QUALITY CONCRETE HOLDINGS BERHAD

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standard ("FRS") 134_{2004}, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the Group's audited financial statements for the financial year ended 31 January 2006. 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 financial year ended 31 January 2006.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 January 2006 except for the adoption of the following new/revised FRSs effective for financial period beginning 1 January 2006:

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	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairments of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The Group has not taken the option for early adoption of the following new/revised FRSs effective for financial period beginning 1 January 2007.

FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 139	Financial Instruments: Recognition and Measurement

2. Changes in Accounting Policies (contd.)

Except for FRS 3, FRS 101, FRS 136 and FRS 138, the adoption of the above standards does not have significant financial impact on the Group. The effects of the changes in accounting policies resulting from the adoption of FRS 3, FRS 101, FRS 136 and FRS 138 are discussed below:

FRS 3: Business Combinations, FRS 136: Impairments of Assets, and FRS 138: Intangible Assets

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138.

The adoption of these new FRSs has resulted in the Group ceasing annual goodwill amortisation. 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. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 20 years. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "reserve on consolidation"), after reassessment, is now recognised immediately in income statement. In accordance with the transitional provisions of FRS 3, the remaining balance of reserve on consolidation as at 1 February 2006 of RM845,623 was derecognised by way of an adjustment to the opening retained earnings.

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 which prior to 1 January 2006, all intangible assets were considered to have a finite useful life. Under the new FRS 138, intangible assets having indefinite useful lives are not amortised but instead are tested for impairment annually. Other intangible assets which were considered to have a finite useful life were stated at cost less accumulated amortisation and impairment losses. The change in accounting policies on impairment of assets and intangible assets has no financial impact on the Group for the quarter under review.

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 sheets, minority interests are now presented within total equity. In the consolidated income statements, 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 recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

2. Changes in Accounting Policies (contd.)

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

3. Comparatives

(a) Statement of changes in equity

The opening balance of total equity was amended to include minority interest following the adoption of FRS 101. In addition, the opening retained profits as at 1 February 2006 increased by RM845,623 following the derecognition of the reserve on consolidation brought forward from 31 January 2006.

(b) Consolidated balance sheet

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

	Previously Stated RM'000	Reclassification RM'000	Restated RM'000
Retained earnings	45,434	846	46,280
Consolidation reserves	846	(846)	-

4. Auditors' report on preceding annual financial statements

The Group's audited financial statements for the financial year ended 31 January 2006 were reported on by its external auditors, Ernst & Young without any qualifications.

5. Seasonal or cyclical factors

The performance of the Group was not affected by any significant seasonal or cyclical factors during the period under review.

6. Unusual items

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual due to their nature, size and incidence.

7. Changes in estimates

There were no changes in the estimates of amounts reported in prior quarters which have a material impact on the interim financial statements.

8. Debt and equity securities

During the quarter under review and current financial year-to-date, there were no issuances and repayment of debt and equity securities.

Apart from the above, there were no other issuances and repayments of debt and equity securities for the current quarter and financial year-to-date.

9. Dividends paid

During the financial year-to-date, the Company did not pay any dividend.

10. Segmental reporting

	Manufacturing	Trading	Property development	Quarry operation	Investment & mgt services	Eliminations /Adjustment	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
REVENUE							
External sales	59,700	1,402	4,920	357	187	-	66,566
Inter-segment sales	23	-	-	908	-	(931)	-
Total revenue	59,723	1,402	4,920	1,265	187	(931)	66,566
RESULTS							
Segment result	650	38	390	215	(637)	-	656
Investing results	-	-	-	-	(517)	-	(517)
Interest expense	(826)	(18)	-	-	(52)	6	(890)
Interest income	113	-	-	-	-	(6)	107
Income taxes	(180)	-	(36)	(43)	-	-	(259)
Share of associate results	-	-	-	-	-	(1)	(1)
Minority interest	-	-	-	-	-	(74)	(74)
Net profit/(loss)	(243)	20	354	172	(1,206)	(75)	(978)
OTHER INFORMATION							
Segment assets	156,949	1,206	18,729	1,109	17,964	972	196,929
Segment liabilities	51,665	1,082	6,608	772	2,395	-	62,522
Depreciation	2,035	-	4	91	161	-	2,291
Non-cash expenses other than depreciation	-	-	-	-	390	-	390

No geographical analysis has been prepared as the Group's business operations are predominantly located in Malaysia.

11. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward, without amendment from the financial statements for the financial year ended 31 January 2006.

12. Subsequent events

No material events have arisen during the interval between the end of the current quarter and the date of this announcement which have not been reflected in the current quarterly report.

13. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter except for the followings:-

(a) On 9 May 2006, Quality Concrete Holdings Behad ("QCHB") acquired 70% of the entire issued and paid up share capital of Seri Bumijaya Sdn. Bhd. ("Seri Bumijaya") and on 29 June 2006 QCHB further acquired the remaining 30% equity interest in Seri Bumijaya via the purchase of the remaining thirty thousand (30,000) ordinary shares of RM1.00 each from the other existing shareholder of Seri Bumijaya by cash consideration. Following the said acquisitions, Seri Bumijaya becomes a 100% wholly owned subsidiary of QCHB.

This company has not commenced operation in the quarter under review.

For the financial year-to-date, there were no changes in the composition of the Group except for the followings:-

(a) On 3 May 2006, Polyflow Pipes Sdn. Bhd. ("Polyflow"), a wholly owned subsidiary of Quality Concrete Holdings Berhad ("QCHB") acquired 40% of the entire issued and paid up share capital of Polyflow Teguh Sdn. Bhd. ("Polyflow Teguh") comprising 40,000 ordinary shares of RM1.00 each for a total cash consideration of RM40,000. Following the said investment, Polyflow Teguh becomes a 40% owned associate company of QCHB.

This company has commenced its operation in the quarter under review.

14. Contingent liabilities and assets

There were no changes in contingent liabilities or assets since the last audited annual balance sheet as at 31 January 2006, except for the quarter under review and the current financial year-to-date where an additional corporate guarantee amounting to RM0.08 million was given by the Company to bankers for credit facilities granted to a subsidiary.

	RM'000
As at 31 January 2006	92,147
Additional corporate guarantee	86
As at 31 July 2006	92,233

15. Capital commitments

There were no material capital commitments for the current quarter under review.

16. Review of performance of the Group

For the quarter under review, the Group recorded a revenue of RM31.3 million compared to RM35.3 million recorded in the preceding quarter. This represents a decrease of RM4.0 million or 11.3% which is mainly due to lower sales recorded in the property development, timber and pipe manufacturing divisions for the quarter under review. The main reason for the decrease in sales from the property development division is due to the completion of existing project while new projects are still at their initial stages. The timber manufacturing division also recorded a decrease in revenue due to lower sales to overseas market. The delay in the implementation of water reticulation projects by the State Government also affected the sales of the Group's pipes manufacturing division.

Compared to the corresponding period of the last financial year, the Group's revenue showed an improvement of RM3.8 million (13.7%) from RM27.5 million to RM31.3 million. The increase in revenue is mainly from the timber and pipe manufacturing divisions which showed an increase in revenue of RM2.8 million and RM1.3 million respectively.

17. Comment on material change in profit before taxation ("PBT")

The Group recorded loss before tax ("LBT") of RM0.6 million for the current quarter, an increase of RM0.5 million compared to the LBT of RM0.1 million recorded in the preceding quarter. This is mainly due to lower revenue and higher operating expenses recorded for the quarter under review.

The Group recorded a decrease of RM0.8 million in profit before tax in the current period when comparing with the corresponding period of the last financial year. These are mainly due to higher operating expenses arising from higher fuel and raw materials costs. The Group also recorded lower operating income in the current period under review.

18. Current year prospects

Apart from the decrease in revenue, the Group is also facing high fuel cost and escalating raw material costs which it is unable to pass the additional costs to its customers due to the slowdown in the Construction and Property development sectors. As such, the profit margins for most of the Group's products are squeezed and significantly reduced.

In the light of the prevailing market conditions, the Group has embarked on tightening cost control measures; improving its efficiency and also to explore new business opportunities. With these new strategies, the Group expects to improve its financial performance in the next quarter and ends the financial year with overall net profit.

19. (a) Variance of actual profit from forecast profit

Not applicable as no profit forecast was published.

(b) Shortfall in the profit guarantee

There was no profit guarantee for the current year under review.

20. Taxation

	3 months ended 31/07/2006 RM'000	**Cumulative year-to-date 31/07/2006 RM'000**
- Current period taxation	(91)	(259)
- Deferred taxation	-	-
	(91)	(259)

The Group's effective tax rate for the current quarter ended 31 July 2006 and year-to-date are higher than the statutory tax rate of 28% due to losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries, and certain expenses which are not deductible for tax purpose.

21. Sales of unquoted investments and/or properties

There were no sales of unquoted investments and properties for the quarter under review.

22. Quoted securities

(a) Purchases and disposals of quoted securities during the current quarter and financial year-to-date were as follows:

	Current quarter RM'000	Current year-to-date RM'000
Total purchases	-	-
Total disposals	-	338
Total net loss on disposal	-	127

(b) Total investments in quoted securities as at 31 July 2006 were as follows:

	RM'000
At cost	10,476
At carrying value/ book value	9,021
At market value	8,367

There was no additional provision for the diminution in the value of quoted share investment for the quarter under review. Total provision for the diminution in the value of quoted share investment to-date is RM1.5 million.

23. Status of corporate proposals announced but not completed

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

24. Group borrowings and debt securities

	As at 31/07/2006 Total RM'000
Unsecured:	
Bank overdrafts	4,925
Revolving credit	3,000
Bankers' acceptance	22,656
	30,581
Secured:	
Term loans	3,199
Bank overdrafts	3,179
	6,378
	36,959
Repayable within twelve months	34,383
Repayable after twelve months	2,576
	36,959

The above borrowings are denominated in Ringgit Malaysia.

25. Off balance sheet financial instruments

The Group does not have any financial instruments with off balance sheet risk as at the date of this announcement.

26. Changes in material litigation

As at the date of this announcement, there were no changes in all the existing material litigations of the Group which were disclosed in the Company's Circular to Shareholders dated 30 May 2006 and as previously announced in the quarterly report dated 29 March 2006 and 28 June 2006 except for the date of the court hearing for Quality Concrete Holdings Berhad's Ex-Parte Summons In Chambers for the order to examine an Officer of Classic Ceiling Manufacturer (M) Sdn. Bhd. (Civil suit no. 22-96-99-III (II)) which has been adjourned from 8 August 2006 to 14 November 2006.

27. Earnings per share

	Individual quarter ended	
	31/07/2006	**31/07/2005**
	'000	**'000**
Net (loss)/profit for the period (RM)	(729)	167
Weighted average number of ordinary shares		
Issued and fully paid share capital at beginning of the financial period	57,962	57,953
Effect of shares issued during the 3 months period ended 31 July 2006 / 2005	-	-
Weighted average number of ordinary shares	57,962	57,953
Effect of ESOS share options	2,500	2,276
Weighted average number of ordinary shares (diluted)	60,462	60,229
Basic (sen)	(1.26)	0.29
Fully diluted (sen)	(1.21)	0.28

	Cumulative year to date	
	31/07/2006	**31/07/2005**
	'000	**'000**
Net loss for the period (RM)	(978)	(820)
Weighted average number of ordinary shares		
Issued and fully paid share capital at beginning of the financial year	57,962	57,953
Effect of shares issued during the 6 months period ended 31 July 2006 / 2005	-	8
Weighted average number of ordinary shares	57,962	57,961
Effect of ESOS share options	2,479	2,148
Weighted average number of ordinary shares (diluted)	60,441	60,109
Basic (sen)	(1.69)	(1.41)
Fully diluted (sen)	(1.62)	(1.36)

28. Dividend payable

No dividends have been declared for the financial year-to-date.

29. Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 September 2006.