

TO: BURSA MALAYSIA SECURITIES BERHAD
FR: SILK HOLDINGS BERHAD (405897V)

PART A: EXPLANATORY NOTES PURSUANT TO FRS 134

A1. ACCOUNTING POLICIES

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The acquisition of AQL Aman Sdn Bhd (“AQL”) was completed on 13 October 2009. Pursuant to Appendix B of FRS 3 – Business Combinations, this acquisition was deemed a reverse take-over arrangement. Due to the application of FRS 3 rules relating to reverse take-over, AQL, the legal subsidiary, became the acquirer of the Group for accounting purposes. Accordingly, the consolidated financial statements for the current period and the comparative amounts in the corresponding period of the preceding year have been prepared as a continuation of the financial statements of AQL, but under the name of Silk Holdings Berhad (“SILK”), the legal parent.

The interim financial statements should be read in conjunction with the audited financial statements of AQL and SILK for the period ended 31 July 2009. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since financial period ended 31 July 2009.

A2. CHANGE IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the period ended 31 July 2009.

During the current period, the Group has adopted FRS 8 – Operating Segments, which has become effective on 1 July 2009. FRS 8 replaces FRS 114²⁰⁰⁴ - Segment Reporting and requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard only impacts the form and content of the disclosures presented in the financial statements of the Group, and accordingly, it does not have any material impact on the financial statements of the Group.

The following FRSs and IC Interpretations were issued but have not been applied by the Group;

FRSs, Amendments to FRSs and Interpretations

Effective for financial period beginning on or after 1 January 2010:

| | |
|------------------------------------|--|
| FRS 4 | Insurance Contracts |
| FRS 7 | Financial Instruments: Disclosures |
| FRS 101 | Presentation of Financial Statements (as revised in 2009) |
| FRS 123 | Borrowing Costs |
| FRS 139 | Financial Instruments: Recognition and Measurement |
| Amendments to FRS 1 and FRS 127 | First-time Adoption of Financial Reporting Standards and Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary |
| Amendments to FRS 2 | Share-based Payment: Vesting Conditions and Cancellation |
| Amendments to FRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| Amendments to FRS 7 | Financial Instruments: Disclosure |
| Amendments to FRS 8 | Operating Segments |
| Amendments to FRS 107 | Cash Flow Statements |

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| | |
|--|--|
| Amendments to FRS 108 | Accounting Policies, Changes in Accounting Estimates and Errors |
| Amendments to FRS 116 | Property, Plant and Equipment |
| Amendments to FRS 117 | Leases |
| Amendments to FRS 119 | Employee Benefits |
| Amendments to FRS 120 | Accounting for Government Grants and Disclosure of Government Assistance |
| Amendments to FRS 123 | Borrowing Costs |
| Amendments to FRS 127 | Consolidated and Separate Financial Statements |
| Amendments to FRS 128 | Investment in Associates |
| Amendments to FRS 129 | Financial Reporting in Hyperinflationary Economies |
| Amendments to FRS 131 | Investment in Joint Ventures |
| Amendments to FRS 132 | Financial Instruments: Presentation |
| Amendments to FRS 134 | Interim Financial Reporting |
| Amendments to FRS 136 | Impairment of Assets |
| Amendments to FRS 138 | Intangible Assets |
| Amendments to FRS 139, FRS 7 and IC Interpretation 9 | Financial Instruments: Recognition and Measurement, Disclosures and Reassessment of Embedded Derivatives |
| Amendments to FRS 140 | Investment Property |
| IC Interpretation 9 | Reassessment of Embedded Derivatives |
| IC Interpretation 10 | Interim Financial Reporting and Impairment |
| IC Interpretation 11 | FRS 2 – Group and Treasury Share Transactions |
| IC Interpretation 13 | Customer Loyalty Programmes |
| IC Interpretation 14 | FRS 119 – The Limit of a Defined Benefit Assets, Minimum Funding Requirements and their Interaction |

Effective for financial period beginning on or after 1 July 2010:

| | |
|-----------------------------------|--|
| FRS 1 | First-time Adoption of Financial Reporting Standard |
| FRS 3 | Business Combinations |
| FRS 127 | Consolidated and Separate Financial Statements |
| IC Interpretation 12 | Service Concession Arrangements |
| IC Interpretation 15 | Agreements for the Construction of Real Estate |
| IC Interpretation 16 | Hedges of a Net Investment in a Foreign Operation |
| IC Interpretation 17 | Distribution of Non-cash Assets to Owners |
| Amendments to FRS 2 | Share-based Payments |
| Amendments to FRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| Amendments to FRS 138 | Intangible Assets |
| Amendments to FRS 139 | Financial Instruments: Recognition and Measurement |
| Amendments to IC Interpretation 9 | Reassessment of Embedded Derivatives |

The above new FRSs, Amendments to FRSs and Interpretations are expected to have no significant impact on the financial statements of the Company and the Group upon their initial application except for the changes arising from the adoption of IC Interpretation 12 (of which the Exposure Draft was referred to as IFRIC 12).

The Group is exempted from disclosing the possible impact, if any, to the financial statements upon its initial application of FRS 139.

A3. QUALIFICATION OF FINANCIAL STATEMENTS

The audit report on the Group's financial statements for the period ended 31 July 2009 was not subject to any qualification.

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A4. SEASONAL OR CYCLICAL FACTORS

The Group's operations are not materially affected by any seasonal or cyclical fluctuations.

A5. NATURE AND AMOUNT OF UNUSUAL ITEMS

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows for the current period.

A6. NATURE AND AMOUNT OF CHANGES IN ESTIMATES

There were no changes in estimates of amounts reported in current period and in the prior financial year that have material effect in the current period.

A7. DEBT AND EQUITY SECURITIES

The Group did not undertake any issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period ended 30 April 2010 except for the issuance of 654,449 new 3% Redeemable Unsecured Loan Stock (CR) ("RCULS (CR)") at the nominal value of RM1.00 each to the holders of 3% Redeemable Unsecured Loan Stock (B) ("RCULS-B") in lieu of the cash payment of its dividends.

The salient terms for both RCULS-B and RCULS (CR) were described in the Company's Circular to Shareholders and CN-RPS Holders dated 8 April 2009.

There has been no movement in the issued and paid-up share capital of the Company during the current financial period.

A8. DIVIDEND

No dividend has been proposed or paid for in the financial period under review and in the preceding financial period.

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A9. SEGMENT REPORTING

Segment information for the financial period as presented in respect of the Group's business segment.

| | Highway & Investment Holding Division RM '000 | Oil & Gas Division RM '000 | Total RM '000 |
|---|--|----------------------------------|------------------|
| REVENUE | | | |
| Revenue from external customers | 13,890 | 44,018 | 57,908 |
| RESULTS | | | |
| Interest income | 158 | 24 | 182 |
| Finance costs | (15,548) | (3,954) | (19,502) |
| Depreciation and amortisation | (1,219) | (5,418) | (6,637) |
| Profit /(loss) before taxation | (6,019) | 17,257 | 11,238 |
| Income tax | 293 | (4,375) | (4,082) |
| Profit /(loss) after taxation | (5,726) | 12,882 | 7,156 |
| Minority interests | 0 | (3,938) | (3,938) |
| Profit /(loss) attributable to shareholders of the Company | (5,726) | 8,944 | 3,218 |
| ASSETS AND LIABILITIES | | | |
| Segment assets | 934,940 | 725,896 | 1,660,836 |
| Segment liabilities | 892,006 | 609,681 | 1,501,687 |
| OTHER INFORMATION | | | |
| Capital expenditure | 3 | 145,035 | 145,038 |

A10. VALUATION OF PROPERTY, VESSELS AND EQUIPMENT

There is no valuation of property, vessels and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy on property, vessels and equipment.

A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE PERIOD UNDER REVIEW

There is no material event subsequent to the end of the period under review.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

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

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A13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities of the Group comprise of the followings:-

| | As at 30 April 2010 RM '000 | As at 31 July 2009 RM '000 |
|--|--|---|
| Bank guarantee to charterers and suppliers | 8,476 | 7,626 |
| Highway maintenance bond | 1,500 | 1,500 |
| | <u>9,976</u> | <u>9,126</u> |

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PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN BOARD LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. REVIEW OF PERFORMANCE

| | <u>Revenue</u> | <u>Profit /Loss)</u> <u>Before Taxation</u> | <u>Profit/(Loss)</u> <u>After Taxation &</u> <u>Minority Interest</u> |
|---|----------------|--|---|
| | RM '000 | RM '000 | RM '000 |
| Current quarter | | | |
| (Q3 FYE 2009-2010, Feb - Apr 2010): | | | |
| Highway and investment holding | 13,890 | (6,019) | (5,726) |
| Oil and Gas | 44,018 | 17,257 | 8,944 |
| Total | <u>57,908</u> | <u>11,238</u> | <u>3,218</u> |
| Preceding year corresponding quarter | | | |
| (Q3 FYE 2008-2009, Feb - Apr 2009): | | | |
| Highway and investment holding | 0 | 0 | 0 |
| Oil and Gas | 31,528 | 4,062 | 1,970 |
| Total | <u>31,528</u> | <u>4,062</u> | <u>1,970</u> |

For the current quarter under review, the Group recorded revenue of RM57.9 million. The Group recorded a profit before taxation of RM11.2 million after taking into account RM6.0 million loss attributable to the Highway Division. After deducting current period and deferred tax charge on the profits, the Group recorded profit after tax and minority interest of RM3.2 million.

Compared to the preceding year corresponding quarter when it comprised only the Oil and Gas Division, the Group recorded 83.7% higher revenue of RM57.9 million from RM31.5 million in the preceding year. This was achieved following the commissioning of three new vessels and the recognition of contribution from the Highway Division.

Similarly, profit before taxation rose by 176.7% to RM11.2 million from RM4.1 million due to the contribution of the three new vessels as well as the gain from the disposal of a vessel, and after recognising the loss attributable to the Highway Division.

The Oil and Gas Division recorded 354% higher profit after tax and minority interest of RM8.9 million in the current quarter compared to the RM1.97 million in the preceding year corresponding quarter. However, with the loss of RM5.7 million attributable to the Highway Division, the Group's profit after tax and minority interest is reduced to RM3.2 million compared to RM1.97 million in the preceding year corresponding quarter.

For the nine-month period ended 30 April 2010, the Group recorded a revenue of RM164.3 million and a profit after tax and minority interest of RM7.1 million.

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B2. MATERIAL CHANGES IN THE QUARTERLY RESULTS COMPARED TO THE RESULTS OF THE PRECEDING QUARTER

| | <u>Revenue</u> | <u>Profit /Loss)</u> | <u>Profit/(Loss)</u> <u>After Taxation &</u> |
|--|----------------|------------------------|---|
| | | <u>Before Taxation</u> | <u>Minority Interest</u> |
| | RM '000 | RM '000 | RM '000 |
| Current quarter | | | |
| (Q3 FYE 2009-2010, Feb - Apr 2010): | | | |
| Highway and investment holding | 13,890 | (6,019) | (5,726) |
| Oil and Gas | 44,018 | 17,257 | 8,944 |
| Total | <u>57,908</u> | <u>11,238</u> | <u>3,218</u> |

| | <u>Revenue</u> | <u>Profit /Loss)</u> | <u>Profit/(Loss)</u> <u>After Taxation &</u> |
|--|----------------|------------------------|---|
| | | <u>Before Taxation</u> | <u>Minority Interest</u> |
| | RM '000 | RM '000 | RM '000 |
| Immediate preceding quarter | | | |
| (Q2 FYE 2009-2010, Nov 2009- Jan 2010): | | | |
| Highway and investment holding | 10,704 | (9,161) | (9,161) |
| Oil and Gas | 46,900 | 18,772 | 10,131 |
| Total | <u>57,604</u> | <u>9,611</u> | <u>970</u> |

Compared to the immediate preceding quarter, the Group recorded marginally higher revenue of RM57.9 million from RM57.6 million. This arose from higher contributions from the Highway Division after accruing the toll rate increase it was entitled during the quarter, but was tempered with RM2.9 million lower revenue from the Oil and Gas Division due to dry docking of one of its vessels.

The Group also recorded 16.9% higher profit before tax of RM11.2 million from RM9.6 million previously. Further to the above, the profit before tax for both financial quarters also took into account the gain on sale of vessels by the Oil and Gas Division of RM10.3 million in Q3 2010 and RM9.9 million in Q2 2010.

Consequently, the Group recorded 231.8% higher profit after tax and minority interest of RM3.2 million compared to RM0.97 million in the immediate preceding quarter.

B3. FUTURE YEAR PROSPECTS

Pursuant to the requirements of FRS 3, results for the previous quarters under review comprise the 6 months contributions from the Oil & Gas Division (from AQL) and 3½ months contribution from the Highway Division (from SILK).

Accordingly, for the year ending 31 July 2010, the results shall comprise of 12 months contributions from the Oil & Gas Division and 9 ½ months from Highway Division.

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Given the above and barring unforeseen circumstances, the Board of Directors is of the view that:

- a. contributions from the Oil & Gas Division will remain positive as all vessels have been on term contracts of 1 to 7 years, and
- b. Traffic volume utilising the expressway will continue to grow in the near term as the SILK Highway's connectivity continues to improve with the introduction of new highways along its alignment together with the availability of installed capacity. However, the Highway Division will continue to record accounting losses, albeit on a declining basis.

The Group is expected to remain cashflow positive as a result of

- a. the additional contributions from the Oil & Gas Division
- b. the restructuring of the long term debt whereby the Sukuk Mudharabah obligation payments until 25 January 2015 are currently limited to the available cash flow generated from the Kajang SILK Highway.

B4. VARIANCE OF ACTUAL PROFIT FROM PROFIT FORECAST

The Group has not issued any profit forecast for the current financial year and therefore , no comparison is available.

B5. INCOME TAX

Income tax comprises:

| | Current Period | Cumulative |
|-------------------------------|-----------------------------|---------------------------|
| | <u>30 April 2010</u> | <u>30 Apr 2010</u> |
| | RM '000 | RM '000 |
| Current year tax charge | 22 | 22 |
| Transfer to deferred taxation | 4,060 | 10,446 |
| | <u>4,082</u> | <u>10,468</u> |

No provision for income tax is made for the highway operation business due to availability of unabsorbed capital allowances and unutilised tax losses.

B6. PROFIT/(LOSS) ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

- (a) There was no sale of unquoted investments during the period.
- (b) The Group recorded RM10.3 million gain on disposal of a vessel in the current period.

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B7. QUOTED SECURITIES

| | <u>30 April 2010</u> RM '000 | <u>31 July 2009</u> RM '000 |
|------------------------------------|---------------------------------|--------------------------------|
| Shares quoted in Malaysia, at cost | 285 | 285 |
| Provision for diminution in value | (155) | (155) |
| | <u>130</u> | <u>130</u> |
| Market value of quoted shares | <u>263</u> | <u>156</u> |

B8. STATUS OF CORPORATE PROPOSALS ANNOUNCED

There is no corporate exercise that has been completed during the current period or is still pending as at the end of the current period.

Utilisation of proceeds raised from Rights Issue completed in the preceding period:

| Purpose | Proposed Utilisation | Actual Utilisation | Balance | Intended Timeframe for Utilisation |
|--|-------------------------|-----------------------|---------|--|
| | RM '000 | RM '000 | RM '000 | |
| (i) Working capital | 3,259 | 709 | 2,550 | By the end of FYE 31 July 2010 |
| (ii) Regularisation Scheme expenses | 1,700 | 2,443 | - | Fully paid |

The actual utilisation for the Regularisation Scheme expenses are higher than initially budgeted, therefore, the deficit was funded out of the portion allocated for working capital.

B9. GROUP BORROWINGS AND DEBT SECURITIES

Group borrowings and debt securities as at the end of the reporting period are as follows:

| | <u>Short Term</u> RM '000 | <u>Long Term</u> RM '000 | <u>Total</u> RM '000 |
|------------------|------------------------------|-----------------------------|-------------------------|
| <u>Secured:</u> | | | |
| Sukuk Mudharabah | 0 | 744,505 | 744,505 |
| Term loans | 49,326 | 343,057 | 392,383 |
| Hire purchase | 159 | 356 | 515 |
| | <u>49,485</u> | <u>1,087,918</u> | <u>1,137,403</u> |

Included in Other payables in the Consolidated Balance Sheet as at 30 April 2010 is approximately RM78.5 million profit accrued up to 30 April 2010 due to Sukukholders on Sukuk Mudharabah. As stated in Note B3, the Sukuk Mudharabah obligation payments until 25 January 2015 are now limited to the available cash flow generated from the Kajang SILK Highway.

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B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no financial instruments with off balance sheet risks as at the date of issue of the report.

B11. MATERIAL LITIGATION

Following the compulsory acquisition of land falling under the Expressway, which was undertaken by the Company pursuant to the Concession Agreement, certain land owners whose land have been acquired, have filed their objection in Court against the Company for higher compensation. In the Company funded stretch, there are 230 cases comprising 201 cases with claims amounting to RM481.9 million while the land owners' claim for 29 cases are yet to be determined. Out of the 230 cases, 120 cases have been settled while other cases are still pending Court hearing.

Pursuant to the Turnkey Contract dated 31 July 2001 between the Company and Sunway Construction Sdn Bhd ("SCSB"), the amount payable by the Company to SCSB for the land use payments (including expenses and charges incurred by SCSB for the acquisition of land and for removal or resettling of squatters or other occupants on the Expressway) has been contracted out to SCSB at a ceiling amount of RM215 million. Any further amounts that may be awarded by the courts beyond RM215 million will be the obligation of and will therefore be borne by SCSB.

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B12. EARNINGS PER SHARE

| | Individual Quarter | | Cumulative Period | |
|--|--|--|--|--|
| | Current Year Quarter 30 Apr 2010 | Preceding Year Quarter 30 Apr 2009 | Current Year Quarter 30 Apr 2010 | Preceding Year Quarter 30 Apr 2009 |
| | RM '000 | RM '000 | RM '000 | RM '000 |
| <u>Basic earnings per share:</u> | | | | |
| Profit for the period attributable to equity holders of the parent | 3,218 | 1,970 | 7,100 | 6,665 |
| Weighted average number of ordinary shares ('000) | 374,836 | 180,000 | 322,023 | 180,000 |
| Basic earnings per share (sen) | 0.86 | 1.09 | 2.20 | 3.70 |
| <u>Diluted earnings per share:</u> | | | | |
| Profit for the period attributable to equity holders of the parent | 3,218 | 1,970 | 7,100 | 6,665 |
| Weighted average number of ordinary shares ('000) | 374,836 | 180,000 | 322,023 | 180,000 |
| Additional ordinary shares issuable from conversion of RCULS-B | 175,000 | - | 175,000 | - |
| Additional ordinary shares issuable from conversion of Cumulative Convertible Redeemable Preference Shares | 89,179 | - | 89,179 | - |
| Adjusted weighted average number of ordinary shares in issue and issuable ('000) | 639,015 | 180,000 | 586,202 | 180,000 |
| Diluted earnings per share (sen) | 0.50 | 1.09 | 1.21 | 3.70 |

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B13. COMMITMENTS

| | <u>30 April 2010</u> RM '000 | <u>31 July 2009</u> RM '000 |
|---------------------------------|---------------------------------|--------------------------------|
| Approved and contracted for: | | |
| Property, vessels and equipment | 359,097 | 584,485 |

The commitments represent vessels which are due for delivery between 2010 and 2012.

B14. COMPARATIVE FIGURES

The comparative figures have been modified to conform to Appendix B of FRS 3 – Business Combination.

B15. AUTHORISATION FOR ISSUE

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the directors dated 25 June 2010.

**BY ORDER OF THE BOARD
SECRETARIES**
