

**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 audited 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 14 October 2009. Pursuant to Appendix B of FRS 3 – Business Combinations, this acquisition was deemed a reverse take-over arrangement ("RTO"). 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 114<sup>2004</sup> - 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 periods 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**

During the period, the Group recognised a one-off adjustment classified as negative goodwill amounting to RM11.9 million arising from the acquisition of AQL as mentioned in Note A1.

**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 31 July 2010 except for the following;

- a. Issuance of 12,999,819 new ordinary shares of RM0.25 each pursuant to the conversion of 2,871,680 20% 10 Year Cumulative Convertible Redeemable Preference Shares ("CCRPS") and RM378,275 accrued dividends payable thereto on 7 June 2010,
- b. Repayment of Sukuk Mudharabah via RM84,000 Excess Funds distributions to the Sukuk holders

Movement of the issued and paid-up share capital of the Company during the current financial period is as follows;

	<b>Share Capital</b>	
	<b><u>No. of Shares</u></b>	<b><u>RM '000</u></b>
As at 1 May 2010	374,835,560	93,709
Issuance of new ordinary shares of RM0.25 each pursuant to the conversion of 2,871,320 CCRPS and the related accrued dividends thereto	12,999,819	3,250
As at 31 July 2010	<u>387,835,379</u>	<u>96,959</u>

**A8. DIVIDEND**

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

**A9. SEGMENT REPORTING**

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

	<b>Investment Holding Division RM '000</b>	<b>Highway Division RM '000</b>	<b>Oil &amp; Gas Division RM '000</b>	<b>Total RM '000</b>
<b>REVENUE</b>				
Revenue from external customers	-	15,996	43,617	59,613
<b>RESULTS</b>				
Interest income	14	92	99	205
Depreciation and amortisation	-	(2,321)	(4,917)	(7,238)
Finance costs	971	(15,014)	(4,327)	(18,370)
Negative goodwill arising from RTO	-	-	-	11,869
Profit/(loss) before taxation	1,403	(4,563)	5,786	14,495
Income tax	76	-	(2,142)	(2,066)
Profit/(loss) after taxation	1,479	(4,563)	3,644	12,429
Minority interests	-	-	(876)	(876)
Profit/(loss) attributable to shareholders of the Company	1,479	(4,563)	2,768	11,553
<b>ASSETS AND LIABILITIES</b>				
Segment assets	2,523	937,345	781,819	1,721,687
Segment liabilities	24,216	836,905	668,196	1,529,317
<b>OTHER INFORMATION</b>				
Capital expenditure	-	1,749	89,246	90,995

**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:-

	<u>As at</u> <u>31 July 2010</u> RM '000	<u>As at</u> <u>31 July 2009</u> RM '000
Bank guarantee to charterers and suppliers	8,203	7,626
Highway maintenance bond	1,500	1,500
Corporate guarantees issued in relation to financing facilities of an oil and gas subsidiary	571,266	215,540
Limited corporate guarantee issued to the lenders of a highway concession subsidiary	752,237	-
	<hr/> <u>1,333,206</u>	<hr/> <u>224,666</u>

Under the limited corporate guarantee;

- the total amount recoverable from the Company shall not exceed the amount actually realized from the sale of shares in the highway concession subsidiary,
- if the Company fails to make payment of the outstanding amount under the Sukuk Mudharabah on demand, then the Company shall transfer its shares in the subsidiary to the Security Agent in full settlement of its obligations, and
- if upon sale thereafter by the Security Agent of the shares in the subsidiary, the proceeds of sale shall exceeds the outstanding amount under the Sukuk Mudharabah, then the Security Agent shall refund to the Company an amount equivalent to such excess.

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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) After</u> <u>Taxation &amp;</u> <u>Minority Interests</u>
	RM '000	RM '000	RM '000
<b>Current quarter</b>			
<b>(Q4 FY 2009-2010, May - July 2010):</b>			
Investment holding	-	1,403	1,479
Highway	15,997	(4,563)	(4,563)
Oil and Gas	43,617	5,786	2,768
	<u>59,614</u>	<u>2,626</u>	<u>(316)</u>
Negative goodwill arising from RTO	-	11,869	11,869
Total	<u>59,614</u>	<u>14,495</u>	<u>11,553</u>
<b>Preceding year corresponding quarter</b>			
<b>(Q4 FY 2008-2009, May - July 2009):</b>			
Investment holding	-	-	-
Highway	-	-	-
Oil and Gas	45,007	8,861	4,688
Total	<u>45,007</u>	<u>8,861</u>	<u>4,688</u>

For the current quarter under review, the Group recorded revenue of RM59.6 million and profit before taxation of RM14.5 million after taking into account a one-off RM11.9 million negative goodwill arising from RTO as mentioned in Note A1. After deducting current period and deferred tax charge on the profits, the Group recorded profit after tax and minority interest of RM11.6 million.

Compared to the preceding year corresponding quarter, when it comprised only the Oil and Gas Division, the Group recorded 32.5% higher revenue of RM59.6 million from RM45.0 million in the preceding year. This was achieved following the recognition of contribution from the Highway Division.

Profit before taxation increased by 63.6% to RM14.5 million from RM8.9 million as a result of recognition of a one-off negative goodwill of RM11.9 million and after taking into account RM4.6 million losses incurred by the highway concession subsidiary.

After taking into account tax charge of RM2.1 million, the Group recorded 146.4% increase in profit after taxation and minority interest of RM11.6 million from RM4.7 million in the preceding year current quarter.

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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>Before Taxation</u>	<u>Profit/(Loss) After</u> <u>Taxation &amp;</u> <u>Minority Interests</u>
	RM '000	RM '000	RM '000
<b>Current quarter</b>			
<b>(Q4 FY 2009-2010, May - July 2010):</b>			
Investment holding	-	1,403	1,479
Highway	15,997	(4,563)	(4,563)
Oil and Gas	43,617	5,786	2,768
	<u>59,614</u>	<u>2,626</u>	<u>(316)</u>
Negative goodwill arising from RTO	-	11,869	11,869
Total	<u>59,614</u>	<u>14,495</u>	<u>11,553</u>
<b>Immediate preceding quarter</b>			
<b>(Q3 FY 2009-2010, Feb - Apr 2010):</b>			
Investment holding	0	(1,083)	(790)
Highway	13,890	(4,936)	(4,936)
Oil and Gas	44,018	17,257	8,944
Total	<u>57,908</u>	<u>11,238</u>	<u>3,218</u>

Compared to the immediate preceding quarter, the Group recorded marginally higher revenue of RM59.6 million from RM57.9 million. This arose from higher contributions from the Highway Division after fully accruing the toll rate increase it was entitled to during the quarter.

The Group recorded 29% higher profit before tax of RM14.5 million from RM11.2 million previously as a result of recognition of a one-off negative goodwill of RM11.9 million and after taking into account RM4.6 million losses incurred by the highway concession subsidiary and RM 10.4 million profit on sale of a vessel recognized in the immediate preceding quarter.

Further, the Group recorded profit after tax and minority interest of RM11.6 million compared to RM3.2 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 9 months contributions from the Oil & Gas Division (from AQL) and 6½ months contribution from the Highway Division (from SILK).

Accordingly, for the year ended 31 July 2010, the results comprised 12 months contributions from the Oil & Gas Division and 9 ½ months from Highway Division.

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

- a. contributions from the Oil & Gas Division is expected to remain positive, and

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- 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:

	<b>Current Period</b>	<b>Cumulative</b>
	<b>31 July 2010</b>	<b>Period</b>
	<b>RM '000</b>	<b>31 July 2010</b>
	<b>RM '000</b>	<b>RM '000</b>
Current year tax charge	594	616
Transfer to deferred taxation	1,586	12,673
	<hr/>	<hr/>
	2,180	13,289
Less transfer from deferred taxation	(114)	(429)
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	2,066	12,860
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**B6. PROFIT/(LOSS) ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There has been no sale of unquoted investments and/or properties during the period.



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**B7. QUOTED SECURITIES**

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

<b>Purpose</b>	<b>Proposed Utilisation</b>	<b>Actual Utilisation</b>	<b>Balance</b>	<b>Intended Timeframe for Utilisation</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	
(i) Working capital	3,259	709	2,550	Up to 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.

The unutilised proceeds as at 31 July 2010 shall be made available to meet future working capital requirements.

**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	-	744,421	744,421
Term loans	42,375	427,340	469,715
Hire purchase	161	315	476
Overdraft	204	-	204
	<u>42,740</u>	<u>1,172,076</u>	<u>1,214,816</u>
<u>Unsecured:</u>			
Cumulative Convertible Redeemable Preference Shares - liability portion	-	14,483	14,483
Redeemable Convertible Unsecured Loan			
Stocks - liability portion	-	4,745	4,745
Overdraft	1,705	-	1,705
	<u>1,705</u>	<u>19,228</u>	<u>20,933</u>
Total borrowings	<u>44,445</u>	<u>1,191,304</u>	<u>1,235,749</u>

Included in Other payables in the Consolidated Balance Sheet as at 31 July 2010 are;

- RM80.4 million profit accrued up to 31 July 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, and
- RM2.7 million dividends payable to the holders of RCULS and CCRPS.

**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, 131 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.

**B12. EARNINGS PER SHARE**

	Individual Quarter		Cumulative Period	
	Current Year Quarter (3 months) <u>31 July 2010</u> RM '000	Preceding Year Quarter (3 months) <u>31 July 2009</u> RM '000	Current Year Quarter (12 months) <u>31 July 2010</u> RM '000	Preceding Year Quarter (19 months) <u>31 July 2009</u> RM '000
<u>Basic earnings per share:</u>				
Profit for the period attributable to equity holders of the parent	11,553	4,688	19,253	20,826
Weighted average number of ordinary shares ('000)	382,466	180,000	337,258	180,000
<b>Basic earnings per share (sen)</b>	<b>3.02</b>	<b>2.60</b>	<b>5.71</b>	<b>11.57</b>
<u>Diluted earnings per share:</u>				
Profit for the period attributable to equity holders of the parent	11,553	4,688	19,253	20,826
Weighted average number of ordinary shares ('000)	382,466	180,000	337,258	180,000
Additional ordinary shares issuable from conversion of RCULS-B and RCULS	175,000	-	175,000	-
Additional ordinary shares issuable from conversion of Cumulative Convertible Redeemable Preference Shares	79,258	-	79,258	-
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	636,724	180,000	591,516	180,000
<b>Diluted earnings per share (sen)</b>	<b>1.81</b>	<b>2.60</b>	<b>3.25</b>	<b>11.57</b>

**B13. COMMITMENTS**

	<u>31 July 2010</u> RM '000	<u>31 July 2009</u> RM '000
Approved and contracted for:		
Property, vessels and equipment	274,325	364,345

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.

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**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 30 September 2010.

**BY ORDER OF THE BOARD**  
**SECRETARIES**