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		**9 months ended**	
	30.9.2006 RM'000	**30.9.2005 RM'000**	**30.9.2006 RM'000**	**30.9.2005 RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	82,327	86,390	227,381	207,353
Deferred tax	2,005	(396)	7,115	(3,481)
	84,332	85,994	234,496	203,872

The average effective tax rate of the Group for the period ended 30 September 2006 approximated the statutory tax rate of 28%.

The average effective tax rate of the Group for the period ended 30 September 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 September 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 27 July 2006, the Group received notice on the exercise of the option to purchase part of its property at Jalan Sungai Besi, Kuala Lumpur for a consideration of RM24,600,000. However, the formal sale and purchase agreement is expected to be executed by the end of the current financial year and the disposal is expected to be completed in the next financial year with no material gains arising. However, in terms of presentation on the Balance Sheet, a reclassification from Investment Property to Asset Held for Sale was made in line with FRS5 in the current quarter as a result of the exercise of the option.

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 13 October 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 September 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 13 October 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 September 2006 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	5,308
Authorised by the Directors but not contracted for	16,584
	21,892

15. Financial Instruments

Forward Foreign Exchange Contracts

As at 13 October 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
US Dollar	2,000	13/9/2006	28/11/2006 – 22/12/2006	7,317
Pound Sterling	700	10/2/2006 – 13/9/2006	22/12/2006	4,671

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 13 October 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 volumes, driven by higher stocking by the trade in anticipation of excise tax increase post-budget announcement.

Accordingly, profit before taxation in the current quarter was higher at RM299.0 million compared to the preceding quarter of RM254.3 million.

19. Review of Performance

For the year to date, total industry volume as measured by Confederation of Malaysian Tobacco Manufacturers (CMTM) members' sales, contracted by 16.8%, continuing the trend which has been evident during the year, pressured by consecutive tax-led price increases as well as the resurgence of high levels of illicit trade and the rapid growth of the very low priced cigarettes segment. The latter also exacerbated the downtrading trends driven by inflationary pressures as well as the ban on the manufacture of 10 sticks packs with effect from June 2006. In addition to the aforementioned trends, the industry volume was significantly lower for the current quarter compared to the same period last year due to much higher trade speculation in the same period last year as further explained in Note 21.

The Group's volumes contracted less than the industry, as brand building activities mitigated the impact of the issues noted above. In spite of the adverse conditions, Dunhill market share showed very strong resilience, while Pall Mall recorded commendable market share gains compared to the same period last year.

For the financial period under review, the Group's turnover was RM2,815.3 million compared to RM2,926.7 million in the same period last year, the decline mainly due to lower volume, partially offset by higher pricing.

Despite the lower volume and turnover, the Group's profit before taxation in the current period improved by 17.8% from RM705.8 million in the same period last year to RM831.5 million, as a result of higher margins from higher net pricing, coupled with 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, impairment losses on plant and equipment as well as contribution to the local tobacco industry restructuring plan incurred in the same period last year. 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 2007 Budget announcement took place on September 1, 2006, which was one month earlier than previous years. Consequently, there was more time for destocking by the trade before the end of the current quarter compared to the same period last year. This, coupled with the much higher trade speculation in the same period last year (expectations driven by the high excise increase of 65% in 2004) resulted in much lower volume in the current quarter compared to the same period last year.

Save for the above, 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 continues to be under pressure from a resurgence of high levels of illicit trade and the continued growth of exceptionally low priced cigarettes. The growth of exceptionally low priced cigarettes has become even more prominent since the discontinuation of packs smaller than 14 sticks since June 2006. Both said trends continue to put great pressure on the Company's volume and hence, affecting its demand for local leaf.

Despite the substantial reduction in volume and barring any unforeseen circumstances, profitability in 2006 is expected to improve compared to 2005, significantly benefiting from the cessation of a number of one-off costs impacting previous year results, as well as higher net pricing and cost savings measures implemented during the year.

23. Earnings Per Share

	3 months ended		**9 months ended**	
	30.9.2006	**30.9.2005**	**30.9.2006**	**30.9.2005**
Basic earnings per share				
Net profit for the period (RM'000)	214,717	210,531	597,050	501,951
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	75.2	73.7	209.1	175.8

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 does not recommend any payment of dividends in respect of the 3 months ended 30 September 2006.

By Order of the Board

CHRISTINE LEE OI KUAN
Secretary
20 October 2006