
**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES**

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**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Audited financial statements of River Estates for the six (6)-month period ended 31 July 2007



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**Report of the auditors to the Board of Directors of
Hap Seng Plantations (River Estates) Sdn. Bhd.**
(Company No.: 40531 - P)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 4 to 33. The preparation of the financial statements is the responsibility of the Company's Directors. The financial statements of the Company as at 31 January 2007 were audited by another firm of chartered accountants whose report dated 27 March 2007 expressed an unqualified opinion.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with your instruction and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements are properly drawn up in accordance with the applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Company at 31 July 2007 and of its results and cash flows for the period ended on that date.

KPMG
Firm Number: AF 0758
Chartered Accountants

Lee Hean Kok
Partner
Approval Number: 2700/12/07(J)

Kuala Lumpur

15 September 2007

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Balance sheet at 31 July 2007

	Note	31.7.2007 RM'000	Restated 31.1.2007 RM'000
Assets			
Property, plant and equipment	3	106,710	105,155
Biological assets	4	201,631	201,483
Prepaid lease payments	5	26,968	27,130
Investment in subsidiaries	6	17,078	17,078
Total non-current assets		<u>352,387</u>	<u>350,846</u>
Receivables, deposits and prepayments	7	15,075	10,661
Inventories	8	14,971	16,651
Cash and cash equivalents	9	27,504	764
Total current assets		<u>57,550</u>	<u>28,076</u>
Total assets		<u><u>409,937</u></u>	<u><u>378,922</u></u>
Equity			
Share capital	10	30,807	30,807
Reserves	10	303,390	269,356
Total equity		<u>334,197</u>	<u>300,163</u>
Liabilities			
Deferred tax liabilities	11	54,687	52,917
Total non-current liabilities		<u>54,687</u>	<u>52,917</u>
Payables and accruals	12	13,210	22,205
Current tax liabilities		7,843	3,637
Total current liabilities		<u>21,053</u>	<u>25,842</u>
Total liabilities		<u>75,740</u>	<u>78,759</u>
Total equity and liabilities		<u><u>409,937</u></u>	<u><u>378,922</u></u>

The notes on pages 9 to 33 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Income statement for the period ended 31 July 2007

	Note	Six months period ended 31.7.2007 RM'000	Year ended 31.1.2007 RM'000
Revenue	13	101,276	164,168
Cost of sales		(44,417)	(83,018)
Gross profit		<u>56,859</u>	<u>81,150</u>
Other operating income		2,721	5,621
Distribution costs		(10,460)	(13,598)
Administrative expenses		(2,561)	(6,103)
Other operating expenses		(667)	(1,478)
Results from operating activities		<u>45,892</u>	<u>65,592</u>
Interest expense		--	(15)
Interest income		100	--
Profit before tax	14	<u>45,992</u>	<u>65,577</u>
Tax expense	16	(11,958)	(14,219)
Profit for the period/year		<u><u>34,034</u></u>	<u><u>51,358</u></u>
Dividend per ordinary share – gross (sen)	17	<u><u>--</u></u>	<u><u>190.0</u></u>

The notes on pages 9 to 33 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Statement of changes in equity for the period ended 31 July 2007

		<i>Non- distributable</i>	<i>Distributable</i>	
	Share capital	Revaluation reserve	Retained earnings	Total equity
Note	RM'000	RM'000	RM'000	RM'000
At 1 February 2006	30,807	46,075	214,595	291,477
Profit for the year	--	--	51,358	51,358
Effect of change in Malaysian income tax rate	--	57	--	57
Dividend	17	--	(42,729)	(42,729)
At 31 January 2007	<u>30,807</u>	<u>46,132</u>	<u>223,224</u>	<u>300,163</u>
Profit for the period	--	--	34,034	34,034
At 31 July 2007	<u><u>30,807</u></u>	<u><u>46,132</u></u>	<u><u>257,258</u></u>	<u><u>334,197</u></u>

The notes on pages 9 to 33 are an integral part of these financial statements.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Cash flow statement for the period ended 31 July 2007

	Note	Six months period ended 31.7.2007 RM'000	Restated Year ended 31.1.2007 RM'000
Cash flows from operating activities			
Profit before tax		45,992	65,577
Adjustments for:			
Amortisation of prepaid lease payments	5	162	324
Depreciation of property, plant and equipment	3	5,296	10,369
Gain on disposal of property, plant and equipment		--	(54)
Interest income		(100)	--
Interest expense		--	15
Plant and equipment written off		33	318
		<hr/>	<hr/>
Operating profit before changes in working capital		51,383	76,549
Inventories		1,680	387
Receivables, deposits and prepayments		3,840	(5,893)
Payables and accruals		(2,765)	(447)
		<hr/>	<hr/>
Cash generated from operations		54,138	70,596
Tax paid		(5,982)	(15,390)
Real property gains tax expense		--	(33)
		<hr/>	<hr/>
Net cash generated from operating activities		48,156	55,173
		<hr/>	<hr/>
Cash flows from investing activities			
Additions of biological assets (net of depreciation capitalised)		(114)	(65)
Interest received		100	--
Proceeds from disposals of property, plant and equipment		--	206
Purchase of property, plant and equipment		(6,918)	(15,382)
		<hr/>	<hr/>
Net cash used in investing activities		(6,932)	(15,241)
		<hr/>	<hr/>
Cash flows from financing activities			
Dividends paid to shareholders of the Company – net		--	(42,729)
Interest paid on advances from holding company		--	(15)
Advances to immediate holding company		(15,772)	(175)
Repayment (to)/from subsidiaries		(9)	2,183
Advances from related companies		1,297	106
		<hr/>	<hr/>
Net cash used in financing activities		(14,484)	(40,630)
		<hr/>	<hr/>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Cash flow statement for the period ended 31 July 2007

	Note	Six months period ended 31.7.2007 RM'000	Restated Year ended 31.1.2007 RM'000
Net increase/(decrease) in cash and cash equivalents		26,740	(698)
Cash and cash equivalents at 1 February	9	764	1,462
Cash and cash equivalents at 31 July/31 January	9	<u>27,504</u>	<u>764</u>

The notes on pages 9 to 33 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Notes to the financial statements

Hap Seng Plantations (River Estates) Sdn. Bhd. is a private limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

Registered office:

1A, Jalan 205
46050 Petaling Jaya
Selangor Darul Ehsan

Principal place of business:

Sungai Segama
Jalan Jeroco
Lahad Datu
Sabah

The Company is principally engaged in the cultivation of oil palm and processing of fresh fruit bunches.

The immediate holding company is Hap Seng Consolidated Berhad (“HSCB”) and ultimate holding company is Gek Poh (Holdings) Sdn. Bhd. (“Gek Poh”). All the aforementioned companies are incorporated in Malaysia.

HSCB produces consolidated financial statements for public use that comply with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (“MASB”) and accounting principles generally accepted in Malaysia as part of its annual audited accounts. Copies of the consolidated financial statements of HSCB are available to the public. Accordingly and by virtue of the exemption in paragraph 10 of FRS 127, Consolidated and Separate Financial Statements, the Company has not prepared consolidated financial statements. For the six-month period ended 31 July 2007, HSCB prepared consolidated unaudited interim financial reporting which are available to the public.

1. Basis of preparation**(a) Statement of compliance**

The financial statements of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by MASB and accounting principles generally accepted in Malaysia.

The MASB has issued the following new and revised Financial Reporting Standards (“FRS”) and Issues Committee Interpretations (“IC Interpretations”) that are effective for annual periods beginning on or after 1 July 2007 and that have not been early adopted in preparing these financial statements:

Standard / IC Interpretation	Effective for periods beginning on or after
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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1. Basis of preparation (continued)**(a) Statement of compliance (continued)**

Standard / IC Interpretation	Effective for periods beginning on or after
FRS 107, <i>Cash Flows Statements</i>	1 July 2007
FRS 112, <i>Income Taxes</i>	1 July 2007
FRS 118, <i>Revenue</i>	1 July 2007
FRS 137, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	--

The Company plans to apply the above-mentioned FRSs and IC Interpretations for the annual period beginning 1 February 2008 except for FRS 139, the effective date of which has yet to be announced. The said standards and interpretations are not expected to have any material impact on the financial statements of the Company upon their initial application.

The following FRSs and IC Interpretations are not applicable to the Company. Hence, no further disclosure is warranted.

Standard / IC Interpretation	Effective for periods beginning on or after
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
FRS 111, <i>Construction Contracts</i>	1 July 2007
FRS 120, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 July 2007

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

1. Basis of preparation (continued)**(a) Statement of compliance (continued)**

Standard / IC Interpretation	Effective for periods beginning on or after
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>	1 July 2007
FRS 134, <i>Interim Financial Reporting</i>	1 July 2007

The financial statements were approved for issuance by the Board of Directors on 15 September 2007.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company, except for the adoption of the following:

- (i) FRS 117, Leases; and
- (ii) FRS 124, Related party disclosures.

In addition to the new policies and extended disclosures where required by these new standards, the effects of the changes on adoption of the above FRSs are disclosed in Note 21 to these financial statements.

Certain comparative amounts have been reclassified to conform to the current period's presentation (see Note 22).

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

2. Significant accounting policies (continued)**(a) Property, plant and equipment****(i) Recognition and measurement**

Items of property, plant and equipment are stated at cost/valuation less accumulated depreciation and impairment losses.

The Company has availed itself to the transitional provision when the MASB first adopted IAS 16, Property, Plant and Equipment in 1998. Certain buildings and plant and equipment were revalued in 1978 and 1984 and no later valuation has been recorded for these property, plant and equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Capital work-in-progress is not depreciated until the assets are ready for their intended use.

Other assets are depreciated over their estimated useful lives by equal annual instalments at the following rates:

Road and infrastructure	3% - 4%
Buildings	2% - 10%
Plant and equipment	5% - 33 1/3%

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual value are reassessed at the reporting date.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

2. Significant accounting policies (continued)**(b) Biological assets**

In accordance with paragraph 68 of FRS 101, the Company has presented plantation development expenditure as biological assets.

New planting which include land clearing, planting, field upkeep and maintenance of oil palm plantings to maturity are capitalised as plantation development expenditure. Oil palm plantings are considered mature 30 months after the date of planting. Expenditures incurred after maturity of crops are charged to the income statement. Estate overhead expenditure is apportioned to revenue and plantation development expenditure on the basis of the proportion of mature and immature areas.

Net income from scout harvesting prior to maturity is offset against plantation development expenditure.

No amortisation is considered necessary for plantation development expenditure as the estate is maintained through replanting programmes and replanting expenditure is written off to the income statement during the period when it is incurred.

Certain plantation development expenditure were revalued in 1984 and no later valuation has been recorded for the biological assets. The Company has availed itself to the transitional provision when the MASB first adopted IAS 16, Property, Plant and Equipment in 1998, the applicable accounting standards for the plantation development expenditure at that time.

(c) Prepaid lease payments

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Company had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as long term leasehold land within its property, plant and equipment. Upon the adoption of FRS 117, Leases, the Company treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

Long term leasehold land are amortised over the tenure of the leases.

(d) Inventories

Inventories are valued at the lower of cost and net realisable value. In arriving at the net realisable value, due allowance is made for all damaged, obsolete and slow moving items. Cost is determined principally with the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(d) Inventories (continued)

The cost of produce stocks includes estate production cost, mill processing cost, overhead expenses and depreciation.

The cost of consumable stores comprises purchase cost and incidental cost while planting materials cost includes purchase seedlings cost and direct nursery cost.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established. Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts, if any.

Receivables are not held for the purpose of trading.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with a licensed bank.

(g) Impairment of assets

The carrying amount of assets, other than financial assets and inventories are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised in the income statement if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

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2. Significant accounting policies (continued)**(g) Impairment of assets (continued)**

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

(h) Employee benefits

Short-term employee benefit obligations in respect of wages, salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

The Company's contributions to the Employees' Provident Fund are charged to the income statements in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(i) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(j) Revenue

Revenue from the sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(k) Interest income

Interest income is recognised as it accrues, using the effective interest method.

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Hap Seng Plantations (River Estates) Sdn. Bhd.

(Company No.: 40531 - P)

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(I) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for the taxation purposes. Deferred tax is not recognised for temporary differences arising from initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be recognised.

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Hap Seng Plantations (River Estates) Sdn. Bhd.(Company No.: 40531 - P)
(Incorporated in Malaysia)**3. Property, plant and equipment**

Cost/Valuation	Long term leasehold land RM'000	Road and Infrastructure RM'000	Buildings RM'000	Plant and equipment RM'000	Capital work in progress RM'000	Total RM'000
At 1 February 2006	30,816	20,996	66,518	79,782	5,089	203,201
-as previously stated	(30,816)	--	--	--	--	(30,816)
-transfer to prepaid lease payments	--	--	--	--	--	--
At 1 February 2006 – restated	--	20,996	66,518	79,782	5,089	172,385
Additions	--	--	--	1,340	14,042	15,382
Disposals	--	--	--	(843)	--	(843)
Write off	--	--	(1,000)	(430)	--	(1,430)
Reclassifications	--	2,579	8,000	4,304	(14,883)	--
At 31 January 2007 – restated	--	23,575	73,518	84,153	4,248	185,494
Additions	--	--	--	1,491	5,427	6,918
Disposals	--	--	--	(13)	--	(13)
Write off	--	(40)	--	(55)	--	(95)
Reclassifications	--	397	990	808	(2,195)	--
At 31 July 2007	--	23,932	74,508	86,384	7,480	192,304
Representing items:						
At cost	--	23,932	72,033	86,209	7,480	189,654
At valuation	--	--	2,475	175	--	2,650
At 31 July 2007	--	23,932	74,508	86,384	7,480	192,304

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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3. Property, plant and equipment (continued)

	Long term leasehold land RM'000	Road and infrastructure RM'000	Buildings RM'000	Plant and equipment RM'000	Capital work in progress RM'000	Total RM'000
Accumulated depreciation						
At 1 February 2006	3,362	2,820	17,860	51,079	--	75,121
- as previously stated	(3,362)	--	--	--	--	(3,362)
- transfer to prepaid lease payments	--	--	--	--	--	--
At 1 February 2006 – restated	--	2,820	17,860	51,079	--	71,759
Charge for the year	--	700	3,242	6,441	--	10,383
Disposals	--	--	--	(691)	--	(691)
Write off	--	--	(738)	(374)	--	(1,112)
At 31 January 2007 – restated	--	3,520	20,364	56,455	--	80,339
Charge for the period	--	398	1,454	3,478	--	5,330
Disposals	--	--	--	(13)	--	(13)
Write off	--	(7)	--	(55)	--	(62)
At 31 July 2007	--	3,911	21,818	59,865	--	85,594
Carrying amounts						
At 1 February 2006 – restated	--	18,176	48,658	28,703	5,089	100,626

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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3. Property, plant and equipment (continued)***Revaluation***

The buildings and plant and equipment are stated at Directors' valuation based on professional valuations on the open market basis conducted in 1978 and 1984.

Had the buildings and plant and equipment been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets would have been fully depreciated.

Depreciation charge for the period is allocated as follows:

	Six months period ended 31.7.2007 RM'000	Year ended 31.1.2007 RM'000
Income statement	5,296	10,369
Biological assets	34	14
	<u>5,330</u>	<u>10,383</u>
4. Biological assets	31.7.2007 RM'000	31.1.2007 RM'000
Cost/Valuation		
At 1 February	201,483	201,404
Additions	148	79
At 31 July / 31 January	<u>201,631</u>	<u>201,483</u>
Representing items:		
At cost	128,716	128,568
At Directors' valuation	72,915	72,915
At 31 July / 31 January	<u>201,631</u>	<u>201,483</u>

The biological assets are stated at Directors' valuation based on professional valuations on the open market basis conducted in 1984.

Had the biological assets been carried at historical cost, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the period is RM27,586,000 (31.1.2007: RM27,586,000).

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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4. Biological assets (continued)

Depreciation capitalised under biological assets during the financial period was RM34,000 (31.1.2007: RM14,000).

5. Prepaid lease payments

	Unexpired period more than 50 years	
	31.7.2007	Restated 31.1.2007
	RM'000	RM'000
Cost		
At 1 February 2007 / 2006	30,816	--
Effect of adopting FRS 117	--	30,816
	<hr/>	<hr/>
At 1 February 2007 / 2006 - restated	30,816	30,816
Additions	--	--
	<hr/>	<hr/>
At 31 July 2007 / 31 January 2007	<u>30,816</u>	<u>30,816</u>
Amortisation		
At 1 February 2007 / 2006	3,686	--
Effect of adopting FRS 117	--	3,362
	<hr/>	<hr/>
At 1 February 2007 / 2006 - restated	3,686	3,362
Amortisation for the period / year	162	324
	<hr/>	<hr/>
At 31 July 2007 / 31 January 2007	<u>3,848</u>	<u>3,686</u>
Carrying amounts		
At 1 February 2007 / 2006 - restated	<u>27,130</u>	<u>27,454</u>
At 31 July 2007 / 31 January 2007	<u>26,968</u>	<u>27,130</u>

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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6. Investment in subsidiaries

	31.7.2007	31.1.2007
	RM'000	RM'000
Unquoted shares, at cost	<u>17,078</u>	<u>17,078</u>

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Effective ownership interest	
		31.7.2007	31.1.2007
Hap Seng Plantations (Wecan) Sdn. Bhd.	Cultivation of oil palm	100%	100%
Hap Seng Plantations (Tampilit) Sdn. Bhd.	Cultivation of oil palm	100%	100%
Hap Seng Plantations (Ladang Kawa) Sdn. Bhd.	Cultivation of oil palm	100%	100%

7. Receivables, deposits and prepayments

	31.7.2007	31.1.2007
	RM'000	RM'000
Trade		
Trade receivables	5,808	9,836
Non-trade		
Other receivables, deposits and prepayments	1,555	1,367
Amount due from immediate holding company	8,245	--
Amount due from subsidiaries	222	213
	<u>15,830</u>	<u>11,416</u>
Less: Allowance for doubtful debts	(755)	(755)
	<u>15,075</u>	<u>10,661</u>

The non-trade balances due from immediate holding company and subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The non-trade amount due from immediate holding company was subsequently fully received.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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8. Inventories

	31.7.2007	31.1.2007
	RM'000	RM'000
At cost:		
Consumables stores	10,923	13,891
Planting materials	260	306
Produce stocks	3,788	2,454
	<u>14,971</u>	<u>16,651</u>

9. Cash and cash equivalents

	31.7.2007	31.1.2007
	RM'000	RM'000
Deposits with a licensed bank	25,500	--
Cash and bank balances	2,004	764
	<u>27,504</u>	<u>764</u>

10. Capital and reserves

	<---- 31.7.2007 ---->		<---- 31.1.2007 ---->	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Share capital				
Authorised:				
Ordinary shares of RM1 each				
As at 1 February	50,000	50,000	50,000	50,000
Reduced during the period (Note 23)	(5)	(5)*	--	--
	<u>49,995</u>	<u>49,995</u>	<u>50,000</u>	<u>50,000</u>
As at 31 July / 31 January	49,995	49,995	50,000	50,000
	<u>49,995</u>	<u>49,995</u>	<u>50,000</u>	<u>50,000</u>
Redeemable preference shares of RM0.01 each				
As at 1 February	--	--	--	--
Created during the period (Note 23)	480	5**	--	--
	<u>480</u>	<u>5</u>	<u>--</u>	<u>--</u>
As at 31 July / 31 January	480	5	--	--
	<u>480</u>	<u>5</u>	<u>--</u>	<u>--</u>
	<u>50,475</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

* Represents 4,800 ordinary shares of RM1.00 each

** Represents 480,000 RPS of RM0.01 each

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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10. Capital and reserves (continued)

	<----- 31.7.2007 ----->		<----- 31.1.2007 ----->	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid:				
Ordinary shares of RM1 each	30,807	30,807	30,807	30,807

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The redeemable preference shares ("RPS") shall confer on the holders thereof the following rights and privileges and be subject to the following conditions:

- i) In the distribution of capital in a winding up of the Company, the preference shareholders shall be entitled to repayment of the capital paid up in respect of such shares and all accrued but unpaid dividends in priority to any repayment of capital to any other member,
- ii) A holder of a preference share must be entitled to the same rights as a holder of an ordinary share in relation to receiving notices, reports and audited accounts, and attending meetings but shall not be entitled to vote at the said meetings unless the meeting is convened for the purpose of :
 - a) reducing the share capital of the Company;
 - b) winding up of the Company;
 - c) sanctioning a sale of the principal undertakings or business of the Company;
 - d) where the proposition to be submitted to the meeting directly affects the rights of the holders of the preference shares; or
 - e) as otherwise stipulated in the provisions of the Acts.
- iii) The holding of the preference shares shall entitle the shareholders to participate in the surplus assets and profits of the Company,
- iv) The RPS are not convertible into ordinary shares,
- v) The RPS are redeemable at RM200.00 (comprising par value of RM0.01 and premium of RM199.99) per RPS at the discretion of the Company, and
- vi) The RPS shall rank equally with each other, are not transferable and will not be listed on any stock exchange.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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10. Capital and reserves (continued)

	31.7.2007	31.1.2007
	RM'000	RM'000
Reserves		
Non-distributable		
Revaluation reserve	46,132	46,132
Distributable		
Retained earnings	257,258	223,224
	<u>303,390</u>	<u>269,356</u>

Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit to frank approximately RM75,702,000 (31.1.2007: RM58,676,000) of its distributable reserves at 31 July 2007, if paid out as dividends.

11. Deferred tax liabilities

The recognised deferred tax liabilities are as follows:

	31.7.2007	31.1.2007
	RM'000	RM'000
Property, plant and equipment - capital and agriculture allowances	53,941	52,171
Biological assets - revaluation	746	746
	<u>54,687</u>	<u>52,917</u>

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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12. Payables and accruals

	31.7.2007	31.1.2007
	RM'000	RM'000
Trade		
Trade payables	2,992	1,375
Amount due to related companies	1,461	4,352
Amount due to immediate holding company	267	--
	<u>4,720</u>	<u>5,727</u>
Non-trade		
Other payables and accruals	7,193	8,951
Amount due to immediate holding company	--	7,527
Amount due to related companies	1,297	--
	<u>8,490</u>	<u>16,478</u>
	<u>13,210</u>	<u>22,205</u>

The trade balances due to related companies and immediate holding company are interest free and payable in accordance with normal trade terms.

The non-trade balance due to related companies is unsecured, interest free and has no fixed terms of repayment.

The non-trade balance due to immediate holding company in the previous year was unsecured and had no fixed terms of repayment. Interest was charged based on recovery of borrowing costs incurred by the immediate holding company.

13. Revenue

Revenue represents sales of crude palm oil and palm kernels.

14. Profit before tax

	Six months	Year
	period ended	ended
	31.7.2007	31.1.2007
	RM'000	RM'000
Profit before tax is arrived at after charging:		
Amortisation of prepaid lease payments	162	324
Auditors' remuneration	23	45
Depreciation of property, plant and equipment	5,296	10,369
Equipment hiring charges	1,791	4,506

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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14. Profit before tax (continued)

	Six months period ended 31.7.2007 RM'000	Year ended 31.1.2007 RM'000
Profit before tax is arrived at after charging:		
Personnel expenses (including key management personnel):		
- Contributions to Employees' Provident Fund	475	1,177
- Wages, salaries and others	11,414	23,088
Plant and equipment written off	33	318
Rental expenses	38	76
Replanting expenses	401	3,739
	<u> </u>	<u> </u>
And after crediting:		
Hire income of plant and machinery	154	298
Interest income from fixed deposit	100	--
Gain on disposal of property, plant and equipment	--	54
Plantation management fee income	2,342	4,718
Rental income	64	107
	<u> </u>	<u> </u>

15. Key management personnel compensation

The key management personnel compensations are as follows:

	Six months period ended 31.7.2007 RM'000	Year ended 31.1.2007 RM'000
Directors		
- Fees	12	24
- Remuneration	473	1,236
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	41	126
	<u> </u>	<u> </u>
	526	1,386
	<u> </u>	<u> </u>
Other key management personnel:		
- Remuneration	657	1,987
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	68	105
	<u> </u>	<u> </u>
	725	2,092
	<u> </u>	<u> </u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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15. Key management personnel compensation (continued)

Other key management personnel comprise persons other than the Directors of the Company having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

16. Tax expense

	Six months period ended 31.7.2007 RM'000	Year ended 31.1.2007 RM'000
Current tax expense		
- Current period's/year's provisions	10,188	16,624
- Under provision in prior year	--	22
	<u>10,188</u>	<u>16,646</u>
Deferred tax expense		
- Origination of temporary differences	1,770	1,232
- Effect of change in tax rate*	--	(3,692)
	<u>1,770</u>	<u>(2,460)</u>
Real property gains tax	--	33
Total tax expense	<u>11,958</u>	<u>14,219</u>
Reconciliation of effective tax expense		
Profit before tax	<u>45,992</u>	<u>65,577</u>
Tax calculated using Malaysian tax rate of 26% (31.1.2007 - 27%)	11,958	17,706
Effect of change in tax rate*	--	(3,692)
Non-deductible expenses	57	150
Real property gains tax	--	33
Others	(57)	--
	<u>11,958</u>	<u>14,197</u>
Under provision of current tax in prior year	--	22
	<u>11,958</u>	<u>14,219</u>

* In the Malaysian Budget 2007, it was announced that the corporate income tax rate will be reduced to 27% for year of assessment 2007 and to 26% for year of assessment 2008. Consequently, deferred tax liabilities are measured using these tax rates.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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17. Dividend

No dividend was declared and paid during the six months period ended 31 July 2007.

Dividend declared and paid by the Company in the previous year was:

	Sen per share (Gross)	Total amount (Net) RM'000	Date of payment
Dividend in respect of financial year ended 31 January 2007			
Interim dividend less 27% tax	190	<u>42,729</u>	31 January 2007

18. Financial instruments**Financial risk management objectives and policies**

The financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's business whilst managing its credit and liquidity risks. The Company operates within clearly defined guidelines and it is the Company's policy not to engage in speculative transaction.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on potential customers before entering into any contracts.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Liquidity risk

The Company maintains adequate funds to meet its obligations as and when they fall due.

Interest rate risk

The Company places excess funds with a reputable licensed bank to generate interest income for the Company. The Company manages its interest rate risk by placing such balances on varying maturities and interest rate terms.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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18. Financial instruments (continued)**Effective interest rate and repricing analysis**

The effective interest rate in respect of interest-earning financial asset at the balance sheet date and the periods in which it reprices or matures, whichever is earlier, is as follows:

	<----- 31.7.2007 ----->		<----- 31.1.2007 ----->	
	Effective interest rate per annum %	Total/ Within 1 year RM'000	Effective interest rate per annum %	Total/ Within 1 year RM'000
Financial asset				
Deposits with a licensed bank	3.10	25,500	--	--

Fair values**Recognised financial instruments**

In respect of cash and cash equivalents, receivables, deposits and prepayments and payables and accruals, the carrying amounts approximate their fair values due to the relatively short term nature of these financial instruments.

19. Capital commitments

	31.7.2007 RM'000	31.1.2007 RM'000
Capital expenditure:		
Contracted but not provided for Property, plant and equipment	9,996	7,070
Approved but not contracted for Property, plant and equipment	5,603	25,581
	<u>15,599</u>	<u>32,651</u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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20. Related parties**Identity of related parties**

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company has related party relationships with its holding, subsidiaries and related companies.

Transactions with key management personnel**Key management personnel compensation**

Key management personnel compensation is disclosed in Note 15.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence was as follows:

	Transaction value		Balance outstanding		
	Six months	Year	as at		
	period ended	ended	31.7.2007	31.1.2007	
Transaction	31.7.2007	31.1.2007	31.7.2007	31.1.2007	
	RM'000	RM'000	RM'000	RM'000	
	Due to/(from)				
Company connected to Edward Lee Ming Foo, JP, a Director of the Company: Corporated International Consultant	Project consultancy fee payable	(173)	(212)	--	4

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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20. Related parties (continued)

Significant transactions and balances with related parties are as follows:

	Transaction value		Balance outstanding as at	
	Six months	Year	31.7.2007	31.1.2007
	period ended	ended	RM'000	RM'000
	31.7.2007	31.1.2007	31.7.2007	31.1.2007
	RM'000	RM'000	RM'000	RM'000
	Due to/(from)			
Ultimate holding company,				
Gek Poh				
Insurance expenses	(543)	(835)	87	--
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Transaction value		Balance outstanding as at	
	Six months	Year	31.7.2007	31.1.2007
	period ended	ended	RM'000	RM'000
	31.7.2007	31.1.2007	31.7.2007	31.1.2007
	RM'000	RM'000	RM'000	RM'000
	Due to/(from)			
Immediate holding company,				
HSCB and its subsidiaries				
Sales commission expenses	(1,266)	(2,052)	267	212
Interest expense	--	(15)	--	--
Plantation management income	2,102	4,238	(329)	(329)
Purchase of bunch ash	(24)	(60)	11	--
Toll milling charges paid	(560)	(273)	402	--
Toll milling charges received	--	18	--	--
Rental expense	(38)	(90)	7	1
Purchase of plant and equipment	(1,026)	(2,767)	1	6
Purchase of fertilisers and chemicals	(9,517)	(14,762)	675	643
Contract expenses	(1,107)	(3,028)	297	1,020
Purchase of diesel, petrol and lubricant	(3,880)	(8,912)	448	313
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subsidiaries				
Equipment hire income	154	298	(27)	(28)
Plantation management income	240	480	(40)	(40)
Purchase of fresh fruit bunches	(6,460)	(8,386)	1,175	854
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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21. Effects of adopting new and revised FRS*FRS 117 – Leases*

The adoption of FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The up-front payments made for the leasehold land represents prepaid lease payments and are amortised on a straight line basis over the lease term. Prior to 1 February 2007, leasehold land was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses.

Upon the adoption of the revised FRS 117 at 1 February 2007, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and certain comparative amounts as at 31 January 2007 have been reclassified as stated in Note 22.

22. Comparative figures

Certain comparative figures have been reclassified as a result of adoption of FRS 117 as stated in Note 21.

	As restated RM	As previously stated RM
Balance sheet		
Property, plant and equipment	105,155	132,285
Prepaid lease payments	27,130	--
	<u> </u>	<u> </u>
Cash flow statement		
Amortisation of prepaid lease payments	324	--
Depreciation of property, plant and equipment	10,369	10,693
	<u> </u>	<u> </u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn. Bhd.

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23. Significant events during the year

On 16 May 2007, the shareholder of the Company entered into sale of shares agreements (“SSA”) for the disposal of the entire equity interest in the Company, to Hap Seng Plantations Holdings Berhad (formerly known as Hap Seng Plantations Holdings Sdn. Bhd.) (“HSP”), in conjunction with, and as an integral part of the listing of and quotation for the enlarged issued and paid-up capital of HSP on the Main Board of Bursa Malaysia Securities Berhad. The SSA was completed on 7 September 2007 and accordingly, the new immediate, intermediate and ultimate holding companies are HSP, HSCB and Gek Poh respectively.

Prior to the completion of the acquisition by HSP, the Company undertook the following:

- i) Amendment to the Memorandum of Association of the Company to divide the authorised share capital of RM50,000,000 comprising 50,000,000 ordinary shares of RM1 each to that of 49,995,200 ordinary shares of RM1 each and 480,000 redeemable preference shares of RM0.01 each as disclosed in Note 10.

The 480,000 redeemable preference share of RM0.01 each were allotted on 22 August 2007 as a bonus issue at a premium of RM199.99 each to the shareholder of the Company, and subsequently redeemed on 10 September 2007 via the issuance of 4,800 ordinary shares of RM1 each and the balance via the drawdown of borrowings and internally generated funds.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

Audited financial statements of River Estates for the financial year ended 31 January 2006



AF: 0039

■ **Chartered Accountants**

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Company No: 40531-P

**AUDITORS' REPORT TO THE MEMBERS OF
THE RIVER ESTATES SDN. BERHAD**

We have audited the financial statements set out on pages 9 to 31. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 31 January 2006 and of the results and the cash flows of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

ERNST & YOUNG
AF: 0039
Chartered Accountants

Sandakan, Malaysia

27 MAR 2006

A handwritten signature in black ink, appearing to read 'Chong Yew Hoong'.

CHONG YEW HOONG
1502/04/07 (J)
Partner

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD**BALANCE SHEET AS AT 31 JANUARY 2006**

	Note	2006 RM'000	2005 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	2	329,484	329,691
Investments in subsidiary companies	3	17,078	17,078
		<u>346,562</u>	<u>346,769</u>
CURRENT ASSETS			
Inventories	4	17,038	17,777
Trade and other receivables	5	4,699	6,140
Cash and cash equivalents	6	1,462	286
		<u>23,199</u>	<u>24,203</u>
CURRENT LIABILITIES			
Trade and other payables	7	20,469	22,832
Provision for taxation		2,381	6,882
		<u>22,850</u>	<u>29,714</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>349</u>	<u>(5,511)</u>
		<u>346,911</u>	<u>341,258</u>
		=====	=====
Financed by:			
Share capital	8	30,807	30,807
Reserves	9	260,670	255,836
SHAREHOLDERS' EQUITY		<u>291,477</u>	<u>286,643</u>
NON-CURRENT LIABILITY			
Deferred tax liabilities	10	55,434	54,615
		<u>346,911</u>	<u>341,258</u>
		=====	=====

The accounting policies set out on pages 14 to 19 and the notes on pages 20 to 31 form an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
INCOME STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2006

	Note	2006 RM'000	2005 RM'000
Revenue	11	161,375	168,358
Cost of sales		<u>(78,879)</u>	<u>(71,050)</u>
Gross profit		82,496	97,308
Other operating income		5,674	10,066
Distribution costs		(16,272)	(12,451)
Administrative expenses		(6,502)	(7,139)
Other operating expenses		<u>(1,131)</u>	<u>(1,250)</u>
Profit from operations	12	64,265	86,534
Net finance costs	13	<u>(8)</u>	<u>(89)</u>
Profit before taxation		64,257	86,445
Taxation	14	<u>(17,279)</u>	<u>(21,896)</u>
Profit after taxation		46,978 =====	64,549 =====
Gross dividends per ordinary share in respect of the year (RM)	15	1.90 =====	2.00 =====

The accounting policies set out on pages 14 to 19 and the notes on pages 20 to 31 form an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JANUARY 2006**

	Note	Share Capital RM'000	Non- Distributable Revaluation Reserve RM'000	Distributable Retained Profits RM'000	Total RM'000
At 1 February 2004		30,807	46,075	189,574	266,456
Profit after taxation		-	-	64,549	64,549
Dividends	15	<u>-</u>	<u>-</u>	<u>(44,362)</u>	<u>(44,362)</u>
At 31 January 2005		30,807	46,075	209,761	286,643
Profit after taxation		-	-	46,978	46,978
Dividends	15	<u>-</u>	<u>-</u>	<u>(42,144)</u>	<u>(42,144)</u>
At 31 January 2006		<u>30,807</u> =====	<u>46,075</u> =====	<u>214,595</u> =====	<u>291,477</u> =====

The accounting policies set out on pages 14 to 19 and the notes on pages 20 to 31 form an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2006**

	2006	2005
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	64,257	86,445
Adjustments for:		
Provision for doubtful debts	1	-
Depreciation of property, plant and equipment	10,231	10,251
Interest expense	8	91
Inventories written off	-	11
Plant and equipment scrapped	295	100
Bad debts written off	1	28
Gain on disposal of property, plant and equipment	(1)	(4,735)
Interest income	-	(2)
Operating profit before working capital changes	<u>74,792</u>	<u>92,189</u>
Inventories	739	(1,789)
Trade and other receivables	1,484	(2,220)
Trade and other payables	(4,665)	3,137
Inter-company balances	<u>3,111</u>	<u>(543)</u>
Cash generated from operations	75,461	90,774
Income tax paid	(20,932)	(18,903)
Real Property Gains Tax paid	(29)	-
Net cash generated from operating activities	<u>54,500</u>	<u>71,871</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment (net of depreciation capitalised)	(10,420)	(13,155)
Proceeds from disposals of property, plant and equipment	102	11,373
Interesi received	-	2
Net cash used in investing activities	<u>(10,318)</u>	<u>(1,780)</u>

The accounting policies set out on pages 14 to 19 and the notes on pages 20 to 31 form an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2006**

	2006	2005
	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Inter-company balances	(854)	(25,525)
Interest paid on advances from holding company	(8)	(91)
Dividends paid	(42,144)	(44,362)
Net cash used in financing activities	<u>(43,006)</u>	<u>(69,978)</u>
Net increase in cash and cash equivalents	1,176	113
Cash and cash equivalents at beginning of year	<u>286</u>	<u>173</u>
Cash and cash equivalents at end of year (Note 6)	<u><u>1,462</u></u>	<u><u>286</u></u>

The accounting policies set out on pages 14 to 19 and the notes on pages 20 to 31 form an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD

PRINCIPAL ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The financial statements of the Company are prepared under the historical cost convention except for the revaluation of leasehold plantations and buildings and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) BASIS OF CONSOLIDATION

As allowed by the Ninth Schedule of the Companies Act, 1965 consolidated financial statements are not prepared as the Company is a wholly owned subsidiary of Hap Seng Consolidated Berhad, a company incorporated in Malaysia. The financial statements of the subsidiaries, together with their auditors' reports are annexed to these financial statements.

(c) INVESTMENT IN SUBSIDIARY COMPANIES

The Company's investment in subsidiary companies are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note (1).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(d) PROPERTY, PLANT AND EQUIPMENT

(i) Assets

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The cost of property, plant and equipment comprises their purchase price and any directly attributable costs including interest costs capitalised in bringing the property, plant and equipment to working condition. The policy for the recognition and measurement of impairment losses is in accordance with Note (1).

Certain property, plant and equipment of the Company were revalued in 1978 and 1984 based on independent professional valuation using open market values on an existing use basis and has continued to be stated on that basis as allowed by the transitional provision issued by the Malaysian Accounting Standards Board ("MASB") upon adoption of International Accounting Standard No. 16 (Revised), Property, Plant and Equipment. By virtue of the transitional provision, an entity that had not adopted a policy of revaluation has been allowed to continue carrying those assets on the basis of their previous revaluations subject to continuity in its depreciation policy and the requirement to write down the assets to their recoverable amounts for impairment adjustments.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD**PRINCIPAL ACCOUNTING POLICIES****(d) PROPERTY, PLANT AND EQUIPMENT (CONTD.)****(i) Assets (Contd.)****Depreciation**

No amortisation is provided on long term leasehold land (over 99 years) on the basis that their recoverable amounts when they will have a 99 years term to expiry are reasonably expected to exceed their carrying amounts.

Short term leasehold land with unexpired lease period less than 99 years are amortised by equal annual instalments over the remaining periods of the respective leases.

No provision for amortisation is considered necessary on plantation development expenditure as their value is maintained through replanting programmes.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful lives, at the following annual rates:

Dwelling houses at plantations	-	3 $\frac{1}{3}$ % to 10% depending on year of construction and type of structure
Other buildings	-	2% to 3 $\frac{1}{3}$ % depending on type of structure
Tank installations and other installations	-	5%
Plant, machinery and tools	-	10%
Office machines, computers, equipment and furniture	-	10% to 33 $\frac{1}{3}$ %
Motor vehicles, forklifts, agricultural machinery, heavy equipment and outboard engines	-	20%
Launches and other craft	-	10%
Railway and rolling inventories	-	10%
Bungalows' furniture and appliances	-	20%
Roads	-	3 $\frac{1}{3}$ %

(ii) Disposal of property, plant and equipment

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD

PRINCIPAL ACCOUNTING POLICIES

(d) PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(iii) New planting expenditure

New planting expenditure incurred on land clearing and upkeep of palms to maturity is capitalised under plantation development expenditure. A portion of the indirect overheads which include general and administrative expenses, depreciation charges and interest expenses incurred on immature estates are capitalised under plantation development expenditure until such time when the estates attain maturity.

(iv) Replanting expenditure

Replanting expenditure is charged to the income statement in the year in which the expenditure is incurred.

(e) INVENTORIES

(i) Produce inventories

Produce inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average ex-estate cost basis and includes estate production costs, processing and transport charges where applicable.

Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated costs necessary to make the sales.

(ii) Stores and spares

Estate and oil mill stores are stated at cost. Cost is computed using the weighted average basis. Provision is made, where necessary for obsolete, slow-moving and defective items.

(f) CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and at bank and other short term highly liquid investments which have an insignificant risk of changes in value.

(g) PROVISIONS FOR LIABILITIES

Provisions for liabilities are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD

PRINCIPAL ACCOUNTING POLICIES

(h) INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(i) EMPLOYEES BENEFITS

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

The Company operate defined contribution plans for eligible employees based on a certain percentage of their basic salary. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD

PRINCIPAL ACCOUNTING POLICIES

(j) REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

(i) Plantation produce

Revenue on plantation produce is recognised when the significant risks and ownership of the goods have passed to the buyer.

(ii) Dividend income

Dividend income from subsidiaries is recognised in the income statement upon the right to receipt of such dividends being established.

(k) INTEREST CAPITALISATION

Interest incurred on borrowings identifiable with jungle clearing and planting up to the time of maturity is capitalised and included in plantation development expenditure. The capitalisation rate is determined by comparing the total interest charged by holding company with outstanding amount due to holding company at the end of the financial year.

(l) IMPAIRMENT OF ASSETS

At each balance sheet date, the Company reviews the carrying amounts of its assets (other than inventories and financial assets, which are reviewed pursuant to the relevant accounting policies) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD

PRINCIPAL ACCOUNTING POLICIES

(l) IMPAIRMENT OF ASSETS (CONTD.)

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised an income in the income statement.

(m) FINANCIAL INSTRUMENTS

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Non-Current Investments

Non-current investments are stated at cost less accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note (l).

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

(ii) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(iii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iv) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD

NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006

1. CORPORATE INFORMATION

The principal activities of the Company comprise the cultivation and processing of oil palm. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is incorporated and domiciled in Malaysia and the financial statements are expressed in Ringgit Malaysia.

The registered office of the Company is located at No.1A, Jalan 205, 46050 Petaling Jaya, Selangor. The principal place at which business is carried out, is located at Sungai Segama, Jalan Jeroco, Lahad Datu, Sabah.

The Immediate Holding Company is Hap Seng Consolidated Berhad, a company incorporated in Malaysia. The Intermediate Holding Company is Malaysian Mosaics Berhad, which is incorporated in Malaysia. The Company's Ultimate Holding Company is Gek Poh (Holdings) Sdn. Bhd., which is also incorporated in Malaysia.

The number of employees in the Company at the end of the financial year was 2,943 (2005: 2,814).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 27 March 2006.

2. PROPERTY, PLANT AND EQUIPMENT

	Plantations RM'000	Long term leasehold land RM'000	Buildings RM'000	Plant and equipment RM'000	Assets under construction RM'000	Total RM'000
At Cost or Valuation						
At 1 February 2005	232,019	13	66,583	95,191	5,069	398,875
Additions	188	-	137	5,326	4,789	10,440
Disposals	-	-	-	(2,215)	-	(2,215)
Scrapped	-	-	(1,341)	(1,154)	-	(2,495)
Reclassifications	-	-	3,558	1,211	(4,769)	-
At 31 January 2006	<u>232,207</u>	<u>13</u>	<u>68,937</u>	<u>98,359</u>	<u>5,089</u>	<u>404,605</u>
Accumulated Depreciation						
At 1 February 2005	3,039	-	16,171	49,974	-	69,184
Charge for the year	323	-	3,227	6,701	-	10,251
Disposals	-	-	-	(2,114)	-	(2,114)
Scrapped	-	-	(1,165)	(1,035)	-	(2,200)
At 31 January 2006	<u>3,362</u>	<u>-</u>	<u>18,233</u>	<u>53,526</u>	<u>-</u>	<u>75,121</u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

2. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Plantations RM'000	Long term leasehold land RM'000	Buildings RM'000	Plant and equipment RM'000	Assets under construction RM'000	Total RM'000
Net Book Value						
At 31 January 2006	228,845	13	50,704	44,833	5,089	329,484
At 31 January 2005	228,980	13	50,412	45,217	5,069	329,691
Depreciation charge for 2005	324	9	2,950	6,988	-	10,271
Analysis of Cost or Valuation						
At 31 January 2006						
Cost	159,292	-	66,462	98,184	5,089	329,027
Valuation in						
- 1978	-	-	-	175	-	175
- 1984	72,915	13	2,475	-	-	75,403
	232,207	13	68,937	98,359	5,089	404,605
At 31 January 2005						
Cost	159,104	-	64,108	95,016	5,069	323,297
Valuation in						
- 1978	-	-	-	175	-	175
- 1984	72,915	13	2,475	-	-	75,403
	232,019	13	66,583	95,191	5,069	398,875

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006

2. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

- (a) The revaluation of plantations, long term leasehold land, buildings and plant and equipment carried out in 1978 and 1984 were based on independent professional valuation on the fair market value basis. These property, plant and equipment have continued to be stated on the basis of their 1978 and 1984 valuation as allowed by the transitional provisions issued by the Malaysian Accounting Standards Board (“MASB”) upon adoption of International Accounting Standard No. 16 (Revised), Property, Plant and Equipment.

Had the revalued property, plant and equipment of the Company been carried at historical cost, the net book value would have been as follows:

	2006 RM'000	2005 RM'000
Plantations	27,586	27,586
Long term leasehold land and buildings	50	50
Plant and equipment	1	1
	<u>27,637</u> =====	<u>27,637</u> =====

All plantations and long term leasehold land have unexpired lease periods of more than 50 years.

- (b) Plantation development expenditure capitalised during the financial year include the followings:

	2006 RM'000	2005 RM'000
Depreciation (Note 12)	20	20
	=====	=====

3. INVESTMENTS IN SUBSIDIARY COMPANIES

	2006 RM'000	2005 RM'000
Unquoted shares, at cost	17,078	17,078
	=====	=====

Details of the subsidiary companies, all of which are incorporated in Malaysia, are as follows:

Name of Subsidiaries	Principal Activities	Equity Interest Held	
		2006	2005
Wecan Enterprise Sdn. Bhd.	Cultivation of oil palm	100%	100%
Tampilit Sdn. Bhd.	Cultivation of oil palm	100%	100%
Ladang Kawa Sdn. Bhd.	Cultivation of oil palm	100%	100%

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

4. INVENTORIES

	2006	2005
	RM'000	RM'000
At cost:		
Produce inventories	2,267	3,528
Store, spare and consumables suppliers	14,524	14,004
Oil palm nursery	247	245
	<u>17,038</u>	<u>17,777</u>
	=====	=====

There were no inventories stated at net realisable value as at 31 January 2006 and 2005.

5. TRADE AND OTHER RECEIVABLES

	2006	2005
	RM'000	RM'000
Trade receivables	3,322	5,350
Other receivables	1,968	1,425
Amounts due from subsidiary companies		
- trade	20	60
- non-trade	38	7
Amounts due from related companies		
- trade	-	52
- non-trade	106	-
	<u>5,454</u>	<u>6,894</u>
Less: Provision for doubtful debts	(755)	(754)
	<u>4,699</u>	<u>6,140</u>
	=====	=====

The trade balances are unsecured, interest-free and payable in accordance with normal trade terms.

The non-trade balances represent payment on behalf of subsidiary and related companies and are unsecured, interest-free and have no fixed terms of repayment.

The Company has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2006 RM'000	2005 RM'000
Cash in hand	16	8
Bank balances	1,446	278
	<u>1,462</u>	<u>286</u>
	=====	====

7. TRADE AND OTHER PAYABLES

	2006 RM'000	2005 RM'000
Trade payables	1,294	1,186
Other payables	7,268	12,041
Amount due to Holding Company	5,344	6,061
Amounts due to related companies	5,952	2,827
Amounts due to subsidiary companies	611	717
	<u>20,469</u>	<u>22,832</u>
	=====	=====

The amount due to holding company is non-trade in nature, unsecured and has no fixed terms of repayment. Interest is charged based on recovery of borrowing costs incurred by the holding company.

The amounts due to related and subsidiary companies are trade in nature, unsecured, interest-free and payable in accordance with normal trade terms.

8. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
Authorised				
At beginning and end of year	50,000	50,000	50,000	50,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Issued and fully paid				
At beginning and end of year	30,807	30,807	30,807	30,807
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

9. RESERVES

	2006	2005
	RM'000	RM'000
Retained profits:		
At beginning of year	209,761	189,574
Profit after taxation	46,978	64,549
Dividends	(42,144)	(44,362)
At end of year	214,595	209,761
Revaluation reserve (non-distributable):		
At beginning and end of year	46,075	46,075
	<u>260,670</u>	<u>255,836</u>
	=====	=====

Based on estimated tax credits available and the prevailing tax rate applicable to dividends, the retained profits of the Company amounting to RM54,079,000 (2005: RM42,396,000) are available for distribution by way of dividends without incurring additional tax liability. Any dividend paid in excess of that amount would result in a tax charge of 28% on the gross amount of the excess dividend declared.

10. DEFERRED TAX LIABILITIES

	2006	2005
	RM'000	RM'000
At beginning of year	54,615	52,644
Recognised in income statement (Note 14)	819	1,971
At end of year	<u>55,434</u>	<u>54,615</u>
	=====	=====

The components and movements of deferred tax liabilities during the financial year are as follows:

	Revaluation of Plantations RM'000	Property, Plant and Equipment RM'000	Total RM'000
At 1 February 2005	803	53,812	54,615
Recognised in income statement	-	819	819
At 31 January 2006	<u>803</u>	<u>54,631</u>	<u>55,434</u>
	=====	=====	=====
At 1 February 2004	803	51,841	52,644
Recognised in income statement	-	1,971	1,971
At 31 January 2005	<u>803</u>	<u>53,812</u>	<u>54,615</u>
	=====	=====	=====

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

11. REVENUE

This represents proceeds from sale of plantation produce.

12. PROFIT FROM OPERATIONS

	2006	2005
	RM'000	RM'000
This is stated after charging/(crediting):		
Auditors' remuneration	45	45
Bad debts written off	1	28
Director's fees	24	24
Directors' remuneration	1,309	1,538
Director's benefits-in-kind	139	58
Depreciation of property, plant and equipment (see note below)	10,231	10,251
Hire of plant and machinery	5,069	4,729
Inventories written off	-	11
Plant and equipment scrapped	295	100
Professional fee charged by an associate of the Company's auditors	10	10
Provision for doubtful debts	1	-
Rental expenses	84	106
Replanting expenditure	3,190	3,805
Hire income of plant and machinery	(302)	(251)
Rental income	(116)	(217)
Insurance claim receivables	(20)	(181)
Management fees income	(4,763)	(4,755)
Gain on disposal of property, plant and equipment	(1)	(4,735)
	<u>=====</u>	<u>=====</u>
Note:		
Depreciation charge for the year comprises:		
Plantations	323	324
Long term leasehold land	-	9
Leasehold buildings	3,227	2,950
Plant and equipment	6,701	6,988
	<u>=====</u>	<u>=====</u>
	10,251	10,271
Less: Capitalised under Plantation Development Expenditure (Note 2)	(20)	(20)
	<u>=====</u>	<u>=====</u>
	10,231	10,251
Staff cost:		
Salaries and wages	21,877	19,748
Employees' Provident Fund contributions	1,488	1,729
SOCSO contributions	87	83
	<u>=====</u>	<u>=====</u>
	23,452	21,560
	<u>=====</u>	<u>=====</u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

13. NET FINANCE COSTS

	2006	2005
	RM'000	RM'000
Interest on advances from Holding Company	8	91
Interest received from third parties	-	(2)
	<u>8</u>	<u>(2)</u>
	=====	=====

14. TAXATION

	2006	2005
	RM'000	RM'000
Income tax:		
Malaysian income tax	16,664	22,298
Overprovided in prior years:		
Malaysian income tax	(233)	(2,373)
Deferred tax (Note 10):		
Relating to origination and reversal of temporary differences	1,441	1,726
(Over)/underprovided in prior years	(622)	245
	<u>17,250</u>	<u>21,896</u>
Real Property Gains Tax	29	-
	<u>17,279</u>	<u>21,896</u>
	=====	=====

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	2006	2005
	RM'000	RM'000
Profit before taxation	64,257	86,445
	<u>=====</u>	<u>=====</u>
Taxation at Malaysian tax rate of 28%	17,992	24,205
Effect of income not subject to tax	-	(284)
Effect of expenses not deductible for tax purposes	113	103
Real Property Gains Tax	29	-
Overprovision of tax expense in prior years	(233)	(2,373)
(Over)/underprovision of deferred taxation in prior years	(622)	245
	<u>17,279</u>	<u>21,896</u>
Tax expense for the year	<u>17,279</u>	<u>21,896</u>
	=====	=====

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

15. DIVIDENDS

	2006	2005
	RM'000	RM'000
Dividends paid in respect of the financial year ended 31 January 2005:		
- First interim dividend of 100% less 28% tax	-	22,181
- Second interim dividend of 100% less 28% tax	-	22,181
Dividends paid in respect of the financial year ended 31 January 2006:		
- First interim dividend of 50% less 28% tax	11,091	-
- Second interim dividend of 140% less 28% tax	31,053	-
	<u>42,144</u>	<u>44,362</u>
	=====	=====

16. CAPITAL COMMITMENTS

	2006	2005
	RM'000	RM'000
Capital expenditure:		
Approved and contracted for Property, plant and equipment	8,903	818
Approved but not contracted for Property, plant and equipment	33,478	19,684
	<u>42,381</u>	<u>20,502</u>
	=====	=====

17. RELATED COMPANY TRANSACTIONS

	2006	2005
	RM'000	RM'000
Transactions - income/(expenses)		
Holding Companies		
Sales commission charged	(2,008)	(2,114)
Interest on advances charged	(8)	(91)
Insurance premium charged	(874)	(871)
Subsidiary Companies		
Hire of equipment charges received	302	251
Plantation management fees	480	480
Purchase of fresh fruit bunches	(7,899)	(8,335)
Disposal of equipment	3	-

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006

17. RELATED COMPANY TRANSACTIONS (CONTD.)

	2006	2005
	RM'000	RM'000
Transactions - income/(expenses) (Contd.)		
Related Companies		
Disposal of property, plant and equipment	98	11,150
Plantation management fees	4,269	4,259
Rental income	-	114
Acquisition of property, plant and equipment	(470)	(813)
Purchase of goods	(29,357)	(16,898)
Rental charged	(212)	(212)
Toll milling charges	(542)	(439)
	=====	=====

The Company is not required to disclose additional information on related party transactions pursuant to FRS 124₂₀₀₄ - Related Party Disclosures because the Company is a wholly-owned subsidiary company of another company incorporated in Malaysia which issues consolidated financial statements.

The Directors are of the opinion that all the above transactions entered into in the normal course of business have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

18. FINANCIAL INSTRUMENTS**(a) Financial Risk Management Objectives and Policies**

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's business operations whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Company operates within clearly defined guidelines and it is the Company's policy not to engage in speculative transactions.

(b) Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to cash equivalents with financial institutions. The Company does not use derivative financial instruments to hedge any debt obligations. Interest costs are managed through the use of short-term trade-related facilities.

(c) Foreign Exchange Risk

The Company's exposure to foreign exchange risk is minimal as it trades primarily in Ringgit Malaysia.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

Company No: 40531-P

THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006

18. FINANCIAL INSTRUMENTS (CONTD.)**(d) Liquidity Risk**

As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and cash equivalents and adequate amounts of credit facilities to meet its working capital requirements.

(e) Credit Risk

Management has a credit policy in place and exposure to credit risk is monitored on an on-going basis. Credit worthiness review is regularly performed for new customers and existing customers who trade on credit, to mitigate exposure on credit risk. Where appropriate, the Company requires its customers to provide collateral before approvals are given to trade on credit.

The Company does not have any significant exposure to any individual customer or counterparty, nor does it have any major concentration of credit risk related to any financial instruments.

(f) Fair Values

The aggregate net fair values of financial assets and financial liabilities which are not carried at fair value on the balance sheets of the Company are as follows:

	Book value RM'000	Fair value RM'000
Amounts due from subsidiary companies and related companies	164	#
Amounts due to holding company, subsidiary companies and related companies	11,907	#
	=====	=====

It is not practicable to estimate the fair values of amounts due to/from holding company, subsidiary companies and related companies due principally to a lack of fixed repayment terms, and without incurring excessive costs. However, the Company does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received and settled.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

Company No: 40531-P

**THE RIVER ESTATES SDN. BERHAD
NOTES TO THE FINANCIAL STATEMENTS - 31 JANUARY 2006**

18. FINANCIAL INSTRUMENTS (CONTD.)

(f) Fair Values (Contd.)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and cash equivalents, other receivables and payables

The carrying amount approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) Trade receivables and payables

The net carrying amounts of trade receivables and payables approximates fair values because they are expected to be settled in the short term.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

**Unaudited financial statements of River Estates for the six (6)-month period ended 31 July
2006**



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KPMG (Firm No. AF 0758)
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**Review report to the Board of Directors of
Hap Seng Plantations (River Estates) Sdn Bhd**
(Company No.: 40531 - P)
(Incorporated in Malaysia)

We have reviewed the accompanying financial statements of the Company for the six months period ended 31 July 2006 as set out on pages 4 to 32. The financial statements of the Company as at 31 January 2006 were audited by another firm of chartered accountants whose report dated 27 March 2006 expressed an unqualified opinion.

It is our responsibility to form an independent conclusion, based on our review, on the financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report. These financial statements are the responsibility of the Company's Directors.

We conducted our review in accordance with Malaysian Approved Standards on Auditing AI 2400, *Engagements to Review Financial Statements ("AI 2400")*. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Company's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board.

KPMG
Firm Number: AF 0758
Chartered Accountants

Kuala Lumpur

15 September 2007

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Balance sheet at 31 July 2006

	Note	* Unaudited 31.7.2006 RM'000	Restated audited 31.1.2006 RM'000
Assets			
Property, plant and equipment	3	101,576	100,626
Biological assets	4	201,440	201,404
Prepaid lease payments	5	27,292	27,454
Investment in subsidiaries	6	17,078	17,078
Total non-current assets		347,386	346,562
Receivables, deposits and prepayments	7	12,583	4,699
Inventories	8	15,487	17,038
Current tax assets		121	--
Cash and cash equivalents	9	342	1,462
Total current assets		28,533	23,199
Total assets		375,919	369,761
Equity			
Share capital		30,807	30,807
Reserves		275,651	260,670
Total equity	10	306,458	291,477
Liabilities			
Deferred tax liabilities	11	56,099	55,434
Total non-current liabilities		56,099	55,434
Payables and accruals	12	13,362	20,469
Current tax liabilities		--	2,381
Total current liabilities		13,362	22,850
Total liabilities		69,461	78,284
Total equity and liabilities		375,919	369,761

* Reviewed in accordance with AI 2400.

The notes on pages 9 to 32 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Income statement for the period ended 31 July 2006

	Note	* Unaudited six months period ended 31.7.2006 RM'000	Audited year ended 31.1.2006 RM'000
Revenue	13	67,261	161,375
Cost of sales		(40,474)	(82,567)
Gross profit		<u>26,787</u>	<u>78,808</u>
Other operating income		2,847	5,674
Distribution costs		(5,209)	(12,584)
Administrative expenses		(2,762)	(6,207)
Other operating expenses		(791)	(1,426)
Results from operating activities		<u>20,872</u>	<u>64,265</u>
Interest expense		(10)	(8)
Profit before tax	14	<u>20,862</u>	<u>64,257</u>
Tax expense	16	(5,881)	(17,279)
Profit for the period/year		<u><u>14,981</u></u>	<u><u>46,978</u></u>
Dividend per ordinary share – gross (sen)	17	<u><u>--</u></u>	<u><u>190.0</u></u>

* Reviewed in accordance with AI 2400.

The notes on pages 9 to 32 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Statement of changes in equity for the period ended 31 July 2006

		<i>Non- distributable</i>	<i>Distributable</i>		
	Note	Share capital RM'000	Revaluation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 February 2005		30,807	46,075	209,761	286,643
Profit for the year		--	--	46,978	46,978
Dividends	17	--	--	(42,144)	(42,144)
At 31 January 2006 (audited)		<u>30,807</u>	<u>46,075</u>	<u>214,595</u>	<u>291,477</u>
Profit for the period		--	--	14,981	14,981
At 31 July 2006 (unaudited) *		<u><u>30,807</u></u>	<u><u>46,075</u></u>	<u><u>229,576</u></u>	<u><u>306,458</u></u>

* Reviewed in accordance with AI 2400.

The notes on pages 9 to 32 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Cash flow statement for the period ended 31 July 2006

	Note	* Unaudited six months period ended 31.7.2006 RM'000	Restated audited year ended 31.1.2006 RM'000
Cash flows from operating activities			
Profit before tax		20,862	64,257
Adjustments for:			
Allowance for doubtful debts		--	1
Amortisation of prepaid lease payment	5	162	323
Depreciation of property, plant and equipment	3	5,053	9,908
Interest expense		10	8
Plant and equipment written off		174	295
Bad debts written off		--	1
Gain on disposal of property, plant and equipment		(53)	(1)
Operating profit before changes in working capital		<u>26,208</u>	<u>74,792</u>
Inventories		1,551	739
Receivables, deposits and prepayments		(2,586)	1,484
Payables and accruals		(4,569)	(4,665)
Inter-company balances		--	3,111
Cash generated from operations		<u>20,604</u>	<u>75,461</u>
Tax paid		(7,685)	(20,932)
Real property gains tax expense		(33)	(29)
Net cash generated from operating activities		<u>12,886</u>	<u>54,500</u>
Cash flows from investing activities			
Additions of biological assets (net of depreciation capitalised)		(28)	(168)
Purchase of property, plant and equipment		(6,338)	(10,252)
Proceeds from disposals of property, plant and equipment		206	102
Net cash used in investing activities		<u>(6,160)</u>	<u>(10,318)</u>
Cash flows from financing activities			
Inter-company balances		(7,836)	(854)
Interest paid on advances from holding company		(10)	(8)
Dividends paid to shareholders of the Company – net		--	(42,144)
Net cash used in financing activities		<u>(7,846)</u>	<u>(43,006)</u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Cash flow statement for the period ended 31 July 2006 (continued)

	Note	* Unaudited six months period ended 31.7.2006 RM'000	Restated audited year ended 31.1.2006 RM'000
Net (decrease)/increase in cash and cash equivalents		(1,120)	1,176
Cash and cash equivalents at 1 February	9	1,462	286
Cash and cash equivalents at 31 July/31 January	9	<u>342</u>	<u>1,462</u>

* Reviewed in accordance with AI 2400.

The notes on pages 9 to 32 are an integral part of these financial statements.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

Notes to the financial statements

Hap Seng Plantations (River Estates) Sdn Bhd is a private limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

Registered office:

1A, Jalan 205
46050 Petaling Jaya
Selangor Darul Ehsan

Principal place of business:

Sungai Segama
Jalan Jeroco
Lahad Datu
Sabah

The Company is principally engaged in the cultivation of oil palm and processing of fresh fruit bunches.

The immediate holding company is Hap Seng Consolidated Berhad (“HSCB”) and ultimate holding company is Gek Poh (Holdings) Sdn Bhd (“Gek Poh”). All the aforementioned companies are incorporated in Malaysia.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by MASB and accounting principles generally accepted in Malaysia.

The MASB has issued a number of new and revised Financial Reporting Standard (“FRS”) and Issues Committee Interpretation (“IC Interpretations”) that are effective for accounting periods beginning on or after 1 January 2006. In this set of financial statements, the Company has chosen to early adopt FRS 117, Leases and FRS 124, Related Party Disclosures which are effective for annual periods beginning on or after 1 October 2006.

The following FRSs and IC Interpretations are effective for annual periods beginning on or after 1 July 2007 and have not been early adopted in preparing these financial statements:

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

1. Basis of preparation (continued)**(a) Statement of compliance (continued)**

Standard / IC Interpretation	Effective for periods beginning on or after
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007
FRS 107, <i>Cash Flows Statements</i>	1 July 2007
FRS 112, <i>Income Taxes</i>	1 July 2007
FRS 118, <i>Revenue</i>	1 July 2007
FRS 137, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	--

The Company plans to apply the above-mentioned FRSs and IC Interpretations for the annual period beginning 1 February 2008 except for FRS 139, the effective date of which has yet to be announced. The said standards and interpretations are not expected to have any material impact on the financial statements of the Company upon their initial application.

The following FRSs and IC Interpretations are not applicable to the Company. Hence, no further disclosure is warranted.

Standard / IC Interpretation	Effective for periods beginning on or after
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies</i>	1 July 2007

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

1. Basis of preparation (continued)**(a) Statement of compliance (continued)**

Standard / IC Interpretation	Effective for periods beginning on or after
FRS 111, <i>Construction Contracts</i>	1 July 2007
FRS 120, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 July 2007
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>	1 July 2007
FRS 134, <i>Interim Financial Reporting</i>	1 July 2007

The financial statements were approved for issuance by the Board of Directors on 15 September 2007.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company, except for the adoption of the following:

- (i) FRS 101, Presentation of financial statements;
- (ii) FRS 117, Leases; and
- (iii) FRS 124, Related party disclosures.

In addition to the new policies and extended disclosures where required by these new standards, the effects of the changes on adoption of the above FRSs are disclosed in Note 21 to these unaudited financial statements.

Certain comparative amounts have been reclassified to conform to the current period's presentation (see Note 22).

(a) Property, plant and equipment**(i) Recognition and measurement**

Items of property, plant and equipment are stated at cost/valuation less accumulated depreciation and impairment losses.

The Company has availed itself to the transitional provision when the MASB first adopted IAS 16, Property, Plant and Equipment in 1998. Certain buildings and plant and equipment were revalued in 1978 and 1984 and no later valuation has been recorded for these property, plant and equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn Bhd

(Company No.: 40531 - P)

(Incorporated in Malaysia)

2. Significant accounting policies (continued)**(a) Property, plant and equipment (continued)****(iii) Depreciation**

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Capital work-in-progress is not depreciated until the assets are ready for their intended use.

Other assets are depreciated over their estimated useful lives by equal annual instalments at the following rates:

Road and infrastructure	3% - 4%
Buildings	2% - 10%
Plant and equipment	5% - 33 1/3%

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual value are reassessed at the reporting date.

(b) Biological assets

In accordance with paragraph 68 of FRS 101, the Company has presented plantation development expenditure as biological assets.

New planting which include land clearing, planting, field upkeep and maintenance of oil palm plantings to maturity are capitalised as plantation development expenditure. Oil palm plantings are considered mature 30 months after the date of planting. Expenditures incurred after maturity of crops are charged to the income statement. Estate overhead expenditure is apportioned to revenue and plantation development expenditure on the basis of the proportion of mature and immature areas.

Net income from scout harvesting prior to maturity is offset against plantation development expenditure.

No amortisation is considered necessary for plantation development expenditure as the estate is maintained through replanting programmes and replanting expenditure is written off to the income statement during the period when it is incurred.

Certain plantation development expenditure were revalued in 1984 and no later valuation has been recorded for the biological assets. The Company has availed itself to the transitional provision when the MASB first adopted IAS 16, Property, Plant and Equipment in 1998, the applicable accounting standards for the plantation development expenditure at that time.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

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2. Significant accounting policies (continued)

(c) Prepaid lease payments

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Company had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as long term leasehold land within its property, plant and equipment. Upon the adoption of FRS 117, Leases, the Company treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

Long term leasehold land are amortised over the tenure of the leases.

(d) Inventories

Inventories are valued at the lower of cost and net realisable value. In arriving at the net realisable value, due allowance is made for all damaged, obsolete and slow moving items. Cost is determined principally with the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

The cost of produce stocks includes estate production cost, mill processing cost, overhead expenses and depreciation.

The cost of consumable stores comprises purchase cost and incidental cost while planting materials cost includes purchase seedlings cost and direct nursery cost.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established. Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts, if any.

Receivables are not held for the purpose of trading.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

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2. Significant accounting policies (continued)**(g) Impairment of assets**

The carrying amount of assets, other than financial assets and inventories are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised in the income statement if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

(h) Employee benefits

Short-term employee benefit obligations in respect of wages, salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

The Company's contributions to the Employees' Provident Fund are charged to the income statements in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(i) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

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2. Significant accounting policies (continued)

(j) Revenue

Revenue from the sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(k) Interest income

Interest income is recognised as it accrues, using the effective interest method.

(l) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for the taxation purposes. Deferred tax is not recognised for temporary differences arising from initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be recognised.

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn Bhd
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3. Property, plant and equipment

Cost/Valuation	Plantations RM'000	Long term leasehold land RM'000	Road & infrastructure RM'000	Buildings RM'000	Plant & equipment RM'000	Capital work in progress RM'000	Total RM'000
At 1 February 2005	232,019	13	--	66,583	95,191	5,069	398,875
- as previously stated	(201,216)	--	--	--	--	--	(201,216)
- transfer to biological assets	(30,803)	(13)	--	--	--	--	(30,816)
- transfer to prepaid lease payments	--	--	18,898	(2,419)	(16,479)	--	--
- reclassification	--	--	--	--	--	--	--
At 1 February 2005	--	--	18,898	64,164	78,712	5,069	166,843
- restated (audited)	--	--	2,098	137	3,228	4,789	10,252
Additions	--	--	--	--	(2,215)	--	(2,215)
Disposals	--	--	--	(1,341)	(1,154)	--	(2,495)
Write off	--	--	--	3,558	1,211	(4,769)	--
Reclassifications	--	--	--	--	--	--	--
At 31 January 2006	--	--	20,996	66,518	79,782	5,089	172,385
- restated (audited)	--	--	--	--	717	5,621	6,338
Additions	--	--	--	--	(586)	--	(586)
Disposals	--	--	--	(231)	(192)	--	(423)
Write off	--	--	162	2,704	1,294	(4,160)	--
Reclassifications	--	--	--	--	--	--	--
At 31 July 2006 (unaudited)	--	--	21,158	68,991	81,015	6,550	177,714
Representing items:							
At cost	--	--	21,158	66,516	80,840	6,550	175,064
At valuation	--	--	--	2,475	175	--	2,650
At 31 July 2006 (unaudited)	--	--	21,158	68,991	81,015	6,550	177,714

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn Bhd
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3. Property, plant and equipment (continued)

	Plantations RM'000	Long term leasehold land RM'000	Road & infrastructure RM'000	Buildings RM'000	Plant & equipment RM'000	Capital work in progress RM'000	Total RM'000
Accumulated depreciation							
At 1 February 2005	3,039	--	--	16,171	49,974	--	69,184
- as previously stated							
- transfer to prepaid lease payments	(3,039)	--	--	--	--	--	(3,039)
- reclassifications	--	--	2,094	(281)	(1,813)	--	--
At 1 February 2005 – restated (audited)	--	--	2,094	15,890	48,161	--	66,145
Charge for the year	--	--	726	3,135	6,067	--	9,928
Disposals	--	--	--	--	(2,114)	--	(2,114)
Write off	--	--	--	(1,165)	(1,035)	--	(2,200)
At 31 January 2006 – restated (audited)	--	--	2,820	17,860	51,079	--	71,759
Charge for the year	--	--	348	1,590	3,123	--	5,061
Disposals	--	--	--	--	(433)	--	(433)
Write off	--	--	--	(112)	(137)	--	(249)
At 31 July 2006 (unaudited)	--	--	3,168	19,338	53,632	--	76,138

ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR SUBSIDIARIES (Cont'd)

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Hap Seng Plantations (River Estates) Sdn Bhd(Company No.: 40531 - P)
(Incorporated in Malaysia)**3. Property, plant and equipment (continued)**

	Plantations RM'000	Long term leasehold land RM'000	Road & infrastructure RM'000	Buildings RM'000	Plant & equipment RM'000	Capital work in progress RM'000	Total RM'000
Carrying amounts							
At 1 February 2005	--	--	16,804	48,274	30,551	5,069	100,698
- (restated) (audited)							
At 31 January 2006	--	--	18,176	48,658	28,703	5,089	100,626
- restated (audited)							
At 31 July 2006 (unaudited)	--	--	17,990	49,653	27,383	6,550	101,576

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

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3. Property, plant and equipment (continued)***Revaluation***

The buildings and plant and equipment are stated at Directors' valuation based on professional valuations on the open market basis conducted in 1978 and 1984.

Had the buildings and plant and equipment been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets would have been fully depreciated.

Depreciation charge for the period is allocated as follows:

	Unaudited six months period ended 31.7.2006 RM'000	Restated audited year ended 31.1.2006 RM'000
Income statement	5,053	9,908
Biological assets	8	20
	<u>5,061</u>	<u>9,928</u>

4. Biological assets

	Unaudited 31.7.2006 RM'000	Restated audited 31.1.2006 RM'000
Cost/Valuation		
At 1 February 2006/2005	201,404	--
Effect of adopting FRS 101	--	201,216
	<u>201,404</u>	<u>201,216</u>
At 1 February 2006/2005 - restated	201,404	201,216
Addition	36	188
	<u>201,440</u>	<u>201,404</u>
At 31 July/31 January	<u>201,440</u>	<u>201,404</u>
Representing items:		
At cost	128,525	128,489
At Directors' valuation	72,915	72,915
	<u>201,440</u>	<u>201,404</u>
At 31 July/31 January	<u>201,440</u>	<u>201,404</u>

**ANNEXURE – FINANCIAL STATEMENTS OF RIVER ESTATES AND JEROCO, OUR MAJOR
SUBSIDIARIES (Cont'd)**

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Hap Seng Plantations (River Estates) Sdn Bhd

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4. Biological assets (continued)

The biological assets are stated at Directors' valuation based on professional valuations on the open market basis conducted in 1984.

Had the biological assets been carried at historical cost, the carrying amount of the revalued assets that would have been included in the unaudited financial statements at the end of the period is RM27,586,000 (31.1.2006: RM27,586,000).

Depreciation capitalised under biological assets during the six months period was RM8,000 (31.1.2006: RM20,000).

5. Prepaid lease payments

	Unexpired period more than 50 years	
	Unaudited 31.7.2006 RM'000	Restated audited 31.1.2006 RM'000
Cost		
At 1 February 2006/2005	30,816	--
Effect of adopting FRS 117	--	30,816
	<hr/>	<hr/>
At 1 February 2006/2005 - restated	30,816	30,816
Additions	--	--
	<hr/>	<hr/>
At 31 July/31 January	<u>30,816</u>	<u>30,816</u>
Amortisation		
At 1 February 2006/2005	3,362	--
Effect of adopting FRS 117	--	3,039
	<hr/>	<hr/>
At 1 February 2006/2005 - restated	3,362	3,039
Amortisation for the period/year	162	323
	<hr/>	<hr/>
At 31 July/31 January	<u>3,524</u>	<u>3,362</u>
Carrying amounts		
At 1 February 2006/2005 - restated	<u>27,454</u>	<u>27,777</u>
At 31 July/31 January	<u>27,292</u>	<u>27,454</u>