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 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 2006.

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 2006, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2007, which are as follows:

a) FRS 117 Leases

Prior to 1 January 2007, leasehold land and buildings held were classified as property, plant and equipment and were stated at their 1983 valuation less depreciation as the Directors have applied the transitional provisions of MASB approved Accounting Standards No. 16 (Revised) Property, Plant and Equipment. Accordingly, these valuations have not been updated.

The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land held for own use. Whilst previously classified as part of property, plant and equipment, leasehold land held for own use is now classified as an operating lease and the up-front payment represents prepaid lease payments disclosed as Leasehold land (non-current asset).There is no impact on the income statements as the prepaid lease payments continue to be amortised on a straight-line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land held for own use in accordance with the transitional provisions of FRS 117. As at 1 January 2007, the unamortised revalued amount of leasehold land is retained as the carrying amount of prepaid lease payments as allowed by transitional provisions.

Leasehold buildings held for own use remain classified in property, plant and equipment as they are finance leases, where substantially all the risks & rewards incidental to their ownership is transferred to the Group. The leasehold buildings continue to be depreciated on a straight line basis, in accordance with the requirements of FRS 116 Property, Plant and Equipment.

As a result of the adoption of FRS 117, comparative amounts as at 31 December 2006 have been reclassified as follows:

	As previously reported RM'000	Effects of changes in accounting policy RM'000	Reclassified as at 31 December 2006 RM'000
Property, plant and equipment	501,288	(22,600)	478,688
Leasehold land, included in property, plant and equipment	-	22,600	22,600

b) FRS 124 Related Party Disclosures

This standard affects the identification of related parties, and results in additional related party disclosures presented in the financial statements.

c) FRS 119 Employee Benefits

This standard introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group does not intend to change the accounting policy adopted for the recognition of actuarial gains and losses, the adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

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

a) FRS 107 Cash Flow Statements
b) FRS 112 Income Taxes
c) FRS 118 Revenue
d) FRS 134 Interim Financial Reporting
e) FRS 137 Provisions, Contingent Liabilities and Contingent Assets
f) FRS 139 Financial Instruments: Recognition and Measurement
g) Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
h) IC Interpretation 8 Scope of FRS2

The Group will apply FRS 107, FRS 112, FRS 118, FRS 134, FRS 137, the amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation and the interpretation IC Interpretation 8 Scope of FRS2 in the annual period commencing 1 January 2008, when they become effective. The Malaysian Accounting Standards Board has deferred the effective date of FRS 139 from 1 January 2007 to a date to be announced. It is expected that there will be no material impact on the financial statements when the Group applies these new/revised 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 2006 was not qualified.

3. Unusual Items

There were no 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		Financial year ended	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
	RM'000	**RM'000**	**RM'000**	**RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	55,568	49,640	269,316	277,021
- Foreign tax	42	43	42	43
Deferred tax	771	(1,910)	1,612	5,205
	56,381	47,773	270,970	282,269

The average effective tax rate of the Group for the financial year ended 31 December 2007 approximated the statutory tax rate of 27%.

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

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 2006. 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 RM800,000. This disposal was completed on 7 June 2007 with no material gains or losses arising.

On 15 December 2006, the Group entered into a sale and purchase agreement for the disposal of part of its property at Sungai Besi, Kuala Lumpur for a consideration of RM24,600,000. This disposal was completed on 29 May 2007 with no material gains or losses arising.

On 8 October 2007, the Group entered into a sale and purchase agreement for the disposal of the final part of its property at Sungai Besi, Kuala Lumpur for a consideration of RM21,000,000. This disposal is expected to be completed in the next financial year with no material gains or losses arising. The asset is currently classified as an Asset Held For Sale.

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 14 February 2008 (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 2007 are as follows:

	RM'000
Current	
63-day commercial papers 2007/2008 with a coupon rate of 3.66% per annum, maturing on 4 January 2008	100,000
	100,000
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
5-year medium-term notes 2007/2012 with a coupon rate of 4.05% per annum, maturing on 21 September 2012	400,000
	650,000

All borrowings are denominated in Ringgit Malaysia.

13. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 14 February 2008 (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 2007 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	24,072
Authorised by the Directors but not contracted for	1,223
	25,295

15. Financial Instruments

Forward Foreign Exchange Contracts

As at 14 February 2008 (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 foreign currency ’000	Date of contract	Value date of contract	Equivalent amount in RM’000
Euro	283	7/1/2008	26/2/2008	1,363
Pound Sterling	2,000	14/9/2007 – 15/1/2008	26/2/2008 – 25/9/2008	13,393
US Dollar	5,400	5/12/2007 – 4/2/2008	26/3/2008 - 28/3/2008	19,716

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 14 February 2008 (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 particularly during the Ramadhan fasting period in October.

Consequently, profit before taxation in the current quarter was lower at RM208.1 million compared to the preceding quarter of RM280.6 million.

19. Review of Performance

Legal industry volumes continue to decline despite earlier signs of stabilisation in the first half of 2007 due to the significant tax increase in July 2007. In addition, the industry continues to be plagued by high levels of illicit trade as well as the growth of exceptionally low priced cigarettes. Total industry volume for 2007, as measured by Confederation of Malaysian Tobacco Manufacturers members' sales, declined by 4.3% compared to 2006.

However, the Group's volumes declined less than overall industry as successful brand building activities mitigated the impact of the issues noted above. In spite of the adverse conditions, both Dunhill and Pall Mall posted market share gains compared to 2006, with Pall Mall recently attaining leadership of the Value-for-Money segment in Quarter 4, outperforming our nearest competition and successfully capturing down-traders.

For the financial year under review, the Group's turnover was 6% higher at RM3,830.9 million compared to RM3,612.5 million in 2006 largely due to tax increases, as higher pricing and better sales mix offset lower sales volumes from the domestic market.

Profit before taxation was maintained at last year's levels in spite of the heavy discounting activities in Quarter 2 followed by the significant tax hike in July 2007, due to improved sales mix, continued benefits from a raft of productivity initiatives as well as the absence of one-off restructuring costs.

20. Events Subsequent to the End of the Period

There are no material events subsequent to the end of the financial 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

In recent years, due to large tax-led price increases, industry volumes have been adversely impacted by higher illegal cigarette trade and growth of exceptionally low priced cigarettes. Going into 2008, we expect this trend to persist, and may even worsen if there is another large tax increase. The industry is also expected to face more regulatory constraints in the form of new tobacco control legislation.

Coupled with the expected pressure on consumers' spending power, we expect 2008 to be a challenging year for the industry and the company.

Given the challenge posed by the illegal cigarette trade, we hope that the Government will consider the imposition of moderate and gradual tax increases complemented by stronger continuous enforcement efforts to address the problem. Illegal cigarette trade not only deprives Government of taxation revenue but promotes criminality, undermines the Government's health agenda and impact the demand for legal cigarettes which in turn impacts the demand for domestic leaf and the local leaf growing industry.

For 2008, the Group is cautiously optimistic on the outlook for the year and remains committed to protecting and enhancing its leadership position and delivering shareholder value over the long term with its strong brand portfolio as well as ongoing benefits from productivity and winning organisation initiatives.

23. Earnings Per Share

	3 months ended		**Financial year ended**	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Basic earnings per share				
Profit for the financial year (RM'000)	151,746	122,630	731,931	719,678
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	53.1	42.9	256.3	252.0

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 net final dividend of 74.00 sen per share, amounting to RM211,292,200 in respect of the financial year ended 31 December 2007 comprising a 15.00 sen gross dividend per share, less tax of 26%, amounting to RM31,693,830 and 62.90 sen dividend per share, tax exempt under the single-tier system, amounting to RM179,598,370 (for the financial year ended 31 December 2006 – final dividend of 170.00 sen gross per share, less tax of 27%, amounting to RM354,342,730; and special final dividend of 30.00 sen gross per share, less tax of 27% amounting to RM62,531,070), which, subject to the approval by shareholders, will be paid on 16 May 2008 to all shareholders whose names appear on the Register of Members and Records of Depositors on 5 May 2008.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from the 5 May 2008 to 7 May 2008 (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 April 2008 (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 5 May 2008, 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 27%, amounting to RM312,655,350; (b) a second interim dividend of 100.00 sen gross per share, less Malaysia tax of 27% amounting to RM208,436,900; and (c) a proposed net final dividend of 74.00 sen per share, amounting to RM211,292,200 in respect of the financial year ended 31 December 2007 comprising a 15.00 sen gross dividend per share, less tax of 26%, amounting to RM31,693,830 and 62.90 sen dividend per share, tax exempt under the single-tier system, amounting to RM179,598,370 (for the financial year ended 31 December 2006 (a) an interim dividend of 150.00 sen gross per share, less Malaysia tax of 28%, amounting to RM308,372,400; (b) a final dividend of 170.00 sen gross per share, less Malaysia tax of 27% amounting to RM354,342,730; and (c) a special final dividend of 30.00 sen gross per share, less Malaysia tax of 27% amounting to RM62,531,070).

By Order of the Board

NG PEI LING (LS 09111)
Secretary
Petaling Jaya
21 February 2008