

VITROX CORPORATION BERHAD

**INTERIM FINANCIAL REPORT
FOR THE SECOND
QUARTER ENDED 30 JUNE 2008**

ViTrox Corporation Berhad

(Company No. 649966-K)

(Incorporated in Malaysia)



Quarterly report on results for the 2nd Quarter ended 30 June 2008

CONDENSED CONSOLIDATED INCOME STATEMENTS

(The figures have not been audited)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current year quarter Jun 30, 08 RM'000	Preceding year corresponding quarter Jun 30, 07 RM'000	Current year to date Jun 30, 08 RM'000	Preceding year corresponding period Jun 30, 07 RM'000
Revenue	7,675	8,886	14,542	15,581
Other operating income	178	134	335	348
Operating expenses	(4,874)	(5,340)	(9,463)	(9,740)
Finance cost	-	-	-	(3)
Profit before tax	<u>2,979</u>	<u>3,680</u>	<u>5,414</u>	<u>6,186</u>
Tax expense	(100)	(127)	(128)	(182)
Net profit for the period	<u><u>2,879</u></u>	<u><u>3,553</u></u>	<u><u>5,286</u></u>	<u><u>6,004</u></u>
Earnings Per Ordinary Share attributable to ordinary equity holders of the Company (sen)				
- Basic	<u>1.86</u>	<u>2.29</u>	<u>3.41</u>	<u>3.87</u>
- Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

ViTrox Corporation Berhad



(Company No. 649966-K)
(Incorporated in Malaysia)

Quarterly report on results for the 2nd Quarter ended 30 June 2008 CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited As at Jun 30, 08 RM'000	Audited As at Dec 31, 07 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	8,470	8,757
Prepaid land lease payments	2,804	2,829
Investment properties	600	600
Investments	91	91
Development cost	1,519	1,178
	<u>13,484</u>	<u>13,455</u>
Current assets		
Inventories	5,721	4,910
Trade and other receivables	13,410	12,364
Current tax assets	343	411
Cash and cash equivalents	21,623	19,393
	<u>41,097</u>	<u>37,078</u>
TOTAL ASSETS	<u>54,581</u>	<u>50,533</u>
EQUITY AND LIABILITIES		
Capital and reserves attributable to equity holders of the Company		
Share capital	15,500	15,500
Reserves	31,277	29,088
Total equity	<u>46,777</u>	<u>44,588</u>
Non-current liabilities		
Deferred tax liabilities	280	280
Current liabilities		
Trade and other payables	4,422	4,885
Dividend payable	3,100	775
Current tax liabilities	2	5
Total current liabilities	<u>7,524</u>	<u>5,665</u>
Total liabilities	<u>7,804</u>	<u>5,945</u>
TOTAL EQUITY AND LIABILITIES	<u>54,581</u>	<u>50,533</u>
Net assets value per share attributable to ordinary equity holders of the parent (sen)		
	<u>30.18</u>	<u>28.77</u>

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

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Quarterly report on results for the 2nd Quarter ended 30 June 2008 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(The figures have not been audited)

	Share Capital RM'000	Share Premium RM'000	Foreign Exchange Translation Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
Period ended 30 June 2008					
Balance as at 1 January 2008	15,500	1,222	(8)	27,874	44,588
Net profit for the period	-	-	-	5,286	5,286
Exchange difference on translation	-	-	3	-	3
Total recognised income and expenses	-	-	3	5,286	5,289
Dividend	-	-	-	(3,100)	(3,100)
Balance as at 30 June 2008	15,500	1,222	(5)	30,060	46,777
Period ended 30 June 2007					
Balance as at 1 January 2007	15,500	1,222	(3)	16,547	33,266
Net profit for the period	-	-	-	6,004	6,004
Exchange difference on translation	-	-	(2)	-	(2)
Total recognised income and expenses	-	-	(2)	6,004	6,002
Dividend	-	-	-	(2,325)	(2,325)
Balance as at 30 June 2007	15,500	1,222	(5)	20,226	36,943

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(The figures have not been audited)

	Period ended Jun 30, 08 RM'000	Period ended Jun 30, 07 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	5,414	6,186
Adjustments for :		
Depreciation of property, plant and equipment	489	427
Amortisation of prepaid land lease payments	25	24
Amortisation of development expenditure	83	68
Gain on disposal of property, plant and equipment	-	(156)
Unrealised losses on foreign exchange	48	95
Interest expense	-	3
Interest income	(275)	(140)
Operating profit before working capital changes	<u>5,784</u>	<u>6,507</u>
Changes in working capital:		
Increase in inventories and receivables	(1,973)	(3,350)
(Decrease)/ Increase in payables	<u>(395)</u>	<u>590</u>
Cash generated from operating activities	3,416	3,747
Income tax refunded	125	-
Income tax paid	<u>(188)</u>	<u>(255)</u>
Net cash generated from operating activities	<u>3,353</u>	<u>3,492</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	275	140
Purchase of property, plant and equipment	(202)	(186)
Proceeds from disposal of property, plant and equipment	-	351
Payment of capitalised development expenditure	<u>(424)</u>	<u>(203)</u>
Net cash (used in)/ from investing activities	<u>(351)</u>	<u>102</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(775)	(1,550)
Interest paid	-	(3)
Repayment of hire-purchase payables	-	(262)
Repayment of long-term loans	-	(24)
Net cash used in financing activities	<u>(775)</u>	<u>(1,839)</u>
Net increase in cash and cash equivalents	2,227	1,755
Effects from foreign exchange	3	(2)
Cash and cash equivalents at beginning of period	19,393	8,600
Cash and cash equivalents at end of period	<u>21,623</u>	<u>10,353</u>
<u>Cash and cash equivalents consist of:</u>		
Fixed deposits with licenced banks	20,875	9,597
Cash and bank balances	748	756
	<u>21,623</u>	<u>10,353</u>

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

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Quarterly report on results for the 2nd Quarter ended 30 June 2008

A NOTES TO THE INTERIM FINANCIAL REPORT

A1 Basis of preparation of Interim Financial Report

The interim financial report is unaudited and has been prepared in compliance with FRS 134, "Interim Financial Reporting", issued by the Malaysian Accounting Standards Board ("MASB") and the disclosure requirements as set out in Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market ("MMLR").

The interim financial report should be read in conjunction with the audited financial statements for the year ended 31 December 2007. These explanatory notes attached to the interim financial report 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 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the audited financial statements for the year ended 31 December 2007, except for the adoption of the following revised Financial Reporting Standards which are relevant to the Group and effective for financial periods beginning on or after 1 July 2007:

FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The adoption of above revised standards does not have any significant financial impact on the Group in the current quarter and period under review and the preceding year.

As at the date of this report, the Group has not adopted FRS 139 Financial Instruments: Recognition and Measurement which will be effective for financial periods beginning on or after 1 January 2010.

A2 Seasonal or cyclical factors

The Group's operations have not been significantly affected by any seasonal or cyclical factors during the period under review.

A3 Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the period under review.

A4 Material changes in estimates

There were no changes in nature and amount of estimates reported in prior financial years which may have a material effect in the period under review.

A5 Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayment of debts and equity securities in the Company during the period under review.

A6 Dividend paid

A special interim tax exempt dividend of 0.5 sen per share amounting to RM775,000 for the year ended 31 December 2007 was paid on 1 February 2008. A final tax exempt dividend of 0.5 sen per share and a special tax exempt dividend of 1.5 sen per share amounting to RM775,000 and RM2,325,000 respectively for the year ended 31 December 2007 were paid on 15 July 2008.

A7 Segment reporting

No segment reporting has been prepared as the Group is principally engaged in a single business segment, namely the development and production of machine vision inspection products and the Group operates predominantly in Malaysia.

A8 Valuation of property, plant and equipment

The Group did not revalue any of its property, plant and equipment during the period under review or prior periods.

A9 Valuation of investment properties

In line with the adoption of the fair value model, the investment properties are stated at fair values which are assessed on yearly basis.

A10 Material events subsequent to the end of the quarter

There were no material events subsequent to the end of the current reporting period that have not been reflected in the financial statements for the said period.

A11 Changes in the composition of the Group

There were no material changes in the composition of the Group during the period under review.

A12 Contingent liabilities

Save as disclosed in Note B11, there were no contingent assets or liabilities for the Group since the previous financial year ended 31 December 2007 to the date of this report.

A13 Capital commitments

There were no material capital commitments for the Group as at the date of this report.

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A NOTES TO THE INTERIM FINANCIAL REPORT

A14 Significant related party transactions

There were no significant related party transactions during the period under review.

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B DISCLOSURE REQUIREMENTS AS SET OUT IN APPENDIX 9B OF THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET

B1 Review of performance

The Group achieved a revenue of RM7.68 million for the period under review against RM8.89 million in the corresponding period of preceding year, representing a decrease of 13.6%. The decrease in revenue was mainly on lower sales recorded for the machine vision inspections system (MVS) and electronics communication system (ECS). On the back of this revenue, the Group achieved a profit before tax of RM 2.98 million against RM 3.68 million in the corresponding quarter, representing decrease of 19%, attributable mainly to lower sales recorded in the current quarter under review. Correspondingly, the Group recorded a profit after tax of RM2.88 million against RM 3.55 million in the corresponding quarter, representing a decrease of 18.9%.

For six months to date, the group recorded a revenue of RM14.5 million, registering a decrease of 6.7% over that of corresponding period of the preceding year while profit before tax decreased by 12.5% to RM5.4 million from profit before tax of corresponding period of RM6.2 million. The decrease in revenue was due to economic uncertainties worldwide and locally for the first half of year 2008.

B2 Variation of results against immediate preceding quarter

The Group recorded revenue and profit before tax of RM7.68 million and RM2.98 million respectively for the current quarter under review as compared to revenue and profit before tax of RM6.87 million and RM2.44 million respectively for the immediate preceding quarter. The increase in revenue and profit before tax was attributable to higher sales recorded for MVS and ECS which remained the Group's highest contributor to revenue and profits.

B3 Prospects for the remaining quarters of current financial year ending 31 December 2008

Continuous strong demand for machine vision inspections system with the support of many leading test and inspection equipment manufacturers and the development of new markets will ensure that vision products remain the mainstay of the Group's earnings. In addition, the success of the Group's other product offerings such as Automated Optical Inspection (AOI) systems in gaining commercial acceptance will add depth and breadth to the Group's business. Barring any unforeseen circumstances, the Board expects the performance of the other quarters of the current financial year to remain satisfactory.

B4 Profit forecast, profit guarantee and internal targets

The Group did not provide any profit forecast, profit guarantee and internal targets in any public document or any announcements made.

B5 Income tax expense

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current year quarter 30-Jun-08 RM'000	Preceding year corresponding quarter 30-Jun-07 RM'000	Current year to date 30-Jun-08 RM'000	Preceding year corresponding period 30-Jun-07 RM'000
Income tax based on the results for the period under review	<u>100</u>	<u>127</u>	<u>128</u>	<u>182</u>

The effective tax rate of the Group is lower than the statutory rate due to the tax exempt incentives enjoyed by the companies within the Group as further elaborated below :

ViTrox Corporation Berhad ("VCB") is a MSC status company and enjoys pioneer status/tax exempt incentive for certain qualifying products granted by the Ministry of International Trade and Industry ("MITI") for a period of 5 years commencing from 25 January 2005 to 24 January 2010.

A wholly-owned subsidiary of VCB, ViTrox Technologies Sdn. Bhd. ("VTSB") has been granted pioneer status by MITI for a period of five (5) years for the development and production of digital automated vision inspection equipment and modules. The incentive commenced from 1 April 2005 to 31 March 2010. The current provision of income tax is in respect of certain non-business income and non-tax exempted income generated from non-pioneer products of VTSB.

Another wholly-owned subsidiary of VCB, ViE Technologies Sdn Bhd ("ViE") has also been granted pioneer status by MITI for a period of five (5) years to undertake activities relating to design, development and manufacture of printed circuit board assemblies for microprocessor applications. It is the intention of the Group that ViE will spearhead the production and sales of the ECS product. ViE has submitted an application to MITI for the determination of the pioneer status period and MITI has confirmed that the pioneer period would commence from 1 April 2007 to 31 March 2012.

B6 Sales of unquoted investments and/or properties

There was no sale of unquoted investments and/or properties during the quarter under review and financial year-to-date.

B7 Purchase and Sale of Quoted Securities

There was no purchase or sale of quoted securities during the quarter under review and financial year-to-date.

B8 Status of corporate proposals announced

There was no corporate proposal announced as at the date of this report.

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B DISCLOSURE REQUIREMENTS AS SET OUT IN APPENDIX 9B OF THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET

B9 Group Borrowings

There was no bank borrowings during the quarter under review and financial year-to-date.

B10 Off balance sheet financial instruments

The Group does not have any financial instruments with off balance sheet as at 22 August 2008 (being the latest practicable date which shall not be earlier than 7 days from the date of this report).

B11 Material litigation

(a) VTSB vs Tan Hwang Kiat (NRIC No : 730726-02-5333) ("First Defendant") and ACA Vision Technology Sdn Bhd (Company No. : 618197-K) ("Second Defendant")

The First Defendant was an engineer previously employed by VTSB. He was suspected to have copies of VTSB's source codes and produced automated vision inspection system to be sold through the Second Defendant.

VTSB was granted an Anton Pillar order on 22 October 2003 and conducted a raid at the Second Defendant's office and the First Defendant's residence on 29 October 2003. It is VTSB's case that the said ViTrox's source codes were discovered in the computers at the said office but nothing was found at the residence.

Based on the results of the raid, VTSB has applied for injunction on 24 November 2003. The application for the injunction together with 2 separate applications by the Defendants to set aside the Anton Pillar order and application by the First Defendant to challenge an affidavit of a witness for VTSB is pending fixing of date from the court for hearing. One of the grounds put forward by the Defendants in their application is that the source codes discovered in the computers do not belong to VTSB.

Based on the advice of the solicitors, the Directors of VTSB are confident that the Court is likely to allow VTSB's claim. VTSB will be entitled to all earnings the First Defendant and Second Defendant made as a result of the unauthorised use of VTSB's source code and costs including the investigation fees.

Notwithstanding the above, in the event that VTSB's claim is not successful and assuming that both the Defendants continue with the business, the Directors of VTSB believes that VTSB would only be minimally affected, if any, in view of the fact that the affected source codes are of the older version. In line with the dynamic environment of the machine vision industry, VTSB has since upgraded the source codes which are of higher accuracy and speed. As such, the current product lines of VTSB are independent of the affected source codes and thus, the sales of VTSB's products should not be affected by products arising from the use of affected sources codes, if any.

The decision for Enclosure 57 (the Defendant's application to expunge certain affidavits of the Plaintiff) came up on 9 November 2006 where the Court dismissed the Defendant's application. Therefore, the Plaintiff is entitled to rely on all the affidavits. However, the Court informed the Defendant's solicitors that they are at liberty to file an application to cross examine the deponent/s of the relevant affidavits as provided for in the Rules of the High Court.

Having delivered the said decision on 9 November 2006, the Court then fixed Enclosures 15 (the First Defendant's application to set aside the Anton Pillar Order), 17 (the Plaintiff's application for further injunction) and 19 (the Second Defendant's application for return of the items seized) for hearing on 10 November 2006.

On 10 November 2006, all counsels applied for an adjournment on the basis that more time is needed to fully prepare for hearing of the said 3 enclosures. The Court allowed the application for an adjournment and fixed the said 3 enclosures for hearing on 8 December 2006. Following several adjournments, the next date of hearing has been fixed on 25 August 2008 and later on to 4 November 2008.

(b) ACA Vision Technology Sdn Bhd vs ViTrox Technologies Sdn Bhd

ACA Vision Technology Sdn Bhd ("the plaintiff") has commenced an action against ViTrox Technologies Sdn Bhd ("the subsidiary"), a wholly-owned subsidiary of ViTrox Corporation Berhad.

In the statement of claim endorsed on the writ of summons that was served on 27 December 2005 on the subsidiary, the plaintiff alleges that the subsidiary had in the subsidiary's corporate directory under the file - Vitrox-CorpDirectory-InfoSummary-Risk Factors - published in the Bursa Malaysia website, www.bursamalaysia.com, under the heading of Information Summary and in the sub-heading entitled Material Litigation published a statement that is defamatory of the plaintiff.

The subsidiary, having consulted its solicitors has been advised that there is a good defence to this action commenced by the plaintiff.

The subsidiary has been further advised that at this stage, the quantum of damages cannot be determined as damages (if any) that is to be awarded in a defamation action is to be assessed by the Court having the benefit of evidence adduced during trial.

VTSB has filed an application to set-aside the services of the writ of summons and statement of claims.

The Court has allowed VTSB's application to set aside the service of the writ of summons against VTSB with costs. ACA Vision Technology Sdn Bhd had filed an appeal against the decision by the Deputy Registrar to Judge in chambers and a hearing date has yet to be fixed.

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B DISCLOSURE REQUIREMENTS AS SET OUT IN APPENDIX 9B OF THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET

(c) Tan Hwang Kiat vs ViTrox Technologies Sdn Bhd

Tan Hwang Kiat ("the Plaintiff") commenced action against ViTrox Technologies Sdn Bhd ("the Subsidiary"), a wholly-owned subsidiary of ViTrox Corporation Berhad.

In the statement of claim endorsed on the writ of summons that was served on 6 March 2006 on the Subsidiary, the Plaintiff alleges that the Subsidiary had in the Subsidiary's directory under the file - ViTrox-Corp Directory-Inform Summary-Risk Factors-published in the Bursa website, www.bursamalaysia.com. under the heading of Information Summary and in the sub-heading entitled Material Litigation published a statement that is defamatory of the Plaintiff.

The Plaintiff did not specify any specific quantum of damages in the aforementioned writ of summons. At this stage, the quantum of damages of the suit cannot be determined as damages (if any) that is to be awarded in a defamation action is to be assessed by the Court having the benefit of evidence adduced during trial. In accordance, the Company is not able to assess the financial damages (if any) and the suit is not expected to have any other financial impact on the Group. The suit is also not expected to have any operational impact on the Group.

As the Plaintiff's claim is founded on the allegation of the tort of defamation, it is not liquidated claim that can be quantified. The Plaintiff had therefore claimed the interest rate on the judgment sum which is to be assessed in the event that the Plaintiff is successful in his claim. In such an event, the Plaintiff is entitled to claim interest of 8% per annum on the judgment sum from the judgment date until the full settlement of the said sum.

The Subsidiary, having consulted its solicitors has been advised that it has good defence to the action commenced by the Plaintiff and has instructed its solicitors to do the necessary to defend the said action.

The hearing date on 29 August 2006 for the hearing of the Plaintiff's application for interim injunction in the action commenced by him against VTSB was adjourned to 7 December 2006.

Subsequently, following a few adjournments, the next date of hearing has been fixed on 1 November 2007. However, this was again adjourned by the Court to a new hearing date of 21 May 2008 and later on to 25 September 2008.

B12 Dividends

On 31 December 2007, the Company declared a special interim tax exempt dividend of 0.5 sen per share amounting to RM775,000 for the financial year ended 31 December 2007 which was paid to all holders of ordinary shares on 1 February 2008 whose names appeared in the Record of Depositors at the close of business on 22 January 2008.

On 30 May 2008, the Company declared a final tax exempt dividend of 0.5 sen per share and a special tax exempt dividend of 1.5 sen per share amounting to RM775,000 and RM2,325,000 respectively for the financial year ended 31 December 2007 which was paid to all holders of ordinary shares on 15 July 2008 whose names appeared in the Record of Depositors at the close of business on 2 July 2008.

There is no dividend declaration for the previous corresponding period. The total dividend for the financial year ended 31 December 2007 is 2.5 sen per share

B13 Earnings per share

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current year quarter 30-Jun-08	Preceding year corresponding quarter 30-Jun-07	Current year to date 30-Jun-08	Preceding year corresponding period 30-Jun-07
Net profit attributable to shareholders (RM'000)	2,879	3,553	5,286	6,004
Weighted average number of ordinary shares in issue ('000)	155,000	155,000	155,000	155,000
Basic earnings per share (sen)	<u>1.86</u>	<u>2.29</u>	<u>3.41</u>	<u>3.87</u>

Diluted earnings per share has not been calculated as the Company does not have any dilutive potential shares.

B14 Status of Compliance with the Required Public Shareholding Spread

As at 18 July 2008, the Company has yet to comply with the Required Public Shareholding Spread pursuant to Rule 8.15 (1) of the MMLR, with the level of public shareholding spread as follows:-

(a) Percentage of Public Shareholdings:	27.01%
(b) Number of Public Shareholders holding not less than 100 shares each:	960

Accordingly, the Company had on 29 July 2008 and 8 August 2008 submitted an application to Bursa Malaysia Securities Berhad ("Bursa") for the extension of time of six (6) months from 29 July 2008 to 31 January 2009 to comply with the Required Public Shareholding Spread.

Through a letter dated 21 August 2008, Bursa has granted approval to the Company an extension of three (3) months up to 17 October 2008 ("Extension of Time") to meet the Required Public Shareholding Spread.

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B14 Status of Compliance with the Required Public Shareholding Spread

To meet the Required Public Shareholding Spread within the Extension of Time, the Company proposes to undertake the following rectification plans:-

- (i) generate more public interest over the Company's shares by conducting analysts' briefing, press interviews and press releases;
- (ii) continue to actively participate in fairs and exhibitions held locally and internationally to promote the Company to new foreign and local investors;
- (iii) aggressively promote the Company's corporate profile and business activities to the overseas market through the Group's representatives stationed overseas; and
- (iv) encourage employees as well as business associates of the Company and its subsidiaries to purchase shares of the Company.

The said rectification plans are ongoing and the Company will report on the progress from time to time.

B15 Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2007 was not subject to any qualification.

B16 Authorisation for issue

The interim financial statements are authorised for issue by the Board of Directors on 29 August 2008.

By Order of the Board

Chu Jenn Weng
Managing Director

Penang
Date: **29-Aug-08**