock Exchange shall at the same time be likewise sent to the Stock Exchange. Provided that this Article shall not require a copy of these documents to be sent to any person of whose address the Company is not aware of but any Member to whom a copy of these documents has not been sent shall be entitled to receive a copy free of charge on application to the Office. **In the event that these documents are sent in CD-ROM form or such other form of electronic media or any combination thereof and a Member requires a printed form of such documents, the Company shall send such documents to the Member within the period as stipulated in the Stock Exchange Listing Requirements or such other period as prescribed by the Stock Exchange from the date of receipt of the Member's request.**

15(a) Existing Article 147(3)

Liquidator's remuneration subject to ratification by member

On the voluntary liquidation of the Company, no commission or fee shall be paid to a liquidator unless it shall have been ratified by Members. The amount of such payment shall be notified to all Members at least seven (7) days prior to the meeting at which it is to be considered.

15(b) The existing Article 147(3) be amended to read as follows:-

Amended Article 147(3)**Liquidator's remuneration subject to approval by member**

On the voluntary liquidation of the Company, no commission or fee shall be paid to a liquidator unless it shall have been **approved** by Members. The amount of such payment shall be notified to all Members at least seven (7) days prior to the meeting at which it is to be considered.

DATO' MOHD NOH BIN RAJAB, aged 60, Malaysian, the Independent Non-Executive Chairman of Lityan Holdings Berhad ("LHB") appointed on 1 April 2003. He obtained his Bachelor of Arts from the University of Malaya.

Dato' Mohd Noh joined Hong Kong & Shanghai Banking Corporation as a Trainee Officer in 1972 where he received his training in Kuala Lumpur and Hong Kong. As an Officer, he was assigned to the Credit, Remittances and Internal Audit Departments before assuming his position as a Branch Manager in 1975. In 1983, he was appointed the General Manager of Nesma Finance Berhad, a licensed finance company before participating in the quasi-government and public services sector. He was a Director of Bank Pertanian Malaysia in 1985 and Chairman of RISDA from 1987 to 1991. He was an active politician since 1984 and elected as a Member of the Parliament, the Parliamentary Secretary for the Ministry of Land & Cooperative Development and the Ministry of Culture, Arts & Tourism respectively before retiring in 1999. He is presently a businessman.

He does not have directorship in any other public company, nor does he have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest with LHB and has not been convicted for any offence within the past 10 years.

RAHMAT BIN HARUN, aged 57, Malaysian, the Group Managing Director & Chief Executive Officer of LHB. He holds a Diploma in Management from the Malaysian Institute of Management, Malaysia.

Encik Rahmat joined Plessey Malaysia Sdn Bhd in 1981 as an Account Manager and was promoted to General Manager of LHB Group when Lityan Systems Sdn Bhd acquired Plessey Malaysia Sdn Bhd. He was appointed the Managing Director of LHB on 15 December 1993 and assumed the position as Executive Chairman of LHB in 1996. He was re-designated as the Group Managing Director & Chief Executive Officer on 1 April 2003.

He does not have directorship in any other public company. He is a major shareholder of LHB but doesn't have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest with LHB and has not been convicted for any offence within the past 10 years.

LIM TEIK EE, aged 54, Malaysian, the Executive Director of LHB appointed on 15 April 2003. He is a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom, FCCA (UK) and Chartered Accountant of Malaysia, CA (M).

Mr. Lim started his career as an Auditor in London and subsequently joined KPMG, Kuala Lumpur. He was attached with the Hong Leong Group for about 18 years since 1980 in various positions before serving as the Chief Operating Officer & Director of Hong Leong Properties Berhad. He was then appointed the Chief Executive Officer of the South African business unit of Fortuna International Holdings Limited (HK) in 1999 and Regional Vice President-Marketing of Asia Control Systems (M) Sdn Bhd in 2000. Prior to joining LHB Group as the Head of Finance Department in January 2003, he was the Chief Executive Officer of Aktif Lifestyle Stores Sdn Bhd. With a track record of financial discipline and extensive commercial and management experience, he has over 29 years of working experience in the areas of accounting, finance, marketing, general management, business development and management consultancy for various industries such as financial institutions, building materials, property development and construction, international trading and retailing.

He does not have directorship in any other public company, nor does he have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest with LHB and has not been convicted for any offence within the past 10 years.

WONG WING KUI @ WONG WENG KWAI, aged 66, Malaysian, is an Independent Non-Executive Director of LHB. Mr. Wong obtained his Utter Degree of Barrister-at-law from Lincoln's Inn and was admitted by the Honourable Society of Lincoln's Inn to practice at the Bar in England and Wales in 1967. He obtained his Bachelor of Law Degree from the University of London in 1969.

In 1971, he was enrolled as an advocate and solicitor of the High Court of Malaya. He was appointed a Commissioner for Oaths and Notary Public in 1985. In 1986, he was appointed to the Technical Committee for Mortgage Based Securities set up by Bank Negara Malaysia for the dealing in mortgage-based securities in Malaysia and following the work of this committee, Bank Negara Malaysia incorporated Cagamas Berhad. He was first appointed as a Director of LHB on 15 December 1993 before his resignation on 12 May 1999 and was re-appointed on 26 July 1999 as a Director of LHB.

Mr. Wong is also the Chairman of the Remuneration Committee and Nomination Committee of LHB.

PROFILE OF BOARD OF DIRECTORS (Cont'd)

He does not have directorship in any other public company, nor does he have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest with LHB and has not been convicted for any offence within the past 10 years.

DATO' SYED SIDI IDID BIN SYED ABDULLAH IDID, aged 64, Malaysian, an Independent Non-Executive Director of LHB appointed on 1 February 2002. He obtained his Bachelor of Arts from the University of Malaya, Malaysia and Master of Arts from the University of Wisconsin, USA.

Dato' Syed Sidi Idid was appointed as an Administrative Officer of the Malaysian Administrative and Diplomatic Service and subsequently as an Assistant Secretary of the Ministry of Health in 1966. He acted as the Principal Assistant Secretary of the Ministry of Home Affairs in 1967 and Director of the Immigration, Sabah in 1974. In 1978, he was a Deputy Secretary of the National Security Council, Prime Minister's Department. He then served as the Secretary of the Ipoh Municipal Council, Perak in 1980 and the State Financial Officer, Perak in 1985. He assumed the position as Deputy Secretary General (Management) of the Ministry of Health in 1992 and Director General/Registrar-General of Co-operatives in the Department of Co-operative Development in 1996 before retiring from the Malaysian Government Service in 1998. He was a member of the Public Services Commission of Malaysia in 1999. Currently, he is a Director and an Audit Committee Member of Citibank Berhad.

Dato' Syed Sidi Idid is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of LHB.

He does not have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest and has not been convicted for any offence within the past 10 years.

PIKRI BIN HAJI MOHD AMIN, aged 58, Malaysian, an Independent Non-Executive Director of LHB appointed on 15 May 1997. He obtained a Diploma in Programme Marketing.

Encik Pikri is a businessman who deals in the import and export of furniture products.

He is a member of the Audit Committee, Remuneration Committee and Nomination Committee of LHB.

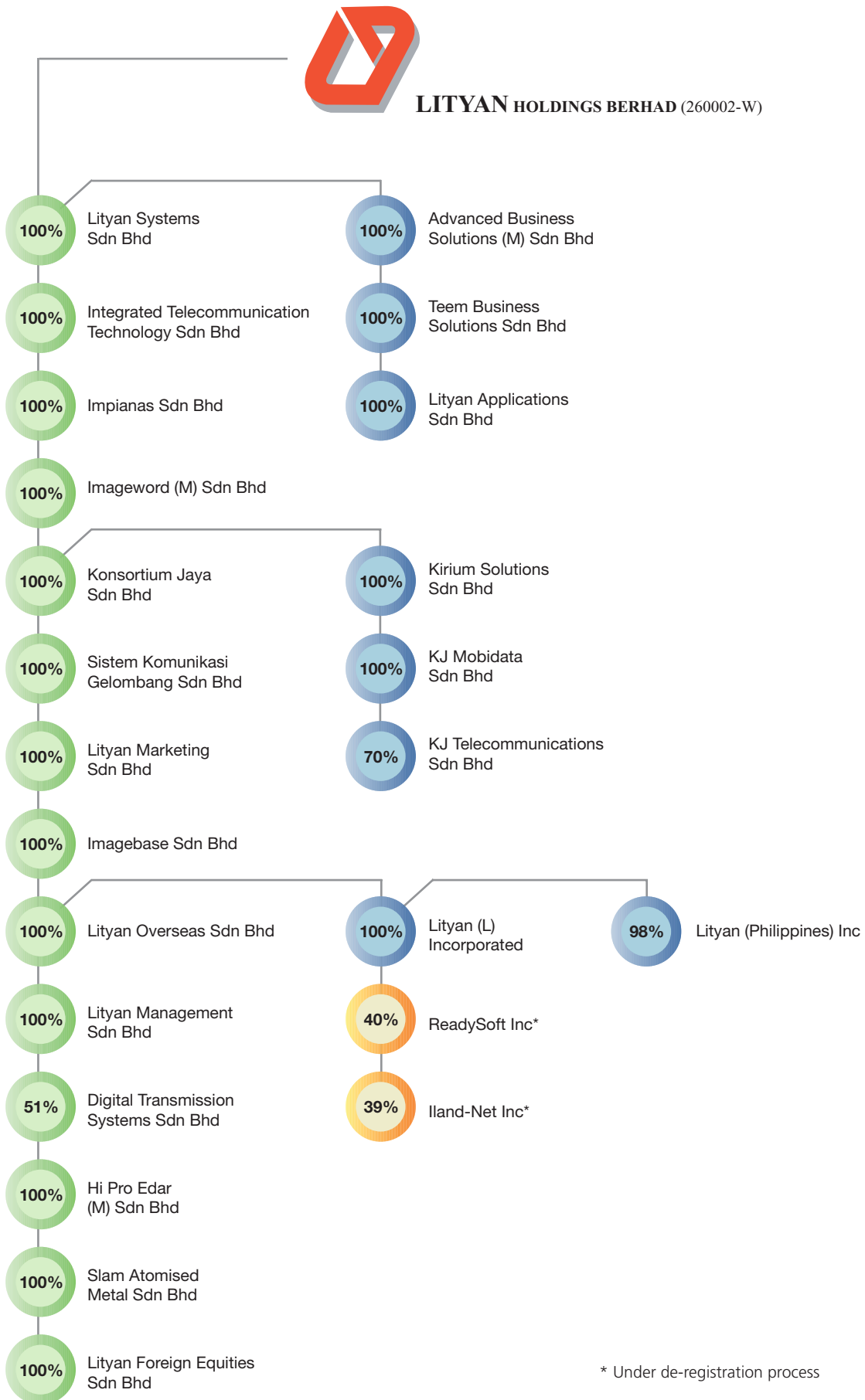
He does not have directorship in any other public company, nor does he have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest with LHB and has not been convicted for any offence within the past 10 years.

ADI AZUAN BIN ABDUL GHANI, aged 37, Malaysian, the Non-Independent Non-Executive Director of LHB appointed on 26 February 2004. He is a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom, ACCA (UK) and Chartered Accountant of Malaysia, CA (M).

Encik Adi Azuan started his professional career in the auditing and accounting fields with PricewaterhouseCoopers (PwC), Kuala Lumpur in year 1996 and was promoted to the position of Manager in year 2002. In PwC, he was involved in the provision of audit and accounting services mainly to the banking and financial institutions before joining Lembaga Tabung Haji as the Divisional Head of Group Finance in July 2002. Currently, he is a Director of Y.S.P. Southeast Asia Holding Bhd.

He is a member of the Audit Committee of LHB.

He does not have any family relationship with any director and/or major shareholder of LHB. He has no conflict of interest with LHB and has not been convicted for any offence within the past 10 years.



* Under de-registration process

Dear Shareholders,

On behalf of the Board of Directors of Lityan Holdings Berhad, it is my pleasure to present the Annual Report and Audited Financial Statements of Group for the financial year ended 31 December 2006.

FINANCIAL HIGHLIGHTS



The revenue of the Group had a minimal drop of 3% from RM40 million previously to RM39 million. This decrease was mainly due to the completion of IT projects in the previous year and the change of the business arrangement for the Philippines payphone business. However, a sharp increase of approximately 334% of revenue from the trading of IT products had compensated the drop in the project and the payphone revenue.

The earnings from operations which is before non-cash and non-operating items has reduced by 40% from RM5 million previously to RM3 million. This reduction was due to the higher revenue from trading activities which carries thin margins.

The loss before taxation had reduced from RM34 million previously to RM11 million reflecting an improvement of 68%. The improvement was due to some allowances made pursuant to the provisions of the Financial Reporting Standards in the previous reporting period. The loss before taxation this year was mainly contributed by the high finance cost incurred and allowance for impairment loss on investments.

DIVIDENDS

In view of the current financial position of the Group and the Company, the Board of Directors is unable to recommend any dividend for the year ended 31 December 2006.

CORPORATE DEVELOPMENT

Pursuant to the classification as an affected listed issuer pursuant to Practice Note 17 ("PN17") as issued by the Bursa Malaysia Securities Berhad ("BMSB") since 10 May 2005, the corporate initiatives undertaken were with two-pronged objectives. The Group had to sustain its current operations whilst undertaking initiatives to restore the Group onto a stronger financial footing in order for it to move forward.

1) *Proposed Restructuring Scheme ("PRS")*

Lots of effort and resources was spent in undertaking the PRS in order to

- (i) enable Group to address its current financial situation via settlement with financial institutions and creditors
- (ii) enable some recovery to shareholders
- (iii) sustain the existing businesses of the group and provide continuity or safeguard the position of the other stakeholders such as employees.

On 29 July 2005, the Company had entered into a conditional restructuring agreement with Giant Best Corporation Limited ("Vendor"), Chen Xinmin and Lim Chu Fatt (collectively, the "Guanhong Principal Shareholders") and subsequently the definitive restructuring agreement was entered into on 15 January 2006. The PRS which entails the Proposed Acquisition of the Guanhong Group, Proposed Scheme of Arrangement with Shareholders, Proposed Scheme of Arrangement with Creditors, Proposed Issuance of Shares, Proposed Offer for Sale, Proposed Transfer of Listing Status and Proposed Disposal, had been submitted for the approval of Securities Commission ("SC"), Foreign Investment Committee and Bank Negara Malaysia on 20 January, 2006.

The SC had not approved the PRS vide its letter dated 6 June 2006. The Company had on 6 July 2006 submitted an application to the SC for a review of its decision. SC had vide its letter dated 27 September 2006 rejected the Appeal.

The rejection of the PRS had been unexpected. Plans that had been put in place for the Group to move forward had been hampered. The Company believes that the PRS, which was required to regularize its financial position, had met all the required guidelines and the objective of the exercise. After several in-depth and thorough deliberations, the Company believes that it has the grounds to apply for a judicial review on the decision.

The Company had on 9 October 2006, filed an application for Judicial Review on the decision of the SC and also applied for an Interim Order to stay the decision of BMSB to remove the securities from its Official List on 13 October 2006. The hearing for the application for leave to issue a certiorari to squash the decision of the SC in rejecting the Company's PRS has been adjourned to 4 July 2007 and BMSB had agreed to a stay of the delisting until the same.

2) *Proposed disposal of twenty two (22) adjoining plots of freehold land measuring 193.686 acres located in Mukim Krubong, District of Melaka Tengah, Melaka to GJH Construction Sdn Bhd for an aggregate cash consideration of RM9,684,300*

Proposed disposal of four (4) adjoining plots of freehold land measuring 104.325 acres located in Mukim Rembia, District of Alor Gajah, Melaka to Choong Pat Sing and Choong Fook Chan for an aggregate cash consideration of RM4,715,490

The disposals of these non-core assets were completed during the financial year. A portion of the proceeds was to repay the amount owing to a financial institution which has a fixed legal charge over those lands and the remaining proceeds were utilized to sustain the day to day operations as well as preserving the continuity of the existing projects on hand.

CHAIRMAN'S STATEMENT (Cont'd)

PROSPECTS

Amidst the disappointment from the rejection of the PRS by the SC, the Company remains determined and had put concentrated efforts to seek other alternative to ensure the continuity and survival of the Group as well as address its position with the stakeholders.

The Board remains focused and committed to preserve and expand the Group's current existing operations and businesses.

ACKNOWLEDGMENT

On behalf of the Board of Directors, I would like to take this opportunity to thank the management and staff for their unwavering faith and support in the Group and its effort to turn around the Group's position. I would also like to convey our sincere gratitude to all of our praiseworthy shareholders, customers, bankers, business partners and other stakeholders for their continued support and understanding during these difficult times.

DATO' MOHD NOH BIN RAJAB

Chairman

Dear valued Shareholder & Stakeholders

It was indeed a difficult year for the Group. The rejection of the Proposed Restructuring Scheme by the Securities Commission had put yet again, another toll on our initiatives to address the Group's current financial predicament. However, amidst the cloud of disappointment, the Group had strived with full determination to deliver its business and operational commitments despite all the hurdles and negative perceptions faced with being a PN17 affected Group.

INFORMATION TECHNOLOGY ("IT")

This segment remains the main contributor to the Group. 85% of the Group's revenue is derived from this segment which is an improvement from 73% in the previous year. The growth of IT revenue of 14% from RM29 million previously to RM33 million was mainly due to the significant increase in the trading of IT products and accessories. Approximately 58% of the group's revenue is derived from the trading business.

Nevertheless, the results from this segment had dropped 39% reflecting the very competitive and tougher market conditions in the IT industry resulting in very low margins especially in the trading of generic IT products and to sustain the existing customer base.

TELECOMMUNICATION ("TELCO")

Overall the revenue from this segment contributed 15% of the Group's revenue as compared to 26% in the previous year. Revenue from this segment had dropped significantly by 45% from RM11 million previously to RM6 million which was mainly attributed to the change of the business arrangement in the Philippines in February 2006.

The results from this segment had improved 101% from a loss of RM27 million last year to a profit of RM0.3 million. The loss in the previous year was mainly contributed by the allowance for impairment on property, plant and machineries pursuant to the provisions of the Financial Reporting Standards.

Malaysia

The pilot Remote Meter Reading ("RMR") project had completed its deployment and is currently providing the services on a monthly basis. This had provided the segment with the recurring income which results in the improved earnings.

Following the successful deployment of the pilot RMR project, the Group through its wholly-owned subsidiary had obtained the letter of award for the new RMR project for the deployment of RMR system to large power consumers nationwide over a three (3) year duration. This award had tremendously boosted the reputation of the subsidiary and had put it as one of the few key players in the niched RMR industry.

Philippines

The change of the business arrangement from a Build Operate and Owned agreement to a purely outsourcing or service agreement with a fixed fee had improved the subsidiary's and Group's bottom line.

Following the change of the arrangement, the Group recognized the revenue based on service fees charged on a monthly basis as compared to the recognition of the payphone revenue in the previous years. This had resulted in the lower recognition of revenue in the current financial year where the revenue from the Philippines had decreased 50% from RM8 million to RM4 million.

With the new business arrangement, the Group is no longer exposed to the actual payphone revenue which is being threatened by the growth in the mobile industry in the Philippines. The monthly recurring income would enable the group to plan the cashflow requirements in the Philippines more effectively.

INTERNAL DEVELOPMENT

Embedded internal control system, processes and policies remains intact and maintained to facilitate the business objectives with continuous review to ensure the effectiveness of these controls in achieving operational objectives and efficiencies.

As a public listed entity, the Group has endeavored itself to good Corporate Governance practices. Based on the "Corporate Governance Survey Report 2006 - Small Cap PLCs" undertaken by the Minority Shareholder Watchdog Group and the University of Nottingham in August 2006, the Group was placed at the top three (3) for companies which had good corporate governance scores.

The reduction of staff force by 10% from the previous year did not impact significantly to the Group's objectives or operations as the reduction were mainly due to the streamlining of certain businesses and functions. Professional development of the human resources is still on-going to meet the skills and expertise required to perform their day to day working activities as well as keeping them on par with the market expectations.

PROSPECTS

Group's strategies for growth and expansion on its current existing core businesses is still on-going as normal as well as continuous efforts to explore niche market opportunities, despite the group wide financial difficulties.

On the IT segment, the Group expects that it will be another tough and challenging year as the globalization of the IT industry had resulted in the entry of new players including multi-national entities competing in an already over-crowded market. Hardware requirements is expected to make up the bulk of the RM13 billion 9MP allocation where margins are expected to be very thin in view of the tough competition and also efforts to protect their respective foothold. Thinning margins which would not commensurate with the risk undertaken in an IT project would be a deterrent for an aggressive expansion in this segment.

However, the Group is focused on value added projects with higher margin which uses its domain knowledge and niched expertise. Also, it expects to grow the trading business to provide it with a balance mix of revenue as businesses with projects, tends to have cyclical or uneven revenue trends.

Similar to the IT segment, the Telco segment will also see intense competition in bidding for projects. However at this stage, the Group is putting more efforts to fulfill all the deliverables on its recently awarded project which is expected to contribute positively to this segment as well as the Group. The Group believes that the successful implementation of this project would further provide it with the avenue to further expand this segment and its foothold.

In the Philippines, the Group will continue to retain its foothold in the areas of payphone. With the new service agreement in place, the Group is in a better position to seek other opportunities within the payphone or telecommunication sector in the Philippines. As the Group had built its own reputation as a capable payphone operator for two (2) telecommunication companies, it had been approached by a few other telecommunication companies in the Philippines to explore similar or complementary opportunities in their own respective franchise areas.

Overall, the group is faced with tough market environment due to its current position where there will be scarcity of funding and higher cost due to absence of credit lines as well as the market's apprehension in doing business with the group. Nevertheless, the Group in its concerted efforts, is going all out to maintain and seek various avenues to address its current position in order for it to move forward, as well as going ahead with its business plans.

I would like to take this opportunity to express my gratitude and commendation to the Management team & staff for their immense dedication and unflinching efforts in meeting the Group's objectives as well as their unwavering faith in the Group and its initiatives. To the business partners and other stakeholders who had supported and continued to stand by us during these difficult times, I would like to extend my sincerest gratitude and appreciation for their kind understanding and support. Finally, to the valued shareholders, we thank you for your patience and support thus far and we hope for your continued confidence in our efforts to rebuild the Group into a stronger entity.

RAHMAT BIN HARUN

Group Managing Director & Chief Executive Officer

The Board of Directors (“the Board”) of Lityan Holdings Berhad (“Company”) is committed to a corporate culture that is based on the principles and best practices of corporate governance throughout the Company and its subsidiary companies (“the Group”).

The Group will continue to endeavor to comply with all the key Principles and Best Practices of the Malaysian Code on Corporate Governance (“the Code”) in its effort to observe high standards of transparency, accountability and integrity. The Group believes that good corporate governance will help to realize long-term shareholders value, whilst taking into account the interest of other stakeholders.

The following paragraphs describe how the Group has applied the Principles and Best Practices of the Code.

BOARD OF DIRECTORS

The Company is led and managed by experienced Board comprising members with a wide range of experience in relevant fields such as general management, finance, law and technical area. The Directors bring a broad range of skills, experiences and knowledge required to successfully direct and supervise the Group’s business activities. A brief profile of each Director is presented from page 11 to 12 of the Annual Report.

The Board has the overall responsibility for corporate governance, strategic plan, overseeing the investments and operations, identifying and managing principal risks, succession planning for senior management, developing and implementing shareholders’ communication policy and internal control systems and management information systems.

There is a schedule of matters reserved specifically for the Board’s decision to ensure the direction and control of the Group is firmly in the Board’s hand. This schedule includes inter-alia the strategic and corporate plan, material acquisition and disposal of securities/ assets/ businesses, investment and shareholders’ communication policies, internal control systems, financial related and legal matters.

Board Composition and Balance

The Board consists of four (4) Independent Non-Executive Directors, including the Chairman, two (2) Executive Directors and One (1) Non-Independent Non-Executive Director.

It is a mandatory practice to have the Directors concerned to declare their interests and abstain from the decision making process when a potential conflict of interest arises.

The roles of the Chairman of the Board and the Group Managing Director & Chief Executive Officer are segregated. The Chairman is primarily responsible for the proper conduct and working of the Board whilst the Managing Director & Chief Executive Officer is responsible for the day-to-day running of the business and implementation of Board policies and decisions.

The Executive Directors assume the primary responsibility for managing the Group’s business and resources. The Non-Executive Directors of the Company are independent of management and free from any business relationship which could materially interfere with the exercise of their judgement. They, particularly the Independent Non-Executive Directors, are actively involved in various Board Committees and provide guidance, unbiased, fully balanced and independent views, advice and judgement to various areas such as performance monitoring, enhancement of corporate governance and controls so as to safeguard the interests of minority shareholders and to ensure that the highest standards of conduct and integrity are maintained by the Group.

Mr. Wong Weng Kwai is the Senior Independent Non-Executive Director to whom concerns regarding the Group may be conveyed via the Company Secretary.

Supply of Information

Prior to Board meetings, an agenda together with the relevant documents and information are distributed to all Directors. The Executive Directors and/or other relevant Board members will provide comprehensive explanation of pertinent issues and recommendations by the management. The issues would then be deliberated and discussed thoroughly by the Board prior to decision-making.

Apart from the above, the Board members are supplied with information and reports on financial, operational, corporate regulatory, business development and audit matters by way of board reports or upon specific request to enable them to discharge their duties and responsibilities. All Directors are notified of the corporate announcements released to Bursa Malaysia Securities Berhad ("BMSB") and any amendment to BMSB Listing Requirements. All Directors have access to the management and auditors for independent view and advice.

In furtherance of their duties, the Directors may seek independent professional advice if necessary, at the expense of the Company.

Board Meetings

There were seven Board of Directors' Meetings held during the financial year ended 31 December 2006. Details of the attendance of the Directors at the Board of Directors' Meetings are as follows:

| Directors | Number of Meetings Attended | Percentage of Attendance (%) |
|---------------------------------------------|--------------------------------|---------------------------------|
| Dato' Mohd Noh Bin Rajab | 5/7 | 70 |
| Encik Rahmat Bin Harun | 7/7 | 100 |
| Mr. Lim Teik Ee | 7/7 | 100 |
| Mr. Wong Wing Kui @ Wong Weng Kwai | 6/7 | 85 |
| Encik Pikri Bin Haji Mohd Amin | 7/7 | 100 |
| Dato' Syed Sidi Idid Bin Syed Abdullah Idid | 6/7 | 85 |
| Encik Adi Azuan Bin Abdul Ghani | 5/7 | 70 |

Appointment to the Board

A Nomination Committee has been established by the Board comprising wholly Independent Non-Executive Directors and is responsible for making recommendation of appointments to the Board. The decision on appointment rests on the Board as a whole after considering the recommendation by the Nomination Committee.

Re-election

In accordance with the provisions of the Articles of Association of the Company, at least one-third (1/3) of the Directors for the time being or if their number is not three (3) or multiples of three (3), then the number nearest to one-third (1/3) shall retire from office and shall be eligible for re-election at each Annual General Meeting ("AGM"). Consequently, each Director shall retire from office at least once in every three years but shall be eligible for re-election. Directors who are appointed to the Board during the year shall retire and seek re-election at the next AGM to be held following their appointments.

Directors over the age of seventy years are required to submit themselves for re-appointment annually in accordance with Section 129 of the Companies Act, 1965.

Directors' Training

All the Directors of the Company have attended the Mandatory Accreditation Programme and also the Continuous Education Programmes ("CEP") as prescribed by BMSB.

As the CEP has been repealed by BMSB with effect from 1 January 2005, the Board of Directors will adopt a training programme deemed appropriate for the Directors. Directors are encouraged to attend relevant seminars and training programmes to equip themselves with the knowledge to effectively discharge their duties as Directors.

For the year under review, all the Directors had completed their training programme in 2006, further details of the attended seminars and briefings are as follows:

- Creating A Bridging Culture
- An Understanding of Business Failure And Corporate Recovery : A Director's Perspective
- Compensation, Nomination and Audit Committees: Preparing For The Challenges Ahead
- National Tax Conference 2006
- Hedge Funds For Top Management
- Effective Financial Planning and Control Techniques and Practices

Board Committees

The Board delegated certain responsibilities to the Board Committees i.e. Audit Committee, Nomination Committee, Remuneration Committee and Employees' Share Option Scheme (ESOS) Committee who operate within the approved terms of reference. The Board Committees discuss the subject matter, put forward recommendations and report to the Board for final decision.

(a) Audit Committee

The primary objective of the Audit Committee is to assist the Board in fulfilling its responsibility relating to accounting, risk management and reporting practices of the Group. The Audit Committee is accorded all resources required to perform its duties, have full and unrestricted access to any information pertaining to the Group, have direct communication channels with the external and internal Auditors and is entitled to obtain any external legal or other independent professional advice as necessary. The Audit Committee Report for the financial year ended 31 December 2006 is set out from page 25 to 28 of the annual report. The constitution of the Audit Committee is as follows :-

Dato' Syed Sidi Idid Bin Syed Abdullah Idid (chairman)
 Encik Pikri Bin Haji Mohd Amin (member)
 Encik Adi Azuan Bin Abdul Ghani (member)

(b) Nomination Committee

The Nomination Committee is appointed by the Board and has no executive powers. The appointment of a committee member automatically terminates when the member ceases to be a Director. The constitution of the Nomination Committee is as follows :-

Mr. Wong Wing Kui @ Wong Weng Kwai (Chairman)
 Dato' Syed Sidi Idid Bin Syed Abdullah Idid (member)
 Encik Pikri Bin Haji Mohd Amin (member)

The Nomination Committee comprising of exclusively Independent Non-Executive Directors, has the primary duty to propose new appointments to the Board after considering the nomination from Chief Executive Officer, Directors and shareholders. They shall recommend the Board to fill the seats on the Nomination Committee.

The Board through the Nomination Committee shall periodically review its required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board. The Nomination Committee meetings shall be convened as and when necessary and through its Chairman, the Nomination Committee shall report to the Board on matters discussed at the Board meetings after each of its meetings. The Company Secretary is the Secretary to the Nomination Committee.

There was no meeting held in the financial year 2006.

STATEMENT ON CORPORATE GOVERNANCE (Cont'd)

(c) Remuneration Committee

The Remuneration Committee is appointed by the Board and has no executive powers. The appointment of a committee member automatically terminates when the member ceases to be a Director. The constitution of the Remuneration Committee is as follows :-

Mr. Wong Wing Kui @ Wong Weng Kwai (Chairman)
 Dato' Syed Sidi Idid Bin Syed Abdullah Idid (member)
 Encik Pikri Bin Haji Mohd Amin (member)

The Remuneration Committee comprising of exclusively Independent Non-Executive Directors, has the primary responsibility to review and recommend to the Board the remuneration package for Executive Directors. The remuneration package for Executive Directors links rewards to corporate and individual performance. The determination of Non-Executive Directors' remuneration is a matter of the Board as a whole after considering comparable organizations and the level of responsibilities being undertaken by the Non-Executive Directors concerned. A remuneration policy is presently in place to ensure the levels of remuneration are sufficiently attractive to retain Directors.

Meanwhile, the Remuneration Committee is also responsible for making recommendations to the Board to fill the seats on the Remuneration Committee.

The Remuneration Committee meetings shall be convened as and when necessary and through its Chairman, the Remuneration Committee shall report to the Board at the Board meetings after each of its meetings. The Company Secretary is the Secretary to the Remuneration Committee.

In the financial year 2006, the Remuneration Committee met 3 times for the purpose of reviewing and proposing the remuneration of the Directors.

(d) ESOS Committee

The ESOS Committee administers the Company's ESOS in accordance with the Company's ESOS Bye-Laws and other relevant rules and regulations governing ESOS. It determines the participation eligibility, option offers and share allocations and attends to other matters relating to ESOS as may be required.

The ESOS Committee is consisting of two members, Encik Rahmat Bin Harun, the Group Managing Director & Chief Executive Officer and Mr. Lim Teik Ee, the Executive Director.

There was no ESOS for the financial year 2006.

DIRECTORS' REMUNERATION

The objectives of the Company's remuneration policy on Directors' remuneration is to attract, retain and motivate the Directors of the highest quality and to recognize and reward the high performing Directors for achieving the Company's business and corporate goals.

The Remuneration Committee shall ensure that the levels of remuneration are sufficient to attract and retain Directors of the quality required to manage the business of the Group. The Remuneration Committee is entrusted under its terms of reference to assist the Board, amongst others, to recommend to the Board the remuneration of the executive directors. In the case of non-executive directors, the level of remuneration shall reflect the experience and level of responsibilities undertaken by the non-executive directors concerned.

Details of Directors' remuneration for the financial year ended 31 December 2006 are set out as below:

| | Fees (RM) | Salary & Bonus (RM) | Benefit- in-kind (RM) | Other Emoluments (RM) | Total (RM) |
|-------------------------|--------------|---------------------------|-----------------------------|-----------------------------|---------------|
| Executive Directors | 24,000 | 941,985 | 17,300 | 113,064 | 1,096,349 |
| Non-Executive Directors | 132,400 | - | - | - | 132,400 |

The number of Directors whose total remuneration falls within the following bands for the financial year ended 31 December 2006 is as follows :-

| Range of Remuneration | Number of Directors | |
|--------------------------|---------------------|---------------|
| | Executive | Non-Executive |
| RM1 to RM200,000 | - | 5 |
| RM200,001 to RM400,000 | - | - |
| RM400,001 to RM600,000 | 1 | - |
| RM600,001 to RM800,000 | 1 | - |
| RM800,001 to RM1,000,000 | - | - |

RELATIONS WITH SHAREHOLDERS

Recognising the importance of timely dissemination of information to shareholders and other stakeholders, the Board is committed to ensuring that the shareholders and other stakeholders are well informed of major developments of the Company and the information is communicated to them through the following:

- (i) the Annual Report;
- (ii) the various disclosures and announcements made to Bursa Malaysia Securities Berhad including the Quarterly Results and Annual Results; and
- (iii) briefings to the Company's key investors or other investment community in order to provide them a better understanding of the Group's operations and explanation to any concern highlighted.
- (iv) the website at www.lityan.com.my which shareholders as well as members of the public are invited to access for the latest information on the Group.

The Company's AGM serves as a principal forum for dialogue with shareholders. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Extraordinary General Meetings is held as and when required.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors are responsible to present a true and fair assessment of the Group's position and prospects in the annual reports and quarterly reports. The quarterly financial results were reviewed by the Audit Committee and approved by the Board of Directors prior to submission to Bursa Malaysia Securities Berhad.

The Directors' Responsibility Statement for the preparation of financial statements is set out on page 24 of the annual report.

Internal Control

The Board has an overall responsibility in maintaining a sound internal control system that provides reasonable assurance of effective and efficient operations and compliance with internal procedures and guidelines. The Statement on Internal Control is set out from page 29 to 30 of the Annual Report.

Relationship with the Auditors

The Company's independent external auditors fill an essential role for the shareholders by enhancing the reliability of the Group's financial statements and giving assurance of that reliability to users of the financial statements.

The Board has established a formal and transparent arrangement for maintaining appropriate relationships with the external auditors in seeking professional advice and ensuring the compliance with the relevant regulations and applicable approved accounting standards in Malaysia. The external auditors attend Audit Committee meetings when necessary and have direct access to the Audit Committee and internal auditors for independent discussion.

This statement is made in accordance with a Board Resolution dated 11 May 2007.

DIRECTORS' RESPONSIBILITY STATEMENT

Preparation of financial statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 as to give a true and fair view of the state of affairs and the results and cash flows of the Company and the Group for the financial year.

In preparing the financial statements of the Group for the year ended 31 December 2006, the Directors have adopted appropriate accounting policies and applied them consistently, made prudent and reasonable judgements and estimates and ensured the applicable accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been followed. The financial statements have been prepared on a going concern basis.

The Directors acknowledge and are responsible for ensuring that proper accounting records are kept to reflect the reasonable accuracy of the financial position of the Company and the Group and to ensure the financial statements comply with all relevant rules and regulations.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This statement is made in accordance with a Board Resolution dated 11 May 2007.

The Board of Directors of Lityan Holdings Berhad (“Company”) is pleased to present the report of the Audit Committee for the financial year ended 31 December 2006.

AUDIT COMMITTEE COMPOSITION AND MEETINGS

The Audit Committee comprises three members of whom two are the Independent Non-Executive Directors.

The Audit Committee met four times during the financial year 2006 and the record of attendance of the Audit Committee members is as follows :-

| | Number of Meetings Attended |
|--------------------------------------------------------------------------------------------|------------------------------------|
| Chairman | |
| Dato’ Syed Sidi Idid Bin Syed Abdullah Idid <i>(Independent Non-Executive Director)</i> | 3/4 |
| Members | |
| Pikri Bin Haji Mohd Amin <i>(Independent Non-Executive Director)</i> | 4/4 |
| Adi Azuan Bin Abdul Ghani <i>(Non-Independent Non-Executive Director)</i> | 2/4 |

TERMS OF REFERENCE

The Audit Committee has in place its terms of reference, schedule of matters, audit charter and procedures regulating calling of meetings, election of chairman, validity of acts of Audit Committee, circular resolutions, minutes of meetings, certified copy of resolutions of Audit Committee and alteration of Audit Committee procedures.

Objective

The Audit Committee operates within the approved terms of reference. The primary objective of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities relating to accounting and reporting practices of the Group.

Composition

The Audit Committee shall be appointed by the Board from among their numbers which fulfil the following requirements :-

- 1) The Audit Committee shall consist at least three members and a majority must be independent directors;
- 2) At least one member of the Audit Committee :-
 - a) must be a member of the Malaysian Institute of Accountants; or
 - b) if he is not a member of Malaysian Institute of Accountants, he must have at least three years’ 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 accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or

- c) he must fulfil such other requirements as prescribed by Bursa Malaysia Securities Berhad (“BMSB”):-
- i) a degree/masters/doctorate in accounting or finance and at least three years’ post qualification experience in accounting or finance; or
 - ii) at least seven years’ experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation; or
 - iii) a member of International Federation of Accountants and at least three years’ post qualification experience in accounting or finance.

No alternate director shall be appointed as a member of the Audit Committee. The Audit Committee shall elect among their numbers a Chairman who shall be an Independent Non-Executive Director.

In the event of any vacancy in the Audit Committee resulting in non-compliance of the BMSB Listing Requirements, the Board shall within three months, appoint a new member to fill the vacancy.

The Board shall review the terms of office of the Audit Committee at least once every three years.

Authority

The Audit Committee is authorized by the Board to investigate any activity of the Group within its terms of reference and they shall be provided with the resources that are required to perform their duties. The Audit Committee has full and unrestricted access to any information pertaining to the Group and could communicate directly with the external and internal auditors. The Audit Committee shall meet with the external auditors without the presence of Executive Directors when necessary. In discharging their duties, the Audit Committee is entitled to obtain external legal or other independent professional advice, if required.

Meetings

The Audit Committee shall meet at least four times a year. The quorum for meeting shall be at least two members where a majority of members present must be Independent Directors. Questions arising at any meeting shall be determined by a majority of votes.

The Executive Directors and internal auditor shall normally attend the meetings but may be asked to leave a meeting as and when deemed necessary by the Audit Committee. The external auditors shall attend meeting to discuss and finalise matters relating to the annual financial statements and such other meetings as determined by the Audit Committee.

The Company Secretary is the Secretary to the Audit Committee.

Minutes of the meetings shall be duly entered into the books provided for the purpose of all resolutions and proceedings of all meetings of the Audit Committee. The minutes shall be formally tabled to the Board for noting and action.

Duties

The duties of the Audit Committee shall be to review and report the same to the Board :-

1. Nomination and appointment of the external auditors, audit fee and question of resignation or dismissal of the external auditors;
2. The external auditors’ audit plan and report, areas of concern arising from the audit and any other matters as the external auditors may wish to discuss (without the presence of the management, if necessary);

3. The quarterly and annual financial statements before submission to the Board for approval, focusing particularly on:
 - a) changes in or implementation of major accounting policies and practices;
 - b) significant adjustments arising from the audit;
 - c) going concern assumption; and
 - d) compliance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965;
4. The adequacy of the scope, functions and resources of the Internal Audit Function and that it has the necessary authority to carry out its work;
5. The audit plan and work program of the Internal Audit Function;
6. Findings of the internal audit work and management action taken on the recommendations of the Internal Audit Function;
7. Appraisal or assessment of the performance of members of the Internal Audit Function;
8. Appointment of senior staff of the Internal Audit Function;
9. Resignation of internal audit staff and provide the resigning staff an opportunity to submit the reason for resignation;
10. Extent of co-operation and assistance given by the employees to the external and internal auditors;
11. The propriety of any related party transaction and conflict of interest situation that may arise within the Group; and
12. Any other functions as directed by the Board.

In the event the Audit Committee is of the view that a matter reported to the Board has not been satisfactorily resolved resulting in breach of the BMSB Listing Requirements, the Audit Committee must promptly report such matter to BMSB.

Summary of Activities of the Audit Committee

The activities of the Audit Committee for the financial year ended 31 December 2006 were summarised as follows :-

- a) reviewed the Group's audited financial statements for the financial year ended 31 December 2006 and discussed significant audit findings with the external auditors before recommending the same for the Board's approval;
- b) reviewed and recommended the unaudited quarterly financial results for the Board's approval prior to their release to BMSB.
- c) reviewed and discussed with the external auditors the nature and scope of their audit plan for the Group for the financial year ended 31 December 2006 before the commencement of audit.
- d) discussed the updates of new developments in accounting standards issued by The Malaysian Accounting Standards Board.

AUDIT COMMITTEE REPORT (CONT'D)

- e) reviewed the outsourced internal auditors' proposed service plan and deliverables for year 2006 for the Board's consideration.
- f) reviewed and recommended the appointment and audit fee of the external auditors for the Board's consideration.

Summary of Activities of the Out-Sourced Internal Audit

The internal audit function of the Group was outsourced to a professional services firm to assume the responsibilities of the internal audit function and to assist the Audit Committee in reviewing the adequacy and effectiveness of the internal control system of the Group.

The internal auditors performed a "Corporate Governance Compliance Review" and gap analysis based on the BMSB Listing Requirements and the Malaysian Code on Corporate Governance. The review will provide an independent, objective assessment on the appropriateness of the Group's governance structure and the operating effectiveness of specific governance activities which will assist the Audit Committee in advising the Board for appropriate enhancement in the existing governance activities in accordance with the Principles and Best Practices in the Malaysian Code on Corporate Governance.

This Audit Committee report is made in accordance with a Board Resolution dated 11 May 2007.

INTRODUCTION

The Bursa Malaysia Securities Berhad Listing Requirements require directors of listed companies to include a statement in annual reports on the state of their internal controls. The Board of Lityan Holdings Berhad is pleased to present the Internal Control Statement which was prepared in accordance with the Principles and Best Practices in the Malaysian Code on Corporate Governance.

BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility for the internal control system to cover the financial, compliance and operational controls of the Group. The Board also recognizes its responsibility for reviewing the adequacy and integrity of the system of internal control to safeguard shareholders' investment and the Group's assets. However, it should be noted that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

RISK MANAGEMENT FRAMEWORK

The Board recognizes its responsibility over the principal risks of various aspects of the Group's businesses and it is crucial to achieve a critical balance between risks incurred and potential returns. To achieve this objective, regular meetings amongst senior management are carried out to assess the performance of operating units, identify new challenges resulting from changes in the business development, industry and overall business environment and formulate appropriate action plans. In addition, functional committees such as Contract Review Committee and Quotation Review Committee are in existence to manage and supervise specific key risk areas.

KEY PROCESSES OF INTERNAL CONTROL SYSTEM

The key processes of internal control system which mainly comprise the elements of control environment, control process, communication and monitoring are as follows:

- There is a clear organisational structure with well-defined lines of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties which are communicated to all levels of the Group.
- The close-to operations management style practised by the Executive Directors provides an ideal platform for assessment and management of those identified risks in the business operations or any significant matters.
- Detailed justification and approval process for major projects and acquisitions, allowances and write-offs are imposed to ensure congruency with the Group's strategic objectives.
- Functional limits and approving authority are established for the approval of revenue and capital expenditure for all operating units.
- Standard operating policies and procedures are set out, periodically reviewed, updated in response to changes in operating environment and communicated to all levels of the Group.
- Independent appraisals by the external auditors ensure ongoing compliance with standards and legislations whilst assessing the effectiveness of the Group's system of financial controls.
- Regular meetings and close working relationship ensure quick communication of results and decision making process.

STATEMENT ON INTERNAL CONTROL (CONT'D)

- The Group also seeks consultancy services provided by qualified external service providers to assist in ensuring compliance with requirement of regulatory bodies.

Internal Audit Function

The Audit Committee relied on the established control processes, reviews of the processes and financial statements and close discussions with the management team and the external auditors in discharging its duties for the financial year under review.

An independent internal audit service provider was engaged in the financial year to perform a “Corporate Governance Compliance Review” and gap analysis based on the Bursa Malaysia Securities Berhad Listing Requirements and the Malaysian Code on Corporate Governance. An independent, objective assessment on the appropriateness of the Group’s governance structure and the operating effectiveness of specific governance activities was provided under the same exercise to assist the Board in enhancing compliance with the Principles and Best Practices in the Malaysian Code on Corporate Governance.

Internal Control Issue

During the financial year, there were no material losses caused by breakdown in internal controls. The Board will continuously put in efforts to improve the Group’s control environment and processes.

This statement is made in accordance with a Board Resolution dated 11 May 2007.

FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company's principal activity is that of an investment holding company. The principal activities of the subsidiary companies are stated in Note 5 to the financial statements. There have been no significant changes in the nature of these principal activities during the financial year.

RESULTS

| | Group RM'000 | Company RM'000 |
|----------------------------------|-----------------|-------------------|
| Loss for the financial year | 13,516 | 12,141 |
| Accumulated loss brought forward | 290,241 | 244,370 |
| Accumulated loss carried forward | 303,757 | 256,511 |

DIVIDEND

No dividend was proposed, declared or paid by the Company since the end of the previous financial year. The directors do not recommend any dividend in respect of the financial year ended 31st December, 2006.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year have been disclosed in the financial statements.

ISSUE OF SHARES OR DEBENTURES

There was no issue of shares or debentures during the financial year.

OPTION GRANTED OVER UNISSUED SHARES

No share option was granted by the Company during the financial year.

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps 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 are satisfied that all known bad debts have been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would render the amount of bad debts written off or allowance made for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps to ascertain whether any current assets, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and of the Company had been written down to an amount that they might be expected to realise.

CURRENT ASSETS (Cont'd)

At the date of this report, the directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group and of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Group or of the Company 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 their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or in the financial statements of the Group and of the Company that would render any amount stated in the respective financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company during the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in the notes to the financial statements.

Except as disclosed in the notes to the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

DIRECTORS OF THE COMPANY

The directors who served since the date of the last report are as follows:-

Dato' Mohd Noh Bin Rajab
Rahmat Bin Harun
Lim Teik Ee
Wong Wing Kui @ Wong Weng Kwai
Pikri Bin Haji Mohd Amin
Dato' Syed Sidi Idid Bin Syed Abdullah Idid
Adi Azuan Bin Abdul Ghani

DIRECTORS' REPORT (Cont'd)

DIRECTORS' INTEREST

According to the register of directors' shareholdings, the interest of directors in office at the end of the financial year in shares of the Company and its related corporations during the financial year ended 31st December, 2006 are follows:-

| Shares in the Company | Number of Ordinary Shares of RM1 each | | | Balance at 31.12.2006 |
|-----------------------|---------------------------------------|--------|------|-----------------------|
| | Balance at 1.1.2006 | Bought | Sold | |
| Direct interest: | | | | |
| Rahmat Bin Harun | 6,650,000 | - | - | 6,650,000 |
| Lim Teik Ee | 1,000 | - | - | 1,000 |
| Indirect interest: | | | | |
| * Rahmat Bin Harun | 142,575 | - | - | 142,575 |

| Shares in Digital Transmission Systems Sdn Bhd (Subsidiary) | Number of Ordinary Shares of RM1 each | | | Balance at 31.12.2006 |
|-------------------------------------------------------------|---------------------------------------|--------|------|-----------------------|
| | Balance at 1.1.2006 | Bought | Sold | |
| Direct interest: | | | | |
| Rahmat Bin Harun | 5,000 | - | - | 5,000 |

* Deemed interest by virtue of shares held by spouse of Rahmat Bin Harun.

According to the register of directors' shareholdings, none of the other directors (other than as disclosed) who held office at the end of the financial year hold any interest in the shares of the Company and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than directors' remuneration as disclosed 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 the director is a member or with a company in which the director has a substantial financial interest.

Neither during nor at the end of the financial year, was the Company or its subsidiary companies a party to any arrangement whose object was to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

AUDITORS

The auditors, Messrs Wong Weng Foo & Co., have expressed their willingness to continue in office.

Signed on behalf of the Board of directors in accordance with a resolution dated 25th April, 2007.

RAHMAT BIN HARUN

Director

LIM TEIK EE

Director

KUALA LUMPUR

as at 31st December 2006

| | Note | 2006 RM'000 | 2005 RM'000 |
|--------------------------------------------------------------------------|------|-----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 27,657 | 40,483 |
| Goodwill on consolidation | 4 | - | - |
| Investment in associated companies | 6 | - | 23 |
| Deferred income tax assets | 7 | 3,902 | 3,902 |
| | | 31,559 | 44,408 |
| Current assets | | | |
| Assets held for sale | 8 | 11,217 | 14,400 |
| Investment | 9 | 721 | 3,577 |
| Inventories | 10 | 520 | 450 |
| Receivables | 11 | 13,352 | 14,253 |
| Deposits, cash and bank balances | 13 | 9,093 | 6,878 |
| | | 34,903 | 39,558 |
| Total assets | | 66,462 | 83,966 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 14 | 102,806 | 102,806 |
| Reserves | 15 | (188,506) | (178,754) |
| Capital deficiency | | (85,700) | (75,948) |
| Minority interest | | 3,785 | 3,726 |
| | | (81,915) | (72,222) |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Hire-purchase creditor | 16 | 66 | 116 |
| Post-employment benefits | 17 | - | 3,466 |
| Deferred tax liabilities | 21 | 2,482 | - |
| | | 2,548 | 3,582 |
| Current liabilities | | | |
| Payables | 18 | 35,516 | 43,196 |
| Hire-purchase creditor | 16 | 50 | 50 |
| Bank borrowings | 19 | 70,940 | 70,496 |
| Post-employment benefits | 17 | 159 | 945 |
| Bank overdrafts | 20 | 38,421 | 37,205 |
| Current income tax liabilities | | 743 | 714 |
| | | 145,829 | 152,606 |
| Total liabilities | | 148,377 | 156,188 |
| Total equity and liabilities | | 66,462 | 83,966 |

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

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2006

| | Note | 2006 RM'000 | 2005 RM'000 |
|------------------------------------------|------|-----------------|----------------|
| REVENUE | | 39,037 | 39,981 |
| COST OF SALES | | (29,289) | (24,645) |
| GROSS PROFIT | | 9,748 | 15,336 |
| OTHER OPERATING INCOME | | 1,461 | 132 |
| RESEARCH AND DEVELOPMENT EXPENSES | | (6) | (19) |
| SELLING AND DISTRIBUTION COSTS | | (879) | (776) |
| ADMINISTRATIVE EXPENSES | | (9,890) | (17,424) |
| OTHER OPERATING EXPENSES | | (2,520) | (23,695) |
| OPERATING LOSS | | (2,086) | (26,446) |
| FINANCE COST | 22 | (8,917) | (7,293) |
| SHARE OF LOSS OF ASSOCIATES | | - | (216) |
| LOSS BEFORE INCOME TAX | 22 | (11,003) | (33,955) |
| INCOME TAX EXPENSE | 23 | (2,454) | (2,278) |
| LOSS FOR THE FINANCIAL YEAR | | (13,457) | (36,233) |
| Attributable to: | | | |
| Equity holders of the Company | | (13,516) | (36,098) |
| Minority interest | | 59 | (135) |
| | | (13,457) | (36,233) |
| LOSS PER SHARE (Sen) | 24 | (13.15) | (35.11) |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2006

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| | ← Attributable to the equity holders of the Company → | | | | | | |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------|---------------------------------|-----------------------------------------------------|----------------------------------|----------------------|-----------------|
| | Share capital (Note 14) | Share premium (Note 15) | *Merger deficit (Note 15) | Currency translation differences (Note 15) | Accumulated loss (Note 15) | Minority Interest | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1st January 2005 | 102,806 | 129,782 | (15,045) | 706 | (254,143) | 3,861 | (32,033) |
| Loss for the financial year | - | - | - | - | (36,098) | (135) | (36,233) |
| Currency translation differences: Loss arising not recognised in the income statement | - | - | - | (3,956) | - | - | (3,956) |
| At 31st December 2005/ 1st January 2006 | 102,806 | 129,782 | (15,045) | (3,250) | (290,241) | 3,726 | (72,222) |
| Loss for the financial year | - | - | - | - | (13,516) | 59 | (13,457) |
| Currency translation differences: Gain arising not recognised in the income statement | - | - | - | 3,764 | - | - | 3,764 |
| As at 31st December 2006 | 102,806 | 129,782 | (15,045) | 514 | (303,757) | 3,785 | (81,915) |

* Deficit arising on merger represents the difference between the nominal value of the ordinary shares issued as consideration for the acquisition of Lityan Systems Sdn Bhd and the nominal value of the ordinary shares transferred.

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

CONSOLIDATED CASH FLOWS STATEMENT

for the year ended 31st December 2006

| | 2006 | 2005 |
|--------------------------------------------------------------|-----------------|---------------|
| | RM'000 | RM'000 |
| Cash Flow From Operating Activities | | |
| Loss before income tax | (11,003) | (33,955) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 2,207 | 8,125 |
| Gain on disposal of property, plant and equipment | (16) | (11) |
| Property, plant and equipment written off | 1 | 342 |
| Impairment loss on property, plant and equipment | - | 24,361 |
| Reversal of impairment loss on property, plant and equipment | (116) | (916) |
| Impairment loss on investment | 2,879 | 3,676 |
| Loss on disposal of investments | - | 132 |
| Share of results of associates | - | 216 |
| Negative goodwill written off | - | (116) |
| Bad debts recovered | - | (4) |
| Allowance for doubtful debts | 60 | 1,889 |
| Allowance for doubtful debts no longer required | (191) | - |
| Allowance for slow moving inventories | - | 268 |
| Inventories written off | 15 | 2,896 |
| Allowance for slow moving inventories no longer required | - | (2,863) |
| Settlement of legal case | - | 15 |
| Defined benefit plan | 352 | 8 |
| Interest expense | 8,917 | 7,293 |
| Interest income | (90) | (72) |
| Unrealised gain on foreign exchange | (126) | (5,862) |
| Operating profit before working capital changes | 2,889 | 5,422 |
| (Increase)/ Decrease in inventories | (85) | 1,406 |
| Decrease/ (Increase) in receivables | 122 | (10,472) |
| (Decrease)/ Increase in payables | (4,788) | 12,843 |
| Cash (absorbed by)/ generated from operations | (1,862) | 9,199 |
| Interest paid | (4,092) | (3,380) |
| Interest received | 90 | 72 |
| Income tax refund | 1,183 | 100 |
| Income tax paid | (33) | (6) |
| Defined benefit paid | (3,051) | (136) |
| Net cash (used in)/ provided by operating activities | (7,765) | 5,849 |

CONSOLIDATED CASH FLOWS STATEMENT (Cont'd)

for the year ended 31st December 2006

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| | 2006 RM'000 | 2005 RM'000 |
|---------------------------------------------------------|-----------------|-----------------|
| Cash Flow From Investing Activities | | |
| Acquisition of property, plant and equipment | (444) | (460) |
| Increase in shareholding in a subsidiary company | - | (75) |
| Proceeds from disposal of property, plant and equipment | 14,543 | 85 |
| Net cash provided by/ (used in) investing activities | 14,099 | (450) |
| Cash Flow From Financing Activities | | |
| Proceeds from borrowings | - | 2,060 |
| Repayment of borrowings | (5,308) | (1,937) |
| Repayment of hire-purchase creditor | (50) | (58) |
| Net cash (used in)/ provided by financing activities | (5,358) | 65 |
| Net changes in cash & cash equivalents | 976 | 5,464 |
| Currency translation differences | 23 | (1) |
| * Cash & cash equivalents brought forward | (30,327) | (35,790) |
| * Cash & cash equivalents carried forward | (29,328) | (30,327) |
| * Cash & cash equivalents consist of: | | |
| Fixed deposits with licensed banks | 1,035 | 1,637 |
| Cash and bank balances | 8,058 | 5,241 |
| Bank overdrafts | (38,421) | (37,205) |
| | (29,328) | (30,327) |

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

BALANCE SHEET

as at 31st December 2006

| | Note | 2006 RM'000 | 2005 RM'000 |
|--------------------------------------------------------------------------|------|-----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investment in subsidiary companies | 5 | - | - |
| | | - | - |
| Current assets | | | |
| Receivables | 11 | 1,184 | 2,853 |
| Amount due from subsidiary companies | 12 | 9,414 | 17,933 |
| Cash and bank balances | 13 | 9 | 6 |
| | | 10,607 | 20,792 |
| Total assets | | 10,607 | 20,792 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 14 | 102,806 | 102,806 |
| Reserves | 15 | (126,729) | (114,588) |
| Capital deficiency | | (23,923) | (11,782) |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 18 | 5,677 | 4,432 |
| Amount due to a subsidiary company | | 403 | - |
| Bank borrowings | 19 | 14,000 | 14,270 |
| Bank overdrafts | 20 | 14,450 | 13,220 |
| Current income tax liabilities | | - | 652 |
| | | 34,530 | 32,574 |
| Total liabilities | | 34,530 | 32,574 |
| Total equity and liabilities | | 10,607 | 20,792 |

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

INCOME STATEMENT

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for the year ended 31st December 2006

| | | 2006 | 2005 |
|--------------------------------------|-------------|---------------|---------------|
| | Note | RM'000 | RM'000 |
| REVENUE | | - | - |
| ADMINISTRATIVE EXPENSES | | (944) | (588) |
| OTHER OPERATING EXPENSES | | (8,539) | 426 |
| | | <hr/> | <hr/> |
| OPERATING LOSS | | (9,483) | (162) |
| FINANCE COST | 22 | (2,722) | (2,356) |
| | | <hr/> | <hr/> |
| LOSS BEFORE INCOME TAX | 22 | (12,205) | (2,518) |
| INCOME TAX EXPENSE | 23 | 64 | - |
| | | <hr/> | <hr/> |
| LOSS FOR THE FINANCIAL YEAR | | (12,141) | (2,518) |
| | | <hr/> | <hr/> |
| Attributable to: | | | |
| Equity holders of the Company | | (12,141) | (2,518) |
| | | <hr/> | <hr/> |

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2006

| | ← Attributable to the equity holders of the Company → | | | |
|----------------------------------------|-------------------------------------------------------|---------------------|---------------------|-----------------|
| | Share capital | Share premium | Accumulated loss | Total |
| | (Note 14) RM'000 | (Note 15) RM'000 | (Note 15) RM'000 | RM'000 |
| At 1st January 2005 | 102,806 | 129,782 | (241,852) | (9,264) |
| Loss for the financial year | - | - | (2,518) | (2,518) |
| At 31st December 2005/1st January 2006 | 102,806 | 129,782 | (244,370) | (11,782) |
| Loss for the financial year | - | - | (12,141) | (12,141) |
| At 31st December 2006 | 102,806 | 129,782 | (256,511) | (23,923) |

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

| | 2006 RM'000 | 2005 RM'000 |
|------------------------------------------------------|----------------|----------------|
| Cash Flow From Operating Activities | | |
| Loss before income tax | (12,205) | (2,518) |
| Adjustments for: | | |
| Allowance for doubtful debts | 9,150 | - |
| Allowance for doubtful debts no longer required | (611) | (426) |
| Interest expense | 2,722 | 2,356 |
| Operating loss before working capital changes | (944) | (588) |
| Decrease/ (Increase) in receivables | 384 | (738) |
| (Decrease)/ Increase in payables | (247) | 1,578 |
| Cash (absorbed by)/generated from operations | (807) | 252 |
| Income tax refund | 1,080 | - |
| Interest paid | (1,230) | (1,165) |
| Net cash used in operating activities | (957) | (913) |
| Cash Flows From Investing Activities | - | - |
| Cash Flows From Financing Activities | | |
| Repayment of term loans | (270) | (190) |
| Net cash used in financing activity | (270) | (190) |
| Net changes in cash & cash equivalents | (1,227) | (1,103) |
| * Cash & cash equivalents brought forward | (13,214) | (12,111) |
| * Cash & cash equivalents carried forward | (14,441) | (13,214) |
| * Cash & cash equivalents consist of: | | |
| Cash and bank balances | 9 | 6 |
| Bank overdrafts | (14,450) | (13,220) |
| | (14,441) | (13,214) |

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

1. GENERAL INFORMATION

- 1.1 The principal activity of the Company during the financial year is that of an investment holding company. The principal activities of the subsidiary companies are stated in Note 5 to the financial statements. There have been no significant changes in the nature of these principal activities during the financial year.
- 1.2 The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad.
- 1.3 There was no employee in the Company during the current and previous financial year. The average number of employees in the Group during the financial year were 189 (2005 : 209).
- 1.4 The address of the registered office and the principal place of business of the Company is located at Bangunan C, Peremba Square, Saujana Resort, Section U2, 40150 Shah Alam, Selangor Darul Ehsan.

2. SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

The preparation of financial statements in conformity with applicable Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965 requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported financial year. Although these estimates are based on the directors' best knowledge of current events and actions, actual results could differ from those estimates.

- (i) The Group and the Company incurred a net loss of RM13,516,000 and RM12,141,000 respectively during the financial year ended 31st December, 2006. As of that date, the shareholders' equity of the Group and the Company were in deficit of RM85,700,000 and RM23,923,000 respectively, and the current liabilities of the Group and the Company exceeded their current assets by RM110,926,000 and RM23,923,000 respectively. As of 31st December, 2006, the Group and the Company have been experiencing difficulties in settling their obligations as they fall due and have defaulted on the repayment of certain bank borrowings as mentioned in Note 29 to the financial statements. These factors raise substantial doubts on the appropriateness of preparing the financial statements of the Group and the Company on the going concern basis. If the Group and the Company are not able to continue as going concerns, adjustments would have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify the non-current assets and non-current liabilities as current assets and current liabilities respectively.
- (ii) Therefore, in response to the need to improve the immediate financial position of the Group and the Company, the directors have undertaken to carry out the following:
 - (a) On 27th October, 2004, the Company, on behalf of its wholly-owned subsidiary entered into a conditional sale and purchase agreement (SPA) with third parties to dispose of its investment in quoted shares for a total cash consideration of AUD1.81 million (approximately RM5.08 million). On 8th December, 2005, Securities Commission ("SC") had vide its letter approved the Group's waiver application of SC Approval on the said disposal via the SPA or to dispose the shares through open market or placements on a best-effort basis. The date to meet the condition precedent which is to procure all the relevant approvals had expired on 31st October, 2005. Due to the depressed share price of the quoted shares, the buyers are of the opinion that they are unable to sustain the price as per the SPA. Therefore pursuant to the provisions in the SPA, the said contract was terminated on 15th February, 2006. The Group will make the necessary plans and arrangement to dispose the shares through open market or placements on a best effort basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

- (b) On 29th July, 2005, the Company had entered into a conditional restructuring agreement with Giant Best Corporation Limited ("Vendor"), Chen Xinmin and Lim Chu Fatt (collectively, the "Guanhong Principal Shareholders") wherein the Company, Vendor and the Guanhong Principal Shareholders have agreed in principle to undertake the Proposed Restructuring Scheme ("PRS"). The PRS had been sent for approval of Securities Commission ("SC") Foreign Investment Committee and Bank Negara Malaysia on 20th January, 2006. SC had not approved the PRS vide its letter dated 6th June, 2006.

The Company had on 6th July, 2006 submitted an application to the SC for a review of its decision. SC had vide its letter dated 27th September, 2006 rejected the Appeal. The Company had on 9th October, 2006, filed an application for Judicial Review on the decision of SC and also applied for an Interim Order to stay the decision of Bursa Malaysia Securities Berhad ("BMSB") to remove the securities from its Official List on 13th October, 2006. Pending the hearing by the High Court of the application on 22nd November, 2006, BMSB has vide its letter dated 15th November, 2006 that the Appeal be disallowed and to de-list the securities of the Company from the Official List of Bursa Securities ("BS") due to the Company does not have an adequate level of financial condition to warrant continued listing on the Official List of BS. However, there will be no de-listing undertaken by BMSB until 22nd November, 2006 which was fixed for disposal of the Stay Application and the Company's application for judicial review as per Court's order on 11th October, 2006.

The hearing for the application for leave to issue a certiorari to squash the decision of SC in rejecting the Company's PRS has been adjourned to 4th July, 2007 and BMSB had agreed to a stay of the delisting until 4th July, 2007.

The proceeds from the disposals of non-core asset mentioned in paragraph ii (a) above will be used to address the immediate working capital requirements of the Group to sustain its current operations as well as formulating new plans to move forward.

- (iii) The future of the Company is very much dependent on the successful outcome of the Company's continuous initiatives and efforts at restructuring the Group to address the current financial position and to restore the Group onto a stronger financial footing in order for it to move forward.

At the same time initiatives are undertaken by the Group to improve and expand its on-going business operations by:

- (a) Maintaining, enhancing and expanding the current businesses with existing customers in the Government sector as well as Government linked companies;
 - (b) Reducing outsourced works and services to third parties to improve in-house operational and cost efficiencies;
 - (c) Reducing the level of dependence on the current customers' base and re-look at potential and focus areas to expand within its core businesses; and
 - (d) Revising business arrangements to provide improved returns, increased business efficiencies and reduced risk.
- (iv) Accordingly, the directors have prepared the financial statements on a going concern basis based on the continued financial support from some of the lenders in the form of borrowing facilities, the ability of the Group and the Company to generate sufficient cash inflows to sustain their operations.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Changes in Accounting Policies and Effects from Adoption of New and Revised FRSs

In the previous financial year ended 31st December, 2005, the Group and the Company had early adopted the following new and revised Financial Reporting Standards ("FRSs") issued by the MASB which are mandatory for financial periods beginning on or after 1st January, 2006:-

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

The Group has not early adopted the following FRSs and amendments:

| | | Effective for financial periods beginning on or after |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| FRS 117 | Leases | 1 October 2006 |
| FRS 124 | Related Party Disclosures | 1 October 2006 |
| FRS 6 | Exploration for and Evaluation of Mineral Resources | 1 January 2007 |
| Amendments to FRS 119 ₂₀₀₄ | Employee Benefits – Actuarial Gains and Losses, Group Plans And Disclosures | 1 January 2007 |
| Amendments to FRS 121 | The Effects of Changes in Foreign Exchange Rates – Net Investments in a Foreign Operation | 1 July 2007 |
| IC Interpretation 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | 1 July 2007 |
| IC Interpretation 2 | Members' Shares in Co-Operative Entities and Similar Liabilities | 1 July 2007 |
| IC Interpretation 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | 1 July 2007 |
| IC Interpretation 6 | Liabilities arising from participating in a Specific Market – Waste Electrical and Electronic Equipment | 1 July 2007 |
| IC Interpretation 7 | Applying the Restatement Approach under FRS 129 ₂₀₀₄ Financial Reporting in Hyperinflationary Economies | 1 July 2007 |
| IC Interpretation 8 | Scope of FRS 2 | 1 July 2007 |

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.3 Critical accounting judgements and key sources of estimation uncertainty

(i) Critical judgement made in applying accounting policies

The directors are of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements in applying the Group and Company's accounting policies other than the basis of preparation of financial statements as disclosed in Note 2.1 to the financial statements.

(ii) Key sources of estimation uncertainty

The directors believes, other than as disclosed in Note 2.1 to the financial statements, that there are no key assumptions made concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustments to the carrying amount of assets and liabilities within the next financial year.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

Subsidiaries are consolidated from the date of acquisition up to the date of disposal. Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Subsidiaries are consolidated using the acquisition method of accounting except for the following subsidiaries which were consolidated prior to 1st July, 2001 using the merger method of accounting in accordance with Malaysian Accounting Standard No.2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time.

Slam Atomised Metal Sdn. Bhd.
Advanced Business Solutions (M) Sdn. Bhd.
Lityan Systems Sdn. Berhad

The new Standard FRS 3 "Business Combinations" states that all business combinations shall be accounted for by applying the acquisition method. However, the Group has adopted the exemption allowed to apply FRS 3 on prospective basis. Accordingly, business combinations entered into prior to 1st January, 2006, have not been restated to comply with this Standard.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' assets, liabilities and contingent liabilities are determined. The excess of the acquisition cost over the fair values of the Group's share of the subsidiaries' identifiable net assets at the date of acquisition is reflected as goodwill. If the acquisition cost is less than the fair value of the Group's share of the subsidiaries identifiable net assets at the date of acquisition, the difference is recognised directly in the income statement.

In a piecemeal acquisition, the fair value adjustment attributable to previously held equity interests is accounted for as post-acquisition revaluation.

Under the merger method of accounting, the results of the subsidiaries are presented as if the merger had been effected throughout the current and previous financial years. On consolidation, the difference between the carrying value of the investment in these subsidiaries over the nominal value of the shares acquired is taken to merger reserve.

Minority interest is measured at the minorities' share of the post-acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.5 Goodwill on consolidation

Goodwill on consolidation represents the excess of the acquisition cost over the Group's share of the fair value of the subsidiaries' identifiable net assets at the date of acquisition and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment loss on goodwill on consolidation is not reversed in a subsequent period. Negative goodwill is taken immediately to income statement.

2.6 Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost as modified by the revaluation of certain freehold and leasehold properties of the Group less accumulated depreciation and accumulated impairment loss, if any.

Freehold lands are not depreciated as it has infinite life.

Capital work-in-progress comprise the cost of equipment, accessories and all other direct attributable costs for the setting up of a wireless telecommunication data network and payphone operation and are not depreciated.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

Depreciation on other property, plant and equipment is calculated on the straight line method to write off the cost of the assets to their residual value over their estimated useful lives at the following annual rates:-

| | Years |
|---------------------------|--------------|
| Freehold building | 45 |
| Computer equipment | 3 |
| Office and test equipment | 5 – 10 |
| Furniture and fittings | 10 |
| Motor vehicles | 5 |
| Renovations | 5 |
| Plant and machinery | 10 |
| Payphone network | 7 - 14 |

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

Property, plant and equipment of which intention to dispose within twelve months or have been contracted for sale but not completed at the balance sheet date are reclassified to assets held for sale account under current assets at the lower of carrying amount and fair value less costs to sell. No further depreciation is provided for on these assets.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.7 Subsidiaries

Subsidiaries are those corporations in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Investments in subsidiaries are shown in the Company's financial statements at cost less impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

2.8 Associates

The Group treats as associates, those corporations in which a long-term equity of between twenty (20) and fifty (50) percent is held and where it exercises significant influence over the financial and operating policy decisions but not control over those policies and has representation on the Board of Directors. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising the Group's share of the post-acquisition results of associates for the financial year in the income statement and its share of post-acquisition movements within reserves in reserves. The Group's investments in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill (net of accumulated impairment losses) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

On disposal of an associate, the difference between net disposal proceeds and its carrying amount is charged/ (credited) to the income statement.

Investments in associates are accounted for in the Company's financial statements at cost less impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

2.9 Investments

Investments in unquoted shares are shown at cost less impairment losses.

Investment held for sale is classified as current assets. Current investment is stated at the lower of cost and market value.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged/ (credited) to the income statement.

2.10 Inventories

Inventories are valued at the lower of cost and net realisable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow moving inventories.

Cost is determined on a weighted average basis and includes import duties, transport and handling costs and any other direct attributable costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.11 Impairment of Assets

The carrying values of assets, other than inventories, deferred tax assets and non-current assets held for sale, are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

2.12 Income Tax

Income tax on the profit for the year comprises current and deferred income tax liabilities. Current income tax liabilities is the expected amount of income taxes payable in respect of the taxable profit for the year, according to the tax laws of each jurisdiction in which the Group operates, is measured using the tax rates that have been enacted at the balance sheet date.

Deferred income tax liabilities is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred income tax liabilities are recognised for all taxable temporary differences and deferred income tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

A deferred income tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred income tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reduction will be reversed to the extent of the taxable profit.

2.13 Receivables

Receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts at the financial year end. Bad debts are written off in the financial year in which they are identified.

2.14 Payables

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.15 Provisions

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

2.16 Hire-purchase

Property, plant and equipment acquired under hire-purchase are capitalised and are depreciated on the same basis as owned assets as stated in Note 2.6 and the corresponding obligations relating to the remaining capital payments are treated as liabilities. Finance charges are charged to the income statement over the period of the plan and accounted on a straight line method.

2.17 Interest-Bearing Borrowings

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

Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

2.18 Share Capital

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of the shares are accounted for as a deduction from share premium, otherwise it is charged to the income statement.

Dividends to shareholders are recognised in equity in the period in which they are declared or approved by shareholders at general meeting.

2.19 Cash and Cash Equivalents

Cash and cash equivalents consists of cash in hand, bank balances and fixed deposits with licensed banks, net of outstanding bank overdrafts which have an insignificant risk of changes in value.

2.20 Financial Instruments

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

Fair value estimation for disclosure purposes

The fair value of quoted investment outside Malaysia is based on quoted market price at the balance sheet date.

The fair value of financial guarantees given to third parties is derived from the banker's quotation in respect of the amount required to settle the contingent obligation at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.20 Financial Instruments (Cont'd)

The face value of financial assets, less any estimated credit adjustments and financial liabilities with a maturity of less than one (1) year and floating rate long-term debts are assumed to approximate their fair values.

2.21 Foreign Currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Foreign Currency Transactions

Transactions in foreign currencies are converted into Malaysian Ringgit, the Company's functional currency, at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies at the balance sheet date have been converted into Ringgit Malaysia at the rate of exchange ruling at that date. Exchange differences are dealt with through the income statement.

The principal closing rates used in translation of foreign currency amounts are follows:-

| Foreign currency | 2006 RM | 2005 RM |
|----------------------|------------|------------|
| 1 US Dollar | 3.53 | 3.78 |
| 100 Philippines Peso | 7.20 | 7.13 |
| 1 Australian Dollar | 2.79 | 2.77 |

(iii) Foreign entities

The Group's foreign entities are those operations that are not an integral part of the operations of the Company. Income statements of foreign entities are translated into Ringgit Malaysia at average exchange rates for the financial year and the balance sheets are translated at exchange rates approximating those ruling at the balance sheet date. Exchange differences arising from the retranslation of the net investment in foreign entities and of borrowings that hedge such investments are taken to 'Currency Translation Differences' in shareholders' equity. On disposal of the foreign entity, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill on consolidation and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and are translated accordingly at the exchange rate ruling at the date of the transaction.

2.22 Employee Benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.22 Employee Benefits (Cont'd)

(ii) Post-employment benefits

Defined benefit plan

The Group operates an unfunded final salary defined benefit plan for its employees, taking into account the recommendations of independent qualified actuaries. The liability in respect of a defined benefit plan is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for actuarial gains/losses and past service cost. The Group determines the present value of the defined benefit obligation with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

The service and retirement benefits accounting cost is assessed using the projected unit credit method. Under this method, the cost of providing service and retirement benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The service and retirement benefits obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions.

Defined contribution plan

The Group's contributions to the defined contribution plan ('Employees Provident Fund') are charged to the income statement in the period in which they relate. Once the contributions have been paid, the Group have no further payment obligations.

2.23 Research and development

Research and development expenditure is recognised as an expense when incurred.

2.24 Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income statement on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.25 Contingent liabilities and contingent assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group of a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.26 Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. Business segments provide products or services that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those components operating in other economic environment.

Segment revenue, expenses, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expenses, assets and liabilities are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment.

2.27 Operating Revenue

Operating revenue of the Group represents invoiced value of goods and services sold, net of returns, discounts and allowances. Operating revenue of the Company represents dividend income from subsidiaries.

2.28 Revenue Recognition

Revenue from sales of goods are recognised upon delivery of products and customer acceptance, if any, or performance of services.

Other revenue earned by the Group and the Company are recognised on the following basis:-

- | | | |
|-----------------|---|-------------------------------------------------------------------------------------------------------------|
| Rental income | - | on accrual basis over the period of tenancy, unless its collectibility is in doubt. |
| Interest income | - | as it accrues taking into account the effective yield on the assets, unless its collectibility is in doubt. |
| Dividend income | - | as and when the shareholders' right to receive payment is established. |
| Other income | - | on receipt basis. |

3. PROPERTY, PLANT AND EQUIPMENT

| 2006 | Freehold land & building | | Freehold buildings | | Computer equipment | | Office & test equipment | | Furniture & fittings | | Motor vehicles | | Renovations | | Plant & machinery | | Payphone network | | Capital work-in-progress | | Total | | | |
|--------------------------------------|--------------------------|--------|--------------------|--------|--------------------|--------|-------------------------|--------|----------------------|--------|----------------|--------|-------------|--------|-------------------|--------|------------------|--------|--------------------------|--------|--------|--------|--|--|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | | |
| COST | | | | | | | | | | | | | | | | | | | | | | | | |
| At 1st January | 30,005 | 168 | 2,665 | 788 | 2,000 | 1,546 | 258 | 13,078 | 77,507 | 7,060 | 135,075 | | | | | | | | | | | | | |
| Additions | - | - | 375 | 9 | - | - | 40 | 15 | - | 5 | 444 | | | | | | | | | | | | | |
| Disposal | - | - | - | - | - | (102) | - | - | - | - | (102) | | | | | | | | | | | | | |
| Write offs | - | - | (38) | (18) | - | - | - | - | - | - | - | | | | | | | | | | | | | |
| Reclassification | - | - | - | - | - | - | - | 584 | (70,786) | (584) | (70,786) | | | | | | | | | | | | | |
| Currency translation differences | - | 2 | 7 | 2 | - | 3 | 2 | - | 1,034 | - | 1,050 | | | | | | | | | | | | | |
| Transfer to inventories | - | - | - | - | - | - | - | - | - | - | (116) | | | | | | | | | | | | | |
| At 31st December | 30,005 | 170 | 3,009 | 781 | 2,000 | 1,447 | 300 | 13,677 | 7,755 | 6,365 | 65,509 | | | | | | | | | | | | | |
| ACCUMULATED IMPAIRMENT LOSSES | | | | | | | | | | | | | | | | | | | | | | | | |
| At 1st January | 3,775 | - | - | - | - | - | - | 4,632 | 34,450 | 7,060 | 49,917 | | | | | | | | | | | | | |
| Reversal during the year | - | - | - | - | - | - | - | - | - | (116) | (116) | | | | | | | | | | | | | |
| Reclassification | - | - | - | - | - | - | - | 584 | (33,802) | (584) | (33,802) | | | | | | | | | | | | | |
| Currency translation differences | - | - | - | - | - | - | - | - | 449 | - | 449 | | | | | | | | | | | | | |
| At 31st December | 3,775 | - | - | - | - | - | - | 5,216 | 1,097 | 6,360 | 16,448 | | | | | | | | | | | | | |
| ACCUMULATED DEPRECIATION | | | | | | | | | | | | | | | | | | | | | | | | |
| At 1st January | 4,230 | 24 | 2,561 | 575 | 1,495 | 1,458 | 248 | 7,102 | 26,982 | - | 44,675 | | | | | | | | | | | | | |
| Charge for the year | 517 | 3 | 86 | 64 | 200 | 64 | 6 | 150 | 1,117 | - | 2,207 | | | | | | | | | | | | | |
| Disposal | - | - | - | - | - | (91) | - | - | - | - | (91) | | | | | | | | | | | | | |
| Write offs | - | - | (39) | (16) | - | - | - | - | - | - | (55) | | | | | | | | | | | | | |
| Reclassification | - | - | - | - | - | - | - | - | (25,767) | - | (25,767) | | | | | | | | | | | | | |
| Currency translation differences | - | 1 | 11 | (1) | - | 7 | 2 | - | 415 | - | 435 | | | | | | | | | | | | | |
| At 31st December | 4,747 | 28 | 2,619 | 622 | 1,695 | 1,438 | 256 | 7,252 | 2,747 | - | 21,404 | | | | | | | | | | | | | |
| NET BOOK VALUE | | | | | | | | | | | | | | | | | | | | | | | | |
| At 31st December | 21,483 | 142 | 390 | 159 | 305 | 9 | 44 | 1,209 | 3,911 | 5 | 27,657 | | | | | | | | | | | | | |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

| 3. PROPERTY, PLANT AND EQUIPMENT (Cont'd) | | | | | | | | | | | | |
|-------------------------------------------|--------------------------|--------------------|--------------------|-------------------------|----------------------|----------------|-------------|-------------------|------------------|--------------------------|---------|--------|
| 2005 | Freehold land & building | Freehold buildings | Computer equipment | Office & test equipment | Furniture & fittings | Motor vehicles | Renovations | Plant & machinery | Payphone network | Capital work-in-progress | Total | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| COST | | | | | | | | | | | | |
| At 1st January | 30,005 | 160 | 2,620 | 741 | 1,995 | 1,624 | 252 | 11,530 | 68,464 | 12,940 | 130,331 | |
| Additions | - | - | 348 | 24 | 5 | - | - | 2 | - | 81 | 460 | |
| Disposal | - | - | - | - | - | (112) | - | - | - | - | (112) | |
| Write offs | - | - | (342) | - | - | - | - | - | - | - | (342) | |
| Acquisition of a subsidiary company | - | - | 38 | 13 | - | - | - | - | - | - | 51 | |
| Disposal of subsidiary company | - | - | (41) | (4) | - | - | - | - | - | - | (45) | |
| Currency translation differences | - | 8 | 42 | 14 | - | 34 | 6 | - | 4,723 | - | 4,827 | |
| Transfer | - | - | - | - | - | - | - | 1,546 | 4,320 | (5,866) | - | |
| Transfer to inventories | - | - | - | - | - | - | - | - | - | (95) | (95) | |
| At 31st December | 30,005 | 168 | 2,665 | 788 | 2,000 | 1,546 | 258 | 13,078 | 77,507 | 7,060 | 135,075 | |
| ACCUMULATED IMPAIRMENT LOSSES | | | | | | | | | | | | |
| At 1st January | 3,355 | - | - | - | - | - | - | - | 15,795 | 5,160 | 24,310 | |
| Charge for the year | 420 | - | - | - | - | - | - | 4,632 | 17,409 | 1,900 | 24,361 | |
| Currency translation differences | - | - | - | - | - | - | - | - | 1,246 | - | 1,246 | |
| At 31st December | 3,775 | - | - | - | - | - | - | 4,632 | 34,450 | 7,060 | 49,917 | |
| ACCUMULATED DEPRECIATION | | | | | | | | | | | | |
| At 1st January | 3,704 | 20 | 2,283 | 470 | 1,297 | 1,293 | 232 | 5,904 | 19,818 | - | 35,021 | |
| Charge for the year | 526 | 3 | 247 | 83 | 198 | 229 | 10 | 1,198 | 5,631 | - | 8,125 | |
| Disposal | - | - | - | - | - | (87) | - | - | - | - | (87) | |
| Acquisition of a subsidiary company | - | - | 38 | 13 | - | - | - | - | - | - | 51 | |
| Disposal of subsidiary company | - | - | (41) | (3) | - | - | - | - | - | - | (44) | |
| Currency translation differences | - | 1 | 34 | 12 | - | 23 | 6 | - | 1,533 | - | 1,609 | |
| At 31st December | 4,230 | 24 | 2,561 | 575 | 1,495 | 1,458 | 248 | 7,102 | 26,982 | - | 44,675 | |
| NET BOOK VALUE | | | | | | | | | | | | |
| At 31st December | 22,000 | 144 | 104 | 213 | 505 | 88 | 10 | 1,344 | 16,075 | - | 40,483 | |

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

- (a) The cost of freehold land and building with net book value amounting to RM21,483,000 (2005: RM22,000,000) cannot be split between land and building because the land is also shared by other building owners. Risks, rewards and effective title to this asset have been passed to a wholly-owned subsidiary company upon unconditional completion of the sale and purchase agreement. The developer of this asset has submitted the relevant documents to the land authorities for transfer of strata title to the subsidiary company and is awaiting the process and formalities of this transfer to be completed. A third party first legal charge has been created over the asset as security for short term borrowing facilities of the Company as set out in Notes 19(a) and 20 (i).
- (b) Certain property, plant and equipment of certain subsidiary companies were pledged as securities for banking facilities granted to those subsidiary companies as mentioned in Notes 19, 20 and 28.

| | 2006 RM'000 | 2005 RM'000 |
|------------------------------------------------------------------------------|----------------|----------------|
| Net book value of assets pledged as security for banking facilities granted: | | |
| - freehold land and building | 21,483 | 22,000 |
| - others | 4,474 | 16,485 |
| | 25,957 | 38,485 |

- (c) Details of independent professional valuation of a freehold land and building owned by a subsidiary company at 31st December, 2006 are as follows:-

| Year of valuation | Description of properties | Location | Amount RM | Basis of valuation |
|-------------------|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------|
| 2005 | 6 storey office building | H.S(D) 86913 PT No 100, Mukim Damansara, Daerah Petaling, Selangor bearing postal address Bangunan C, Peremba Square, Saujana Resort, Section U2, 40150 Shah Alam, Selangor Darul Ehsan. | 21,000,000 | Investment method based on Nett Lettable Floor Area |

- (d) The Group recognised impairment losses of RM1,900,000 in respect of capital work in progress during the financial year ended 31st December, 2005. The recoverable amount of the capital work in progress was determined by reference to the estimated remaining useful life of the assets held under capital work-in-progress.
- (e) A subsidiary company made an impairment loss for the year ended 31st December, 2005 of RM17,409,000 on payphone network based on management review on the asset. Recoverable amount was determined by reference to the estimated fair value of certain assets and estimated net cash flows to be derived from the continuing use of certain assets over the concession period of the payphone contract up to year 2015 discounted at 5 %.
- (f) Included in the cost of motor vehicles are assets held under hire-purchase agreements amounting to RM869,000 (2005: RM869,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

(g) The cost of fully written down assets but still in use, are as follows:-

| | 2006 RM'000 | 2005 RM'000 |
|-------------------------|----------------|----------------|
| Computer equipment | 1,956 | 1,909 |
| Motor vehicles | 1,107 | 1,436 |
| Renovations | 220 | 227 |
| Office & test equipment | 67 | 75 |
| Furniture & fittings | 139 | 147 |
| Payphone network | - | 12 |

4. GOODWILL ON CONSOLIDATION

| Group | 2006 RM'000 | 2005 RM'000 |
|---------------------------------------------------------|----------------|----------------|
| As at 1st January | - | - |
| Acquisition of a subsidiary company | - | 75 |
| Goodwill arising from acquisition of subsidiary company | - | 41 |
| Negative goodwill written off | - | (116) |
| As at 31st December | - | - |
| At 31st December | | |
| Cost | 77,748 | 77,748 |
| Accumulated amortisation | (21,648) | (21,648) |
| Accumulated impairment losses | (56,100) | (56,100) |
| Net book value | - | - |

Impairment losses on goodwill amounting to RM56,100,000 for the year ended 31st December, 2004 were recognised as the estimated recoverable amounts were lower than their carrying amounts as at balance sheet date. Recoverable amount of goodwill was determined by estimating the cash flow projections of the respective subsidiaries over a period of between five and ten years and using a discount rate of 4% - 4.5% per annum.

5. INVESTMENT IN SUBSIDIARY COMPANIES

| Company | 2006 RM'000 | 2005 RM'000 |
|-----------------------------------|----------------|----------------|
| Unquoted shares, at cost | 94,303 | 98,959 |
| Less: Investment written off | - | (4,656) |
| | - | 94,303 |
| Less: Accumulated impairment loss | (94,303) | (98,959) |
| Add: Reversal of impairment loss | - | 4,656 |
| | - | - |

5. INVESTMENT IN SUBSIDIARY COMPANIES (Cont'd)

The subsidiary companies, incorporated in Malaysia, are as follows:-

a) Direct subsidiary companies

| Name of company | Group's effective equity interest | | | | Principal activities |
|---------------------------------------------------|-----------------------------------|----------|--------|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | 2006 | | 2005 | | |
| | Direct | Indirect | Direct | Indirect | |
| | % | % | % | % | |
| # Lityan Systems Sdn Bhd | 100 | - | 100 | - | Selling and provision of maintenance services and rental of computer equipment, peripherals, telecommunication equipment, other office equipment and supplies |
| # Imageword (M) Sdn Bhd | 100 | - | 100 | - | Dormant |
| # Integrated Telecommunication Technology Sdn Bhd | 90 | 10 | 90 | 10 | Marketing of telecommunication equipment and related services |
| # Konsortium Jaya Sdn Bhd | 99 | 1 | 99 | 1 | Sale and maintenance of computers and telecommunication equipment, peripherals and related services |
| # Impianas Sdn Bhd | 100 | - | 100 | - | Public mobile data network operator |
| # Sistem Komunikasi Gelombang Sdn Bhd | 100 | - | 100 | - | Temporary ceased operations |
| # Lityan Overseas Sdn Bhd | 100 | - | 100 | - | Investment holding |
| # Lityan Marketing Sdn Bhd | 100 | - | 100 | - | Property investment |
| # Lityan Management Sdn Bhd | 100 | - | 100 | - | Provision of building maintenance and management services |
| Digital Transmission Systems Sdn Bhd | 51 | - | 51 | - | Selling and provision of maintenance and professional services on data communication and information networking systems |
| # Imagebase Sdn Bhd | 100 | - | 100 | - | Property investment |
| Slam Atomised Metal Sdn Bhd | 99 | 1 | 99 | 1 | Dormant |
| # Hi Pro Edar (M) Sdn Bhd | 100 | - | 100 | - | Carrying on business associated with or in promotion of IT industry |
| # Lityan Foreign Equities Sdn Bhd | 100 | - | 100 | - | Dormant |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5. INVESTMENT IN SUBSIDIARY COMPANIES (Cont'd)

- b) Indirect subsidiary companies
(held through Lityan Systems Sdn Bhd)

| Name of company | Group's effective equity interest | | | | Principal activities |
|-------------------------------------------|-----------------------------------|----------|--------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | 2006 | | 2005 | | |
| | Direct | Indirect | Direct | Indirect | |
| | % | % | % | % | |
| # Advanced Business Solutions (M) Sdn Bhd | - | 100 | - | 100 | Dealers, software writers, compilers and testers, system developers, trainers and consultants in computers and all services related to information technology industry |
| # Teem Business Solutions Sdn Bhd | - | 100 | - | 100 | Developing and marketing of new client-server programming tools and application software |
| # Lityan Applications Sdn Bhd | - | 100 | - | 100 | Marketing of computer products, provision of application development services and all other computer related activities |

- c) Indirect subsidiary companies
(held through Konsortium Jaya Sdn Bhd)

| Name of company | Group's effective equity interest | | | | Principal activities |
|---------------------------------|-----------------------------------|----------|--------|----------|----------------------------------------------------------------------------------|
| | 2006 | | 2005 | | |
| | Direct | Indirect | Direct | Indirect | |
| | % | % | % | % | |
| # Kirium Solutions Sdn Bhd | - | 100 | - | 100 | Carrying on business associated with or in promotion of IT industry |
| # KJ Telecommunications Sdn Bhd | - | 70 | - | 70 | Assemblers, manufacturers, distributors of telecommunication equipment and parts |
| # KJ Mobidata Sdn Bhd | - | 100 | - | 100 | Dormant |

- d) Indirect subsidiary companies
(held through Lityan Overseas Sdn Bhd)

| Name of company | Country of incorporation | Group's effective equity interest | | | | Principal activities |
|-----------------------------|--------------------------|-----------------------------------|----------|--------|----------|---------------------------------------------------------------------------------------------------------------------------------------------|
| | | 2006 | | 2005 | | |
| | | Direct | Indirect | Direct | Indirect | |
| | | % | % | % | % | |
| #* Lityan (L) Incorporated | Malaysia | - | 100 | - | 100 | Investment holding and offshore trading in telecommunication equipment |
| #* Lityan (Philippines) Inc | Philippines | - | 98 | - | 98 | Providing support services for the installation, repair, operation and maintenance of pay telephone system equipment, accessories and parts |

- # Subsidiaries with qualified opinion on going concern
* Audited by a firm other than Wong Weng Foo & Co.

The shares in certain subsidiary companies are pledged as security for banking facilities granted in Note 19.

6. INVESTMENT IN ASSOCIATED COMPANIES

| Group | 2006 RM'000 | 2005 RM'000 |
|--------------------------|------------------------------|------------------------------|
| Unquoted shares, at cost | 23 | 23 |
| Less: Impairment loss | (23) | - |
| | <u>-</u> | <u>23</u> |

The details of the associated companies, for the financial year ended at 31st December, 2006 are as follows:

| Name of company | Country of incorporation | Group's effective equity interest | | Principal activities |
|------------------------|---------------------------------|------------------------------------------|------------------|-----------------------------|
| | | 2006 % | 2005 % | |
| #^* Iland-Net Inc | Philippines | 39 | 39 | Dormant |
| #^* ReadySoft Inc | Philippines | 40 | 40 | Dormant |

* Audited by a firm other than Wong Weng Foo & Co

^ Indirect interest is held through Lityan Overseas Sdn Bhd

In the process of deregistration

7. DEFERRED INCOME TAX ASSETS

| Group | 2006 RM'000 | 2005 RM'000 |
|-------------------------------------------|------------------------------|------------------------------|
| Balance at 1st January | 3,902 | 6,173 |
| Transferred to income statement (Note 23) | - | (2,271) |
| | <u>3,902</u> | <u>3,902</u> |

Deferred income tax assets comprise:-

| | | |
|------------|---------------------|--------------|
| Tax losses | <u>3,902</u> | <u>3,902</u> |
|------------|---------------------|--------------|

The amount of deductible temporary differences and unused tax losses for which no deferred tax assets is recognised in the balance sheet are as follows:

| Group | 2006 RM'000 | 2005 RM'000 |
|----------------------------------|------------------------------|------------------------------|
| With no expiry date; | | |
| Deductible temporary differences | 13,486 | 13,179 |
| Tax losses | 58,986 | 59,057 |
| | <u>72,472</u> | <u>72,236</u> |
| With expiry date; | | |
| Tax losses | | |
| - 2006 | - | 7,835 |
| - 2007 | 10,121 | 10,121 |
| - 2008 | 7,424 | 8,458 |
| - 2009 | 729 | - |
| | <u>18,274</u> | <u>16,414</u> |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8. ASSETS HELD FOR SALE

| Group | 2006 RM'000 | 2005 RM'000 |
|------------------------------------------------------|----------------|----------------|
| As at 1st January | 14,400 | 13,484 |
| Cost reclassified from property, plant and equipment | 70,786 | - |
| Reclassified from accumulated impairment losses | (33,802) | - |
| Reclassification from accumulated depreciation | (25,767) | - |
| Reversal of impairment losses | - | 916 |
| Disposal during the year | (14,400) | - |
| | <hr/> | <hr/> |
| As at 31st December | 11,217 | 14,400 |

Assets held for sale include the followings:-

| Equipments, at net book value | 2006 RM'000 | 2005 RM'000 |
|--------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| (i) Payphone network system | 11,217 | - |
| Properties at fair value | | |
| (ii) 19 pieces of freehold lands held under Lot 755 to 773 located in Mukim of Krubong, District of Melaka Tengah, Melaka. | - | 8,521 |
| (iii) 3 pieces of freehold lands held under Lot 774, 775 & 776 located in Mukim of Krubong, District of Melaka Tengah, Melaka. | - | 1,163 |
| (iv) 4 pieces of freehold lands held under Lot 253, 534, 535, & 536 located in Mukim Rembia, Daerah Alor Gajah, Melaka. | - | 4,716 |
| | <hr/> | <hr/> |
| | 11,217 | 14,400 |

- (i) As per the announcement dated 3rd February 2006, the Existing Service Agreement ("Service Agreement") for the provision, operation and maintenance of a Pay Telephone System in Philippines entered into between Innove Communications Inc ("Innove"), a subsidiary company of Globe Telecom Inc ("Globe") and a successor of Globe under the Service Agreement (both companies are incorporated under Philippine Law) and Lityan (Philippines) Inc ("LPI"), a company incorporated under Philippine Law and a subsidiary of the Company, dated 1st November, 2000 was restructured on 31st January, 2006.

It involves a mutual termination of the Service Agreement and the execution of a New Service Agreement entered into between the same parties on 31st January, 2006 in which Innove will engage LPI to provide maintenance and other services for Innove's pay telephone system.

Under the terms of the termination, the outstanding obligations of LPI to Innove amounting Philippines Peso151,842,927 (approximately RM10,937,000) is to offset against the purchase price of the portion of an existing pay telephone system or an equivalent of 5,224 units as settlement.

- (ii) A subsidiary company, Lityan Marketing Sdn Bhd, had entered into a Sale and Purchase Agreement dated 26th April, 2005 with GJH Construction Sdn Bhd for the sale of the abovementioned nineteen (19) pieces of freehold lands for a total consideration of RM8,520,900. The disposal has been approved by shareholders of the Company at an EGM held on 7th December, 2005 and completed on 10th July, 2006 and the total consideration has been received wholly in cash.
- (iii) A subsidiary company, Imagebase Sdn Bhd, had entered into a Sale and Purchase Agreement dated 26th April, 2005 with GJH Construction Sdn Bhd for the sale of the freehold lands held under Lot 774, 775 and 776 disclosed above for a total consideration of RM1,163,400. The disposal has been approved by shareholders of the Company at an EGM held on 7th December, 2005 and completed on 10th July, 2006 and the total consideration has been received wholly in cash.

8. ASSETS HELD FOR SALE (Cont'd)

- (iv) Imagebase Sdn Bhd had also entered into a conditional Sale and Purchase Agreement dated 20th March, 2006 with two individuals for the disposal of freehold lands held under Lot 253, 534, 535 & 536 disclosed above for a total consideration of RM4,715,490. The disposal has been approved by the relevant authorities during the financial year 2006 and completed on 29th December, 2006. The total consideration has been received wholly in cash.

9. INVESTMENT

| Group | 2006 RM'000 | 2005 RM'000 |
|----------------------------------------------------|------------------------|------------------------|
| Quoted investment outside Malaysia, at cost | 10,064 | 10,064 |
| Less: Accumulated impairment loss | (9,343) | (6,487) |
| | 721 | 3,577 |
| Market value of quoted investment outside Malaysia | 721 | 3,577 |

On 27th October, 2004, the Company, on behalf of its wholly-owned subsidiary entered into a conditional sale and purchase agreement (SPA) with third parties to dispose of its investment in quoted shares for a total cash consideration of AUD1.81 million (approximately RM5.08 million). On 8th December, 2005, Securities Commission ("SC") had vide its letter approved the Group's waiver application of SC Approval on the said disposal via the SPA or to dispose the shares through open market or placements on a best-effort basis. The date to meet the condition precedent which is to procure all the relevant approvals had expired on 31st October, 2005. Due to the depressed share price of the quoted shares, the buyers are of the opinion that they are unable to sustain the price as per the SPA. Therefore pursuant to the provisions in the SPA, the said contract was terminated on 15th February, 2006. The Group will make the necessary plans and arrangement to dispose the shares through open market or placements on a best effort basis.

10. INVENTORIES

| Group | 2006 RM'000 | 2005 RM'000 |
|----------------------------------------------------------------------|------------------------|------------------------|
| Equipment and supplies | 7,071 | 6,986 |
| Less: Allowance for slow moving inventories | (6,551) | (6,536) |
| At net realisable value | 520 | 450 |
| Amount pledged as security for banking facilities (Notes 19,20 & 28) | 443 | 376 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11. RECEIVABLES

| | Group | | Company | |
|----------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Trade receivables | 32,850 | 33,366 | - | - |
| Less: Allowance for doubtful debts | (24,862) | (25,065) | - | - |
| | 7,988 | 8,301 | - | - |
| Other receivables | 57,999 | 55,661 | - | - |
| Less: Allowance for doubtful debts | (56,785) | (54,834) | - | - |
| | 1,214 | 827 | - | - |
| Amount receivable from employees | - | 72 | - | - |
| Deposits | 179 | 94 | 4 | 5 |
| Prepayments | 3,021 | 2,897 | 1,180 | 1,180 |
| Tax recoverable | 950 | 2,062 | - | 1,668 |
| | 13,352 | 14,253 | 1,184 | 2,853 |
| Amount pledged as security for banking facilities (Notes 19,20 & 28) | 9,761 | 10,486 | - | - |
| The currency exposure profile of receivables and deposits are as follows:- | | | | |
| US Dollar | - | 25 | - | - |
| Ringgit Malaysia | 11,740 | 13,280 | 1,184 | 2,853 |
| Philippines Peso | 1,612 | 948 | - | - |

- (a) Credit terms of trade receivables range from 30 days to 45 days (2005 : 30 days to 45 days).

The Group's historical experience in collection of accounts receivables falls within the recorded allowances. Due to this factor, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's receivables.

- (b) Included in the other receivables of the Group are the amounts of:
- RM36,008,000 (2005 : RM36,008,000) owing by an overseas corporation of which full allowance for doubtful debts had been made in prior years; and
 - RM16,630,000 (2005 : RM16,630,000) being consequential debts arising from the amount called-upon from a standby letter of credit issued in support of a credit facility granted to a third party and accrued interest expense. Full allowance for doubtful debts had been made in prior years.

12. AMOUNT DUE FROM/ (TO) SUBSIDIARY COMPANIES

| Company | 2006 RM'000 | 2005 RM'000 |
|------------------------------------|----------------|----------------|
| Balance as at 31st December | 143,418 | 143,398 |
| Less: Allowance for doubtful debts | (134,004) | (125,465) |
| | 9,414 | 17,933 |

The amount due from/ (to) subsidiary companies are interest free (2005: interest free), unsecured and have no fixed terms of repayment.

13. DEPOSITS, CASH AND BANK BALANCES

| | Group | | Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Fixed deposits with licensed banks | 1,035 | 1,637 | - | - |
| Cash and bank balances | 8,058 | 5,241 | 9 | 6 |
| | 9,093 | 6,878 | 9 | 6 |

The interest rates and maturity periods of fixed deposits as at 31st December, 2006 are as follows:-

| | 2006 | 2005 |
|----------------------------|----------------------|---------------|
| Interest rates (per annum) | 2.50% – 3.10% | 2.50% – 2.65% |
| Maturity periods | 30 days | 30 days |

Some of the fixed deposits of the Group have been pledged to licensed banks as security for banking facilities granted as disclosed in Note 20.

14. SHARE CAPITAL

| Company | 2006 | | 2005 | |
|------------------------|--------------------------------------------------------|---------|--------------------------------------------------------|---------|
| | Number of ordinary shares of RM1 each '000 | RM'000 | Number of ordinary shares of RM1 each '000 | RM'000 |
| Authorised: | 500,000 | 500,000 | 500,000 | 500,000 |
| Issued and fully paid: | 102,806 | 102,806 | 102,806 | 102,806 |

15. RESERVES

| | Group | | Company | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Non-distributable: | | | | |
| Share premium | 129,782 | 129,782 | 129,782 | 129,782 |
| Merger deficit | (15,045) | (15,045) | - | - |
| Currency translation reserve | 514 | (3,250) | - | - |
| Accumulated loss | (303,757) | (290,241) | (256,511) | (244,370) |
| | (188,506) | (178,754) | (126,729) | (114,588) |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16. HIRE-PURCHASE CREDITORS

| Group | 2006 RM'000 | 2005 RM'000 |
|------------------------------------------------|----------------|----------------|
| Minimum payments | | |
| - not later than 1 year | 63 | 62 |
| - later than 1 year and not later than 5 years | 83 | 147 |
| | 146 | 209 |
| Less: Future hire-purchase charges | (30) | (43) |
| Present value | 116 | 166 |
| Total payable: | | |
| Within 1 year | 50 | 50 |
| Within 1-5 years | 66 | 116 |
| | 116 | 166 |

The hire-purchase term is 5 years. The borrowing rate is 5.2% per annum. The interest rate is fixed at the inception of the hire-purchase arrangements.

17. POST-EMPLOYMENT BENEFIT OBLIGATIONS

| Group | Defined benefit plan RM'000 | Defined contribution plan RM'000 | Total RM'000 |
|-----------------------|--------------------------------------|-------------------------------------------|-----------------|
| At 31st December 2006 | | | |
| Current | - | 159 | 159 |
| At 31st December 2005 | | | |
| Current | - | 945 | 945 |
| Non current | 3,466 | - | 3,466 |
| | 3,466 | 945 | 4,411 |

(a) Defined benefit plan

The Group operated an unfunded final salary defined benefit plan for its employees in previous financial years. The scheme was terminated during the financial year.

The movements during the financial year in the amounts recognised in the consolidated balance sheet are as follows:

| | 2006 RM'000 | 2005 RM'000 |
|------------------------------------|----------------|----------------|
| At 1st January | 3,466 | 3,594 |
| Charged to income statement | 129 | 8 |
| Payment to resignees | (72) | (136) |
| Payment during the year | (2,979) | - |
| Reclassified to payables (Note 18) | (544) | - |
| At 31st December | - | 3,466 |

(b) Defined contribution plan

The Group contributes to the Employees Provident Fund, the national benefit contribution plan in Malaysia. Once the contributions have been paid, the Group have no further payment obligations.

18. PAYABLES

| | Group | | Company | |
|----------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Trade payables | 21,446 | 19,933 | - | - |
| Fees payable to directors | 156 | 187 | 156 | 187 |
| Defined benefit plan payable (Note 17) | 544 | - | - | - |
| Billings in advance | 1,493 | 2,809 | - | - |
| Other payables | 6,212 | 6,053 | 2,110 | 2,558 |
| Accruals | | | | |
| - others | 2,809 | 6,449 | 555 | 225 |
| - interest on bank borrowings | 2,856 | 7,765 | 2,856 | 1,462 |
| | 35,516 | 43,196 | 5,677 | 4,432 |

The currency exposure profile of payables are as follows:-

| | | | | |
|------------------|--------|--------|-------|-------|
| US Dollar | 1 | 122 | - | - |
| Ringgit Malaysia | 23,755 | 30,858 | 5,677 | 4,432 |
| Philippines Peso | 11,760 | 12,216 | - | - |

(a) Fees payables to directors

The amount due to directors are interest free (2005 : interest free), unsecured and have no fixed terms of repayment.

(b) Billings in advance

Billings in advance represent invoiced value of goods and services sold to customers. Billings in advance are not recognised as revenue in accordance with FRS118 "Revenue" as the significant risks and rewards of ownership of the goods and services have not been transferred to the customers as at balance sheet date.

19. BANK BORROWINGS

| | Note | Group | | Company | |
|-----------------------------------|------|----------------|----------------|----------------|----------------|
| | | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| CURRENT | | | | | |
| Secured | | | | | |
| Term loan I | (a) | 14,000 | 14,000 | 14,000 | 14,000 |
| Term loan II | (b) | - | 4,150 | - | - |
| Revolving Al-Bai Bithaman-Ajil | (c) | 56,940 | 51,189 | - | - |
| | | 70,940 | 69,339 | 14,000 | 14,000 |
| Unsecured | | | | | |
| Term loans | | - | 1,157 | - | 270 |
| | | - | 1,157 | - | 270 |
| Total | | 70,940 | 70,496 | 14,000 | 14,270 |
| Currency exposure profile: | | | | | |
| - Ringgit Malaysia | | 14,000 | 19,307 | 14,000 | 14,270 |
| - US Dollar | | 56,940 | 51,189 | - | - |
| | | 70,940 | 70,496 | 14,000 | 14,270 |
| Repayable due: | | | | | |
| - Within 1 year | | 70,940 | 70,496 | 14,000 | 14,270 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19. BANK BORROWINGS (Cont'd)

| | Group | | Company | |
|------------------------------------------|-------------------|-----------|-------------------|-----------|
| | 2006 % | 2005 % | 2006 % | 2005 % |
| Range of floating interest rates: | | | | |
| Term loans | 8.25-10.00 | 8.00-9.75 | 8.25-10.00 | 8.00-9.75 |
| Range of floating rate: | | | | |
| Revolving Al-Bai Bithaman-Ajil | 4.80-8.75 | 4.50-4.80 | - | - |

(a) Term loan I has a bullet repayment which was due and payable on 31st March, 2005. The term loan is secured by third party first legal charge over the freehold land and building of a subsidiary company (Note 3). The Company has not obtained an indulgence from its bank to defer the bullet repayment.

(b) Term loan II was secured by:

- (i) fixed charge over the freehold land of certain subsidiary companies (Note 8); and
 - (ii) fixed and floating charge over the assets of certain subsidiary companies (Note 3);
- and was guaranteed by the Company.

The Company had utilised the proceeds arising from the disposals of the freehold properties to settle the above loan, as more fully disclosed in Note 29 (vii).

(c) The Revolving Al-Bai Bithaman-Ajil is secured by:

- (i) fixed and floating charge over the assets of certain subsidiary companies (Notes 3, 10 and 11); and
 - (ii) shares in subsidiary companies of the Group
- and is guaranteed by the Company.

As more fully disclosed in Note 29(vi) the bank has initiated legal proceedings against the Group.

20. BANK OVERDRAFTS

| | Group | | Company | |
|----------------------------------|-------------------|----------------|-------------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Secured | 35,186 | 34,184 | 13,195 | 12,086 |
| Unsecured | 3,235 | 3,021 | 1,255 | 1,134 |
| | 38,421 | 37,205 | 14,450 | 13,220 |
| | Group | | Company | |
| | 2006 % | 2005 % | 2006 % | 2005 % |
| Range of floating interest rates | 8.25-10.50 | 7.50-9.75 | 8.25-10.50 | 7.50-9.75 |

20. BANK OVERDRAFTS (Cont'd)

The bank overdrafts, denominated in Ringgit Malaysia; are secured by:

- (i) third party first legal charge over the freehold land and building of a subsidiary company (Note 3);
- (ii) fixed and floating charge over the assets of a subsidiary company (Notes 3,10 and 11); and
- (iii) deposits with a licensed bank of a subsidiary company (Note 13);

and are guaranteed by the Company and a subsidiary company.

As more fully disclosed in Notes 29 (viii),(ix) and (xii) the banks have initiated legal proceedings against the Company.

21. DEFERRED INCOME TAX LIABILITIES

| Group | 2006 RM'000 | 2005 RM'000 |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Balance at 1st January | - | - |
| Transferred from income statement (Note 23) | 2,464 | - |
| Currency translation differences | 18 | - |
| | <hr/> | <hr/> |
| Balance at 31st December | 2,482 | - |
| | <hr/> | <hr/> |
| Deferred income tax liabilities arose from surplus of tax capital allowances claimed over book depreciation of property, plant and equipment | 2,482 | - |

22. LOSS BEFORE INCOME TAX

| | Group | | Company | |
|--------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Loss before income tax is arrived at after charging/ (crediting):- | | | | |
| Auditors' remuneration: | | | | |
| Statutory audit fee | | | | |
| - current year | 68 | 75 | 13 | 15 |
| - (Over)/ underprovision in prior years | (4) | 16 | - | 5 |
| Non-statutory audit fee | 18 | 6 | 18 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation (Note 3) | 82 | 97 | 31 | 20 |
| Property, plant and equipment written off | 2,207 | 8,125 | - | - |
| Realised gain on foreign exchange | 1 | 342 | - | - |
| Rental of premises | (126) | (5,862) | - | - |
| Allowance for doubtful debts | 126 | 267 | - | - |
| Interest income | 60 | 1,889 | 9,150 | - |
| - fixed deposits interest | (90) | (72) | - | - |
| Impairment loss on investment | 2,879 | 3,676 | - | - |
| Allowance for doubtful debts no longer required | (191) | - | (611) | (426) |
| Allowance for slow moving inventories | - | 268 | - | - |
| Inventories written off | 15 | 2,896 | - | - |
| Allowance for slow moving inventories no longer required | - | (2,863) | - | - |
| Reversal of impairment loss on property, plant and equipment | (116) | (916) | - | - |
| Impairment loss on property, plant and equipment | - | 24,361 | - | - |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22. LOSS BEFORE INCOME TAX (Cont'd)

| | Group | | Company | |
|---------------------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Staff costs: | | | | |
| Directors' remuneration | | | | |
| - fees | 156 | 54 | 156 | 54 |
| - salaries & bonus | 942 | 935 | - | - |
| - defined contribution plan - EPF | 113 | 112 | - | - |
| | 1,211 | 1,101 | 156 | 54 |
| - salaries, wages, bonus & allowances | 4,516 | 6,092 | - | - |
| - Defined contribution plan - EPF | 491 | 485 | - | - |
| - Defined benefit plan | | | | |
| - current year | 352 | 297 | - | - |
| - overprovision in prior years | - | (289) | - | - |
| - Others | 448 | 159 | - | - |
| | 5,807 | 6,744 | - | - |
| Rental of motor vehicle | 39 | 43 | - | - |
| Rental of equipment | 6 | 20 | - | - |
| Site rental | 149 | 94 | - | - |
| Rental income | (120) | (217) | - | - |
| Gain on disposal of property, plant and equipment | (16) | (11) | - | - |
| Negative goodwill written-off | - | (116) | - | - |
| Loss on disposal of investments | - | 132 | - | - |
| Bad debts recovered | - | (4) | - | - |
| Finance cost: | | | | |
| Interest expense | | | | |
| - bank overdrafts | 3,286 | 3,183 | 1,230 | 1,039 |
| - trust receipts & bankers acceptance | - | 19 | - | - |
| - hire-purchase | 13 | 13 | - | - |
| - overdue interest | 19 | (72) | - | - |
| - term loan interest | 5,501 | 2,827 | 1,399 | 1,317 |
| - other | 98 | 1,323 | 93 | - |
| | 8,917 | 7,293 | 2,722 | 2,356 |

b) Directors' remuneration

Directors' remuneration is analysed as follows:

Directors of the Company

Executive directors

| | | | | |
|---------------------------------|-----|-----|----|----|
| - fees | 24 | 12 | 24 | 12 |
| - salaries and other emoluments | 942 | 935 | - | - |
| - defined contribution plan | 113 | 112 | - | - |

Non-executive directors

| | | | | |
|--------|-----|----|-----|----|
| - fees | 132 | 42 | 132 | 42 |
|--------|-----|----|-----|----|

| | | | | |
|--|--------------|-------|------------|----|
| | 1,211 | 1,101 | 156 | 54 |
|--|--------------|-------|------------|----|

Executive directors

| | | | | |
|------------------------------------------------|----|----|---|---|
| - estimated monetary value of benefits-in-kind | 17 | 21 | - | - |
|------------------------------------------------|----|----|---|---|

22. LOSS BEFORE INCOME TAX (Cont'd)

| Group | 2006 Executive | 2005 Executive |
|-------------------------------------------------------------------------------------------|-------------------|-------------------|
| The number of directors whose remuneration fell within the following ranges (per annum):- | | |
| Directors of the Company | | |
| RM1 – RM200,000 | - | - |
| RM200,001 – RM400,000 | - | 1 |
| RM400,001 – RM600,000 | 1 | - |
| RM600,001 – RM800,000 | 1 | - |
| RM800,001 – RM1,000,000 | - | 1 |

23. INCOME TAX EXPENSE

| | Group | | Company | |
|----------------------------------------------------------|-----------------|-----------------|-----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Current taxation: | | | | |
| Estimate for the year | 56 | 2 | - | - |
| Real property gains tax (RPGT) | - | 6 | - | - |
| Overprovision in prior years | (66) | (1) | (64) | - |
| Deferred income tax liabilities : | | | | |
| Transferred to deferred income tax liabilities (Note 21) | 2,464 | - | - | - |
| Transferred from deferred income tax assets (Note 7) | - | 2,271 | - | - |
| | 2,454 | 2,278 | (64) | - |
| Reconciliation of effective tax rate:- | | | | |
| Loss before income tax | (11,003) | (33,955) | (12,205) | (2,518) |
| Tax using statutory tax rate of 28% | (3,081) | (9,507) | (3,417) | (705) |
| Different tax rate in another country | (433) | (1,193) | - | - |
| Non-deductible expenses | 5,042 | 12,818 | 3,417 | 705 |
| Reduction in statutory tax rate | (11) | - | - | - |
| Non-taxable income | (16) | (407) | - | - |
| Capital allowances utilised | (140) | (36) | - | - |
| Unutilised capital allowances | 282 | 232 | - | - |
| Unabsorbed tax losses utilised | (357) | (2,709) | - | - |
| Current year tax losses not recognised | 3,176 | 589 | - | - |
| Increase in unabsorbed tax losses | 3,176 | 589 | - | - |
| Deductible temporary differences | (4,123) | (2,258) | - | - |
| Changes of tax rate in other country | - | 119 | - | - |
| Unabsorbed tax losses written off | - | 2,634 | - | - |
| Deferred tax assets not recognised | (3,458) | (821) | - | - |
| Other items | (1) | (48) | - | - |
| Real property gains tax | - | 6 | - | - |
| Overprovision in prior years | (66) | (1) | (64) | - |
| Deferred tax assets recognised | - | 2,271 | - | - |
| Transferred to deferred tax income tax liabilities | 2,464 | - | - | - |
| | 2,454 | 2,278 | (64) | - |

24. LOSS PER SHARE

The basic loss per share is calculated by dividing the Group's loss for the year of RM13,516,000 (2005 – loss for the year of RM36,098,000) by the number of ordinary shares in issue during the financial year of 102,805,882 (2005 - 102,805,882) shares.

25. SEGMENTAL REPORTING

(a) primary reporting format - business segments:

| Group | Telecommunication equipment and services RM'000 | Information technology RM'000 | Others RM'000 | Total RM'000 |
|-------------------------------------------------------|----------------------------------------------------------|-------------------------------------|------------------|-----------------|
| Financial year ended 31st December, 2006 | | | | |
| Revenue | | | | |
| Total revenue | 8,929 | 33,125 | 2,859 | 44,913 |
| Inter-segment revenue | (3,137) | - | (2,739) | (5,876) |
| External revenue | 5,792 | 33,125 | 120 | 39,037 |
| Results | | | | |
| Segment results | 319 | 4,122 | (6,527) | (2,086) |
| Finance cost | | | | (8,917) |
| Share of results of associates | | | | - |
| Loss from ordinary activities before tax | | | | (11,003) |
| Income tax expense | | | | (2,454) |
| Loss from ordinary activities after tax | | | | (13,457) |
| Minority interest | | | | (59) |
| Loss for the financial year attributable to parent | | | | (13,516) |
| Financial year ended 31st December, 2005 | | | | |
| Revenue | | | | |
| Total revenue | 12,884 | 29,233 | 3,479 | 45,596 |
| Inter-segment revenue | (2,353) | - | (3,262) | (5,615) |
| External revenue | 10,531 | 29,233 | 217 | 39,981 |
| Results | | | | |
| Segment results | (26,656) | 6,810 | (6,600) | (26,446) |
| Finance cost | | | | (7,293) |
| Share of results of associates | | | | (216) |
| Loss from ordinary activities before tax | | | | (33,955) |
| Income tax expense | | | | (2,278) |
| Loss from ordinary activities after tax | | | | (36,233) |
| Minority interest | | | | 135 |
| Loss for the financial year attributable to parent | | | | (36,098) |

25. SEGMENTAL REPORTING (Cont'd)

(a) primary reporting format - business segments: (Cont'd)

| Group | Telecommunication equipment and services RM'000 | Information technology RM'000 | Others RM'000 | Total RM'000 |
|-----------------------------------------------------|----------------------------------------------------------|-------------------------------------|------------------|-----------------|
| Financial year ended 31st December, 2006 | | | | |
| Other information | | | | |
| Segment assets | 20,577 | 12,667 | 28,366 | 61,610 |
| Unallocated assets | | | | 4,852 |
| Total assets | | | | 66,462 |
| Segment liabilities | (12,279) | (15,003) | (5,537) | (32,819) |
| Unallocated liabilities | | | | (115,558) |
| Total liabilities | | | | (148,377) |
| Capital expenditure | 171 | 270 | 3 | 444 |
| Depreciation and amortisation | 1,428 | 24 | 755 | 2,207 |
| Allowances and write-offs | (68) | 185 | (2,880) | (2,763) |
| Impairment losses | (116) | - | - | (116) |
| Financial year ended 31st December, 2005 | | | | |
| Other information | | | | |
| Segment assets | 21,950 | 13,873 | 42,179 | 78,002 |
| Unallocated assets | | | | 5,964 |
| Total assets | | | | 83,966 |
| Segment liabilities | (13,612) | (19,618) | (6,614) | (39,844) |
| Unallocated liabilities | | | | (116,344) |
| Total liabilities | | | | (156,188) |
| Capital expenditure | 100 | 419 | 16 | 535 |
| Depreciation and amortisation | 7,098 | 145 | 882 | 8,125 |
| Allowances and write-offs | 316 | 2,260 | 3,648 | 6,224 |
| Impairment losses | 23,942 | - | (497) | 23,445 |

The Group is organised on a Group wide basis into two main business segment:

- (a) Telecommunication equipment and services; and
- (b) Information technology

Other operations of the Group mainly comprise investment holding, property investment and provision of building maintenance services, neither which are of a sufficient size to be reported separately.

Inter-segment revenue comprise sale of payphone equipment and services segment, rendering of engineering services to information technology segment and rendering of building maintenance services to telecommunication equipment and services and information technology segments on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25. SEGMENTAL REPORTING (Cont'd)

Segment assets consist primarily of property, plant and equipment, goodwill on consolidation, inventories, receivables and operating cash and exclude investment, deferred tax assets and tax recoverable which are included in unallocated assets. Segment liabilities comprise operating liabilities and exclude items such as tax, borrowings and hire-purchase payables.

Capital expenditure comprise additions to property, plant and equipment (Note 3) and goodwill on consolidation (Note 4).

(b) Secondary reporting format – geographical segments

| | Revenue | | Total assets | | Capital expenditure | |
|-------------|----------------|----------------|----------------|----------------|---------------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Malaysia | 35,467 | 31,559 | 48,494 | 64,311 | 330 | 530 |
| Philippines | 3,570 | 8,422 | 17,968 | 19,655 | 114 | 5 |
| Total | 39,037 | 39,981 | 66,462 | 83,966 | 444 | 535 |

Although the Group's business segments are managed on a worldwide basis, they operate in two main geographical areas:

(a) Malaysia* - information technology and telecommunication and equipment services

(b) Philippines - telecommunication and equipment services

* Company home country.

26. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risk, including foreign currency exchange risk, interest rate risk, market risk, credit risk, liquidity and cash flow risk. The Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not trade in financial derivatives.

(a) Foreign currency exchange risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. These companies did not use any derivative financial instrument during the financial year to limit their exposure on foreign currency receivables and payables, and on cash flows generated from anticipated transactions denominated in foreign currencies.

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits and is managed through the use of floating rate debts.

(c) Market risk

For key product and asset purchases, the Group negotiates with suppliers on the acceptable price levels including quantity discounts and enters into physical supply agreements, where necessary, to achieve these levels.

The Group does not use any derivative financial instrument to limit its exposure from changes in the price of quoted investment outside Malaysia.

26. FINANCIAL INSTRUMENTS (Cont'd)**(d) Credit risk**

Credit risk arises when sales are made on deferred credit terms. The Group seeks to invest cash assets safely and profitably. It also seeks to control credit risk by setting counterparty limits and ensuring that sales of products and services are made to customers with an appropriate credit history. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

The Group has no significant concentration of credit risk except that the majority of its deposits are placed with major financial institutions in Malaysia. In addition, the Group has given financial guarantees to its trade customers and the Company has also given corporate guarantees to subsidiaries for banking facilities.

(e) Liquidity and cash flow risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Fair values

The carrying amounts of financial assets and liabilities of the Group and the Company at the balance sheet date approximated their fair values except as set out below:

| | Group | |
|------------------------|------------------------|-------------------|
| | Carrying amount | Fair value |
| | RM'000 | RM'000 |
| At 31st December 2006 | | |
| Hire-purchase creditor | 116 | 112 |
| At 31st December 2005 | | |
| Hire-purchase creditor | 166 | 157 |

27. COMMITMENTS**(a) Other commitments**

The Company will provide continuing financial support to the following subsidiaries so as to enable them to meet their liabilities and financial obligations as and when they fall due:

- (i) Advanced Business Solutions (M) Sdn Bhd
- (ii) Lityan Applications Sdn Bhd
- (iii) Integrated Telecommunication Technology Sdn Bhd
- (iv) Lityan Management Sdn Bhd
- (v) Sistem Komunikasi Gelombang Sdn Bhd
- (vi) Teem Business Solutions Sdn Bhd
- (vii) Lityan Marketing Sdn Bhd
- (viii) KJ Telecommunications Sdn Bhd
- (ix) Imagebase Sdn Bhd
- (x) Impianas Sdn Bhd
- (xi) Lityan Systems Sdn Bhd
- (xii) Lityan Overseas Sdn Bhd
- (xiii) Konsortium Jaya Sdn Bhd
- (xiv) Kirium Solutions Sdn Bhd
- (xv) Hi Pro Edar (M) Sdn Bhd
- (xvi) Lityan (L) incorporated
- (xvii) Lityan (Philippines) Inc.
- (xviii) Digital Transmission Systems Sdn Bhd

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27. COMMITMENTS (Cont'd)

- (b) Additional investment in a subsidiary, Digital Transmission Systems Sdn Bhd

The Company has an obligation of RM1,080,000 as at 31st December, 2005, excluding penalty interest and costs to the minority shareholders of a subsidiary for the acquisition of an additional 14% equity interest in Digital Transmission Systems Sdn Bhd. The Company has reached a compromised settlement for the above with the plaintiff during year 2007.

28. CONTINGENT LIABILITIES

| | Group | | Company | |
|-----------------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| (a) Bank guarantees issued to trade customers | 1,687 | 1,742 | 35 | 50 |

The bank guarantees are secured by:

- (i) third party first legal charge over the freehold land and building of a subsidiary company (Note 3);
- (ii) fixed and floating charge over the assets of a subsidiary company (Notes 3, 10 and 11);
- (iii) deposit with a licensed bank;

and are guaranteed by the Company and a subsidiary company.

| | Company | |
|-----------------------------------------------------------------------------------------------|----------------|----------------|
| | 2006 RM'000 | 2005 RM'000 |
| (b) Corporate guarantees issued to secure banking facilities for subsidiaries denominated in: | | |
| - Ringgit Malaysia | 56,063 | 59,990 |
| - US Dollar | 56,940 | 56,841 |
| | 113,003 | 116,831 |

29. MATERIAL LITIGATIONS

- (i) A third party had on 21st November, 2001, initiated legal action claiming damages amounting to RM23,074,000 or alternatively USD2,000,000 (approximately RM7,600,000) against the Company arising from an alleged breach of condition precedent contained in a Subscription and Shareholders Agreement. The Company's application to strike out the case was heard on 25th February, 2003 and 3rd April, 2003. However, the judge had given his decision disallowing the application. The Company appealed against the decision and the appeal was heard on 16th August, 2004 together with the pre-trial case management. During the said hearing, the Company's appeal was dismissed by the judge as the judge found that there were several issues of fact which needed to be resolved at trial and the matter was fixed for pre-trial case management on 4th April, 2005. The case was postponed to 20th October, 2005 as the plaintiff's solicitor was absent. The Judicial Commissioner proceeded to give directions to both parties in preparation for the trial. Parties have been directed to prepare the required documents for the trial on 20th February, 2006. Since the matter was not listed in the Court's listed case list, another pre-trial case management is set on 26th April, 2007.

The directors, based on the legal opinion received, are of the view that the Company has a reasonably good defence on the claims and that no material losses are expected to arise.

29. MATERIAL LITIGATIONS (Cont'd)

- (ii) A third party has initiated legal action against a subsidiary claiming for compensation of RM1,354,768 arising from an early termination of a consultancy contract. A letter of demand was issued on 23rd December, 2003 to the subsidiary, followed by a notice pursuant to Section 218(2)(a) of the Companies Act 1965 dated 31st December, 2003 but the notice was void through irregular service. Both parties have reached a consensus to refer the case for arbitration and have executed the arbitration agreement on 23rd July, 2004. Under the agreement, the parties agree that each party's claim is limited to a maximum of RM 1,000,000 only. The parties shall bear equally the arbitration cost and each party shall bear their own legal cost in connection with the arbitration. The plaintiff then decided to terminate the Arbitration Agreement on 27th September, 2004 and proceed with a civil suit. On 16th December, 2004, the subsidiary was served a writ of summon and statement of claim, both dated 13th October, 2004. The subsidiary had applied for stay of proceedings pending the matter being referred to an arbitrator and the third party had filed an application for Summary Judgement. The matters have been heard and the Court's decision has been fixed on 9th May, 2007.

The directors, based on legal opinion, are of the view that the subsidiary has a reasonable defence on the claims and that no material losses are expected to arise.

- (iii) A third party has initiated legal proceedings against two (2) subsidiary companies claiming for damages arising from breach of two (2) separate contracts. A writ of summons and statements of claim dated 10th January, 2005 was served on both of the companies. The claim was for the amount of RM253,423 and RM550,000 totalling RM803,423. The subsidiary companies have filed a statement of defence to the Court on 21st March, 2005. The Court has fixed for the third party's and the two (2) subsidiary companies' Written Submissions on 8th May, 2007, and 29th May, 2007, respectively. The third party's reply Written Submission is fixed on 11th June, 2007. The clarification and decision on the matter has been fixed on 22nd June, 2007.

The directors, based on the legal opinion received, are of the view that the subsidiary companies have a reasonably good defence on the claim of RM550,000. Claim against one of the subsidiaries is likely to fail because there is no privity of contract with the third party.

- (iv) A third party had on 6th November, 2003, initiated legal proceedings against a subsidiary for the claim of RM115,000 and interest being delivery of software and services rendered. The Plaintiff had applied to amend the summons and statement of claim. The hearing date has yet to be fixed.

The directors, based on the legal opinion received, are of the view that the subsidiary has good defence on the claim.

- (v) On 9th May, 2005, a subsidiary had filed a writ of summons and statement of claim against Magnet Ventures Sdn Bhd, to recover an amount of RM1,000,000 paid to the defendant on 31st May, 1999 plus interest and cost for failure of consideration. Both parties are negotiating a settlement.
- (vi) On 30th March, 2005, a subsidiary's banker had filed a statement of claim to recover the borrowings amount of USD13,542,083 (approximately RM47,823,866) and overdue profit on the sum of USD742,185 (approximately RM2,621,056) as at 8th October, 2004 with profit at 2% above banker cost of funds over a period of 6 months from 8th October, 2004 until full settlement.

The statement of defense was filed on 26th May, 2005 and the banker had filed the Reply to Defense on 13th September, 2005. No hearing date has been fixed yet.

Based on legal opinion received, the subsidiary has an arguable case.

- (vii) A bank has initiated legal proceedings against the Company and certain subsidiaries for a sum of RM4,213,771 as at 30th April, 2004 being the outstanding repayment due to the bank plus the interest accrued therein until the date of full settlement. On 27th July, 2006, the suits were withdrawn with no order as to cost as the matter has been settled following the completion of the disposal of the freehold properties which were secured against the loan to address the borrowing requirements.

29. MATERIAL LITIGATIONS (Cont'd)

- (viii) On 25th November, 2004, a bank had taken legal proceedings against the Company and a subsidiary for:
- (a) RM453,547 as at 14th October, 2004 with interest at 3.5% per annum above the prevailing base lending rate from 15th October, 2004 until full settlement;
 - (b) Costs including legal costs; and
 - (c) Any other relief, order or judgements given by the Court.

The claim arises from an overdraft facility granted to the subsidiary and the Company acted as guarantor in respect thereof. The statement of defence dated 24th January, 2005 was filed at the High Court. The bank obtained summary judgement for the sum of RM453,547 but the quantum of interest shall be tried in open court. Both parties have appealed and both appeals have been fixed for hearing on 4th May, 2007.

The solicitors are of the opinion that the companies have a weak defence and as such, been advised to settle the matter amicably.

- (ix) On 25th November, 2004, a bank initiated legal proceedings against a subsidiary and the Company for:
- (a) RM226,796 as at 14th October, 2004 with interest at 3.5% per annum above the prevailing base lending rate from 15th October, 2004 until full settlement
 - (b) Costs including legal costs; and
 - (c) Any other relief, order or judgements given by Court.

The amount claimed is for an overdraft facility and the Company acted as guarantor. The plaintiff had filed for summary judgement and the matter had been adjourned for mention to 2nd May, 2007.

The solicitors are of the opinion that the companies have a weak defence and as such, been advised to settle the matter amicably.

- (x) During the financial year ended 31st December, 2004, certain minority shareholders ("the Petitioners") of a subsidiary had via a petition claiming against the subsidiary ("DTS"), its directors and ultimate holding company ("LHB") pursuant to Section 181 of the Companies Act, 1965 for undeniable case of oppression and/or disregard by the majority shareholder of the minority shareholders' interest.

On 24th May, 2004, the parties had settled the matter amicably. The Petitioners agreed to sell their 14% shareholding at RM1,179,648 (of which the determining amount was based on the amount due from LHB and related companies at 31st December, 2002 amounting to RM8,426,064) to LHB and the said sum to be settled by LHB on or before 31st December, 2004. The Consent Order of the same had been entered on 18th June, 2004.

Pursuant to the default by the Company to purchase the shareholdings on or before 1st June, 2005, the Petitioners have filed a petition vide Kuala Lumpur High Court pursuant to Section 218 of the Act which was served on the Company on 3rd August, 2005. The Company has reached a compromised settlement for the above with the plaintiff during year 2007.

- (xi) On 14th September, 2005 a Merchant bank had filed a statement of claim to recover the outstanding amount of RM476,133 as at 14th July, 2005 with interest at 8% per annum on outstanding principal and additional 1% per day from 15th June, 2005 until full settlement from the Company.

Memorandum of appearance had been filed on 11th October, 2005. The defence and counter – claim was filed and served on 16th March, 2007. The Court had not set any further date on the case.

The solicitors are of the opinion that the company has a weak defence and as such, been advised to settle the matter amicably.

29. MATERIAL LITIGATIONS (Cont'd)

- (xii) On 18th July, 2005 the Company's bank had filed a statement of claim to recover the outstanding bank overdraft amounting to RM1,097,907 and bank guarantee amounting to RM11,455 as at 31st May, 2005 with 2.5% per annum above banks base lending rate on outstanding principal and additional 1% per day from 1st June, 2005 until full settlement.

A statement of defence was filed on 25th August, 2005. The bank has filed an application to amend the claim to RM1,071,907 and bank guarantee of RM6,116. The case was fixed for hearing on 31 January 2007. The third party has filed for summary judgement on 6th April, 2007. No hearing date has been fixed yet.

The solicitors are of the opinion that the Company has a weak defence and as such, been advised to settle the matter amicably.

30. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (i) On 29th July, 2005, the Company had entered into a conditional restructuring agreement with Giant Best Corporation Limited ("Vendor"), Chen Xinmin and Lim Chu Fatt (collectively, the "Guanhong Principal Shareholders") wherein the Company, Vendor and the Guanhong Principal Shareholders have agreed in principle to undertake the Proposed Restructuring Scheme ("PRS") with the intention of restoring the Company onto stronger financial footing via an injection of new viable businesses. A supplemental restructuring scheme agreement had been entered into between the Company, the Vendor and the Guanhong Principal Shareholders to modify certain terms of the PRS on 15th January, 2006.

The PRS which entails the Proposed Acquisition of the Guanhong Group, Proposed Scheme of Arrangement with Shareholders, Proposed Scheme of Arrangement with Creditors, Proposed Issuance of Shares, Proposed Offer for Sale, Proposed Transfer of Listing Status and Proposed Disposal, had been submitted for the approval of SC, Foreign Investment Committee and Bank Negara Malaysia on 20th January, 2006.

The SC had not approved the PRS vide its letter dated 6th June, 2006. The Company had on 6th July, 2006 submitted an application to the SC for a review of its decision.

The Company had on 27th July, 2006 entered into a supplemental restructuring agreement with the Guanhong Principal Shareholders to extend the deadline for the fulfillment of one (1) month to expire on 28th August, 2006. The Proposed Restructuring Scheme is subject to and conditional upon approvals from any other relevant authorities and/or parties.

SC had vide its letter dated 27th September, 2006 rejected the Appeal. The Company had on 9th October, 2006, filed an application for Judicial Review on the decision of SC and also applied for an Interim Order to stay the decision of Bursa Malaysia Securities Berhad ("BMSB") to remove the securities from its Official List on 13th October, 2006. Pending the hearing by the High Court of the application on 22nd November, 2006, BMSB has vide its letter dated 15th November, 2006 that the Appeal be disallowed and to de-list the securities of the Company from the Official List of Bursa Securities ("BS") due to the Company does not have an adequate level of financial condition to warrant continued listing on the Official List of BS. However, there will be no de-listing undertaken by BMSB until 22nd November, 2006 which was fixed for disposal of the Stay Application and the Company's application for judicial review as per Court's order on 11th October, 2006.

The hearing for the application for leave to issue a certiorari to squash the decision of SC in rejecting the Company's PRS has been adjourned to 4th July, 2007 and BMSB had agreed to a stay of the delisting until 4th July, 2007.

30. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (Cont'd)

- (ii) On 9th September, 2005, the Company and twenty (20) of its West Malaysian subsidiaries namely, Digital Transmission Systems Sdn Bhd, Hi Pro Edar (M) Sdn Bhd, Imagebase Sdn Bhd, Imageword (M) Sdn Bhd, Impianas Sdn Bhd, Integrated Telecommunication Technology Sdn Bhd, Konsortium Jaya Sdn Bhd, Lityan Foreign Equities Sdn Bhd, Lityan Management Sdn Bhd, Lityan Marketing Sdn Bhd, Lityan Overseas Sdn Bhd, Lityan Systems Sdn Bhd, Sistem Komunikasi Gelombang Sdn Bhd, Slam Atomised Metal Sdn Bhd, Kirium Solutions Sdn Bhd, KJ Mobidata Sdn Bhd, KJ Telecommunications Sdn Bhd, Advanced Business Solutions (M) Sdn Bhd, Teem Business Solutions Sdn Bhd and Lityan Applications Sdn Bhd ("Applicants") collectively had vide Kuala Lumpur High Court Summons No. D3-24-330-2005 made an ex-parte application pending the working out of the proposed scheme of arrangement and compromise between the Company and its creditors under Section 176(1) of the Companies Act, 1965 ("the Act") for restraining order under Section 176(10) to restrain actions and proceedings against the Applicants for a period of 90 days from the date of the Restraining Order (as defined below) which is 15th September, 2005, with liberty to apply for an extension of time ("Restraining Order").

An order in terms of the above originating summons was granted by the High Court on 15th September, 2005. The Notice of the Order was advertised in The Star on 22nd September, 2005 and a certified true copy of the Restraining Order was lodged at the Companies Commission of Malaysia on 23rd September, 2005 in accordance with the provisions of Section 176(10E) of the Act. The Restraining Order expired on 8th January, 2007.

31. PRESENTATION CURRENCY

All amounts are stated in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) unless otherwise indicated.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current financial year's presentation.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of directors on 25th April, 2007.

We, the undersigned, being two directors of the Company, do hereby state that in the opinion of the directors, the financial statements set out on pages 35 to 80 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31st December, 2006 and of their results and cash flow for the year ended on that date.

Signed on behalf of the Board of directors in accordance with a resolution dated 25th April, 2007.

RAHMAT BIN HARUN

Director

LIM TEIK EE

Director

KUALA LUMPUR

STATUTORY DECLARATION

I, **LIM TEIK EE** the director primarily responsible for the financial management of **LITYAN HOLDINGS BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 35 to 80 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 at Kuala Lumpur)
)
 on 25th April, 2007)

Before me:

Mohd Radzi Bin Yasin
 Commissioner for Oaths
 No. W327
 Kuala Lumpur

AUDITORS' REPORT

to the members of Lityan Holdings Berhad

1. We have audited the financial statements set out on pages 35 to 80. These financial statements are the responsibility of the Company's directors.
2. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.
3. 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
4. As stated in paragraph (i) in Note 2.1 to the financial statements, the Group and the Company incurred a net loss of RM13,516,000 and RM12,141,000 respectively during the financial year ended 31st December, 2006. As of that date, the shareholders' equity of the Group and the Company were in deficit of RM85,700,000 and RM23,923,000 respectively, and the current liabilities of the Group and of the Company exceeded their current assets by RM110,926,000 and RM23,923,000 respectively. As of 31st December, 2006, the Group and the Company have been experiencing difficulties in settling their obligations as they fall due and have also defaulted on the repayment of certain bank borrowings as stated in Note 29 to the financial statements.
5. As stated in paragraph (j) in Note 2.1 to the financial statements, there are multiple uncertainties that may affect the ability of the Group and the Company to obtain continued financial support from the lenders in the form of borrowing facilities, and to generate sufficient cash inflows to sustain their operations.
6. We have not been provided with complete explanations that we required regarding the management's consideration of projections of cash flows and the financial position, and therefore we are unable to satisfy ourselves fully by other means that it is appropriate to prepare the financial statements on the going concern basis.
7. In view of the matters set out in paragraphs 4 to 6 above, there is substantial doubt on the appropriateness of preparing the financial statements of the Group and the Company on the going concern basis. If the Group and the Company are not able to continue as going concerns, adjustments would have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify the non-current assets and non-current liabilities as current assets and current liabilities respectively.
8. As stated in Note 29 to the financial statements, the subsidiaries have defaulted on certain bank borrowings as at 31 December 2006 for which the Company has provided the corporate guarantees, as described in Note 28(b). Most of these liabilities pertaining to the corporate guarantee have already been reflected in the consolidated financial statements of the Group. However, the net exposure of the Company to these corporate guarantees as a result of the default has yet been quantified, and as such, the Company has not provided for the liabilities arising from these corporate guarantees.
9. In view of the significance of the matters referred to in the preceding paragraphs, we do not express an opinion as to whether the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as at 31st December, 2006 and of their results and cash flows for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company;

10. In our opinion, the accounting and other records, and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries of which we have acted as auditors, have been properly kept in accordance with the provisions of the said Act.
11. The names of the subsidiaries of which we have not acted as auditors are indicated in Note 5 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' report thereon.
12. Except for the matters stated in paragraphs 4 to 8, above, we are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
13. As stated in Note 5 to the financial statements, the auditors' reports on the financial statements of certain subsidiaries were subject to qualification and included comments made under subsection (3) of Section 174 of the Act.

WONG WENG FOO & CO.

AF: 0829

CHARTERED ACCOUNTANTS

WONG WENG FOO

1218/03/08(J/PH)

KUALA LUMPUR

Dated this : 25th April, 2007

LIST OF PROPERTIES

As at 31 December 2006

| Location | Description | Existing use | Tenure & expiry date | Age of building | Net book value (RM'000) | Date of acquisition |
|------------------------------------------------------------------------------------|-------------------------------|-------------------------|----------------------------------------------|------------------------|--------------------------------|----------------------------|
| <u>SELANGOR</u> | | | | | | |
| H.S. (D) 86913, PT No. 100 Mukim Damansara Daerah Petaling | 6 storey office complex | Office (5,972 sq.m.) | Freehold (strata title not issued yet) | 9 years | 21,483 | 30/1/97 |
| <u>PHILIPPINES</u> | | | | | | |
| Unit No. 937 Cityland Pioneer Condominium Pioneer St. Mandaluyong City | Residential condominium | Residential | Freehold | 8 years | 142 | 10/9/98 |

as at 30 April 2007

| | | |
|--------------------------|---|-------------------------------|
| Authorised Share Capital | : | RM500,000,000 |
| Issued & Paid-up Capital | : | RM102,805,882 |
| Class of Shares | : | Ordinary Shares of RM1/- each |
| Voting Rights | | |
| On show of hands | : | 1 vote |
| On a poll | : | 1 vote for each share held |

DISTRIBUTION OF SHAREHOLDINGS

| Range of Shareholdings | Number of Shareholders | Percentage of Shareholders (%) | Number of Shares | Percentage of Issued Capital (%) |
|-------------------------------------------------------------|------------------------|--------------------------------|--------------------|----------------------------------|
| Less than 100 | 6 | 0.06 | 202 | 0.00 |
| 100 to 1,000 | 3,778 | 36.65 | 3,730,144 | 3.63 |
| 1,001 to 10,000 | 5,487 | 53.24 | 22,154,600 | 21.55 |
| 10,001 to 100,000 | 959 | 9.30 | 27,828,000 | 27.07 |
| 100,001 to 5,140,293 (less than 5% of the issued shares) | 75 | 0.73 | 23,839,200 | 23.19 |
| 5,140,294 (5% of issued shares) and above | 2 | 0.02 | 25,253,736 | 24.56 |
| | 10,307 | 100 | 102,805,882 | 100 |

THIRTY LARGEST SECURITIES ACCOUNT HOLDERS

| | Number of Shares | Percentage of Issued Capital (%) |
|----------------------------------------------------------------------------------------------------------------------------|------------------|----------------------------------|
| 1 Lembaga Tabung Haji | 19,171,836 | 18.65 |
| 2 Employees Provident Fund Board | 6,081,900 | 5.92 |
| 3 RC Nominees (Tempatan) Sdn Bhd - Rahmat Bin Harun (SBB KLMPMS) | 4,500,000 | 4.38 |
| 4 Muhammad Syafiq Baljit Bin Abdullah | 2,310,800 | 2.25 |
| 5 Al-Wakalah Nominees (Tempatan) Sdn Bhd - Pledged securities account for Rahmat Bin Harun | 2,150,000 | 2.09 |
| 6 Cheng Swee Peng | 750,000 | 0.73 |
| 7 RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged securities account for Phoa Boon Ting (CEB) | 600,000 | 0.58 |
| 8 Choo Shiow Charn | 524,200 | 0.51 |
| 9 Lee Chew Foh | 520,000 | 0.51 |
| 10 Syed Idros Bin Syed Salim | 450,100 | 0.44 |
| 11 Teng Chew Hiang | 400,000 | 0.39 |
| 12 Chen Ming Jen | 364,700 | 0.35 |
| 13 Chiew Poh Chin | 320,000 | 0.31 |
| 14 Affin Nominees (Tempatan) Sdn Bhd - Pledged securities account for Yap Ah Yit @ Yap Sow Fong | 313,000 | 0.30 |
| 15 DB (Malaysia) Nominee (Asing) Sdn Bhd - Deutsche Bank AG London | 301,700 | 0.29 |
| 16 Sor Yune Soon | 300,000 | 0.29 |
| 17 Lee Nyuk Kheun | 300,000 | 0.29 |
| 18 Mayban Nominees (Tempatan) Sdn Bhd - Pledged securities account for Gajjan Singh A/L Bhan Singh Pannu (238AB6101) | 272,700 | 0.27 |
| 19 Leong Poh Hoong | 260,000 | 0.25 |
| 20 Tan Gek Toh | 250,000 | 0.24 |
| 21 Lee Le Hoong | 250,000 | 0.24 |
| 22 Senawang Land Sdn Bhd | 250,000 | 0.24 |

ANALYSIS OF SHAREHOLDINGS (Cont'd)

as at 30 April 2007

THIRTY LARGEST SECURITIES ACCOUNT HOLDERS (Cont'd)

| | Number of Shares | Percentage of Issued Capital (%) |
|------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------------------|
| 23 Mayban Securities Nominees (Asing) Sdn Bhd - OCBC Securities Private Limited For Hoo Len Yuh | 241,900 | 0.24 |
| 24 Rozitah Binti Shaaban | 215,000 | 0.21 |
| 25 Chin Siew Foong | 202,000 | 0.20 |
| 26 Mayban Nominees (Asing) Sdn Bhd - Pledged securities account for Yang Ren Jack | 200,000 | 0.19 |
| 27 Chong Cheng Heong | 200,000 | 0.19 |
| 28 Tan Kuan Lee | 200,000 | 0.19 |
| 29 Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd - Pledged securities account for Tee Jin Gee Enterprise Sdn Bhd | 200,000 | 0.19 |
| 30 Ng Ah Kem | 200,000 | 0.19 |
| Total | 42,299,836 | 41.12 |

SUBSTANTIAL SHAREHOLDERS

as per Register of Substantial Shareholders

| | Direct Shareholdings | Percentage of Issued Capital (%) | Indirect Shareholdings | Percentage of Issued Capital (%) |
|----------------------------------------------------------------------|----------------------|----------------------------------|------------------------|----------------------------------|
| Lembaga Tabung Haji | 19,171,836 | 18.65 | - | - |
| Employees Provident Fund Board | 6,081,900 | 5.92 | - | - |
| Rahmat bin Harun | 6,650,000 | 6.47 | 142,575 | 0.14 |
| - RC Nominees (Tempatan) Sdn Bhd | 4,500,000 | | | |
| - AI Wakalah Nominees (Tempatan) Sdn Bhd | 2,150,000 | | | |
| - Deemed interest by virtue of Section 6A of the Companies Act, 1965 | 142,575 | | | |

DIRECTORS' DIRECT AND INDIRECT INTEREST IN LITYAN HOLDINGS BERHAD ("COMPANY") AND ITS RELATED CORPORATIONS

Other than as disclosed below, there is no other Director of the Company who has direct or indirect interest in the Company and its related corporations -

| | Number of Shares Held | Percentage of Issued Capital (%) |
|----------------------------------------------------------------------------|-----------------------|----------------------------------|
| Shares in the Company | | |
| Direct Interest: | | |
| - Rahmat Bin Harun | 6,650,000 | 6.47 |
| - Lim Teik Ee | 1,000 | Negligible |
| Deemed Interest by virtue of Section 6A of the Companies Act, 1965: | | |
| Rahmat Bin Harun | 142,575 | 0.14 |
| Shares in Related Corporation of the Company | | |
| - Digital Transmission Systems Sdn Bhd | | |
| Direct Interest: | | |
| - Rahmat Bin Harun | 5,000 | 5 |

Indirect Interest

Encik Rahmat Bin Harun and Mr. Lim Teik Ee by virtue of their interests in the Company are also deemed interested in shares in subsidiaries of the Company to the extent that the Company has an interest.

1. Utilisation of proceeds

- (a) Lityan Holdings Berhad (“LHB” or “Company”)’s subsidiary companies, Lityan Marketing Sdn Bhd and Imagebase Sdn Bhd, entered into a Sale and Purchase Agreement dated 26 April 2005 with GJH Constructions Sdn Bhd for the sale of twenty two (22) pieces of freehold lands located in Mukim of Krubong, District of Melaka Tengah, Melaka for a total cash consideration of RM9,684,300. The disposal has been approved by shareholders of the Company at an EGM held on 7 December, 2005 and completed on 10 July 2006. The total consideration received in cash has been utilised as follows:

| | RM |
|------------------------------------------|------------------|
| Repayment of bank borrowings | 4,986,070 |
| Defray expenses relating to the disposal | 180,262 |
| Working capital | 4,517,968 |
| | 9,684,300 |
| Total | 9,684,300 |

- (b) Lityan Holdings Berhad (“LHB” or “Company”)’s subsidiary company, Imagebase Sdn Bhd, entered into a Sale and Purchase Agreement dated 20 March 2006 with two individuals for the sale of four (4) pieces of freehold lands all located in Mukim of Rembia, Daerah Alor Gajah, Melaka for a total cash consideration of RM4,715,490. The disposal has been approved by the relevant authorities during the financial year and completed on 29 December 2006. The total consideration received in cash has been utilised as follows:

| | RM |
|------------------------------------------|------------------|
| Defray expenses relating to the disposal | 63,660 |
| Working capital | 4,651,830 |
| | 4,715,490 |
| Total | 4,715,490 |

2. Share buybacks

There were no share buybacks during the financial year.

3. Options, warrants and convertible securities

The Company did not issue or exercise any options, warrants and convertible securities during the financial year.

4. American Depository Receipt (“ADR”)/ Global Depository Receipt (“GDR”)

The Company did not sponsor any ADR or GDR Programme during the financial year.

5. Sanctions and/ or penalties

There were no sanctions and/or penalties imposed on the Company, its subsidiary companies, Directors or management by the relevant regulatory bodies during the financial year.

6. Non-audit fees

The Company was charged by the external auditors an amount of RM18,000 for non-audit services rendered during the financial year.

ADDITIONAL COMPLIANCE INFORMATION (Cont'd)

- Compliance with Bursa Malaysia Securities Berhad Listing Requirements

7. Variance in results

The LHB Group's audited result for the financial year ended 31 December 2006 has not varied by 10% or more from the LHB Group's unaudited results for the quarter ended 31 December 2006 previously announced.

8. Profit guarantee

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

9. Material contracts

There were no material contracts involving directors and major shareholders with the Company and/or its subsidiary companies during the financial year.

10. Revaluation policy

The Company did not carry out any revaluation on landed properties during the financial year.

11. Recurrent related party transaction of a revenue or trading nature

There was no recurrent related party transaction of a revenue or trading nature during the financial year.

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| |
|---------------------------------------|
| CDS account no. of authorised nominee |
| |

I/We _____ (name per NRIC, in capital letters)
 NRIC/Passport/Company No. _____ (new) _____ (old)
 of _____ (full address)
 being a member(s) of **LITYAN HOLDINGS BERHAD**, hereby appoint _____
 _____ (name of proxy as per NRIC,
 in capital letters) NRIC/Passport No. _____ (new) _____ (old)
 or failing him/her the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the
 Fourteenth Annual General Meeting of the Company to be held at The Greens I Room, Tropicana Golf & Country
 Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Thursday, 21 June 2007 at 10.00
 a.m. and at any adjournment thereof, in the manner indicated below:-

| No. | RESOLUTIONS | FOR | AGAINST |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------|
| 1. | To receive the audited financial statements together with the reports of the Directors and Auditors for the year ended 31 December 2006. Resolution 1 | | |
| 2. | To re-elect the retiring Director, En. Rahmat Bin Harun. Resolution 2 | | |
| 3. | To re-elect the retiring Director, En. Pikri Bin Haji Mohd Amin. Resolution 3 | | |
| 4. | To re-elect the retiring Director, En. Adi Azuan Bin Abdul Ghani. Resolution 4 | | |
| 5. | To approve the Directors' fees for the year ended 31 December 2006. Resolution 5 | | |
| 6. | To re-appoint Messrs Wong Weng Foo & Co. as Auditors of the Company and to authorise the Directors to fix their remuneration. Resolution 6 | | |
| 7. | To pass the ordinary resolution giving authority to the Directors to allot shares under Section 132D. Resolution 7 | | |
| 8. | Proposed Amendments to the Articles of Association of the Company. Resolution 8 | | |

(Please indicate with an "X" in the spaces provided how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.)

 Signature/Common Seal

Number of shares held: _____

Date: _____

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and vote in his stead and such a proxy need not be a member of the Company. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
2. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. The Proxy Form shall be under the hand of the appointor or of his attorney duly authorised in writing. In the case of a corporate member, the instrument appointing a proxy must be either under its common seal or under the hand of its officer or its duly authorised attorney.
4. The instrument appointing a proxy must be deposited with the Share Registrar, Tenaga Koperat Sdn Bhd, 20th Floor, Plaza Permata, Jalan Kampar, Off Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia not less than forty- eight (48) hours before the time set for holding the meeting or adjourned meeting

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Share Registrar
TENAGA KOPERAT SDN. BHD. (118401-V)
20th Floor, Plaza Permata (Formerly known as IGB Plaza)
Jalan Kampar, Off Jalan Tun Razak,
50400 Kuala Lumpur
P.O. Box 12216, 50770 Kuala Lumpur

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