

**PANGLOBAL BERHAD (4759-H)**  
**UNAUDITED QUARTERLY REPORT ON FINANCIAL RESULTS FOR THE FIRST**  
**QUARTER ENDED 31 MARCH 2006**

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**A. NOTES TO THE INTERIM FINANCIAL REPORT**

**A1 Basis of Preparation**

The interim financial statements have been prepared under the historical cost convention (as modified to include the revaluation of certain property, plant and equipment and investment properties) unless otherwise indicated in the significant 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.

**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 2005 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") 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	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/revised FRSs are discussed below:

(a) 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 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 recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period 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.

(b) FRS 140: Investment Property

The adoption of this new FRS has resulted in a change in accounting policy for investment properties. Investment properties are now stated at fair value, representing open-market value determined by external valuers. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the period in which they arise. Prior to 1 January 1 2006, investment properties were stated at valuation (as modified to include the revaluation of certain property, plant and equipment and investment properties).

### **A3 Auditor's report**

The auditor's report on the Group's annual financial statements for the year ended 31 December 2005 was not subject to any qualification.

**A4 Seasonal or cyclical factors**

The principal business operations of the Group were not significantly affected by seasonal or cyclical factors.

**A5 Exceptional items**

The items affecting the assets, liabilities, equity, net income, or cash flows of the Group that are unusual because of their nature, size or incidence have been included in the interim financial statements. (refer to Note B1 & B2)

**A6 Change in estimates**

There were no significant changes in estimates of amounts reported in prior interim periods of the current or previous financial years that have a material effect in the current financial period.

**A7 Issuances, cancellations, repurchases, resale and repayments of debt and equity securities**

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

**A8 Dividends**

The Company has not declared or paid any dividend in the quarter ended 31 March 2006. The directors do not recommend the payment of any interim dividend for the current financial year ended 31 December 2006.

**A9 Segment revenue and results**

The Group's segment revenue and segment results for business segments for the first quarter ended 31 March 2006 are as follows: -

	<b>QUARTER ENDED</b>	
	<b>31 March 2006</b>	
	<b>Segment Revenue</b>	<b>Segment Results</b>
	<b>RM'000</b>	<b>RM'000</b>
Insurance operations	30,723	2,264
Property	4,876	(6,318)
Timber	18,790	1,823
Coal Mining	16,792	1,486
Investment holding and others	44	(12,114)
	<u>71,225</u>	<u>(12,859)</u>

All activities of the Group's operations are carried out in Malaysia.

**A10 Investment properties and Property, plant and equipment**

The valuation of an investment property and a freehold property included in "Property, plant and equipment" has been brought forward without amendment from the annual audited financial statements for the year ended 31 December 2005.

**A11 Events subsequent to the balance sheet date**

There are no material events subsequent to the end of the current quarter save and except for those disclosed in Note B11.

**A12 The effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations**

There is no change in the composition of the Company/Group for the current quarter and financial year-to-date.

**A13 Contingent Liabilities – unsecured**

- (a) A subsidiary company involved in insurance business has the following contingent liabilities. No material losses are anticipated as a result of these transactions.

	<b>As At 31 Mar 2006 RM'000</b>	<b>As At 31 Dec 2005 RM'000</b>
Performance bonds	1,934	2,496
Advance payment bonds	23	426
Bank guarantee	195	195
Others	-	-
	<u>2,152</u>	<u>3,117</u>

	<b>As At 31 Mar 2006 RM'000</b>	<b>As At 31 Dec 2005 RM'000</b>
(b) Guarantees given to banks in connection with facility granted to a third party	600	600
Pending litigation and claims by an ex-mining contractor	*	*
Pending litigation and claims by former employees	2,500	2,500
Guarantee given on behalf of a haulage contractor	1,914	1,914
Corporate guarantee to suppliers	50	50
	<u>5,064</u>	<u>5,064</u>

\* The detailed amounts involved and the latest decision by the Kuala Lumpur High Court on the litigation and the likely outcome thereof are set out in Note B11.

#### **A14 Capital Commitments**

	<b>As At 31 Mar 2006 RM'000</b>	<b>As At 31 Dec 2005 RM'000</b>
Capital expenditure in respect of the purchase of :-		
Property, plant and equipment :-		
Contracted but not provided for	3,776	4,626
Authorised but not contracted for	9,594	10,359
	<u>13,370</u>	<u>14,985</u>
Investment :-		
Contracted but not provided for	<u>3,163</u>	<u>3,203</u>

**B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA'S LISTING REQUIREMENTS**

**B1 Review of performance**

	<b>Current</b>	<b>Corresponding</b>
	<b>Quarter</b>	<b>Quarter</b>
	<b>31.03.2006</b>	<b>31.03.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	71,225	69,459
Profit/(loss) before taxation	(12,859)	(27,759)
Profit/(loss) after taxation	(13,056)	(27,958)

The loss before taxation for the current quarter of RM12.9 million compared to loss before taxation of RM27.8 million in the corresponding quarter of the previous year is mainly due to the following :-

- (i) the insurance subsidiary registered a profit before tax of RM2.3 million in the current quarter compared to the corresponding quarter's loss before tax of RM14.8 million, offset by
- (ii) Higher mining costs due to increase in fuel cost and higher depreciation and amortisation recorded by the coal mining subsidiary in the current quarter.

Other segments of business and results remain relatively stable compared to the corresponding period in the preceding year.

**B2 Material change in profit/(loss) before taxation for the current quarter compared to the immediate preceding quarter**

	<b>First</b>	<b>Fourth</b>
	<b>Quarter</b>	<b>Quarter</b>
	<b>31.03.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	71,225	71,452
Loss before taxation	(12,859)	(22,879)
Loss after taxation	(13,056)	(21,405)

The more favourable performance in the current quarter compared to the immediate preceding quarter is mainly due to :

- (i) the insurance subsidiary registered a profit before tax of RM2.3 million in the current quarter compared to the preceding quarter's loss before tax amounting to RM2.6 million;
- (ii) provision made by the Company for diminution in value of quoted investments of RM1.2 million in the fourth quarter; and
- (iii) Lower mining costs in the current quarter compared to the preceding quarter for the coal mining subsidiary.

### **B3 Future Prospects**

The insurance subsidiary, PanGlobal Insurance Berhad is working to improve its market share and profitability. The timber and coal mining operations are expected to continue to contribute positively to the Group's turnover and profit. Accordingly, the Board of Directors projects a modest growth for the rest of the year.

### **B4 Variances from profit forecast and profit guarantee**

There is no reported profit forecast and profit guarantee for comparison.

### **B5 Taxation**

	<b>First Quarter Ended 31 Mar 2006 RM'000</b>
Major components of tax expense:	
Current income tax expense	(200)
Overprovision in prior years	2
	(198)

Although the Group incurred a loss in the financial period ended 31 March 2006, provision for taxation is made for those profitable subsidiary companies after taking into consideration the Group tax relief available effective from this financial period.

**B6 Profit/(loss) on sale of unquoted investments and/or properties**

There was no sale of unquoted investments and/or properties for the quarter ended 31 March 2006.

**B7 Quoted securities**

(a) Other than those sale and purchase transactions carried out by the insurance subsidiary in its ordinary course of business, there were no purchases and disposal of quoted securities for the current quarter and financial year-to-date.

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

	<b>Cost (RM'000)</b>	<b>Carrying/ book value (RM'000)</b>	<b>Market Value (RM'000)</b>
Total quoted securities	<u>17,153</u>	<u>886</u>	<u>1,106</u>

**B8 Status of corporate proposals**

The proposed composite scheme of debt arrangement pursuant to Section 176 of the Companies Act, 1965, save and except for the proposed private placement and proposed disposal of Menara PanGlobal and PanGlobal Plaza has been approved by all relevant authorities including the Securities Commission, Bursa Malaysia and the shareholders of the Company and has been sanctioned by the High Court of Malaya. Loan stocks totalling RM664,639,804 and a term loan of RM85,000,000 were issued and restructured by the Company on 9 June 2004.

However, the Board of Directors of the Company ("Board") is of the opinion that the Original Rights Issue cannot be viably implemented in its current form and has submitted to the Securities Commission on 9 September 2005 a revised Restructuring Scheme. However, this said revised Restructuring Scheme was further amended on 6 January 2006 subsequent to the Sealed Restraining Order received by the Company on 5 January 2006. The Restraining Order was further extended by another 180 days from 6 April 2006. The revised Restructuring Scheme was approved by the Securities Commission on 6 April 2006 as follows :-

- 1 Proposed Capital Reduction



The Company proposes to undertake a capital reduction exercise involving the cancellation of RM0.50 from every existing ordinary share of RM1.00 each in the Company ("Proposed Capital Reduction"). As at the date of this report, the Company has an issued and paid-up share capital of RM140,130,340 comprising 140,130,340 ordinary shares of RM1.00 each.

As a result, the issued and paid-up share capital of the Company would be reduced to RM70,065,170 comprising 140,130,340 ordinary shares of RM0.50 each in the Company ("PGB Shares") giving rise to a credit of RM70,065,170 which will be utilised to reduce the Company's accumulated losses.

## 2 Proposed PanGlobal Insurance Berhad ("PGI") Disposal

The Company is currently evaluating a few interested buyers before applying to BNM to commence negotiation for the same. An announcement would be made upon the finalisation of the potential buyer.

## 3 Proposed Rights Issue

The Company proposes to implement a renounceable rights issue of up to 420,391,020 PGB Shares ("Rights Shares") at an issue price of RM0.50 per PGB Share on the basis of three (3) Rights Shares for every one (1) PGB Share held after the Proposed Capital Reduction, to the shareholders of the Company.

The Rights Shares shall, upon allotment and issue, rank pari passu in all respects with existing PGB Shares.

The Proposed Rights Issue is expected to raise proceeds of up to RM210.2 million, which shall be utilised to buy-back the RCSLS and RCULS under the Proposed Loan Stocks Buy-Back, to finance the working capital requirements of the Company and its subsidiaries ("PGB Group") and to defray the expenses incidental to the Proposed Restructuring Scheme.

## 4 Proposed Loan Stocks Buy-Back and Debts Settlement

The Company is currently in discussion with the holders of the RCSLS and RCULS for an arrangement to buy-back the outstanding RCSLS and RCULS with a view to comprehensively address the PGB Group's financial situation and to return the PGB Group back into a stronger financial footing.

In addition, the Company also proposes to include all its creditors with debt exceeding RM1 million into the Proposed Restructuring Scheme.

As at the date of this report, RM467.6 million nominal value of RCSLS and RM197.1 million nominal value of RCULS are still in issue. Save and except

for the Company's announcement via Bursa Malaysia dated 6 January 2006, the details of the Proposed Loan Stocks Buy-Back and Proposed Debts Settlement will be announced accordingly when all terms and conditions have been finalised.

## 5 Proposed Issuance of Warrants

The Company is currently in discussion with the holders of the RCSLS and RCULS on proposed issuance of 69,246,524 free warrants by PGB to the holders of RCSLS and RCULS. The Company also proposed an issuance of an additional 10,000 free warrants to selected 100 public recipients to be identified to facilitate PGB in meeting the spread requirement for the listing of and quotation for the warrants on the Main Board of Bursa Malaysia Securities Berhad. Further details of the proposed issuance of warrants will be announced accordingly when all terms and conditions have been finalised.

## B9 Group Borrowings

The Group borrowings as at 31 March 2006 were as follows: -

	RM'000
<b><i>Short term borrowings</i></b>	
Redeemable Convertible Secured Loan Stock	140,265
Redeemable Convertible Unsecured Loan Stock	59,127
Restructured Term Loan - secured	5,312
Hire Purchase Creditors - secured	343
Total short term borrowings	205,047
<b><i>Long term borrowings</i></b>	
Redeemable Convertible Secured Loan Stock	327,286
Redeemable Convertible Unsecured Loan Stock	137,962
Restructured Term Loan - secured	79,688
Hire Purchase Creditors - secured	754
Total long term borrowings	545,690
<b>Total borrowings</b>	<b>750,737</b>

The Company issued the following loan stocks on 9 June 2004 pursuant to the proposed scheme of arrangement under Section 176 of the Companies Act, 1965 :-

- (i) RM467,550,866 3.5% 5-year redeemable convertible secured loan stocks (RCSLS); and
- (ii) RM197,088,938 3.5% 5-year redeemable convertible unsecured loan stocks (RCULS).

The loan stocks bear interest at 3.5% per annum payable semi-annually in arrears in each year calculated from the date of issue on 9 June 2004. Unless previously redeemed, the loan stocks shall be redeemed on the respective maturity dates at a premium of 6.5% per annum on a cumulative and compounding basis.

#### **B10 Off balance sheet financial instruments**

There were no financial instruments with off balance sheet risk as at 31 March 2006 and as at the date of issue of the quarterly report.

#### **B11 Changes in material litigation**

- (i) Suit filed by Taisho Company Sdn Bhd ("Taisho") against PanGlobal Berhad ("the Company") and Toweltech Berhad ("Toweltech") (a former wholly-owned subsidiary of the Company until its disposal on 29 December 1995) in respect of an alleged friendly loan granted by Taisho to the Company and Toweltech.

On 16 August 2002 the Court awarded Judgment in favour of Taisho against the Company for the sum of RM3,688,371 (principal and interest up to 31/12/90) with interest of 12% per annum on the principal sum of RM1,060,000 from 1/1/91 and thereafter at 8% per annum from 30/5/91 until full settlement.

Furthermore, the Court also awarded Judgment in favour of Taisho against Toweltech for the sum of RM1,822,276 (principal and interest up to 31/12/90) with interest of 12% per annum on the principal sum of RM500,000 from 1/1/91 and thereafter at 8% per annum from 30/5/91 until full settlement.

The Company's appeal to the Court of Appeal was heard on 6 April 2005 and the Court has on 11 July 2005 delivered its decision and dismissed the Company's appeal with costs. The Company's application for leave to appeal to the Federal Court was heard on 28 March 2006 and was dismissed with costs.

As there are no further avenues for appeal, the Judgment of the High Court dated 16 August 2002 as upheld by the Court of Appeal dated 6 April 2005 stands. Subject to the approval of the \*Scheme of

Arrangement by the Scheme Creditors, relevant authorities, shareholders of the Company and the High Court, the Judgment of the High Court dated 16 August 2002 must be complied with.

In a related suit, on 5 April 2003 the Company has filed a suit in the Penang High Court for negligence, breach of duty and fraud against 3 former directors and/or officers of the Company. In the meantime, the defendants have applied to strike out the said action. On 11 May 2006, the Senior Assistant Registrar of the High Court allowed the Defendant's application to strike off the action. The Company has filed an appeal to the Judge in Chambers in respect to the said decision by the Senior Assistant Registrar and is waiting for the hearing date.

In another related suit, two shareholders of Toweltech are suing the Company to indemnify them and/or Toweltech for the judgement awarded by the Court in favour of Taisho. The Company has also filed applications to transfer the case to the KL High Court and for security for costs. The applications have been adjourned without a hearing date pending the Company's appeal against the Summary Judgment obtained by the shareholders on 11 January 2005. The Company has filed an appeal against the said decision to the Judge of the High Court and the appeal is now set for hearing on 4 July 2006.

\*On 5 January 2006, the Company has obtained an Order under Section 176(10) of the Companies Act, 1965 inter alia restraining certain Creditor parties including Taisho and the two shareholders from further proceedings in any pending action or proceedings or institution or commencement of any proceedings against the Company in any legal action including winding-up, attachment, repossession, execution, foreclosure and arbitration proceedings against the Company for a period of ninety (90) days from the date of the Order except by leave of Court.

Furthermore, on 6 April 2006, the High Court allowed the Company's application for an extension of the Restraining Order for a period of 180 days from 6 April 2006.

- (ii) (a) Arbitrator's First Interim Award dated 27 December 2002 in favour of DML-MRP Resources Sdn Bhd (DML-MRP) against a subsidiary company, Global Minerals (Sarawak) Sdn Bhd (GMS).

The Arbitrator's First Interim Award dated 27 December 2002 awarded a sum of RM10,266,548 with interest of 11.5% per annum from 1/9/98 until date of the award on a portion of the award of RM8,579,551 and

post award interest of 8% per annum on the said sum until full payment in favour of the claimant.

GMS had on 19 February 2003 filed an application to the High Court to set aside the First Interim Award. The said application was heard on 14 April 2006 and dismissed with costs.

(b) Arbitrator's Final Award dated 30 April 2003 on quantification of losses and damages arising from repudiation claimed by DML-MRP.

The Award is in favour of the claimant and awards a sum of USD1,500,000 to be converted at an exchange rate applicable on 1/2/98 with interest of 11.5% per annum from 1/2/98 until the date of the award and thereafter at a rate of 8% per annum until full payment; or alternatively

A sum of RM27,034,103 with interest of 11.5% per annum from 1/2/98 until date of the award and thereafter at a rate on 8% per annum until full payment; or alternatively

A sum of RM29,241,234 with interest of 11.5% per annum from 1/2/98 until date of the award and thereafter at a rate on 8% per annum until full payment.

GMS has filed to set aside the Final Award whilst DML-MRP have also made an application to set aside the Final Award with an order for declarations that GMS is to pay the sum of RM29,241,234 with interest of 11.5% p.a. from 1 February 2001 until the date of the Final Award and interest at 8% p.a. from the date of the Final Award until the date of payment.

On 14 April 2006, the High Court heard DML-MRP's application and ordered that the Final Award be remitted to the Arbitrator to decide on damages on either a sum of RM29,241,234.00 or RM38,177,105.00 only.

GMS has filed an appeal to the Court of Appeal on the decisions and orders made by the High Court on 14 April 2006 in respect to both the Interim Award and the Final Award and is waiting for a hearing date to be fixed.

Following the decision of the High Court on 14 April 2006, GMS's application to set aside the Final Award was on 14 May 2006 withdrawn without any order as to costs.

(iii) Industrial Court Case by 10 ex-employees of a subsidiary company, PanGlobal Insurance Berhad (PGI)

Claims have been filed pursuant to Section 20 of the Industrial Relations Act 1967 for reinstatement and/or salary in lieu thereof against PGI vide Industrial Court cases nos 20/4-47/02 and 15/4-165/02. The claims, if successful, is estimated to be in the region of RM2.5 million. The cases of 9 of the employees are pending continued hearing before the Industrial Court at Kuala Lumpur on 11-13, 16 and 17 October 2006. The case of one particular employee against PGI is scheduled for hearing on 24 and 25 July 2006.

**B12 Loss per ordinary share**

The basic loss per share and diluted loss per share of the Company was the same for the reporting period because there were no effects of dilutive potential ordinary shares.

The loss per ordinary share is calculated by dividing the Group's loss after taxation for the period ended 31 March 2006 as reported in the condensed income statement of the Group, amounting to RM13,056,000 by the number of ordinary shares in issue during the year of 140,130,340.

**B13 Shortfall of profit guarantee receivable from vendors – status of recovery**

The remaining profit guarantors have jointly offered the shares of a private limited company beneficially owned by them which principal assets are several parcels of plantation land, together with a cash payment as a full and final settlement of the profit guarantee shortfall.

However, the Securities Commission vide its letter dated 29 June 2004 rejected the abovementioned proposed settlement of the shortfall in profit guarantee. The Company is currently negotiating with the profit guarantors for the settlement on the shortfall of profit guarantee.