

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
FOR THE 2ND QUARTER ENDED 30 JUNE 2006**

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT – FRS 134

1 Basis of Preparation

The interim financial report has been prepared in accordance with Financial Reporting Standard 134 (“FRS”) and Chapter 9 part K of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report is to 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 financial year ended 31 December 2005.

2 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 | 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 2, 3, 5, 102, 108, 110, 116, 121, 127, 128, 131, 132, 133, 136 and 138 does not have significant financial impact on the Group.

The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRS are as follows:

(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 balance sheet, minority interests are now presented within 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 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 requirement of FRS 101, with the comparative restated to conform with the current period's presentation.

(b) FRS 140: Investment property

Investment property was previously stated at revaluation with surplus recognised as revaluation surplus. To comply with FRS 140 Investment property, the Group choose the fair value method with changes recognised in the income statement.

The adoption of this FRS is applied prospectively and the change is accounted for by restating opening balances in the balance sheet as at 1 January 2006. This adoption of FRS 140 has the effect of increasing accumulated loss at 1 January 2006 by RM12 million.

3 Declaration of audit qualification

The auditor's report of the preceding annual financial statements of the Company and of the Group was not subjected to any qualification.

4 Seasonal or cyclical factors

The business operations of the Group are not materially affected by any seasonal or cyclical factors.

5 Items of unusual nature, size, or incidence

There were no items affecting the assets, liabilities, equity, net income or cash flows of the Group that are unusual because of their nature, size, or incidence for the current financial quarter ended 30 June 2006.

6 Changes in estimates of amounts

There were no material changes in estimates in respect of amounts reported in the prior interim period of the current financial period or that of prior financial years.

7 Details of Issuances and Repayment of Debt

There were no issuances or repayment of debts and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the current financial quarter ended 30 June 2006.

8 Dividends paid

There was no dividend paid for the current financial quarter ended 30 June 2006.

9 Reporting By Business Segment

| | Turnover | Profit/(loss) Before Taxation |
|--------------------------------------|-----------------|--|
| | RM '000 | RM '000 |
| <i>Trading</i> | 18,631 | 1,798 |
| <i>Construction and shipbuilding</i> | 11,041 | (4,842) |
| <i>Investment Properties</i> | 2,452 | 1,634 |
| <i>Shiprepair related activities</i> | 8,479 | 124 |
| <i>Other operations</i> | 189 | 250 |
| | 40,792 | (1,036) |
| Intersegment elimination | (189) | (189) |
| | - | (1,225) |
| Unallocated expenses | - | (321) |
| | - | (1,546) |
| Interest income | - | 44 |
| Finance cost | - | (23,798) |
| | 40,603 | (25,300) |

10 Valuation of property, plant, and equipment

The valuation of property, plant, and equipment have been brought forward, without amendment from the annual financial statements for the financial year ended 31 December 2005.

11 Material events subsequent to the reporting period

There were no material events subsequent to the end of the financial period that have not been reflected in this interim financial report.

12 Changes in the Composition of the Group

Asia Coin Sdn Bhd ceased to be a subsidiary of the Company.

There were no other changes in the composition of the Group for the current financial quarter ended 30 June 2006.

13 Contingent Liabilities

There were no other material changes in contingent liabilities since the last annual balance sheet date..

**ADDITIONAL INFORMATION AS REQUIRED BY BMSB LISTING REQUIREMENTS
(PART A OF APPENDIX 9B)**

14 Review of Performance

The decline in the Group's turnover for the current financial quarter was due to :-

- (a) no contribution from Boustead Naval Shipyard Sdn Bhd (formerly known as PSC-Naval Dockyard Sdn Bhd) as it has ceased to be a subsidiary of the Group.
- (b) there were no major contracts secured during the period.

15 Comment on Financial Results (current quarter compared with the preceding quarter)

The prudent measures undertaken by management resulted in the reduction of loss for the quarter under review as compared with the preceding quarter.

16 Current Year Prospects

The Group is reviewing its businesses with a view to placing it in a more positive position. The Group intends to focus on the offshore fabrication and shipbuilding market and dockyard services.

17 Variance of Actual Profit from Forecast Profit

Not Applicable.

18 Taxation

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|------------------|--------------------|--------------|--------------------|----------------|
| | 30/6/2006 | 30/6/2005 | 30/6/2006 | 30/6/2005 |
| | RM '000 | RM '000 | RM '000 | RM '000 |
| Current Taxation | (413) | (918) | (674) | (1,101) |
| | (413) | (918) | (674) | (1,101) |

Although the Group suffered pre-tax loss, the Group still incurred taxation as a result of profits made by certain Group companies which cannot be offset against losses incurred by certain Group companies.

19 Sale of Investment and/or Properties

There were no sale of investments and/or properties for the current financial quarter ended 30 June 2006.

20 Quoted Securities

There were no purchase or disposal of quoted securities for the current financial quarter ended 30 June 2006.

21 Status of Corporate Proposals

There was no outstanding corporate proposal as at the date of this announcement.

22 Group Borrowings and Debt Securities

Total Group Borrowings as at 30 June 2006 are as follows:-

| | Foreign Currency ('000) | RM '000 |
|-------------------------------|----------------------------|----------------|
| <i>Long Term Borrowings:</i> | | |
| Secured | Cedis306,691 | 120 |
| <i>Short Term Borrowings:</i> | | |
| Secured | - | 491,090 |
| | Cedis1,819,854 | 712 |
| Unsecured | - | 79,697 |
| TOTAL | | 571,619 |

23 Off Balance Sheet Financial Instruments

There were no material off balance sheet financial instruments during the current financial quarter ended 30 June 2006.

PSC INDUSTRIES BERHAD
(Company No.: 11106-V)

24 Material Litigation

The Company, its subsidiary companies, Penang Shipbuilding & Construction Sdn Bhd ("PSCSB") and PSC Asset Holdings Sdn Bhd ("PSC Asset") and associate company Boustead Naval Shipyard Sdn Bhd (formerly known as PSC-Naval Dockyard Sdn Bhd) ("BNSSB") have received demands from the following financial institutions:-

| | Company | Financial Institutions/creditors | Amount | Remarks |
|----|----------------|---|---|--|
| a. | PSCI | Affin Bank Berhad | RM146,200,000 | Judgement obtained. Pending appeal on judgement. |
| b. | PSCSB | Affin Bank Berhad | RM262,400,000 | Judgement obtained. Appeal on judgement dismissed.. |
| b. | PSCSB | Danaharta Urus Sdn Bhd | RM67,612,662 | Filed defence and counter claim. Banker withdrawn summary judgement. |
| c. | PSC Asset | OCBC Bank (M) Bhd | RM41,383,173 | Judgement obtained. Pending appeal on judgement. |
| d. | PSCSB | OCBC Bank (M) Bhd | RM31,324,914 | Pending hearing on summary judgement. |
| e. | PSCI | Danaharta Managers Sdn Bhd | RM39,802,687 | Judgement obtained. Pending appeal on judgement. |
| f. | PSCI & PSCSB | Bank Islam Malaysia Bhd | RM27,624,427 | Judgement obtained. Pending appeal on judgement. |
| h. | PSCI | Affin-ACFFinance Berhad | RM5,439,395 | Pending hearing on summary judgement. |
| i. | PSCI | Bumiputra Commerce Bank Bhd | RM4,343,478 | Judgement obtained. |
| j. | PSCI | Ambank | RM3,157,432 | Judgement obtained. Appeal on judgement dismissed |
| k. | PSCI | Alliance Bank Malaysia Bhd | RM274,854,797 | Received Writ of Summons and Statement of Claim. Statement of Defence filed. |
| l. | BNSSB | Tractors Malaysia (1982) Sdn Bhd | Eur 3,795,000 or equivalent sum in Ringgit Malaysia | Judgement obtained. Pending appeal on judgement. |

Other than the above, there are also other litigation matters which in the opinion of the Board of Directors are immaterial.

25 Dividend

There was no dividend declared or recommended for the current financial quarter ended 30 June 2006.

26 Earnings Per Share

The basic earnings per share for the quarter and cumulative quarter has been calculated based on the Group's net loss attributable to equity holders respectively for the financial period of RM12,257,000 and RM26,167,000 over the number of ordinary shares of 174,083,348 in issue.