



SELOGA HOLDINGS BERHAD
(Company No: 361052-H)
Incorporated In Malaysia

**NOTES TO THE QUARTERLY FINANCIAL REPORT
PERIOD ENDED 31 MARCH 2007**

EXPLANATORY NOTES PURSUANT TO FRS 134

A1 Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (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 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 December 2006.

A2 Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December.

A3 Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2006 was not qualified.

A4 Comments About Seasonal or Cyclical Factors

The Group's operations are not affected by seasonal and cyclical factors.

A5 Unusual Items Due to their Nature, Size or Incidence

There were no unusual items which affect the assets, liabilities, equity, net income or cash flows of the Group for the current quarter.

A6 Changes in Estimates

There were no changes in the estimates of amounts, which give a material effect in the current quarter.

A7 Debt and Equity Securities

There were no 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.

A8 Dividends Paid

There was no dividend paid by the Company for the current financial period.

A9 Segmental Information

The business segments are presented below:

| | 3 months ended | |
|---|---------------------|---------------------|
| | 31.3.2007 RM'000 | 31.3.2006 RM'000 |
| Segment revenue | | |
| Property development | 11,170 | - |
| Construction | 24,614 | 18,146 |
| Others | 17 | 17 |
| Total revenue including inter-segment sales | 35,801 | 18,163 |
| Elimination of inter-segment sales | (10,444) | - |
| Total revenue from continuing operations | 25,357 | 18,163 |
| Segment results | | |
| Property development | 539 | - |
| Construction | 2,462 | 2,423 |
| Others | 17 | 17 |
| | 3,018 | 2,440 |
| Eliminations | (125) | - |
| Total results from continuing operations | 2,893 | 2,440 |

The geographical segments of the Group are as follows:

| | Total Revenue from External Customers | | Segment Assets | |
|----------|--|--------------------------------------|------------------------------|------------------------------|
| | Quarter ended 31.3.2007 RM'000 | Quarter ended 31.3.2006 RM'000 | As at 31.3.2007 RM'000 | As at 31.3.2006 RM'000 |
| Malaysia | 25,357 | 15,576 | 131,366 | 119,598 |
| Africa | - | 2,437 | 4,438 | 5,114 |
| Others | - | 150 | 169 | 14 |
| | 25,357 | 18,163 | 135,973 | 124,726 |

A10 Carrying Amount of Revalued Assets

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

A11 Subsequent Events

As at the date of this report, there were no material events subsequent to the end of the period under review that have not been reflected in the financial statement except for the issuance of 2,021,387 ordinary shares of RM1 each, pursuant to the conversion of RM2,021,387 nominal amount of irredeemable convertible unsecured loan stocks ("ICULS") issued at 100% of its nominal value, converted on 10 May 2007.

A12 Changes in Composition of the Group

The Group have on 31 January 2007 completed the acquisition of the entire equity interest in Infra Expert Development Sdn. Bhd. ("IED"), a company incorporated in Malaysia, comprising 5,000,000 ordinary shares of RM1.00 each for a cash consideration of RM1.00.

IED has contributed the following results to the Group:

| | 3 months ended 31.3.07 RM '000 |
|-----------------------|---|
| Revenue | 11,170 |
| Profit for the period | <u>150</u> |

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

| | Fair value RM '000 | Acquiree's carrying amount RM '000 |
|----------------------------------|-------------------------------|---|
| Properties, plant and equipment | 169 | 169 |
| Property development expenditure | 16,569 | 16,569 |
| Inventories | 75 | 75 |
| Trade and other receivables | 11,888 | 11,888 |
| Cash and bank balances | 10,151 | 10,151 |
| Trade and other payables | (18,906) | (18,906) |
| Progress billings | (8,652) | (8,652) |
| Amount owing to related company | <u>(26,572)</u> | <u>(26,572)</u> |
| Group's share of net assets | (15,278) | <u>(15,278)</u> |
| Goodwill arising on acquisition | <u>15,278</u> | |
| | <u>-</u> | |

A13 Changes in Contingent Liabilities and Contingent Assets

There were no material changes in contingent liabilities or contingent assets since the last annual balance sheet as at 31 December 2006.

A14 Capital Commitments

There was no capital commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 March 2007.

EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 Performance Review

The Group recorded higher revenue for the current quarter ended 31 March 2007 of RM25.4 million as compared to RM18.2 million in the preceding quarter ended 31 March 2006. The higher revenue in the current quarter was mainly due to the increase in progress billings achieved from on-going projects in Taman Nusantara that have reached advance stages of construction and the launching of new phases during the current quarter, and also the recognition of revenue from property development arising from the acquisition of Infra Expert Development Sdn. Bhd.

The Group recorded a profit before taxation of RM0.5 million for the current quarter ended 31 March 2007 as compared to a profit before taxation of RM0.6 million in the preceding year's quarter ended 31 March 2006. The lower profit in the current quarter was mainly due to lower gross profit margin as compared to previous quarter in the preceding year.

B2 Material Change in Profit Before Taxation

The Group recorded a profit before taxation of RM0.5 million for the current quarter compared to a loss before taxation of RM1.0 million in the previous quarter. The profit in the current quarter is mainly generated by higher construction activities in Taman Nusantara and contributions from the Group's property development activities arising from the acquisition of Infra Expert Development Sdn. Bhd. and lower operating expenses as compared to previous quarter

B3 Prospects of the Group

The outlook for the local construction industry is expected to continue to remain challenging, characterised by intense competition for construction jobs among the market players. The Group continues to source for new projects which could generate an acceptable profit margin on a negotiated basis.

The Group's project in Taman Nusantara is located within the Iskandar Development Region (IDR) in South Johore, which is one of the most important initiatives in the Ninth Malaysia Plan (9MP). We expect our project in Taman Nusantara to benefit from the spin-off of this development.

The Group is exploring opportunities to secure more projects overseas and is anticipating certain construction contracts to be awarded in the near future and if it materialises, it is expected to further enhance the Group's future performance.

In addition, the Group has ventured into the manufacture of bitumen via a Joint Venture Company ("JV Company"). The JV Company has focused its efforts on the construction of this specialized bitumen plant in 2006. Upon the successful implementation of the program for the construction, the plant is expected to commence commercial operation in the second quarter of 2007 and to contribute positively to the Group after the implementation of the comprehensive restructuring scheme (announced on 10 January 2007) which is expected to be completed in the third quarter of 2007.

B4 Profit Forecast

Not applicable as there was no forecast/profit guarantee.

B5 Taxation

The current quarter taxation represents a tax provision on expected profits of a subsidiary company for the current period, rental income and interest income.

B6 Unquoted Investments and Properties

There were no sale of unquoted investments and properties during the current quarter.

B7 Quoted Investments

There was no sale or purchase of quoted investments during the current quarter.

| | <u>As at 31/3/2007</u> |
|---|------------------------|
| | RM'000 |
| Total investment at cost | 1 |
| Total Investment at carrying value/book value | - |
| Total investment at market value | - |

B8 Status of Corporate Proposals

Except for the following proposals which are in various stages of implementation, there were no other new corporate proposals:

- (i) Proposed comprehensive restructuring scheme.

The Company had on 11 May 2006 announced that the Company has been classified as an Affected Listed Issuer based on paragraph 2.1(a) of the Amended Practice Note No. 17/2005 ("Amended PN17") of Bursa Malaysia Securities Berhad ("Bursa Securities"), whereby:-

- (a) Its shareholders' equity on a consolidated basis is less than 25% of its issued and paid-up capital; and
- (b) Its shareholders' equity is less than the minimum issued and paid-up capital of RM40 million.

Further to the announcement made on 11 May 2006, the Group made an announcement on 10 January 2007 in respect of its comprehensive restructuring scheme to regularise its financial condition, as follows:

- (I) Proposed renounceable rights issue of up to 44,710,003 ordinary shares of RM1.00 each in SHB ("SHB Shares") at a proposed issue price of RM1.00 on the basis of 1 SHB Share for every 3 existing SHB Shares held on an entitlement date to be determined later ("Proposed Rights Issue"); and
- (II) Proposed rationalisation of investment in Kemaman Oil Corporation Sdn. Bhd. ("Proposed Rationalisation").

The above Proposals are subject to, amongst others, the following approvals being obtained:

- (i) Securities Commission ("SC") for the following:
 - (a) Proposed Rights Issue;
 - (b) Proposed Exemption II and III (as detailed in the announcement); and
 - (c) Proposed exercise of the Proposed Call Option 1 or subscription of new KOC Shares, as the case may be ("Proposed Exercise")

- (ii) SC (pursuant to the Guideline on Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests issued by the Foreign Investment Committee ("FIC")) for the Proposed Exercise;
- (iii) Shareholders of SHB at a general meeting to be convened;
- (iv) Bursa Securities for the listing of and quotation for the new SHB Shares to be issued under the Proposed Rights Issue; and
- (v) Any other relevant authorities.

The Proposed Rights Issue and the Proposed Rationalisation are inter-conditional. The Proposed Rights Issue is conditional to the Proposed Exemption II and the Proposed Exercise is conditional to the Proposed Exemption III.

For details of the comprehensive restructuring scheme, kindly refer to the announcement dated 10 January 2007.

Further to the above, the Securities Commission ("SC") has vide its letter dated 20 April 2007, approved SHB's application for an exemption under the Malaysian Code on Take-Overs and Mergers, 1998 to undertake a mandatory offer arising from the Company's regularisation plans ("Exemption").

- (ii) Joint Venture in Kemaman Oil Corporation Sdn. Bhd. ("KOC")

Reference is made to the Group's announcements on 13 July 2004, 20 April 2005 and 1 June 2005 detailing, amongst others, the Shareholders' Agreement dated 13 July 2004 and Supplemental Shareholders' Agreement dated 1 June 2005 in relation to the joint venture in KOC.

On 7 November 2006, the Company was informed by KOC that Thai Bitumen Company Limited ("TBC") has via its letter dated 2 November 2006, served a notice of conversion of 31,350,000 non-redeemable convertible preference shares (NRCPS) of RM1.00 each in KOC held by them into 31,350,000 ordinary shares of RM1.00 each in KOC ("KOC shares"). The above NRCPS were converted into ordinary shares of RM1.00 each in KOC on 1 March 2007. Arising from the conversion and in exercise of Article 4 (E)(iv) of KOC's Articles of Association, the Company is required to subscribe for 31,350,000 KOC shares to be in proportion with the collective shareholding of Tipco Asphalt Public Company Ltd ("TASCO") and TBC at a ratio of 50:50.

To maintain the ratio of 50:50 equity interest in KOC, a proposed rationalisation of investment in KOC is included as part of the comprehensive restructuring scheme announced on 10 January 2007.

Further to the above, the Securities Commission ("SC") has in its letter dated 20 April 2007, approved SHB's application for an exemption under the Malaysian Code on Take-Overs and Mergers, 1998 from the obligation to undertake a mandatory offer for:

1. the remaining ordinary shares of RM1.00 each in KOC ("**KOC Shares**") not already owned by SHB upon the exercise by SHB of the proposed call option granted by Thai Bitumen Company Limited ("**TBC**") to require TBC or its subsidiary to sell to SHB, 31,350,000 redeemable convertible "C" Preference Shares of RM1.00 each in KOC ("**RCPS C**") and conversion of the RCPS C by SHB, or the subscription of new KOC Shares by SHB as provided for under the Call Option Agreement dated 10 January 2007; and
2. the remaining ordinary shares of RM1.00 each in Kemaman Bitumen Company Sdn Bhd ("**KBC**") not already owned by KOC;

(iii) Corporate Proposals

The Group had on 16 May 2007 announced that it intends to seek the approval from its shareholders for the following proposals at the forthcoming Eleventh Annual General Meeting:

1. Proposed Amendments to the Articles of Association of the Company ("Proposed Amendments to Articles").

Details of the Proposed Amendments to Articles will be set out in an appendix to the Annual Report 2006 to be issued in due course.

2. Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed RRPT").

A circular containing the details of the Proposed RRPT will be dispatched to the shareholders of the Company in due course.

B9 Borrowings and Debt Securities

| <u>Secured Loans as at 31 March 2007</u> | <i>Long Term</i> RM'000 | <i>Short Term</i> RM'000 |
|--|----------------------------|-----------------------------|
| Bank Overdraft | - | 7,835 |
| Short Term Advance | 3,756 | 1,200 |
| Term Loan | 24,255 | 1,760 |
| Hire Purchase Creditors | 29 | 88 |
| | 28,040 | 10,883 |

The above loans are denominated in Ringgit Malaysia.

B10 Off Balance Sheet Financial Instruments

On 9 May 2003, the Company issued RM24 million nominal value seven year zero coupon irredeemable convertible unsecured loan stock ("ICULS") to Segi Resources Sdn Bhd, a joint venture ("JV") partner to the Segi-Seloga Jaya JV turnkey project.

The ICULS are convertible into new ordinary shares on a semi-annual basis commencing six months from the issuance date to the day immediately preceding the Maturity Date, 7 May 2010, based on the cumulative certified billing amount/turnover of the Segi-Seloga Jaya JV turnkey project.

ICULS conversion details are as follows:

| | |
|----------------------------------|-------------|
| Total ICULS issued | 24,000,000 |
| less conversions completed on : | |
| - 24 December 2003 | (232,604) |
| - 19 May 2004 | (128,401) |
| - 25 November 2004 | (589,760) |
| - 9 May 2005 | (1,018,162) |
| - 17 November 2005 | (585,513) |
| - 10 May 2006 | (758,382) |
| - 9 November 2006 | (1,443,562) |
| Total ICULS converted to shares | (4,756,384) |
| Balance of ICULS as at 31/3/2007 | 19,243,616 |

B11 Changes in Material Litigation

There were no changes in material litigation since the last quarter except for the following:

- (i) Kuala Lumpur High Court Suit No. D7-22-50-2002, Seloga Jaya Sdn. Bhd. ("SJSB") vs UEM Genisys Sdn. Bhd. ("UEMG") under which UEMG issued a S218 Notice against SJSB on 17 December 2002 for an alleged debt of RM1,386,646.84 in respect of sub-contract works carried out by UEMG as a nominated sub-contractor for a project undertaken by SJSB for Subang Jaya Hotels Development Sdn. Bhd., a subsidiary of Faber Group Berhad ("FGB"). On 9 January 2003, SJSB filed this suit against UEMG seeking inter alia an injunction to restrain UEMG from commencing winding up proceedings. The grounds of the suit and application are inter alia that there is no debt owing because the sub-contract works have been fully and finally settled by 1,386,646 FGB ICULS issued by FGB pursuant to a Section 176 Scheme as full and final settlement of the said sub-contract works. The High Court Judge has on the 4th March 2004 dismissed SJSB's application with cost.

SJSB filed an application for appeal against the High Court's decision. On 14 June 2004, the Court of Appeal ordered UEMG to restrain from filing or proceeding with a winding up petition against SJSB pending the hearing and disposal of SJSB's Notice of Appeal.

Subsequently, on 20 October 2005, UEMG was wound up and the proceedings are currently conducted by its appointed liquidators. The Court of Appeal has on 14 February 2007 dismissed SJSB's appeal with costs and upheld the Order made by the High Court's Judge on 4 April 2004 in Suit No. D7-22-50-2003. SJSB has on 14 March 2007 filed an appeal to the Federal Court against the Court of Appeal decision.

- (ii) Kuala Lumpur High Court Suit No. D4-22-1392-2005, Alliance Bank Malaysia Berhad ("ABMB") vs SJSB under which ABMB issued a summons claiming for the sum of RM922,565 allegedly due to them under interim certificate no. 8 and the sum of RM550,473.56 allegedly due to them under interim certificate no. 9, being payments assigned to ABMB from Twin Guard. The aforesaid claims are based on the assignment of contract proceeds from Twin Guard to ABMB on all payments received out of the project known as "Proposed 2nd Phase (Stage 1) Physical Development Multimedia University, Cyberjaya on Lot P.T. 12197, Jalan Multimedia, Mukim Dengkil, Sepang, Selangor Darul Ehsan, Malaysia for University Telekom Sdn Bhd. SJSB has served its statement of defence on 15 December 2005. On 2 March 2006, SJSB filed an application for stay of proceedings pending the disposal of the arbitration with Twin Guard. The Kuala Lumpur High Court has fixed 30 July 2007 for the hearing of the application. Based on a preliminary assessment, SJSB's solicitors are of the view that SJSB has good prospects in applying for a stay in proceedings

B12 Dividend

No dividend has been declared for the financial period ended 31 March 2007. There were no dividends paid in respect of the corresponding financial period.

B13 Earnings Per Share

| | 3 MONTHS ENDED | |
|--|-----------------------|----------------|
| | 31.3.07 | 31.3.06 |
| | RM '000 | RM '000 |
| <u>Basic Earnings/(Loss) Per Share</u> | | |
| Profit/(Loss) for the period attributable to equity holders of the parent | 358 | 540 |
| Weighted average number of ordinary shares ('000) | 114,886 | 112,684 |
| Basic Earnings/(Loss) Per Share (sen) | 0.31 | 0.48 |
| <u>Diluted Earnings/(Loss) Per Share</u> | | |
| Profit/(Loss) for the period attributable to equity holders of the parent | 358 | 540 |
| Weighted average number of ordinary shares ('000) | 114,886 | 112,684 |
| Effect of dilution: | | |
| - ICULS ('000) | 19,243 | 21,445 |
| Adjusted weighted average number of ordinary shares in issue and issuable ('000) | <u>134,129</u> | <u>134,129</u> |
| Diluted Earnings/(Loss) Per Share (sen) | 0.27 | 0.40 |

B14 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 21 May 2007.