

SETEGAP BERHAD (107232-X)
Quarterly report on consolidated results for the
financial period ended 31 March 2006

Notes for quarterly reporting of financial statements

1. Accounting policies

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia" or "Bursa").

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 financial year ended 31 December 2005.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the annual financial statements for the year ended 31 December 2005 except for the adoption of the following applicable new and revised Financial Reporting Standards ("FRS") issued by MASB that are effective for the financial period beginning 1 January 2006:

- 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 Accounting Estimates and Errors
- FRS 110 Events after the Balance Sheet Date
- FRS 116 Property, Plant and Equipment ("PPE")
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- 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 5, 102, 108, 110, 116, 121, 127, 132, 133, 136 and 138 mentioned above does not have significant financial impact on the Group. The principal effects of the changes of some accounting policies resulting from the adoption of the other new and revised FRSs are discussed below:

(a) FRS 3: Business Combinations, FRS 3, FRS 136: Impairment of Assets

The adoption of these new FRSs has resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment

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losses and is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 25 years. This change in accounting policy has been accounted for prospectively for business combination where the agreement date is on or after 1 January 2006. The transitional provisions of FRS 3, however, have required the Group to eliminate at 1 January 2006 the carrying amount of the accumulated amortisation against the carrying amount of goodwill. The carrying amount of goodwill as at 1 January 2006 of RM2,323,951 have ceased to be amortised. This has the effect of reducing the amortisation charges by RM78,912 in the current quarter and RM315,649 for the financial period ended 31 December 2006.

(b) 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 and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. 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 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 financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

(c) FRS 117: Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The upfront payments made for the leasehold land represents prepaid lease payments and are amortised on a straight-line basis over the lease term. A lease of land and building is apportioned into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prior to 1 January 2006, leasehold land was classified as property, plant and equipment and was stated at valuation less accumulated depreciation and impairment losses. The leasehold land was last revalued in 1994 and 1998. Upon the adoption of the revised FRS 117 at 1 January 2006, the unamortized revalued amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed below, the comparative amounts as at 31 December 2005 have been restated.

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The following comparative amounts have been restated due to the adoption of new and revised FRS:

	Previously Stated RM'000	Adjustment FRS 117 RM'000	Restated RM'000
At 31 December 2005			
Property, plant and equipment	20,056	(9,750)	10,306
Prepaid lease payments	-	9,750	9,750

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2005 is qualified as to the uncertainty of the Company and Group continuing as a going concern due to uncertainties pertaining to the ongoing financial restructuring exercise.

3. Comments About Seasonal or Cyclical Factors

The operations of the Group are not significantly affected by seasonality or cyclical factors.

4. Unusual Item Due to Their Size or Incidence

There is no unusual item affecting assets, liabilities, equity net income or cash flows during the financial quarter ended 31 March 2006.

5. Change in Estimates

This note is not applicable.

6. Issuance and repayment of debts and equity securities

There is no issuance, cancellation, repurchase, resale or repayment of debt or equity securities during the financial quarter ended 31 March 2006.

There is no change in the issued and paid-up capital of the Company during the financial quarter ended 31 March 2006.

7. Dividend

No dividend has been proposed in respect of the current financial quarter.

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Notes for quarterly reporting of financial statements (continued)

8. Segmental reporting

	Current Year Quarter RM'000	Current Year To Date RM'000
Segment Revenue		
Construction and other related activities	5,924	5,924
Manufacturing, trading and maintenance services	9,044	9,044
	<u>14,968</u>	<u>14,968</u>
Elimination	<u>(124)</u>	<u>(124)</u>
Group revenue	<u>14,488</u>	<u>14,488</u>
Segment Results		
Construction and other related activities	(2,801)	(2,801)
Manufacturing, trading and maintenance services	(451)	(451)
	<u>(3,252)</u>	<u>(3,252)</u>
Elimination	<u>126</u>	<u>126</u>
Loss from operation	<u>(3,126)</u>	<u>(3,126)</u>

9. Carrying Amount of Revalue Assets

The valuations of the property, plant and equipments and investment properties have been brought forward without amendment from the financial statement for the financial year ended 31 December 2005.

10. Material events subsequent to the end of the financial period

There is no material events subsequent to the financial quarter ended 31 March 2006.

11. Changes in the composition of the Group

There are no changes in the composition of the Company and the Group for the financial quarter ended 31 March 2006.

12. Contingent liabilities

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There are no contingent liabilities since the last annual balance sheet as at 31 December 2005 other than those provided by the Company to the subsidiary companies, which are unsecured, as follows:

- | | | |
|------|--|--------------------|
| (i) | Guarantee given to financial institutions for financing facilities granted to subsidiary companies | RM7,000,000 |
| (ii) | Guarantees given to suppliers of raw materials purchased by subsidiary Companies | <u>RM1,000,000</u> |

13. Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the financial statements as at 31 December 2005 is as follows:

- | | | |
|-----|--|--------------------|
| (i) | Balance of purchase consideration for development land | <u>RM6,257,864</u> |
|-----|--|--------------------|

14. Review of the Group's performance

For the current quarter, the Group's turnover and results of operations are satisfactory considering the present depressed state of the construction industry market.

15. Comparison with preceding quarter's results

The Group registered a loss before taxation of RM3.0 million for this quarter as compared to a loss before taxation of RM6.0 million for the preceding quarter ended 31 March 2005, Turnover is stable at RM14.8 million as compared to RM13.3 million recorded in the preceding quarter.

Comparatively, the results for the quarter show an "improvement" whereby losses are reduced. Due to the present competitive market, as well as, rising prices, the Group strive to achieve a breakeven results from operations. Interest cost is being accrued pending the resolution of the loans with the Lenders.

16. Prospects

Based on current business conditions, prospects for the following reporting quarters of the financial year is not favourable. However, the Group look forward to the implementation of the 9th Malaysian Plan which is expected to inflate the construction industry again.

Negotiations with the Company's lenders to restructure its outstanding loans are still ongoing. The future of the Company is dependant on the successful outcome

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of these negotiations which will also enable the Company to improve on its present negative financial position.

Details of the proposal currently under deliberation is in Note 21.

In a letter to the company by Bursa Malaysia dated 24 February 2006 the company is require to submit its proposed regularization plan, announced by the company on 11 January 2006, to the relevant authorities by 11 April 2006, to avoid de-listing procedures on the Company.

With the termination of the agreement with Timeless Solutions Sdn Bhd on 24 March 2006, the Company made an announcement on 28 March 2006 of a revised regularization plan with Calinex Sdn Bhd, Sumatec (Sarawak) Sdn Bhd and Sumatec Trackworks Sdn Bhd. This revised revitalisation plan was submitted to the relevant authorities on 10 April 2006.

On an appeal, Bursa Malaysia have decided to withhold the de-listing procedures against the Company until the outcome of the submission.

17. Variance of actual profit from forecasted profit

There is no forecast of profits that the Company has to meet, and there is no profit guarantee provided by the Company.

18. Taxation

The details of taxation charge for the financial Quarter ended 31 March 2006 are as follows:

	Current Year Quarter RM'000	Current Year To Date RM'000
Provision for taxation:		
Based on profit for the period	-	-
Over provision for prior years	-	-
	<hr/>	<hr/>
	-	
Transfer to deferred taxation:		
Current period	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

19. Profit on sale of unquoted investments and/or properties

There is no sale of unquoted investments or properties during the quarter under review except for those disclosed in note 21.

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20. Quoted securities

There is no purchase of quoted securities for the quarter ended 31 March 2006. The details of investment in quoted securities of the Group as at 31 March 2006 are as follows:

	As at 31.3.2006 RM'000
Investment in quoted securities	
At cost	14.7
At book value	13.8
At market value	9.6

21. Status of corporate proposals

i) Announcement On Proposed Disposal Of Assets

On 31 October 2005, the Company announced as an interim proposal the following proposed disposal of approximately 62.09%, equity interests in Paving Plant & Processes (M) Sdn Bhd ("PPP"); 100% equity interests in Asphalt Industries Sdn Bhd ("AI"); and Landed Properties in Damansara and Serdang.

Proceeds from these proposals shall repay the lenders and therefore lowering the gearing of the Company.

The above proposals are pending the approvals of the relevant authorities.

ii) Announcement On Corporate Restructuring Scheme

The following corporate restructuring scheme was announced on 11 January 2006.

K&N Kenanga Bhd ("Kenanga") on behalf of the Board of Directors of SB ("Board") wishes to announce that SB had on 9 January 2006 entered into a restructuring agreement with Timeless Solutions Sdn Bhd ("the Vendor" or "Timeless") ("Restructuring Agreement"). The Proposals herein will supercede the fund raising and settlement proposals announced on 10 September 2004.

A new company ("Newco") will be incorporated prior to the submission to the Securities Commission ("SC") to facilitate the Proposals set out herein and Newco shall eventually take over and assume the listing status of SB.

The Restructuring Agreement entails SB and Timeless agreeing in principle to undertake the Proposals which involve the following:-

(i) the proposed acquisition of the entire issued and paid-up capital of Edison Electrical Holdings Limited ("Edison") comprising 128,000,000 ordinary shares of

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United States Dollars ("USD") 0.10 each in Edison ("Edison Shares") for a purchase consideration of RM150,000,000 ("Purchase Consideration") to be satisfied by the issuance of 150,000,000 new ordinary shares of RM1.00 each in Newco ("Newco Share(s)") at a proposed issue price of RM1.00 per Newco Share ("Proposed Acquisition");

(ii) the proposed settlement and/or compromise of liabilities due and owing by SB and its subsidiaries to their trade creditors and secured lenders via the issuance of an aggregate of up to 20,000,000 Newco Shares to the secured lenders and trade creditors, as full and final settlement of the liabilities owing ("Proposed Debt Settlement");

(iii) the proposed share exchange wherein the existing shareholders of SB will exchange all their shares in SB for new Newco Shares on the basis of one (1) new Newco Share for every five (5) existing ordinary shares of RM1.00 each held in SB ("Proposed Share Exchange");

(iv) the proposed transfer of the listing status of SB to Newco ("Proposed Transfer of Listing Status"); and

(v) the proposed disposal of the entire issued and paid-up share capital of SB by Newco for a nominal consideration of RM1.00 ("Proposed Disposal of SB").

Due to certain unavoidable reasons, this proposal was terminated on 24th March 2006.

(iii) Announcement of Revised Restructuring Scheme

The following announcement was made on 28th March 2006.

On behalf of the Board of Directors of SB ("Board"), Kenanga wishes to announce that SB had on 28 March 2006 entered into a restructuring agreement with Calinex Sdn Bhd ("Calinex"), Sumatec (Sarawak) Sdn Bhd ("Sumatec (Sarawak)") and Sumatec Trackworks Sdn Bhd ("Sumatec Trackworks") ("Restructuring Agreement"). The Restructuring Agreement entails SB, Calinex, Sumatec (Sarawak) and Sumatec Trackworks agreeing in principle to undertake the Proposals which involve the following:-

(i) Proposed capital reduction and consolidation in SB;

(ii) Proposed share exchange wherein the existing shareholders of SB will exchange all their shares in SB for new ordinary shares of RM1.00 each in a new company ("Newco") ("Proposed Share Exchange");

(iii) the proposed settlement of liabilities due and owing by SB and its subsidiaries (excluding the subsidiaries which are the subject of the Proposed Disposals as announced on 31 October 2005) to their trade creditors and secured lenders via the issuance of an aggregate of up to 57,000,000 new ordinary shares of RM1.00 in Newco ("Newco Shares") to the secured lenders and trade creditors, as full and final settlement of the liabilities owing ("Proposed Debt Settlement");

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(iv) the proposed transfer of the listing status of SB to Newco ("Proposed Transfer of Listing Status");

(v) the proposed arrangement involving Calinex which entails a put and call option between Calinex and the Secured Lenders ("Proposed Arrangement involving Calinex"); and

(vi) the proposed subscription of new shares in Sumatec (Sarawak) and Sumatec Trackworks ("Proposed Subscription of New Shares in Sumatec (Sarawak) and Sumatec Trackworks") by Newco.

The above proposal was submitted to the relevant authorities on 10 April 2006.

22. Group borrowings and debts securities

Group borrowings are detailed as follows:

	<u>Secured</u>	<u>Unsecured</u>
	RM'000	RM'000
Short term	91,281	-
Long term	2,682	-

Group borrowings include hire purchase and lease creditors, which are classified as secured borrowings. All the Group borrowings are in Malaysian currency.

The borrowings of the Group incurs interest ranging from 9.5% to 7.5% per annum.

23. Off balance sheet financial instruments

There are no financial instruments with off balance sheet risk issued by the Group.

24. Material litigation

There is a civil suit by a third party (not being the employer) which is pending court hearing that involves a claim for damages amounting to approximately RM41 million for alleged nuisance and negligence arising from purported delays in relation to works undertaken by the Company under a construction contract. The directors have been advised by the Company's legal counsel that there is a good prospect that the Company will prevail in the proceedings and accordingly no provision is required.

25. Earnings Per Share

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(a) Basic

Basic earnings per ordinary share is calculated by dividing the net profit / (loss) for the quarter attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the quarter.

	Current Year Quarter	Current Year To Date
Net loss for the period (RM'000)	(3,126)	(3,126)
Weighted average number of ordinary shares in issue ('000)	49,705	49,705
Basic earning per shares (sen)	<u>(6.3)</u>	<u>(6.3)</u>

(b) Diluted

No diluted earnings per share is calculated as there is no potential dilutive ordinary shares.

26. Authorisation for Issue

The interim financial statement were authorised for issue by the Board of Directors on 31st May 2006.