

AYER HITAM TIN DREDGING MALAYSIA BERHAD (27673-W)

NOTES TO THE INTERIM FINANCIAL REPORTING FOR THE THIRD QUARTER ENDED 31 MARCH 2006

1. Basis of preparation

The interim financial report has been prepared in compliance with MASB 26, 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 audited financial statements of the Group for the financial year ended 30 June 2005.

The accounting policies and methods of computation used in the preparation of the quarterly financial report are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2005.

2. Qualification of audit report

The audit report of the annual financial statements for the year ended 30 June 2005 was qualified as the auditors expressed a disclaimer opinion in respect of the Group's going concern in the audited financial statements. As it is, the Company is still an affected listed issuer under the Practice Note No. 4/2001.

3. Seasonal or cyclical factors

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

4. Unusual items

There were no unusual items affecting the assets, liabilities, equity, net income, or cash flows. However, as highlighted in the audit report of the annual financial statements for the year ended 30 June 2005, the auditors were unable to ascertain the carrying value of the property plant and equipment, the quantum of the contingent liabilities that will crystallise and whether further liabilities may arise or legal claims may be brought against the Group and Company. In view of this, we have, on the previous quarterly reports, made additional accruals for certain liabilities.

5. Changes in estimates

There were no changes in estimates of amount reported in previous financial year.

6. Debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities for the current financial period to date.

7. Dividends paid

There were no dividends paid for the current financial period to date.

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8. Segmental Information

Segmental report for the financial period ended 31 March 2006.

	Property Development RM'000	Investment Holding RM'000	Trading and Services RM'000	Total RM'000
Revenue	232	-	-	232
Results				
(Loss)/Profit from operations	(458)	-	-	(458)
Interest expenses				(266)
Share of profit of Associate Company				494
Loss Before Taxation				(230)
Taxation				39
Net Loss For The Period				(191)

Segmental report for the financial period ended 31 March 2005.

	Property Development RM'000	Investment Holding RM'000	Trading and Services RM'000	Total RM'000
Revenue	8,165	-	413	8,578
Results				
Loss from operations	(2,168)	(4,244)	18	(6,394)
Interest expenses				(2,115)
Share of loss of Associate Company				121
Loss Before Taxation				(8,388)
Taxation				(108)
Net Loss For The Period				(8,496)

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9. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward, without amendment from the previous annual financial statements.

10. Material subsequent events

The High Court of Malaya had on 5 December 2005 granted an order (“Order”) specifying, inter-alia the following:-

(i) The Company and its subsidiaries, namely Pembinaan AHT Sdn Bhd and Motif Harta Sdn Bhd (“Subsidiaries”) are given the liberty to convene its creditors’ meeting (“Creditors’ Meeting”) pursuant to Section 176 (1) of the Companies Act, 1965 (“Act”) for the purpose of considering and if thought fit, to approve with or without modifications the Proposed Debt Settlement;

(ii) The Creditors’ Meeting shall be held within 90 days from the date of the Order; and

(iii) The Company and its Subsidiaries were granted a restraining order (“RO”) for a period of 90 days effective from 5 December 2005 up to 4 March 2006 (both days inclusive) pursuant to Section 176 (10) of the Act.

The Company had on 30 March 2006 submitted an application to the High Court of Kuala Lumpur for further extension of time of the Court Order granted on 5 December 2005. On 17 May 2006, the High Court granted Order In Terms of the said application for an extension of time to hold the Creditors’ Meeting pursuant to Section 176(1) of the Act. The Court also granted an extension of time in respect of the RO pursuant to Section 176(10) of the Act for a period of 120 days effective from 6 March 2006 to 3 July 2006.

A creditor, KIY Design & Interior (M) Sdn Bhd had on 1 March 2006 served to the Company’s solicitors an unsealed application to intervene the proceedings of the aforementioned Court Order and to set aside the RO and the Proposed Restructuring Scheme. The said application which was fixed for hearing on 17 May 2006, has been adjourned to 28 June 2006.

Save as disclosed above, there were no events subsequent to the end of this period reported on that have not been reflected in the financial statements for the said period.

11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

12. Contingent liabilities or contingent assets

The contingent liabilities of the Company are as follows: -

	As at 31.03.06 RM’000	As at 31.12.05 RM’000
Guarantee in favour of banks for banking facilities granted to wholly owned subsidiary companies		
- Secured	30,421	30,421
	<u> </u>	<u> </u>

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13. Review of performance

The Group reported a revenue and net loss for the quarter of RM232,000 and RM191,000 respectively compared to a revenue of RM1,304,000 and net loss for the quarter of RM1,220,000 respectively in the preceding period.

14. Variation of results against preceding quarter

Lower losses incurred for the current quarter under review were mainly due to the delay of launching our properties. The intense competition within the property development sector has necessitated changes in marketing strategies and in housing lot sizes for Taman Juara Jaya. This meant inevitable delays in new launches resulting in lower revenue.

15. Prospects

Pending completion of the Proposed Restructuring Scheme, the Group's results are not expected to register any material improvement for the financial year ending 30 June 2006.

16. Profit forecast / profit guarantee

Not applicable as no profit forecast was published.

17. Taxation

	Current Quarter RM'000	Financial Period to date RM'000
Current year taxation	-	-
Taxation of Associate Company	(39)	-
Total taxation	<u>(39)</u>	<u>-</u>

18. Sale of unquoted investments and/or properties

There were no sales of unquoted investments and/or properties for current quarter under review.

19. Quoted securities

a) There were no purchases or disposals of quoted securities for current quarter under review.

b) Investments in quoted securities as at 31 March 2006 are as follows: -

	RM'000
At cost	261
At carrying value	0
At market value	<u>0</u>

20. Status of corporate proposals

a) The corporate proposal announced pending completion as at to date is as follows:-

- (i) On 16 November 2001, the Company had entered into an irrevocable put option agreement ("Put Option") with Metro Tegas Development Sdn Bhd (formerly

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known as Metro Tegas Sdn Bhd) (“the Purchaser”) of the Puchong land for the Company to sell and the Purchaser to repurchase the RM10 million worth of properties received by the Company as part consideration for the Puchong land disposal. The Put Option is to be exercised in two (2) equal sums of RM5 million (Tranche 1 and Tranche 2) to be exercised within the period from 9 December 2001 to 16 December 2001 for Tranche 1 and from 9 January 2002 to 16 January 2002 for Tranche 2. The Purchaser had defaulted both tranches subsequent to issuance of exercise notice by the Company on 10 December 2001 and 10 January 2002 for Tranche 1 and Tranche 2 respectively. To date, the Purchaser had yet to respond formally on the matter. However, the Purchaser has made cash payments of RM6.125 million to the Company as at 30 September 2005 as part payment of the principal sum.

The Company had on 22 October 2005 issued a letter to the Purchaser, demanding payment from the Purchaser for the amount of RM6.205 million (Principal-RM3.875 million, Interest-RM2.330 million) due by the Purchaser to the Company. On 31 March 2006, the Company served a legal demand letter to the Purchaser as well as its Guarantor for the recovery of the amount due by the Purchaser to the Company. The Guarantor had formally responded to deny the claim. The Company had engaged its solicitors to look into the matter. Subsequent thereto, the Purchaser had proposed a settlement proposal, which has yet to be finalised and agreed by the Company.

- (ii) The Company had on 14 October 2005 submitted a Proposed Restructuring Scheme (“PRS”) to manage and turnaround the financial position and operation of the Group to the Securities Commission (“SC”). The PRS is subject to the approval from the SC, shareholders, creditors and relevant authorities.

The SC had on 24 February 2006 disapproved the PRS, citing that the PRS is not a comprehensive proposal capable of resolving the financial issues faced by the Company. Avenue Securities Sdn Bhd, on behalf of the Company, had on 23 March 2006 submitted an appeal to the SC on its non-approval of the PRS. The outcome of the appeal is still pending.

- (iii) The Company and its two wholly owned subsidiaries, namely Pembinaan AHT Sdn Bhd and Motif Harta Sdn Bhd were granted by the High Court of Malaya a Restraining Order (“RO”) for a period of 90 days effective 5 December 2005 up to 4 March 2006 (both days inclusive) pursuant to Section 176 (10) of the Companies Act, 1965 (“the Act”). The aforesaid RO was applied for in order to facilitate the Proposed Restructuring Scheme (“PRS”).

The Company had on 30 March 2006 submitted an application to the High Court of Kuala Lumpur for further extension of time of the Court Order granted on 5 December 2005.

On 17 May 2006, the High Court granted Order In Terms of the said application for an extension of time to hold the Creditors’ Meeting pursuant to Section 176(1) of the Act. The Court also granted an extension of time in respect of the RO pursuant to Section 176(10) of the Act for a period of 120 days effective from 6 March 2006 to 3 July 2006.

A creditor, KIY Design & Interior (M) Sdn Bhd had on 1 March 2006 served to the Company’s solicitors an unsealed application to intervene the proceedings of the

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aforementioned Court Order and to set aside the RO and the PRS. The said application, which was fixed for hearing on 17 May 2006 has been adjourned to 28 June 2006.

- (iv) On 22 March 2006, the Company's wholly owned subsidiary, AHT Land Sdn Bhd (formerly known as AHT Management Services Sdn Bhd) ("AHTL") entered into a project management agreement with Sri Aman Development Sdn Bhd, a related party for the proposed appointment of AHTL as the project manager for the development of a sub-divided parcel of leasehold land held under HS(D) 227113 P.T. No. 1, Section 34, District of Petaling, Selangor Darul Ehsan, measuring approximately 1.94 acres, known as Phase 2 Land together with the option to manage the development of 18 parcels of sub-divided leasehold land held under HS(D) 227115 to 227132, P.T. Nos. 8 to 25, Section 33, District of Petaling, Selangor Darul Ehsan, measuring approximately 1.19 acres, known as Phase 3 Land. ("Proposed Appointment").

The Proposed Appointment is pending the approvals from the shareholders of the Company and other relevant authorities (if any). The Proposed Development is conditional upon the Proposed Restructuring Scheme but not vice-versa.

- b) Utilisation of proceeds raised from corporate proposals: Not applicable

21. Group's borrowings

Particulars of the Group's borrowings as at 31 March 2006 are as follows:-

	RM'000
Current	
- Term loan (secured)	30,388
- Hire purchase (secured)	43
	<u>30,431</u>
Non Current	
- Term loan (secured)	-
- Hire purchase (secured)	201
	<u>201</u>
Total Borrowings	<u>30,632</u>

There are no borrowings denominated in any foreign currency.

22. Off balance sheet financial instruments

There were no financial instruments with off balance sheet risk issued to date.

23. Changes in material litigation

- a) Kuala Lumpur Sessions Court Summons No. 2-52-13178-1998
KIY Design & Interior (M) Sdn Bhd ("KIY") vs Motif Harta Sdn Bhd ("MHSB")

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As previously reported, a claim was made by KIY against MHSB, a 100% owned subsidiary, for the sum of RM164,743.73 being monies alleged to be commission for the procurement of supply of goods and services for the hotel-in-progress. MHSB has filed a counter claim for a sum of RM9,527.86 being balance of deposit due to MHSB. The trial of this suit was held on 15 July 2004 and 3 September 2004 and at the conclusion of which the Sessions Court instructed the parties to file their respective written submissions. The respective submissions were filed on 15 October 2004. The suit which was fixed for decision on 10 November 2004, has been rescheduled to 29 November 2004 as the learned Judge was not ready to deliver her decision. On 21 December 2004, the Sessions Court allowed KIY's claim with cost. MHSB has lodged an appeal against the said judgment of the Sessions Court to the High Court and the hearing of the appeal has been adjourned to 20 June 2006. On 7 October 2005, KIY through its solicitors served a Statutory Demand pursuant to Section 218 of the Companies Act, 1965 to MHSB. On 9 November 2005, the High Court granted an interim stay of execution until the final disposal of Notice of Motion for an order of stay of execution to MHSB. The matter which was fixed for hearing on 9 May 2006 has been taken off the Hearing List and a new date will be fixed by the Court.

b) Kuala Lumpur High Court Suit No. D5-22-1698-2004 and Melaka High Court
Originating Summons No. 24-314-2005

Alliance Bank Malaysia Berhad, EON Bank Berhad, Malayan Banking Berhad and Kewangan Bersatu Berhad vs Motif Harta Sdn Bhd ("MHSB") & Ayer Hitam Tin Dredging Malaysia Berhad ("AHTIN" or "the Company")

As previously announced, a Writ of Summons dated 29 November 2004 and Statement of Claim dated 26 November 2004 from the Kuala Lumpur High Court, naming the Company's wholly-owned subsidiary, MHSB as the First Defendant and AHTIN as the Second Defendant, was on 22 December 2004 served on AHTIN and MHSB by the solicitors of Alliance Bank Malaysia Berhad as the Lead Arranger and Agent for Alliance Bank Malaysia Berhad, EON Bank Berhad, Malayan Banking Berhad and Kewangan Bersatu Berhad ("the Plaintiffs"). The amount claimed is RM23,870,518.32 together with interest and cost thereon. The claim was filed against AHTIN and MHSB for the defaulted principal sum due and interest accrued up to 30 September 2004 in respect of a syndicated term loan granted by the Plaintiffs to MHSB. The Company has instructed its solicitors to file an appearance on its behalf. On 18 February 2005, the Company received the sealed application for summary judgement dated 3 February 2005. On 9 May 2005, the Court granted the judgment in favour of the Plaintiffs for the abovementioned amounts. On 20 July 2005, the Plaintiffs served a true copy of the sealed Originating Summons from the Melaka High Court dated 23 June 2005 and the affidavit of Saroja A/P K. Gopalan affirmed on 23 June 2005. The hearing for the Originating Summons has been fixed on 7 July 2006. The Company is seeking legal advice on the matter. Meantime, the Company has proposed for a settlement with the Plaintiffs as part of the Proposed Restructuring Scheme.

c) Kuala Lumpur High Court Companies Winding Up No. D5-28-481-2005

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Kwong Ngai Cheung & Ho Yoke Shih @ Ho Yoke Har vs Pembinaan AHT Sdn Bhd (“PAHT”)

A winding-up petition was served on PAHT, a 100% owned subsidiary of the Company on 19 July 2005 by Messrs Lim & Yeoh, the solicitors for Kwong Ngai Cheung & Ho Yoke Shih @ Ho Yoke Har (“the Petitioners”). The Petitioners have claimed for the sum of RM65,452.84 being money due and owing as at 16 December 2004 pursuant to the Judgment dated 17 May 2004 obtained against PAHT vide Kuala Lumpur Sessions Court Summons No. 1-52-9045-2002 which consists the principal sum of RM53,598.91, interest on RM53,589.91 at the rate of 8% per annum calculated from 26 June 2002 until the date of full settlement and costs of RM1,234.00. The claim by the Petitioners is for the debt due from PAHT to the Petitioners for the claim on late delivery of vacant possession and common facilities of two (2) units of properties –shop and office, at Taman Juara Jaya (Merchant Square), Balakong pursuant to Sale and Purchase Agreements dated 31 October 1996 signed between PAHT and the Petitioners. The said claim amount had already been provided for in the account of PAHT. The winding up petition had been withdrawn with no order as to costs on 25 April 2006.

- d) Kuala Lumpur High Court Suit No. D6-24-408-2005
Ayer Hitam Tin Dredging Malaysia Berhad, Motif Harta Sdn Bhd and Pembinaan AHT Sdn Bhd (Applicants) vs KIY Design & Interior (M) Sdn Bhd (Proposed Intervener)

The High Court of Malaya had on 5 December 2005 granted an order (“Order”) specifying, inter-alia the following:-

- (i) The Company and its subsidiaries, namely Pembinaan AHT Sdn Bhd and Motif Harta Sdn Bhd (“Subsidiaries”) are given the liberty to convene its creditors’ meeting (“Creditors’ Meeting”) pursuant to Section 176 (1) of the Companies Act, 1965 (“Act”) for the purpose of considering and if thought fit, to approve with or without modifications the Proposed Debt Settlement;
- (ii) The Creditors’ Meeting shall be held within 90 days from the date of the Order;
and
- (iii) The Company and its Subsidiaries were granted a restraining order (“RO”) for a period of 90 days effective from 5 December 2005 up to 4 March 2006 (both days inclusive) pursuant to Section 176 (10) of the Act.

The Company had on 30 March 2006 submitted an application to the High Court of Kuala Lumpur for further extension of time of the Court Order granted on 5 December 2005.

On 17 May 2006, the High Court granted Order In Terms of the said application for an extension of time to hold the Creditors’ Meeting pursuant to Section 176(1) of the Act. The Court also granted an extension of time in respect of the RO pursuant to Section 176(10) of the Act for a period of 120 days effective from 6 March 2006 to 3 July 2006.

A creditor, KIY Design & Interior (M) Sdn Bhd had on 1 March 2006 served to the Company’s solicitors an unsealed application to intervene the proceedings of the aforementioned Court Order and to set aside the RO and the Proposed Restructuring Scheme. The said application, which was fixed on 17 May 2006 has been adjourned to 28 June 2006.

24. Dividend

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The Board of Directors does not recommend any interim dividend for the current quarter ended 31 March 2006.

25. Loss per share

	Current Quarter RM'000	Financial Period to date RM'000
i) Basic Net Loss For The Period	<u>(191)</u>	<u>(2,866)</u>
Number of ordinary shares in issue at the beginning and at the end of the quarter/period	<u>67,760</u>	<u>67,760</u>
Basic Loss Per Share (Sen)	<u>(0.28)</u>	<u>(4.23)</u>
ii) Fully diluted Same as i) above		

On behalf of the Board
AYER HITAM TIN DREDGING MALAYSIA BERHAD

WONG YEOW CHOR
Company Secretary

Kuala Lumpur
22 May 2006