Notes:

1. Basis of Preparation

The interim financial report is audited 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 nil 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 changes in accounting policy RM'000**	**Reclassified as at 31 December 2005 RM'000**
Property, plant and equipment	587,187	(46,642)	540,545
Intangible Assets, included in property, plant and equipment	-	616	616
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 and amendments to existing 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
(d) Amendment to FRS 119_{2004} Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures

The Group will apply FRS 117, FRS 124 and the disclosure amendments to FRS 119_{2004} Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures in the annual periods 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 except for reorganisation costs incurred to achieve operational efficiencies. To the extent that employees could not be redeployed, termination benefits were agreed upon. The total amount for termination benefits charged to income statement for the 3 months ended 31 December 2006 was approximately RM19m.

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		Financial year ended	
	31.12.2006 RM'000	31.12.2005 RM'000	31.12.2006 RM'000	31.12.2005 RM'000
In respect of current year				
Current tax				
- Malaysian income tax	49,640	39,099	277,021	246,452
- Foreign tax	43	40	43	40
Deferred tax	(1,910)	(2,844)	5,205	(6,325)
	47,773	36,295	282,269	240,167

The average effective tax rate of the Group for the 3 months and financial year ended 31 December 2006 approximated the statutory tax rate of 28%.

The reversal of deferred tax liability credited to the income statement during the three months ended 31 December 2006 arose from the recognition of unutilised capital allowances from additions of capital expenditure during the period.

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

On 26 October 2006, the Group entered into a sale and purchase agreement for the disposal of its property at Keningau, Sabah for a consideration of RM930,000, with no material gains arising. This disposal has subsequently been completed on 18 January 2007.

On 15 December 2006, the Group entered into a sale and purchase agreement for the disposal of its property at Jalan Sungai Besi, Kuala Lumpur for a consideration of RM24,600,000. The disposal is expected to be completed in the next financial year, with no material gains arising.

Except for the above property disposals, there were no other sales of unquoted investments or properties during the financial period under review.

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 8 February 2007 (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 31 December 2006 are as follows:

	RM'000
Current	
8-year redeemable unsecured bonds 1999/2007 With a coupon rate of 7.90% per annum, maturing on 2 November 2007	450,000
	450,000
Non-current	
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
	250,000

All borrowings are denominated in Ringgit Malaysia.

In accordance with FRS 101, the Group's borrowings of RM450,000,000 nominal value 8-year redeemable unsecured bonds, maturing on 2 November 2007 was classified as a current liability in the current year as the Group had not completed the refinancing for these bonds as at balance sheet date. The refinancing for these bonds is expected to be completed in the next financial year.

13. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 8 February 2007 (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 31 December 2006 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	7,995
Authorised by the Directors but not contracted for	11,774
	19,769

15. Financial Instruments

Forward Foreign Exchange Contracts

As at 8 February 2007 (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	9,000	30/10/2006 – 24/1/2007	23/2/2007 – 25/9/2007	31,882
Pound Sterling	500	22/12/2006	27/3/2007	3,457

Foreign currency transactions in Group companies are accounted for at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date. 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 Risks

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 8 February 2007 (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 lower compared with the preceding quarter, mainly as a result of lower domestic volume post budget speculation, coupled with Ramadhan fasting period in October. This was partly offset by the higher pricing post budget announcement.

Profit before taxation in the current quarter was lower at RM170.4 million compared to the preceding quarter of RM299.0 million, the decline mainly due to the lower turnover as well as one-off reorganisation costs in the current quarter.

19. Review of Performance

Continuing the trend observed throughout the year, total industry volume as measured by Confederation of Malaysian Tobacco Manufacturers (CMTM) members' sales, declined by 10.4% as a result of lower consumption, pressured by consecutive tax-led price increases as well as the resurgence of high levels of illicit trade and the rapid growth of the exceptionally low price cigarettes, particularly following the ban on the sale of packs containing less than 14 sticks.

In this difficult operating environment, the Group performed commendably, growing market share versus our nearest competition. The Group's volumes contracted less than the industry, as brand building activities mitigated the impact of the issues noted above. Dunhill grew strongly to record a bigger share of the Premium market, while Pall Mall recorded market share gains compared to the previous year.

For the financial year under review, the Group's turnover was RM3,612.5 million compared to RM3,564.2 million in the same period last year, due to higher pricing which was offset by the impact of lower domestic volumes.

The Group's profit before taxation in the current financial year improved by 20.3% from RM833.0 million in the same period last year to RM1,001.9 million, as a result of:

a) absence of one-off costs evident in the previous year, such as higher marketing expenditure arising from regulatory compliance costs and intensified price discounting activities (RM30m), impairment losses on plant and equipment (RM11m) as well as contribution to the local tobacco industry restructuring plan (RM45m) incurred in the same period last year;
b) cessation of amortisation of goodwill from 1 January 2006 (RM22m) in accordance with FRS3; offset by
c) one-off reorganisation costs (RM19m) as mentioned in Note 3.

Adjusting for the above, and as a result of higher margins from higher pricing and benefits from company wide productivity initiatives, the underlying profit before tax increased by 8.7% compared to 2005.

20. Events Subsequent to the End of the Period

Except for the disposal of property at Keningau, Sabah as disclosed in Note 7, 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. Next Financial Year's Prospects

It is anticipated that the industry volume will continue to be pressured by the high levels of illicit trade and growth of exceptionally low price cigarettes. Continued vigorous enforcement efforts, moderate tax increases and enhanced regulations are imperative if these are to be addressed. This will also assist in preventing further impact on demand for domestic leaf and the local leaf growing industry.

Given these industry dynamics, maintaining the momentum behind the Group's underlying financial growth will be challenging. However, with our strong brand portfolio, as well as on-going benefits from productivity and winning organization initiatives, the Group is cautiously optimistic on the outlook for 2007 and remains committed to protecting and enhancing its leadership position and delivering shareholder value over the long term.

23. Earnings Per Share

	3 months ended		Financial year ended	
	30.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Basic earnings per share				
Profit for the financial year (RM'000)	122,630	90,852	719,678	592,802
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	43.0	31.8	252.0	207.6

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 recommends the declaration of a final dividend of 170.00 sen gross per share, less tax of 27%, amounting to RM354,342,730, and a special final dividend of 30.00 sen gross per share, less tax of 27%, amounting to RM62,531,070 in respect of the financial year ended 31 December 2006 (for the financial year ended 31 December 2005 – final dividend of 155.00 sen gross per share, less Malaysia tax of 28%, amounting to RM318,651,480; and special dividend of (i) 34.00 sen gross per share, less Malaysia tax of 28%, amounting to RM69,897,744; (ii) 12.00 sen per share, tax exempt, amounting to RM34,263,600; and (iii) 24.00 sen gross per share, less Singapore tax of 20%, amounting to RM54,821,760), which, subject to the approval by shareholders, will be paid on 18 May 2007 to all shareholders whose names appear on the Register of Members and Records of Depositors on 7 May 2007.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from the 7 May 2007 to 9 May 2007 (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 3 May 2007 (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 7 May 2007, in respect of ordinary transfers;

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

The total dividend (both declared and recommended) for the current financial year will therefore consist of (a) an interim dividend of 150.00 sen gross per share, less Malaysia tax of 28%, amounting to RM308,372,400; (b) a proposed final dividend of 170.00 sen gross per share, less Malaysia tax of 27% amounting to RM354,342,730; and (c) a proposed special final dividend of 30.00 sen gross per share, less Malaysia tax of 27% amounting to RM62,531,070 (for the financial year ended 31 December 2005 (a) an interim dividend of 115.00 sen gross per share, less Malaysia tax of 28%, amounting to RM236,418,840; (b) a special dividend of (i) 34.00 sen gross per share, less Malaysia tax of 28%, amounting to RM69,897,744; (ii) 12.00 sen per share, tax exempt, amounting to RM34,263,600; and (iii) 24.00 sen gross per share, less Singapore tax of 20%, amounting to RM54,821,760; and (c) a proposed final dividend of 155.00 sen gross per share, less Malaysia tax of 28% amounting to RM318,651,480).

By Order of the Board

NG PEI LING
Secretary
15 February 2007