

SOUTH MALAYSIA INDUSTRIES BERHAD (8482 - D)
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2010

Condensed Consolidated Statements of Comprehensive Income

	3 Months Ended		6 Months Ended	
	30.6.2010 RM'000	30.6.2009 RM'000	30.6.2010 RM'000	30.6.2009 RM'000
Revenue	28,198	35,196	71,751	62,637
Operating Expenses	(26,324)	(33,040)	(67,476)	(60,676)
Other Expenses	(811)	(440)	(1,654)	(1,810)
Interest Income	288	302	668	640
Other Operating Income	9,316	4,934	10,345	7,070
Profit from Operations	10,667	6,952	13,634	7,861
Finance costs	(98)	(54)	(190)	(138)
Investing Results	0	0	0	0
Profit before tax	10,569	6,898	13,444	7,723
Tax	(816)	(885)	(1,938)	(1,271)
Net Profit for the period	9,753	6,013	11,506	6,452
Other comprehensive (expenses)/income, net of tax				
- Exchange differences on translating foreign operations	(305)	896	(1,852)	1,627
- Fair value of available-for-sale financial assets	(484)	0	(694)	0
Other comprehensive (expenses)/income for the period, net of tax	(789)	896	(2,546)	1,627
Total comprehensive (expenses)/income for the period	8,964	6,909	8,960	8,079
Profit attributable to:				
Owners of the parent	9,284	5,974	11,021	6,380
Minority Interests	469	39	485	72
	9,753	6,013	11,506	6,451
Total comprehensive expenses/income attributable to:				
Owners of the parent	8,467	6,836	8,368	7,661
Minority Interests	497	73	592	418
	8,964	6,909	8,960	8,079
Earnings per share attributable to equity holders of the parent:				
Basic (sen)	4.42	2.85	5.25	3.04
Diluted (sen)	3.04	1.95	3.60	2.09

(The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Annual Financial Report for the year ended 31 December 2009)

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2010

Condensed Consolidated Statements of Financial Position

	As at 30.6.2010 RM'000	As at 31.12.2009 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	31,108	33,293
Prepaid lease payments	1,199	1,337
Investment properties	29,153	29,393
Land held for property development	89,193	90,531
Available-for-sale financial assets	15,917	18,261
Intangible assets	2,652	3,161
	169,222	175,976
Current assets		
Inventories	84,430	100,685
Trade and other receivables	53,605	49,381
Assets held for sale	-	11,024
Sinking fund account	10,293	5,152
Available-for-sale financial assets	3,309	2,964
Cash and cash equivalents	58,509	56,957
	210,146	226,163
TOTAL ASSETS	379,368	402,139
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	209,940	209,940
Reserves	(12,942)	(21,423)
Shareholders' Equity	196,998	188,517
Minority Interest	(473)	(1,065)
TOTAL EQUITY	196,525	187,452
LIABILITIES		
Non-current liabilities		
Borrowings	857	1,349
Deferred liabilities	13,678	14,502
	14,535	15,851
Current liabilities		
Trade and other payables	43,884	76,597
Borrowings	8,391	6,745
Zero-coupon RCSLS 2002/2010	115,075	115,075
Taxation	958	419
	168,308	198,836
TOTAL LIABILITIES	182,843	214,687
TOTAL EQUITY AND LIABILITIES	379,368	402,139
Net assets per share (RM) attributable to ordinary equity holders of the parent	0.94	0.90

(The Condensed Consolidated Statements of Financial Position should be read in conjunction with the Annual Financial Report for the year ended 31 December 2009)

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2010

Condensed Consolidated Statement of Changes in Equity

	Attributable to Owners of the Parent				Minority Interest	Total Equity
	Share Capital	Reserve attributable to Capital	Reserve attributable to Revenue	Accumulated Losses		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
6 months ended 30.6.2010						
At 1.1.2010						
As previously stated	209,940	34,299	22,417	(78,139)	188,517	187,452
Effect of adopting FRS 139			113		113	113
Restated	209,940	34,299	22,530	(78,139)	188,630	187,565
Profit for the period	0	0	0	11,021	11,021	485
Other comprehensive income/(expense)	0	0	(2,653)	0	(2,653)	107
Total comprehensive income/(expense) for the period	0	0	(2,653)	11,021	8,368	592
At 30.6.2010	209,940	34,299	19,877	(67,118)	196,998	(473)
6 months ended 30.6.2009						
At 1.1.2009	209,940	34,299	23,204	(93,773)	173,670	(1,100)
Profit for the period	0	0	0	6,380	6,380	72
Other comprehensive income	0	0	1,280	0	1,280	346
Total recognised income and expense for the period	0	0	1,280	6,380	7,660	418
Realisation of capital reserve	0	0	(450)	450	0	0
At 30.6.2009	209,940	34,299	24,034	(86,943)	181,330	(682)

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the year ended 31 December 2009)

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2010

Condensed Consolidated Cash Flow Statements

	6 Months Ended 30.6.2010 RM'000	6 Months Ended 30.6.2009 RM'000
Cash flows from operating activities		
Profit before tax	13,444	7,724
Adjustments for:		
Non-cash items	(4,485)	897
Non-operating items	16,212	(455)
Operating profit before working capital changes	<u>25,171</u>	<u>8,166</u>
Changes in working capital		
Net change in current assets	12,868	(5,316)
Net change in current liabilities	(30,407)	8,176
Cash flow generated from operations	<u>7,632</u>	<u>11,026</u>
Interest received	660	653
Taxation paid	(1,365)	(2,532)
Net cash generated from operations	<u>6,927</u>	<u>9,147</u>
Investing Activities		
Available-for-sale financial assets	65	(3,957)
Net cash flow used in investing activities	<u>65</u>	<u>(3,957)</u>
Financing Activities		
Borrowings	954	(10,273)
Sinking fund account	(5,140)	(432)
Net cash flow used in financing activities	<u>(4,186)</u>	<u>(10,705)</u>
Currency translation differences	<u>(1,254)</u>	<u>40</u>
Changes in Cash and Cash Equivalents	1,552	(5,475)
Cash and Cash Equivalents at the beginning of period	56,957	61,116
Cash and Cash Equivalents at the end of period	<u>58,509</u>	<u>55,641</u>

(The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2009)

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NOTES TO THE INTERIM FINANCIAL REPORT

(a) FRS 8 - Operating Segment

FRS 8 replaces FRS114 (2004) Segment Reporting and requires a "management approach", under which segment information is reported on a consistent basis for the used of internal reporting purposes. The Group presents its segment information based on the internal reporting to the "chief operating decision maker", who makes decisions on the allocation of resources and assesses the performance of the reportable segments. The adoption of the standard does not have financial impact on the financial position or results of the Group.

(b) FRS 101 (Revised) - Presentation of Financial Statements

The revised FRS 101 separates owner and non-owner changes in equity. Consolidated statement of changes in equity include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present the statement of comprehensive income in a single statement. As the changes in accounting policy only impacts presentation aspects, the adoption of the standard does not have a significant impact of the financial position or results of the Group.

(c) Amendment to FRS 117 - Leases

Leasehold land is classified as a finance lease if the Group has substantially all the risks and rewards incidental to ownership. Leasehold land was previously classified as an operating lease unless title is expected to pass to the lessee at the end of the lease term. Following the amendment to FRS 117, the Group has reassessed and determined that certain leasehold land of the Group are finance lease in substance and has reclassified the leasehold land to property, plant and equipment. As the changes in accounting policy only impacts presentation aspects, the adoption of the standard does not have a significant impact of the results of the Group. The effect of the change is adjusted for retrospectively in accordance with the transitional provisions of the amendments as follows:

	As previously reported	Effect of adopting amendment to FRS 117	Restated
	RM'000	RM'000	RM'000
31 December 2009			
Prepaid lease payments	2,031	(694)	1,337
Property, plant & equipment	32,599	694	33,293

(d) FRS 139 - Financial Instruments: Recognition and Measurement

Amendments to FRS 139 - Financial Instruments: Recognition and Measurement

FRS 7 - Financial Instruments: Disclosures

Amendments to FRS 7 - Financial Instruments: Disclosures

FRS 139 establishes principles for recognition and measurement of financial instruments. A financial asset or a financial liability shall be recognised in its statement of financial position when the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial asset and financial liability (other than financial asset and financial liability at fair value through profit or loss) is added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial asset or financial liability at fair value through profit or loss are recognised immediately to profit or loss.

FRS 7 requires extensive disclosures of qualitative and quantitative information about exposure to risks from financial instruments. Such disclosures will be made on the audited annual financial statements of the Group.

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NOTES TO THE INTERIM FINANCIAL REPORT

(i) Financial Assets

The Group's financial assets are classified into loans and receivables and available-for-sale. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Prior to 1 January 2010, loans and receivables of the Group were stated at gross proceeds receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised, impaired or through the amortisation process. The adoption of FRS 139 do not have significant impact on the statement of comprehensive income of the Group.

Available-for-Sale

Prior to 1 January 2010, available-for-sale financial assets such as other investments of the Group were accounted for at cost less impairment losses. Under FRS 139, available-for-sale financial asset is measured (i) at fair value initially and subsequently with unrealised gains or losses recognised directly in equity until the investment is derecognised or impaired or (ii) at cost if the unquoted equity instrument is not carried at fair value because its fair value cannot be reliably measured. The effect of the change is adjusted in accordance with the transitional provisions of the amendments as follows:

	As previously reported RM'000	Effect of adopting FRS 139 RM'000	Restated RM'000
31 December 2009			
Available-for-sale financial assets	2,964	113	3,077
Other reserves	0	(113)	(113)

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowings for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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NOTES TO THE INTERIM FINANCIAL REPORT

(ii) Financial Liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into the definitions of the financial liability and an equity instrument.

Borrowings

Prior to 1 January 2010, borrowings were stated at the proceeds received less directly attributable transactions costs. Under FRS 139, borrowings are initially measured at fair value and subsequently at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised or through the amortisation process. The adoption of FRS 139 do not have significant impact on the statement of comprehensive income of the Group.

Derecognition

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(iii) Transitional Provisions and Effects on Financial Statements

In accordance with the transitional provisions of FRS 139, the Group is required to remeasure the financial assets and liabilities as appropriate. Any adjustment of the previous carrying amount of the financial assets and liabilities shall be recognised as an adjustment to the balance of retained earnings at the beginning of the financial year in which FRS is initially applied. The above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated.

A2 Audit Report of the Previous Annual Financial Report

The audit report of the previous annual financial report was not qualified.

A3 Seasonality or Cyclicity of Interim Operations

The Group's operations were not significantly affected by any seasonal or cyclical factors.

A4 Unusual Items Affecting the Financial Statements

Arising from the liquidation proceeding (Note A10), the liquidation committee of Chongqing Smile Entertainment Co. Ltd ("Chongqing Smile"), the Company's 60% sub-subsidiary company, SMI Leisure and Entertainment Ltd, held via its 100% owned subsidiary company, South Malaysia Industries (HK) Ltd together with its joint venture partner, Chongqing Municipal Film Projection And Distribution Company, disposed the leasehold land and building including its non-detachable assets classified as assets held for sale for a cash consideration of RM18.45 million. This disposal involving inter-alia, the process of land transfer, was completed on 17 May 2010.

The group recognised a net gain arising from the disposal totalling RM6.98m in the period ended 30 June 2010.

A5 Changes in Accounting Estimates

There were no changes in estimates of amount reported in prior interim periods or prior financial years that have a material effect in the current quarter under review.

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NOTES TO THE INTERIM FINANCIAL REPORT

A6 Debt and Equity Securities

Subsequent to the financial period, on 11 August 2010, the Company redeemed a further RM18,411,970 nominal value of Zero-coupon Redeemable Convertible Secured Loan Stocks 2002/2010 ("RCCLS") on a proportionate basis representing RM16.00 for every RM100.00 nominal value of RCCLS held from its outstanding of RM115,075,018.

The outstanding balance of RCCLS after the redemption is RM96,663,048.

There were no issuance of debt and equity securities, share buy back, share cancellation, share held as treasury and resale of treasury shares during the financial period ended 30 June 2010.

A7 Dividends Paid

No dividend has been paid during the financial period ended 30 June 2010.

A8 Segment Reporting

The Group is organised on a worldwide basis into four main business segments:

- (a) Property development - develop and sale of residential and commercial properties
- (b) Investment Holdings - investment in properties and holding company
- (c) Manufacturing & trading - manufacture of assorted wires and trading
- (d) Leisure and entertainment - cinema business

Other operations of the Group mainly comprise of investment holding companies which are not of sufficient size to be reported separately.

6 months ended 30.6.2010	Property Development RM'000	Investment Holdings RM'000	Manufacturing & Trading RM'000	Leisure & Entertainment RM'000	Others RM'000	Elimination RM'000	Total RM'000
Segment Revenue							
External revenue	42,201	664	27,653	1,233	0	0	71,751
Intersegment revenue	0	24	0	0	0	(24)	0
	42,201	688	27,653	1,233	0	(24)	71,751
Segment Results							
Profit from operations	8,167	(1,265)	1,329	7,818	(1)	0	16,048
Finance costs	(63)	0	(127)	0	0	0	(190)
Depreciation & amortisation	(803)	(15)	(859)	(737)	0	0	(2,414)
Profit/(loss) before tax	7,301	(1,280)	343	7,081	(1)	0	13,444
Tax	(2,004)	(3)	70	0	(1)	0	(1,938)
Profit/(loss) from ordinary activities after tax	5,297	(1,283)	413	7,081	(2)	0	11,506
Minority interests	0	0	0	(485)	0	0	(485)
Net profit/(loss) attributable to shareholders	5,297	(1,283)	413	6,596	(2)	0	11,021
Assets and Liabilities							
Segment assets	237,156	69,384	36,745	35,009	1,073	0	379,368
Segment liabilities	34,598	116,391	12,605	18,952	295	0	182,842

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A9 Valuation of Property, Plant & Equipment

The valuation of property, plant and equipment have been brought forward, without amendment from the previous annual financial report.

A10 Material Events Subsequent to the End of the Interim Period

The Company's 60% sub-subsidiary company, SMI Leisure and Entertainment Ltd, held via its 100% owned subsidiary company, South Malaysia Industries (HK) Ltd together with its joint venture partner, Chongqing Municipal Film Projection And Distribution Company has liquidated the joint venture company, Chongqing Smile Entertainment Co. Ltd ("Chongqing Smile") after having undergone a series of processes which lasted over a span of 7 years, following an arbitration award in 2003.

The liquidation processes, which commenced after the arbitration decision on 6 August 2003 by the China International Economics and Trade Arbitration Commission, Shanghai Branch has finally been concluded after having received the liquidation report on 8 July 2010 with endorsement from all the relevant regulatory authorities.

Upon completion of the liquidation of Chongqing Smile, the group is expected to have a net forex gain of approximately RM6.6 million

A11 Changes in the Composition of the Group

There were no changes in the composition of the Group during the current financial period ended 30 June 2010.

A12 Changes in Contingent Liabilities and Contingent Assets

There were no contingent liabilities and contingent assets since 31 March 2010.

A13 Outstanding Commitments

There were no outstanding commitments for the financial period under review.

A14 Significant Known Related Party Disclosures

There is no significant known related party transaction during the financial period.

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ADDITIONAL INFORMATION REQUIRED PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 Review of Performance of the Company and its Principal Subsidiaries

The Group recorded a revenue of RM71.8 million in the financial period ended 30 June 2010, a 15% increase as compared with RM62.6 million in the preceding financial period ended 30 June 2009. This was mainly attributable to the higher revenue generated by the property and manufacturing divisions which posted an 18% and 11% increase in revenue respectively.

Profit before taxation of the Group was RM13.44 million in the financial period under review as compared to RM7.72 million in the preceding period. The higher profit in the financial period ended 30 June 2010 was mainly due to higher sale of property stocks, lower depreciation of cinema assets and gain on disposal of assets held for sale.

B2 Explanatory comments on Any Material Change in the Profit Before Taxation for the Quarter Reported on as Compared with the Immediate Preceding Quarter

The Group recorded a profit before tax of RM10.6 million in the second quarter ended 30 June 2010 as compared to RM2.9 million in the preceding first quarter ended 31 March 2010. The higher profit in the current quarter was mainly due to gain on disposal of assets held for sale.

B3 Commentary on Prospects

The Group is expected to achieve satisfactory operating results in the current financial year.

B4 Explanatory Notes for Variance of Actual Profit from Forecast Profit / Profit Guarantee

Not applicable.

B5 Taxation

	3 months Ended 30.6.2010 RM'000	6 months Ended 30.6.2010 RM'000
Taxation based on the results for the year:		
Malaysian taxation	1,052	2,591
Overseas taxation	0	0
Transfer to/(from) deferred taxation	(239)	(656)
	<u>813</u>	<u>1,935</u>
Under/(over) provision of taxation in respect of prior periods	3	3
	<u>816</u>	<u>1,938</u>

The disproportionate tax charge in the current period was mainly due to non availability of group relief in respect of losses incurred by certain subsidiary companies, certain expenses which are not deductible for tax purposes and certain income which are not subject to tax.

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B6 Profits/(Losses) on Sale of Unquoted Investments and/or Properties

There were no profits on sale of unquoted investments and/or properties outside the ordinary course of the Group's business for the financial year under review other than as disclosed in Note A4.

B7 Quoted Securities

(a) The particulars of quoted securities for the financial period ended 30 June 2010 are as follows:

	3 Months Ended 30.6.2010 RM'000	6 Months Ended 30.6.2010 RM'000
<u>Available-for-sale financial assets</u>		
Quoted securities at fair value at beginning of period	5,631	5,863
Addition	14	14
Disposal	(191)	(191)
Fair value adjustments through equity	(487)	(719)
Quoted securities at fair value at 30 June 2010	<u>4,967</u>	<u>4,967</u>

B8 Status of Corporate Proposals

No corporate proposal was undertaken by the Group in the financial period ended 30 June 2010.

B9 Group Borrowings

	As at 30.6.2010 RM'000
Current	
Secured:-	
RM denominated	<u>8,391</u>
Non-current	
Secured:-	
RM denominated	<u>857</u>
Borrowings maturity:	
Less than one year	8,391
Later than one year and not later than two years	481
Later than two years and not later than five years	376
	<u>9,248</u>

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B10 Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at the date of this report.

B11 Material Litigation

As at the date of this report, there is no pending material litigation for the Group.

B12 Dividends

The Directors do not recommend any payment of dividend for the financial period ended 30 June 2010.

B13 Earnings per Share

	3 Months Ended		6 Months Ended	
	30.6.2010	30.6.2009	30.6.2010	30.6.2009
	RM'000	RM'000	RM'000	RM'000
(a) Basic Earnings per Share				
Net Profit/(loss) attributable to shareholders	9,284	5,974	11,021	6,380
Weighted average number of shares in issue ('000)	209,940	209,940	209,940	209,940
Basic earnings per share (sen)	4.42	2.85	5.25	3.04

	3 Months Ended		6 Months Ended	
	30.6.2010	30.6.2009	30.6.2010	30.6.2009
	RM'000	RM'000	RM'000	RM'000
(b) Diluted Earnings per Share				
Net Profit attributable to shareholders	9,284	5,974	11,021	6,380
Weighted average number of shares in issue ('000)	209,940	209,940	209,940	209,940
Adjustment for:				
- conversion of RCSLS	95,896	95,896	95,896	95,896
Weighted average number of shares in issue for diluted profit per share ('000)	305,836	305,836	305,836	305,836
Diluted earnings per share (sen)	3.04	1.95	3.60	2.09

By Order of the Board

Tan Siew Chin
Company Secretary
Kuala Lumpur
Date: 26 August 2010