

KRETAM HOLDINGS BERHAD
(Company No.: 168285 - H)

**UNAUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION
FOR THE QUARTER ENDED 31 DECEMBER 1999**

A. CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Current Year Quarter RM'000	Cumulative Quarter	
		Current Year to Date RM'000	Previous Year to Date RM'000
1 (a) Turnover	18,201	77,611	104,822
(b) Investment income	83	386	870
(c) Other income including interest income	1,208	1,393	56,302
	<u>19,493</u>	<u>79,390</u>	<u>161,994</u>
2 (a) Operating profit/(loss) before interest on borrowings, depreciation and amortisation, exceptional items, income tax, minority interests and extraordinary items	5,921	26,807	51,038
(b) Interest on borrowings	(10,478)	(46,112)	(67,916)
(c) Depreciation and amortisation	(3,370)	(12,396)	(9,751)
(d) Exceptional items	(15,269)	(15,269)	13,440
(e) Operating profit/(loss) after interest on borrowings, depreciation and amortisation, exceptional items, income tax, minority interests and extraordinary items	(23,196)	(46,970)	(13,189)
(f) Share of the results of associated companies	0	(329)	(1,093)
(g) Profit/(loss) before taxation, minority interests and extraordinary items	(23,196)	(47,299)	(14,282)
(h) Taxation	3,147	3,184	(13,845)
(i) (i) Profit/(loss) after taxation before deducting minority interests	(20,049)	(44,115)	(28,127)
(ii) Less minority interests	954	2,809	2,760
(j) Profit/(loss) after taxation attributable to members of the Company	(19,095)	(41,306)	(25,367)
(k) (i) Extraordinary items	0	0	0
(ii) Less minority interests	0	0	0
(iii) Extraordinary items attributable to members of the Company	0	0	0
(l) Profit/(loss) after taxation and extraordinary items attributable to members of the Company	<u>(19,095)</u>	<u>(41,306)</u>	<u>(25,367)</u>
3 (a) Loss per share based on 2(j) above and 105,253,500 ordinary shares	<u>(18.14 sen)</u>	<u>(39.24 sen)</u>	<u>(21.10 sen)</u>

B. CONSOLIDATED BALANCE SHEET

	As at 31 Dec 1999 RM'000	As at 31 Dec 1998 RM'000
1. FIXED ASSETS	393,545	361,933
2. ASSOCIATED COMPANIES	0	(3,244)
3. GOODWILL ON CONSOLIDATION	11,835	5,081
4. INVESTMENTS	2,494	1,500
5. EXPENDITURE CARRIED FORWARD	1,382	1,697
6. CURRENT ASSETS		
Construction in progress	80,259	2,832
Stocks and work-in-progress	4,359	4,243
Trade debtors	44,693	54,370
Other debtors	14,778	21,202
Marketable securities	72	578
Amount due from associated companies	79	79,865
Fixed deposits	15,410	33,075
Cash and bank balances	28,857	9,505
	<u>188,508</u>	<u>205,670</u>
7. CURRENT LIABILITIES		
Trade creditors	9,965	12,979
Other creditors	55,926	42,407
Trust accounts	15,998	22,386
Amount due to associated companies	400	0
Short-term borrowings	277,566	357,557
Due to directors of subsidiaries	43,241	39,736
Taxation	3,350	18,036
	<u>406,445</u>	<u>493,101</u>
8. NET CURRENT LIABILITIES	(217,938)	(287,430)
	<u>191,318</u>	<u>79,536</u>
9. SHAREHOLDERS' FUNDS		
Share capital	105,254	105,254
Share premium reserve	81,995	81,995
Reserve on consolidation	13,514	13,514
Revaluation reserve	127,167	127,167
Currency translation reserve	8,426	8,759
Accumulated losses	(321,994)	(280,688)
	<u>14,362</u>	<u>56,000</u>
10. MINORITY INTERESTS	15,438	20,002
11. LONG-TERM BORROWINGS	110,125	2,304
12. JOINT VENTURE PARTNER'S ADVANCES	50,211	0
13. DEFERRED TAXATION	1,183	1,230
	<u>191,318</u>	<u>79,536</u>
14. Net Tangible Assets per Share	<u>1.1 sen</u>	<u>46.8 sen</u>

C. EXPLANATORY NOTES

1. The accounting policies used in preparing the financial statements are the same as those used in the preparation of the audited financial statements of the Group for the year ended 31 December 1998.
2. Exceptional items included in the profit and loss account are as follows:

	Current Quarter RM'000	Current Year to Date RM'000
Provision for foreseeable losses on construction projects	39,269	39,269
Provision for doubtful debt written back on consolidation	(24,000)	(24,000)
	<u>15,269</u>	<u>15,269</u>

The provision for doubtful debt written back on consolidation represents an amount provided for as doubtful debt in respect of an associated company during the year ended 31 December 1998. In 1999, that associated company became a subsidiary of the Group, as mentioned in Note 8 below, resulting in the write-back of the provision.

3. There were no extraordinary items in respect of the period under review.
4. Taxation for the period includes an adjustment of RM3,137,257 for overprovision of taxation in respect of previous years and write-back of deferred taxation of RM47,000.
5. No pre-acquisition profit or loss has been included in the Group's results for the period under review.
6. There was no sale of investments or properties during the period under review.
7. All purchases, sales and holdings of quoted securities during the period under review were carried out by the stockbroking subsidiary, Innosabah Securities Sdn. Bhd. ("ISSB"). Consequently, the Group is exempted from disclosing information on the values of quoted securities traded or held during the period.

8. CHANGES IN GROUP COMPOSITION

In May 1999, the Group acquired a further 2% equity interest in Joffa Construction Sdn. Bhd. ("JCSB"), increasing its equity holding in JCSB to 51% and so changing JCSB's status from that of an associated company to that of a subsidiary.

On 16 September 1999, the High Court of Malaya at Shah Alam had ordered the winding up of Aru Bina Sdn. Bhd. ("ABSB"), which was a 70%-owned subsidiary. In view of this, the Group had effectively lost control of ABSB, rendering it no longer a subsidiary for accounting purposes.

There were no other acquisitions or disposals of subsidiary or associated companies or long-term investments during the period under review.

9. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT YET COMPLETED

On 20 October 1999, the Company announced that the secured creditors of ISSB had approved the workout proposal prepared by ISSB's Special Administrators to restructure and regularise ISSB's financial position to allow it to resume full trading operations. Under this workout proposal, RM129.3 million of the outstanding secured borrowings of ISSB, which are secured by corporate guarantees by the Company, as at 30 April 1999 will be novated to the Company. The Company will also inject cash of RM60 million into ISSB for use as working capital by way of a share subscription.

The Company also announced its proposal to undertake the following:

- a one-for-one rights issue ("Rights Issue") involving the issue of 105,253,500 new ordinary shares of RM1.00 each at par, with free detachable warrants on the basis of 1 warrant for every share issued therewith; and
- a special issue ("Special Issue") of 30 million new ordinary shares of RM1.00 each at par to Bumiputera investors, with 15 million free detachable warrants, on the basis of 1 warrant for every 2 shares so issued.

Subsequently, on 20 January 2000, the Company announced the following revisions to the terms of the proposed Rights Issue and Special Issue arising from the amendments to the Policies and Guidelines on Issue/Offer of Securities of the Securities Commission ("SC") issued on 30 December 1999:

- the issue price for the shares to be issued under the Rights Issue and Special Issue will now be set at a discount of not more than 20% from the theoretical ex-all price based on the 5-day weighted average market price of the Company's shares at a price-fixing date ("Price-fixing Date") to be determined after approval from the SC has been obtained; and
- the exercise price of the warrants will now be set at a discount of not more than 10% from the theoretical ex all price based on the 5-day weighted average market price of the Company's shares at the Price-fixing Date.

The proceeds of at least RM135 million from this exercise is expected to be utilised as follows:

- RM54 million to be used to repay a bridging loan and/or shareholders' advances to be raised to finance the injection of RM60 million into ISSB as mentioned above;
- RM35 million to be used to revive the Pandan Place property development project in Johor Bahru;
- RM10 million to be used as additional working capital for ISSB;
- RM10 million to be used to pay outstanding land premium to the state government of Sabah in respect of approximately 20,000 acres of land alienated to the Company; and
- the balance to be used for additional working capital, repayment of existing borrowings and expenses relating to the exercise.

This proposed exercise is subject to the following approvals being obtained:

- the SC, for ISSB's workout proposal, the proposed Rights Issue and Special Issue;

- the Ministry of Finance and the Foreign Investment Committee, for the proposed Special Issue;
- the shareholders of the Company in an Extraordinary General Meeting to be convened;
- the Kuala Lumpur Stock Exchange, for the listing and quotation of the shares and warrants to be issued under this exercise, and the new shares to be issued pursuant to the exercise of the warrants; and
- any other relevant authorities.

As at 15 February 2000, the Group together with its merchant bankers are in the process of finalising the documentation required for submission to the relevant regulatory authorities in respect of the above exercise.

10. SEASONAL AND CYCLICAL FACTORS

The Group's production from its plantations generally experiences one "up-down" cycle once a year, with low production in January and February, and peak production expected between April and June.

Brokerage fees from the stockbroking operations carried out by ISSB are generally dependent on trading volumes and sentiment on the Kuala Lumpur Stock Exchange.

11. During the period under review, there were no:

- (i) issues or repayments of debt securities;
- (ii) issues, buybacks or cancellations of the Company's shares; and
- (iii) shares held as treasury shares or any resale of the same.

12. GROUP BORROWINGS AND DEBT SECURITIES

	As at 31-12-1999 RM'000	As at 31-12-1998 RM'000
Short-term secured borrowings:		
Revolving credit	189,799	237,016
Bank overdraft	76,123	52,263
US Dollar loan	-	63,790
Bank loan	359	-
Current portion of long-term borrowings	8,285	2,950
	<u>274,566</u>	<u>356,019</u>
Short-term unsecured borrowings:		
Revolving credit	-	1,538
Loan from a company of which a director of the company is also a director	3,000	-
	<u>277,566</u>	<u>357,557</u>
Long-term secured borrowings:		
Syndicated term loan	42,912	-
US Dollar loan	57,540	-
Bank loans	16,649	1,420
Hire purchase and lease creditors	1,309	3,834
less: Portion repayable within 12 months	(8,285)	(2,950)
	<u>110,125</u>	<u>2,304</u>
Total Group Borrowings	<u><u>387,691</u></u>	<u><u>359,861</u></u>

Included in the above is an amount of approximately RM14.85 million in respect of interest charges and penalty interest which will be waived under ISSB's workout proposal subject to approval from the SC.

13. CONTINGENT LIABILITIES NOT PROVIDED FOR IN THE BALANCE SHEET

	As at 15-02-2000 RM'000	As at 31-12-1998 RM'000
Guarantees for banking facilities of third parties (unsecured)	1,000	1,000
Guarantees for banking facilities of associated companies	-	53,900
Litigation against the Company by the vendors of Innosabah Securities Sdn. Bhd. (see Note 15(b) below)	33,800	-
	<u>34,800</u>	<u>54,900</u>

14. As at 15 February 2000, there were no financial instruments held by the Group with off-balance sheet risks.

15. PENDING MATERIAL LITIGATION AS AT 15 FEBRUARY 2000

- (a) On 25 August 1999, the Company and certain of its subsidiaries, namely, ABSB, KHB Construction Sdn. Bhd. and JCSB ("the Defendants"), were served with a writ of summons and an order of court taken out by Juta Semarak Sdn. Bhd. ("JSSB"), which is a minority shareholder of ABSB. JSSB has made claims against the Defendants for RM13,471,749 in respect of construction work done on the "Pandan Place" project, and has also obtained an injunction to, amongst others, prevent the termination of the sub-contract agreement dated 4 July 1995 between ABSB and KHB Construction Sdn. Bhd. The Company has sought legal advice and is contesting JSSB's claim as well as the Order.

The injunction was set aside by the Johor Bahru High Court with effect from 4 30 p.m. on 10 November 1999.

- (b) On 18 September 1999, the Company, amongst other defendants, was served with a Writ of Summons taken out by En Faidzan bin Hassan and Mr Kong Kok Keong ("the Plaintiffs"). The Plaintiffs were the vendors of ISSB and had provided a profit guarantee to the Company pursuant to the Company's acquisition of 99.5% of the issued and paid-up capital of ISSB, which was completed in 1996. The profit guarantee was backed by a bank guarantee for RM33.8 million, which was called by the Company due to the shortfall of ISSB's profits for the year ended 31 December 1997. The Plaintiffs have claimed a refund of this RM33.8 million (including interest and damages) from the defendants on the grounds of wrongful demand of the bank guarantee.

The Company has sought legal advice and is contesting the Writ of Summons.

16. SEGMENTAL INFORMATION

	Current Quarter		Year to Date		Total assets employed as at 31-12-1999 RM'000
	Profit/(loss) before taxation		Profit/(loss) before taxation		
	Turnover RM'000	RM'000	Turnover RM'000	RM'000	
Plantations	12,710	5,949	54,705	28,797	233,532
Stockbroking & related services	929	(9,687)	3,887	(42,364)	91,206
Property & construction	0	(41,809)	1,592	(43,679)	85,249
Investment holding	0	22,119	0	12,880	27,263
Hydropower	4,563	47	15,427	(5,019)	156,760
Others	0	185	0	2,615	3,753
	18,201	(23,196)	77,611	(46,970)	597,763

All the above activities are carried out in Malaysia except for the hydropower project, which is carried out in the People's Republic of China.

17. The Group's significantly higher loss before taxation of RM23.2 million for the current quarter (previous quarter: RM9.6 million) is mainly due to provisions being made for foreseeable losses on construction projects and write-down of fixed assets.

18. REVIEW OF PERFORMANCE

The Group's performance for the period under review continued to be poor, with ISSB still under trading restrictions and the "Pandan Place" property development project at a standstill. Furthermore, prices of oil palm products weakened significantly during the year. On the other hand, the Group saw an improvement in the power offtake at its hydropower station in Yunnan Province, China.


19. CURRENT YEAR PROSPECTS

The Group's performance for 2000 is expected to improve. ISSB should contribute positively to the Group's results upon the implementation of its workout proposal. Development of the Pandan Place project will resume upon the completion of the Rights Issue and Special Issue, which would provide the necessary working capital.

Although prices for oil palm products are expected to be bullish in 2000, the Group expects a further improvement in power offtake at its hydropower station to compensate for this.

20. No dividend has been declared or recommended in respect of the period under review.

By Order of the Board,



Lim Nyan Sang @ Freddy Lim
Chief Executive/Officer
15 February 2000