Notes:

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of Financial Reporting Standard (FRS) 134 "Interim Financial Reporting" (previously known as MASB 26) issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad. It should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2005.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2005, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2006. These accounting standards are consistent in all material aspects to that of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

A summary of the principal impact on the Group's accounting policies resulting from the adoption of the new or revised standards are as follows:

(a) FRS 3 Business Combinations

Until 31 December 2005, goodwill was amortised on a straight line basis over 25 years and assessed for impairment at each balance sheet date. In accordance with FRS 3, the Group ceased amortisation of goodwill from 1 January 2006. Goodwill is tested annually for impairment, as well as when there are indications of impairment. In addition, accumulated amortisation as at 31 December 2005 was eliminated with a corresponding decrease in the cost of goodwill.

(b) FRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The Group has identified property, plant and equipment where the carrying amount of the assets will be recovered principally through a sale transaction rather than through continuing use and has reclassified these assets as current assets - Assets Held for Sale. These assets held for sale ceased to be depreciated from 1 January 2006 as their economic benefits were no longer consumed. Furthermore, these assets held for sale were previously neither classified nor presented as current assets or liabilities.

(c) FRS 116 Property, Plant and Equipment

In accordance with FRS 116, the asset's residual values, useful lives and depreciation methods will be assessed at each financial year end and adjusted if necessary. If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

(d) FRS 138 Intangible Assets

Previously, software costs were included under property, plant and equipment. Under FRS 138, unless the software costs are integral to other fixed assets, they are included as part of intangible assets. As a result, software costs which are not integral to other fixed assets are now classified as intangible assets, and amortised over their useful lives.

(e) FRS 140 Investment Property

Investment property, comprising a factory, offices and warehousing space, is held for rental yields. The investment property is measured using the cost model which is in accordance with the measurement of property, plant and equipment unless the investment property meets the criteria to be classified as Assets Held for Sale in accordance with FRS 5. In accordance with FRS 140, investment property is separately classified on the balance sheet. In prior years, investment property was not separately classified and was presented as part of property, plant and equipment.

As a result of the adoption of FRS 3, the annual goodwill amortisation charge (2005: RM21.9 million) ceased from 1 January 2006 and currently there are no indications of impairment.

As a result of the adoption of FRS 5, FRS 138 and FRS 140, comparative amounts as at 31 December 2005 have been reclassified as follows:

	As previously reported RM'000	**Effects of reclassification RM'000**	**As restated RM'000**
Property, plant and equipment	587,187	(46,642)	540,545
Intangible Assets, included in property, plant and equipment	-	616	616
Non-Current Assets held for sale, included in property, plant and equipment	-	1,255	1,255
Investment Property, included in property, plant and equipment	-	44,771	44,771

All changes in the accounting policies have been made in accordance with the transitional provisions of the standards, and are applied prospectively. No retrospective changes, except for the restatements above, have resulted from the adoption of the new/revised accounting standards.

All the other new/revised accounting standards adopted resulted in only minimal changes to the presentation and additional disclosures.

As at the date of this report, the Group has not applied the following three new standards which have been issued by the Malaysian Accounting Standards Board, but are not yet effective:

(a) FRS 117 Leases
(b) FRS 124 Related Party Disclosures
(c) FRS 139 Financial Instruments: Recognition and Measurement

The Group will apply FRS 117 and FRS 124 in the annual period commencing 1 January 2007, when they become effective. As for FRS 139, the Malaysian Accounting Standards Board has deferred the effective date of FRS 139 from 1 January 2007 to a date to be announced.

While there may be changes to the presentation of the Group's financial statements and additional disclosures made, it is expected that there will be no material impact on the Profit and Loss Statement when the Group applies these new accounting standards.

2. Audit Report of Preceding Annual Financial Statements

The audit report of the Group's most recent annual audited financial statements for the year ended 31 December 2005 was not qualified.

3. Unusual Items

There were no other unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

4. Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

5. Taxation

Taxation comprises:

	3 months ended		**6 months ended**	
	30.6.2006 RM'000	**30.6.2005 RM'000**	**30.6.2006 RM'000**	**30.6.2005 RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	69,362	55,901	145,054	120,963
Deferred tax	2,353	(5,601)	5,110	(3,085)
	71,715	50,300	150,164	117,878

The average effective tax rate of the Group for the six months ended 30 June 2006 approximated the statutory tax rate of 28%.

The average effective tax rate of the Group for the periods ended 30 June 2005 approximated 29%, being higher than the statutory tax rate of 28%. This was a result of lower utilisation of reinvestment allowances within the Group in the period ended 30 June 2005.

6. Valuations of Property, Plant and Equipment

The valuations of land and buildings have been brought forward, without amendment, from the most recent annual audited financial statements for the year ended 31 December 2005. The carrying value is based on a valuation carried out in 1983 by independent qualified valuers less depreciation.

7. Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments or properties during the financial period under review.

On 23 September 2004, the Group entered into a sale and purchase agreement for the disposal of its property at Mukim Wakaf Delima, Kelantan for a consideration of RM930,000, the impact of which was estimated at a loss of approximately RM235,000. The sale and purchase agreement was however subsequently terminated on 25 April 2006.

8. Quoted Securities

a) There were no purchases or sales of quoted securities during the financial period under review.

b) There were no investments in quoted securities as at the end of the financial period under review.

9. Changes in Composition of the Group

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

10. Corporate Proposals

There were no new corporate proposals announced as at 6 July 2006 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

11. Changes in Share Capital and Debt

There were no issuances, cancellations, repurchases, resale and repayment of either debt or equity securities for the period under review.

12. Borrowings

The Group's borrowings as at 30 June 2006 are as follows:

	RM'000
Non-current	
8-year redeemable unsecured bonds 1999/2007 with a coupon rate of 7.90% per annum, maturing on 2 November 2007	450,000
4½-year medium-term notes 2004/2009 with a coupon rate of 4.95% per annum, maturing on 4 May 2009	100,000
5-year medium-term notes 2004/2009 with a coupon rate of 4.58% per annum, maturing on 2 November 2009	150,000
	700,000

All borrowings are denominated in Ringgit Malaysia.

13. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 6 July 2006 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 June 2006 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	4,028
Authorised by the Directors but not contracted for	15,032
	19,060

15. Financial Instruments

Forward Foreign Exchange Contracts

As at 6 July 2006 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report), the foreign exchange currency contracts which have been entered into by the Group to hedge its foreign purchases are as follows:

Currency	Contract amount in FCY'000	Date of contract	Value date of contract	Equivalent amount in RM'000
Pound Sterling	1,000	10/2/2006 – 5/7/2006	25/9/2006 – 22/12/2006	6,518

Foreign currency transactions in Group companies are accounted for at exchange rates ruling at the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

There are no cash requirement risks as the Group uses fixed forward foreign currency contracts as its hedging instrument.

Credit Risk

The above financial instruments were executed with creditworthy financial institutions in Malaysia in line with the Group's policy.

16. Material Litigation

There was no material litigation as at 6 July 2006 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

17. Segment Reporting

No segmental analysis is prepared as the Group is primarily engaged in the manufacture and sale of cigarettes and other tobacco products in Malaysia.

18. Material Changes in the Quarterly Results as Compared with the Preceding Quarter

The Group's turnover was higher in the current quarter mainly as a result of higher volume from the domestic market.

Profit before taxation in the current quarter of RM254.3 million was lower than the RM278.2 million registered in the preceding quarter mainly due to the timing of marketing expenditure and other expenses which offset the impact of higher turnover above.

19. Review of Performance

For the year to date, industry volume as measured by Confederation of Malaysian Tobacco Manufacturers (CMTM) members' sales, contracted by 9.2%, pressured by the resurgence of high levels of illicit trade and the rapid growth of the very low priced cigarette segment as a result of consecutive tax-led price increases over the past two years. This is compounded by the recent inflationary pressures which have resulted in lower consumer sentiment and disposable income.

However, the Group's volume contracted less than the industry, as brand building activities mitigated the impact of the issues noted above.

In spite of the adverse conditions, BAT Malaysia performed commendably, as Dunhill market share showed strong resilience, while Pall Mall achieved sales volume and market share gains compared to the same period last year.

For the financial period under review, the Group's turnover was RM1,817.5 million compared to RM1,768.1 million in the same period last year, mainly driven by higher pricing which was offset by lower sales volume.

The Group's profit before taxation in the current period improved by 30.1% from RM409.3 million in the same period last year to RM532.5 million, as a result of higher margins driven by the higher turnover and the absence of one-off costs evident in the previous year, such as higher marketing expenditure arising from regulatory compliance costs, intensified price discounting activities as well as impairment losses on plant and equipment. In addition, in accordance with FRS 3, the Group ceased amortisation of goodwill from 1 January 2006.

20. Events Subsequent to the End of the Period

There are no material events subsequent to the end of the period under review that have not been reflected in the quarterly financial statements.

21. Seasonal or Cyclical Factors

The business operations of the Group were not materially affected by any seasonal or cyclical factors during the financial period under review.

22. Current Financial Year's Prospects

Industry volume remains under pressure from resurgence of high levels of illicit trade and the emergence and rapid growth of a very low priced cigarette segment. Both segments have become a major concern for the three main cigarette manufacturers as they have both been on an increasing trend despite increased enforcement efforts by the relevant authorities. If these segments are not contained, there will be a knock on impact on demand for domestic leaf and the local leaf growing industry. This trend together with recent inflationary pressures is expected to put further pressure on the current year volume.

However, despite the reduction in volumes and barring any unforeseen circumstances, profitability is expected to improve in 2006 given the cessation of a number of one-off costs impacting the previous year results, the absence of goodwill amortisation, the benefits of several initiated cost control programmes in the current year and the flow through of the benefits of the price increase in 2005.

23. Earnings Per Share

	3 months ended		**6 months ended**	
	30.6.2006	**30.6.2005**	**30.6.2006**	**30.6.2005**
Basic earnings per share				
Net profit for the period (RM'000)	182,595	124,352	382,333	291,420
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	63.9	43.6	133.9	102.1

The Group does not have in issue any financial instrument or other contract that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

24. Dividends

The Board of Directors has declared an interim dividend of 150.00 sen gross per share, less tax of 28% amounting to RM308,372,400 (for the financial year ended 31 December 2005 – 115.00 sen gross per share, less tax of 28% amounting to RM236,418,840) in respect of the financial year ending 31 December 2006, payable on 21 September 2006, to all shareholders whose names appear on the Register of Members and Records of Depositors on 1 September 2006.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from 1 September 2006 to 4 September 2006 (both dates inclusive) for the purpose of determining members' entitlement to the dividend.

A Depositor shall qualify for entitlement only in respect of:

a) shares deposited into the Depositor's securities account before 12.30 p.m. on 30 August 2006 (in respect of shares which are exempted from mandatory deposit);

b) shares transferred to the Depositor's securities account before 4.00 p.m. on 1 September 2006, in respect of ordinary transfers;

c) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

CHRISTINE LEE OI KUAN
Secretary
13 July 2006