WAH SEONG CORPORATION BERHAD (Company No: 495846-A)

Quarterly Report on Consolidated Results for the Second Quarter ended 30th June 2006.

These figures have not been audited.

NOTES TO INTERIM FINANCIAL REPORT

1. Accounting policies

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2005

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new or revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 January 2006:

FRS 1 First Time Adoption
FRS 2 Share-based Payment
FRS 3 Business Combinations
FRS 5 Non-current Assets Held for Sale and Discontinued Operations
FRS 101 Presentation of Financial Statements
FRS 102 Inventories
FRS 108 Accounting Policies, Changes in Estimates and Errors
FRS 110 Events after the Balance Sheet Date
FRS 116 Property, Plant and Equipment
FRS 121 The Effects of Changes in Foreign Exchange Rates
FRS 127 Consolidated and Separate Financial Statements
FRS 128 Investment in Associates
FRS 131 Interests in Joint Ventures
FRS 132 Financial Instruments: Disclosure and Presentation
FRS 133 Earnings per share
FRS 136 Impairment of Assets
FRS 138 Intangible Assets
FRS 140 Investment Property

The adoption of FRS 102, 108, 110, 116, 127, 128, 131, 132 and 133 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new or revised FRSs are discussed below:

(a) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS138.

The adoption of these FRSs has resulted in the Group ceasing annual goodwill amortization. This is consistent to the Group accounting policy as of 31 December 2005 where goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognized in profit or loss and subsequent reversal is not allowed. The carrying amount of goodwill as at 1 January 2006 was RM152,827,000. In the current quarter ended 30 June 2006, an impairment loss of goodwill of RM1,635,000 (Year to date : RM 13,929,000) was recognized in the Income Statement.

Under FRS 3, any excess of the Group's interest in the fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "negative goodwill"), after reassessment, is now recognized immediately in profit or loss. This is also consistent with the Group accounting policy as of 31 December 2005 where the company had credited the negative goodwill to the income statement in the period it arises.

In addition, the useful lives of other intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Prior to 1 January 2006, intangible assets were considered to have a finite useful life and were stated at cost less accumulated amortization and impairment losses. Under the new FRS 138, some of the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset the asset is expected to generate net cash inflows for the Group. Intangible assets with indefinite useful lives are not amortized but instead, are tested for impairment annually. Intangible assets of the Group with finite useful lives continue to be stated at cost less accumulated amortization and impairment losses.

(b) FRS 5: Non-Current Assets Held for Sale and Discontinued Operations

During the period ended 30 June 2006, no component of the Group was discontinued.

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather through continuing use. The assets and liabilities of a discontinued operation of disposal group that are classified as held for sale are measured in accordance with FRS 5. Immediately before classification as held for sale, the carrying amounts of all the assets and liabilities in the disposal group is measured in accordance with applicable FRSs. Then, on initial classification as held for sale, the disposal group is recognized at the lower of carrying amount and fair value less costs to sell.

(c) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognized income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

(d) FRS 121: The Effects of Changes in Foreign Exchange Rates

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 entity operates (the "functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Under the revised FRS 121, exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are to be recognized in profit or loss in the consolidated financial statements.

In addition, as of 1 January 2006, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with the transitional of FRS 121, this change is applied prospectively. Goodwill acquired in business combinations prior to 1 January 2006 and fair value adjustments arising on those acquisitions are deemed to be assets and liabilities of the parent company and were translated using the exchange rate at the date of acquisitions.

(e) Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

	Previously Stated RM'000	Restated RM'000
3 months ended 30 June 2005		
Share of profit of associate companies	17,411	14,964
Profit Before Tax	48,857	46,410
Income Tax Expense	7,446	4,999
6 months ended 30 June 2005		
Share of profit of associate companies	17,141	14,669
Profit Before Tax	64,801	62,329
Income Tax Expense	11,229	8,757

2. Qualification of Financial Statements

The audited report of the preceding annual financial statements was not subject to any qualification.

3. Seasonal or cyclical factors

The Group's operation was not significantly affected by seasonal or cyclical factors.

4. Unusual items

There were no items affecting assets, liabilities, equity, net income, or cash flows that were unusual because of their nature, size, or incidence.

5. Changes in estimates

There was no significant change in estimates of amounts reported in prior interim periods that have a material effect in the current interim period.

6. Issuance and repayment of debt and equity securities

During the second quarter of 2006, a total of 14,081,640 (Year to-date: 14,091,640) ordinary shares of RM0.50 each were issued pursuant to conversion of 4,410,070 (Year to-date: 4,415,070) ICULS and subscription of 5,261,500 new ordinary shares (Year to-date: 5,261,500) pursuant to the Employee Share Option Scheme ("ESOS").

There was no issuance of commercial papers ("CP") during the second quarter of 2006.

Apart from the above, there were no other issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current quarter and financial year-to-date.

7. Dividend

There was no payment of dividend in the second quarter of 2006. At the annual general meeting held on 23 June 2006, the shareholders approved a final dividend of 6% less 28% income tax amounting to RM 8,502,629.03 for the financial year ended 31 December 2005, which was paid on 28 July 2006 to the shareholders whose names appear in the Record of Depositors of the company at the close of business on 30 June 2006.

The directors approved an interim dividend of 3% less 28% income tax for the financial ending 31 December 2006 on a date to be determined later.

8. **Segment information**

	Revenue Period Ended 30th June		Profit/ (Loss) Before Tax Period Ended 30th June	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Oil and Gas	635,693	378,879	49,132	63,583
Infrastructure	102,106	60,707	6,352	1,384
Agro-Based Engineering	29,812	19,224	3,720	1,575
Building Materials	187,254	159,765	(15,096)	1,883
Others	4,665	18,116	(18,948)	(6,096)
	959,530	636,691	25,160	62,329
Inter-segment elimination	(171,072)	(184,866)	-	-
	788,458	451,825	25,160	62,329

9. **Unquoted investment and properties**

Other than in Note 11, there were no other acquisition and disposal of unquoted investment and / or properties by the Group during the current quarter.

10. **Event subsequent to the balance sheet date**

Save as disclosed below, there were no material subsequent event since the end of the current quarter until a date not earlier than 7 days from the date of issuance of this quarterly report:-

a) On 20 July 2006, the company had made announcement that its wholly owned subsidiary, Total Oil Technologies Sdn Bhd ("TOT") had entered into a Joint Venture Agreement with En Mohammed Haris Bin Abd Ghafar, Mr. Lim Chin and Mr. Bobby Sheng-Ming Chi ("the Vendors") and Pesanan Dynamik Sdn Bhd ("PDSB") to invest and acquire in the equity of PDSB for purposes of a joint venture on a 51% (TOT): 49% (the vendors) basis for an aggregate cash consideration of RM 1,046,513.94 only.

b)On 2 August 2006, the company had made announcement that its wholly owned subsidiary company, Total Oil Technologies Sdn Bhd, has duly completed the acquisition of 39,050 ordinary shares of RM1.00 each representing an 11% equity stake in TOT Inspection Services Sdn Bhd for a total cash consideration of RM99,000 only.

c) On 2 August 2006, the company had made announcement that its wholly owned subsidiary company, Total Oil Technologies Sdn Bhd, has duly completed the acquisition of 35,500 ordinary shares of RM1.00 each representing an 10% equity stake in TOT Inspection Services Sdn Bhd for a total cash consideration of RM120,000 only.

11. **Changes in the composition of the Group**

The changes in the composition of the Group during the second quarter are as follows: -

(a) <u>Acquisition of a subsidiary</u>

(i) On 28th April 2006, the company's sub-subsidiary Kanssen (Yadong) Pipe Coating Services Limited acquired the entire issued and paid-up share capital of USD1.00 in Kanswin Limited (BVI Company No.1015613), a company incorporated in British Virgin Islands, at a purchase consideration of USD1.00 (equivalent to RM3.63).

(ii) On 26th May 2006, the company's wholly-owned subsidiary, Jutasama Sdn Bhd entered into a Share Sale Agreement with Ranivest Sdn Bhd to *inter lia,* acquire the entire 40,000 ordinary shares of RM1.00 each (representing 20% equity stake) in Jutasama Jaya Sdn Bhd, which involved in the business of contracting of industrial engineering projects, for a total cash consideration of RM40,000.00.

The acquired subsidiary has contributed the following results to the Group:-

	3 months ended 30.6.2006 RM'000	**6 months ended 30.6.2006 RM'000**
Revenue	-	-
Profit for the period	1	1

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

	Acquiree's Carrying Value Amount RM'000
Property, plant and equipment	-
Trade and other receivables	953
Cash and bank balances	677
Trade and other payables	(1,198)
Total net assets	432
Less: Minority interest	(173)
Group's share of net assets	259
Less: Share of net assets previously accounted for as associate	(173)
Less: Discount on acquisition	(46)
Purchase consideration	40

The cash outflow on acquisition is as follows:

	6 months ended 30.6.2006 RM'000
Purchase consideraton satisfied by cash	40
Cash and cash equivalents of subsidiary acquired	(677)
Net cash outflow of the Group	(637)

b) On 2nd May 2006, the company’s sub-subsidiary, Syn Tai Hung Trading Sdn Bhd had entered into a Shares Sale Agreement with IGB Corporation Berhad to *inter alia*, dispose of its entire 40% (200,000 shares) equity shares in IST Building Products Sdn Bhd for a cash consideration of RM275,880.00.

c) On 10th May 2006, the company (“WSC”) had entered into a Joint Venture Agreement with Quantum Refinery Sdn Bhd (“QRSB”) to *inter alia,* acquire and invest / subscribe in the equity of a company known as “MACRO JUBLI SDN BHD” for purposes of a joint venture on a 70%(WSC) : 30% (QRSB) basis.

d) On 29th May 2006, the company had incorporated a wholly owned subsidiary known as WSC Capital (Labuan) Limited in the Federal Territory of Labuan, Malaysia with an initial issued and paid up capital of US$1.00 (equivalent to RM3.6475).

e) On 29th May 2006, the company's sub-subsidiary PPSC (HK) Limited had incorporated a wholly owned subsidiary known as PPSC Capital (Labuan) Limited in the Federal Territory of Labuan, Malaysia with an initial issued and paid up capital of US$1.00 (equivalent to RM3.6475).

12. Capital commitment

	RM '000
Approved and contracted for	13,304
Approved but not contracted for	26,964

13. Operating Lease Commitments

Total future minimum lease payments under non-cancelable operating leases are as follows:-

Operating lease commitments

	RM '000
Payable not later than one year	11,600
Payable later than one year and not later than five years	17,530
Payable later than five years	1,141
	30,271

The above is inclusive of: -

a) a land held under Lot H.S.(D) 3831, P.T. 1627 in the Mukim of Kuantan, Pahang with Lembaga Pelabuhan Kuantan. The lease of property expires on 28 February 2011.

b) compressors held for generating rental revenue and it expires on 1st July 2008.

14. Related party transactions

There was no related party transactions during the quarter ended 30 June 2006 other than as mentioned in note 11 (a) (ii) and 11 (b) above.

Other information required by Bursa Malaysia Listing Requirement

15. Review of performance of the Company and its principal subsidiary companies for the current quarter and half year ended 30 June 2006

The group achieved a revenue of RM359.60 million in the 2nd quarter 2006 compared with RM259.66 million in corresponding period in 2005. This 38% increase is attributed mainly to higher revenue registered by all the four divisions of the group with Infrastructure and Oil & Gas Divisions accounting for 77% of the increase. For the half year ended 30th June2006, the group registered revenue of RM788.46 million representing an increase of 75% over the corresponding period in 2005 of RM451.83 million. Similarly, for the first half 2006, all the four divisions also registered increases in their revenue, with Oil & Gas Division recording a 105% over the corresponding period in 2005.

On the pre-tax profit for the 2nd quarter 2006, the group achieved RM5.93 million compared with RM46.41 million in the corresponding period in 2005. To facilitate meaningful comparison, the comparative figures in 2005 included exceptional gains arising from disposal of plant by an associated company, gain from partial divestment of equity interest in a subsidiary and impairment of goodwill which in aggregate totalled RM24.79 million. Without these exceptional items, the pre-tax profit should have been RM21.62 million. The comparatively lower pre-tax profit compared with RM46.41 million achieved in the corresponding quarter in 2005, was attributed to the incidence of the impairment of asset of RM14.50 million and impairment of goodwill of RM1.50 million in Building Materials division and the loss suffered by the Pipeline Construction activity in the Oil & Gas Division. Notwithstanding this, the Infrastructure Division and the Engineering activity in the Oil & Gas Division registered a pre-tax profit of RM3.49 million and RM15.70 million respectively.

As for the pre-tax profit for the first half 2006, the group registered RM25.16 million compared with RM62.33 million (which include RM24.79 million of exceptional gains) in the corresponding period in 2005. The lower pre-tax profit was due to recognition of the impairment of goodwill (which include RM12.29 million recognized in first quarter 2006) and impairment of assets and goodwill in the Building Material Division of RM17.00 million. If these impairment provisions and exceptional items were excluded for comparison, the pre-tax profit for first half 2006 should have been RM54.59 million compared with RM37.54 million, representing an increase of 45.4%.

16. Material changes in the profit before taxation for the current quarter as compared with the immediate preceding quarter

The group registered a pre-tax profit of RM5.93 million in the current quarter compared with RM19.24 million in the previous quarter as highlighted in the previous section 15.

The decline in pre-tax profit is attributed to lower revenue recorded by the Oil & Gas Division following its completion of the USD124 million *PTT Third Transmission Pipeline project ("TTPP")* in 1st quarter 2006 and losses suffered by its Pipeline Construction activity. Notwithstanding this, the decline was partly arrested by the strong contribution from the Engineering activity in the Oil & Gas Division and the Infrastructure Division which posted revenue of RM79.47 million and RM56.76 million respectively. In terms of pre-tax profit, the contribution from the Engineering activity in the Oil & Gas Division and Infrastructure Division accounted for RM15.70 million and RM3.49 million respectively.

17. Current period prospect

In the context of strong demand for oil, higher E&P (Exploration and Production) spendings and activities by the oil majors and increasing number of onshore and offshore pipelines earmarked for construction for Asia and the rest of the world, we foresee improvement in contribution from the Oil and Gas Division for the second half 2006 and beyond. Of special focus is the Engineering businesses in which we foresee robust growth in compression engineering products and services.

The Agro-based Engineering's growth is expected to accelerate further in view the heightened demand of palm oil products not only for consumption but also for fueling the biodiesel plants as an alternative to fossil fuel in the near term.

With the substantial impairment write-downs in the Building Material Division, it is now placed in a stronger position to move ahead to meet future challenges. The Infrastructure and Building Materials Divisions are cautiously confident of a brighter business outlook arising from the 9th Malaysian Plan.

18. Taxation

Taxation comprises the following:

	Current quarter ended RM '000	Current year to date RM '000
Current Tax:-		
- Malaysia Income Tax	5,469	13,030
- Foreign Tax	2,144	2,381
	7,613	15,411

The effective tax rate of the Group was higher than the statutory tax rate mainly due to the following:

	Current quarter ended RM '000	Current year to date RM '000
Profit before taxation	5,926	25,160
Tax at the average applicable tax rate - 28%	1,659	7,045
profit from certain overseas subsidiaries which are not subjected to tax or enjoy tax exemption	(1,787)	(6,984)
Unavailability of group relief on losses in subsidiaries for set-off	1,857	4,869
other expenses (net) - not allowable	5,884	10,481
	5,954	8,366
Effective tax expense	7,613	15,411

19. Valuation of Property, Plant and Equipment

There were no amendments to the valuation of property, plant and equipment during the current quarter.

20. Purchase or disposal of quoted securities

(a) Total purchase and sales of quoted securities for the current quarter ended 30 June 2006 are as follows:-

	Current Quarter RM'000	Current Year To Date RM'000
Purchases	165	165
Disposal	(89)	(89)
Gain on Disposal	19	19
Loss on Disposal	(9)	(9)
Written Off	-	-

(b) Investment in quoted securities as at 30 June 2006 are as follows:

	RM'000
At cost	2,758
At carrying value / book value	2,425
At market value	2,041

21. Profit forecast

The Group did not issue any profit forecast for the current quarter.

22. Status of corporate proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

23. Group borrowings and debt securities

The Group borrowings are mainly denominated in Ringgit Malaysia.

Group Borrowings	Secured RM '000	Unsecured RM '000	Total RM '000
Short term borrowings			
Bank overdraft	6,002	274	6,276
Bankers' acceptance	-	170,664	170,664
Revolving Credit	13,275	5,916	19,191
Trust Receipt	4,058	-	4,058
Term loans	5,896	12,754	18,650
Hire purchase creditors	1,231	-	1,231
Sub-total	**30,462**	**189,608**	**220,070**
Long term borrowings			
Private Debt Securities	-	99,666	99,666
Term Loans	-	108,393	108,393
Hire purchase creditors	997	-	997
Sub-total	**997**	**208,059**	**209,056**
Total Borrowings	**31,459**	**397,667**	**429,126**

24. Off balance sheet financial instruments

Save as disclosed, the Group does not have any other financial instruments with off balance sheet risk as at 21 August 2006. The net unrecognized loss at 30 June 2006 on forward contracts for future sales and purchases amounted to RM 75,000.00 .

The foreign currency exchange amount to be paid and contractual exchange rates of the Group's outstanding forward contracts are as follows:

	Foreign Currency	Amount to be paid / received (*) 000	Average in equivalent RM'000	Average contractual rates	Settlement within 1 year RM'000
Trade Receivables	USD	18,535	68,269	3.6711	68,043
	SGD	16,797	38,533	2.3127	38,845
Trade Payables	JPY	20,000	630	0.0321	641

(*) - in respective of foreign currency

25. Material litigation

Save as disclosed below, there were no material litigations pending since 21 May 2006 up to 21 August 2006.

(a)(i) PENANG HIGH COURT
<u>CIVIL SUIT NO: 22-199-2001</u>

Petro-Pipe Industries (M) Sdn Bhd ("PPI") had on 9 May 2001 filed a Writ of Summons at the Penang High Court against Kingsar Sdn Bhd ("Kingsar") for a principal sum of RM580,100 being the balance amount due in relation to the supply of pipes by PPI to Kingsar. As the said Kingsar had not entered Appearance within the stipulated period, Judgment in Default of Appearance was entered against the said Kingsar on 8 June 2001. Subsequently, the said Judgment in Default was set aside by the Court.

PPI's Solicitors had proceeded for trial against Kingsar and the matter was fixed for case management by the Penang High Court on 16 January 2006. However, PPI's Solicitors wrote to inform that Kingsar had been wound up by the Miri High Court on 11 January 2006 and PPI had proceeded to file its Proof of Debt against Kingsar with the Pengarah Insolvensi accordingly.

Meantime, on 19 May 2006, PPI was informed by their Solicitors that Kingsar had applied for a stay of the Winding-Up Order dated 11 January 2006 and the matter is now fixed for the 19 October 2006 before the Miri High Court.

(a)(ii) KUALA LUMPUR HIGH COURT
<u>COMPANIES W-UP NO: D6-28-409-2002</u>

Petro-Pipe Industries (M) Sdn Bhd ("PPI") had on 10 May 2002 filed a Winding Up Petition ("Petition") at the Kuala Lumpur High Court against Fieldwork Engineering Sdn Bhd ("Fieldwork") for the principal sum of RM1,289,227.22 being balance purchase price for goods sold and delivered at the orders or request of Fieldwork.

Fieldwork was wound-up on 9 July 2003 vide Kuala Lumpur High Court Companies Winding Up No. D1-28-1170-2002 and the Company's Solicitors have been instructed to commence the necessary legal action to wind–up Fieldwork's holding company, FW Industries Bhd ("FWI") as a Guarantor after demands for payment were ignored.

PPI was informed by its Solicitors that the Guarantor had filed an application pursuant to S176 of the Companies Act 1965 vide Malacca High Court Originating Summons No. 1-24-145-2004. A consent order was entered on 8 July 2004 which ordered the Guarantor to pay one half of the sum of RM1,289,277.00 (i.e. RM644,638.50) to PPI within 9 months. However, the Guarantor failed to comply with the consent order.

Meantime, PPI's Solicitors have served a Notice pursuant to Section 218 of the Companies Act 1965 against the Guarantor and a Winding-Up Petition was filed against the Guarantor on 24 February 2004 vide Kuala Lumpur High Court Companies Winding-Up No. D8-28-110-2004. The Guarantor was wound up by the Court on 6 January 2006 and Mr SF Wong had been appointed the Liquidator. The Guarantor has now appealed to the Court of Appeal against the above decision.

Meantime, PPI is now in the midst of negotiating settlement with FWI since one of FWI's director has made a proposal to settle the outstanding sum via new issuance of ordinary shares vide his letter dated 3 May 2006.

(a)(iii) PENANG HIGH COURT

SUMMONS NO: MT1-22-454-2002

Petro-Pipe Industries (M) Sdn Bhd ("PPI") had on 24 August 2002 filed a Writ of Summons ("the Writ") at the Penang High Court against Najatech Engineering & Plumbing Services Sdn Bhd ("Najatech"/"the First Defendant") and Rosidah Binti Ismail and Md. Saad Bin Md Zin ("the Second" and "Third" Defendants as Guarantors) for the principal sum of RM1,495,995.17 and all interest accruing thereon being balance purchase price for goods sold and delivered at the orders or request of Najatech.

PPI's solicitors' are in the midst of serving the fresh Writ of Summons and Statement of Claim for filing against the First Defendant.

The Second Defendant has been adjudicated a bankrupt and PPI's Solicitors have filed the necessary Proof of Debts Form against the Second Defendant.

PPI's solicitors have obtained Order in Terms for the Creditors' Petition against the Third Defendant whereby, the Third Defendant has now been adjudged a bankrupt and PPI's solicitors have filed the Proof of Debts Form against the Third Defendant accordingly.

b)(i) KUALA LUMPUR HIGH COURT

WRIT NO.: D2-22-1419-98

Petro-Pipe Concrete Piles Sdn Bhd ("PPCP") had on 12 May 1998 filed a Writ of Summons At High Court at Kuala Lumpur against C.T.A. Realty Sdn Bhd ("CTA"), CTA for the principal sum of RM806,031.70 being the balance price for concrete piles supplied to CTA and Cygal Berhad (" CYCAL") as guarantor for CTA. On the advice of PPCP's solicitors, an application for final judgment to be entered summarily ("the Application") against CTA and CYGAL was subsequently made on 10 June 1998. The Application was heard on 23 July 1998 wherein the same was adjourned to enable CTA and CYGAL to appeal against the preliminary ruling of the Court in favour of PPCP.

On 4 August 1998, CTA and CYGAL obtained a restraining order vide OS No. D4-24-330-98. The scheme of arrangement pursuant to Section 176 of the Companies Act 1965 ("the Scheme') was sanctioned by the Court on 23 December 1999 and approved by the creditors (inclusive of financial institutions) sometime in August 2001 wherein, CYGAL shall, among others, issue Irredeemable Unsecured Loan Stock ("ICULS") to its creditors.

PPCP's solicitors have informed that:-

i. the Securities Commission (SC) has since approved the proposed share exchange wherein the Newco shall cause to be issued, among others, 3-year zero coupon ICULS to the creditors.

ii. Messrs PKF has been appointed as the independent auditors to carry out an investigative audit on CYGAL's losses in the previous years. This is in compliance with one of the conditions imposed by the SC in approving the restructuring scheme of CYGAL, vide its letter dated 11 December 2002.

PPCP's Solicitors are of the opinion that implementation of the scheme will inevitably be time consuming. However, CYGAL will be obliged under the scheme to make provisions for the outstanding sum owed to PPCP and the ICULS will be issued after listing of the Newco.

On 26 January 2006, PPCP had submitted its Undertaking Letter and Directors' Circular Resolution to accept Cygal's Debt Restructuring Scheme pursuant to Section 176 of the Companies Act, 1965 for the issuance of 806,032 ICULS of nominal value RM1.00 each as full and final settlement of the amount of RM806,031.70 owed to PPCP ("the Scheme Debt"). Barring any unforeseen circumstances, PPCP expects the Scheme to be implemented and completed by the third quarter of 2006 as the Securities Commission has approved a final extension of time to 31 August 2006 for Cygal to implement the corporate restructuring exercises.

Meantime, this matter has now been adjourned and fixed for mention by the Kuala Lumpur High Court to 13 September 2006 pending the outcome of the said restructuring scheme.

b)(ii) KUALA LUMPUR HIGH COURT
WRIT NO.: D4-22-79-96

PPCP's claim against Zap Piling (M) Sdn Bhd, Classic Landmark (M) Sdn Bhd , Chor Chong Leen and Ng Kok Seng ("the Defendants") is for RM1,620,191.45 (interest plus principal sum of RM 1,406,258.84). The claim against Zap Piling (M) Sdn Bhd and Classic Landmark (M) Sdn Bhd are as Contractor and Developer respectively of a project whereby goods were sold and delivered to them by PPCP whereas, PPCP's claim against Chor Chong Leen and Ng Kok Seng are based on a guarantee and indemnity dated 18 November 1994.

Classic Landmark (M) Sdn Bhd has already been wound up. According to the PPCP's solicitors, Classic Landmark's counter claim against PPCP no longer subsists unless it is continued by their liquidator and that, PPCP should be able to obtain judgment against the remaining Defendants, i.e. Zap Piling (M) Sdn Bhd, Chor Chong Leen and Ng Kok Seng.

Ng Kok Seng has been declared a bankrupt and PPCP has received a copy of the sealed bankruptcy order from its solicitors in Singapore and PPCP intends to file its Proof of Debt against Ng Kok Seng in both Malaysia and Singapore.

Whereas, on 27 September 2004, the Kuala Lumpur High Court had dismissed the First and Third Defendant's application for Striking out of the Writ and Case Management of this suit and the matter was fixed for hearing on 25 April 2005 in respect of the parties' submissions on the memorandum of understanding. On 25 April 2005, the Court dismissed PPCP's claim against the First and Third Defendants with costs based on the Court's interpretation of Section 42 and Section 87 of the Contracts Act 1950.

PPCP is appealing against the Kuala Lumpur High Court's decision and had vide its solicitors, M/s Alex Chang & Co., filed a Notice of Appeal with the Court of Appeal, Putrajaya on 20 May 2005. The matter is now pending as PPCP's solicitors are still awaiting for the Notes of Proceedings and Grounds of Judgment from the Kuala Lumpur High Court to enable them the file the Record of Appeal, after which, a hearing date will then be given by the Court of Appeal.

Meantime, the Solicitors for the First Defendant has filed their Notice of Taxation for a sum of approximately RM303,928.50 as their costs. This Notice is now fixed for hearing on 6 November 2006 to determine the amount payable by PPCP to Zap Piling's costs.

26. Earnings per share (EPS)

Basic earnings /(loss) per share

The basic earnings /(loss) per share for the current quarter and current year to-date have been computed based on (loss)/profit attributable to shareholders of the company of (RM 2.97) million and RM0.2 million respectively and the weighted average number of ordinary shares of RM0.50 each of 381,872,436 for the current quarter and current year to-date were calculated as follows:

Weighted average number of ordinary shares

	Current quarter Number of shares	Current year to date Number of shares
Issued ordinary shares at beginning of the period	379,554,297	379,549,630
Effect of subscription of new ordinary shares pursuant to ESOS	1,590,304	1,594,971
Effect of subscription of new ordinary shares pursuant to ICULS	727,835	727,835
Weighted average number of ordinary shares	381,872,436	381,872,436

	Current Quarter	Current year to date
(Loss) / Earnings Per Share - Basic (Sen)	(0.8)	0.1

Diluted earnings per share

The computation of diluted earnings per share was disregarded as the assumed conversion of ICULS and ESOS would have anti-dilutive effect.

27. Contingent Liabilities

There were no contingent liabilities arising since the last annual balance sheet date.

By Order of the Board

Lam Voon Kean
Company Secretary

Penang
28th August 2006