A. NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standard (“FRS”) 134 “Interim Financial Reporting” and Chapter 9, Part K of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2010.

2. Changes in Accounting Policies

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted by the Group in the audited financial statements for the year ended 31 December 2010 except for the adoption of the following new and revised FRSs, Issues Committee (“IC”) Interpretations and amendments to FRSs and IC Interpretations which are relevant to the Group’s operations with effect from 1 January 2011:-

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (revised)
FRS 127	Consolidated and Separate Financial Statements
Amendment to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 132	Financial Instruments: Presentation - Classification of Rights Issues
Amendments to FRS 138	Intangible Assets
Improvements to FRSs (2010)	
IC Interpretation 4	Determining whether an Arrangement contains a Lease
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners
IC Interpretation 18	Transfers of Assets from Customers
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives

The initial application of the above new and revised FRSs, IC Interpretations and amendments to FRSs and IC Interpretations do not have any significant impact on the financial statements of the Group other than as explained below:-

FRS 127 *Consolidated and Separate Financial Statements*

This Standard supersedes the existing FRS 127 and replaces the current term “minority interests” with a new term “non-controlling interests” which is defined as the equity in a subsidiary that is not attributable, directly or indirectly, to a parent. Accordingly, total comprehensive income shall be attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group re-phrased the minority interests as non-controlling interests and re-measured the non-controlling interests prospectively in accordance with the transitional provisions of the revised FRS 127.

The effects on the adoption of FRS 127 on the current interim financial statements are as follows:-

	Current Year Quarter Increase/ (Decrease) RM'000	**Current Year To Date Increase/ (Decrease) RM'000**
Consolidated statement of financial position		
Retained earnings	1,145	3,428
Non-controlling interests	(1,145)	(3,428)
Consolidated statement of comprehensive income		
Profit attributable to owners of the parent	1,145	3,428
Profit attributable to non-controlling interests	(1,145)	(3,428)
Total comprehensive income attributable to owners of the parent	1,145	3,428
Total comprehensive income attributable to non-controlling interests	(1,145)	(3,428)

3. Seasonal or Cyclical Factors

The Group’s plantation operations are affected by seasonal production of fresh fruit bunches and weather conditions. Generally, the production of fresh fruit bunches is relatively higher in the second half of the year.

4. Unusual Items

There was no unusual item for the current financial year to date other than the recognition of bargain purchase gain amounting to RM18.43 million, arising from the acquisition of Mardec Berhad as disclosed in Note 10, in the statement of comprehensive income.

5. Change in Estimates

There was no change in estimates of amounts reported in the prior quarter of the current financial year or prior financial year that has a material effect in the current quarter.

6. Changes in Debt and Equity Securities

There has been no issue, repurchase and repayment of debt and equity securities during the current financial year other than the redemption of RM35 million of Sukuk Ijarah on 16 December 2011.

7. Dividends Paid

Dividends paid during the current financial year are as follows:-.

	Current Year RM'000	**Preceding Year RM'000**
Final dividend of 5.0 sen per share less 25% income tax (in respect of financial year 2010 and paid in financial year 2011)	19,843	-
Interim dividend of 5.0 sen per share less 25% income tax (in respect of financial year 2011 and paid in financial year 2011)	19,843	-
Final dividend of 6.0 sen per share less 25% income tax (in respect of financial year 2009 and paid in financial year 2010)	-	23,812
Interim dividend of 5.0 sen per share less 25% income tax (in respect of financial year 2010 and paid in financial year 2010)	-	19,843
	39,686	43,655

8. Segmental Reporting

The segment information for the current financial year is as follows:-

	Plantation RM'000	Property Development RM'000	Investment Holding/ Others RM'000	Manufacturing and Trading RM'000	Elimination RM'000	Consolidated RM'000
2011						
Revenue						
External revenue	1,199,505	-	27	503,965	-	1,703,497
Inter-segment revenue	2,137	-	80,571	-	(82,708)	-
Total revenue	1,201,642	-	80,598	503,965	(82,708)	1,703,497
Results						
Segment results	476,095	(4,978)	55,040	(1,671)	-	524,486
Share of results of a jointly controlled entity	5,036	-	-	-	-	5,036
Share of results of associates	-	-	-	1,619	-	1,619
	481,131	(4,978)	55,040	(52)	-	531,141
Add: Bargain purchase gain						18,427
Less: Inter-segment dividend income						(71,404)
Profit before tax						478,164
Assets						
Segment assets	2,912,879	87,412	114,193	569,591	-	3,684,075
Investment in a jointly controlled entity	23,525	-	-	-	-	23,525
Investment in associates	-	-	-	57,364	-	57,364
	2,936,404	87,412	114,193	626,955	-	3,764,964
Tax assets						29,671
Total assets						3,794,635

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	Plantation RM'000	Property Development RM'000	Investment Holding/ Others RM'000	Manufacturing and Trading RM'000	Elimination RM'000	Consolidated RM'000
2010						
Revenue						
External revenue	907,205	1,921	-	-	-	909,126
Inter-segment revenue	-	-	57,446	-	(57,446)	-
Total revenue	907,205	1,921	57,446	-	(57,446)	909,126
Results						
Segment results	297,227	458	32,693	-	-	330,378
Share of results of a jointly controlled entity	1,266	-	-	-	-	1,266
	298,493	458	32,693	-	-	331,644
Less: Inter-segment dividend income						(49,236)
Profit before tax						282,408
Assets						
Segment assets	2,793,569	87,412	97,415	-	-	2,978,396
Investment in a jointly controlled entity	13,489	-	-	-	-	13,489
	2,807,058	87,412	97,415	-	-	2,991,885
Tax assets						23,294
Total assets						3,015,179

9. Material Subsequent Event

On 8 February 2012, Mardec International Sdn Bhd (ñMISBò), an indirect wholly-owned subsidiary of the Company, and the other shareholders of R1 International Pte Ltd (ñR1ò) have entered into a conditional Share Sale Agreement (ñSSAò) with Hainan State Farms Investment Limited (ñHSFò) and Hainan Rubber Group (Singapore) Pte Ltd (ñHainan Rubberò) for the disposal of 6,300,000 ordinary shares of USD1.00 each, representing 90% of the equity interest in R1, for a total cash consideration of USD51,725,016 (ñDisposal Priceò).

Pursuant to the SSA, MISB shall dispose 3,150,000 ordinary shares of USD1.00 each, representing its entire 45% equity interest in R1 to HSF for a cash consideration of USD25,862,508 or approximately RM77.1 million.

The Disposal Price represents 90% of the total valuation of R1ôs equity of USD57,472,240 which represents the price to book ratio of 1.6575 based on R1 Groupôs unaudited net tangible assets (ñNTAò) as at 31 December 2011. The Disposal Price is conditional upon R1 Groupôs audited NTA at 31 December 2011 being not less than USD34,674,051 and will be adjusted in the event of lower audited NTA by using the same price to book ratio.

The proposed disposal of R1 is conditional upon the satisfactory fulfillment of the following key conditions precedent within a period of 60 days from the date of the SSA or such longer period as the parties agree:-

(i) the approval of the board of directors of each of the selling shareholders for the sale of their respective equities in R1;

(ii) the approval of the board of directors and shareholders of R1;

(iii) the completion of the business, financial and legal due diligence investigations into the R1 Group Companies and the satisfactory resolution and determination of any issues arising from the due diligence investigations by both HSF and Hainan Rubber; and

(iv) other requisite conditions stated in the SSA.

Other than the above, there was no material event subsequent to the end of the current quarter.

10. Changes in the Composition of the Group

On 10 October 2011, Prisma Spektra Sdn Bhd, a wholly-owned subsidiary of the Company, completed the acquisition of 125,709,000 ordinary shares of RM1.00 each in MARDEC Berhad (ñMardecò), representing the entire issued and paid-up ordinary share capital of Mardec, for a total purchase consideration of RM140,000,000.

Mardec is an investment holding company and through its local and overseas subsidiaries and associates, is involved in the processing and trading of natural rubber and the manufacturing of value-added rubber and polymer products.

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Assets acquired and liabilities assumed at the date of acquisition

	RM'000
Current Assets	
Inventories	277,986
Trade and other receivables	264,637
Tax recoverable	5,281
Derivative assets	111
Cash and cash equivalents	42,735
	590,750
Non-current assets	
Property, plant and equipment	158,361
Investment properties	3,531
Investment in associates	56,227
Other investments	10
Intangible assets	157
Deferred tax assets	6,469
	224,755
Current liabilities	
Trade and other payables	(65,950)
Derivative liabilities	(10,372)
Tax payable	(2,786)
Provision for retirement benefits	(353)
Short term borrowings	(544,710)
	(624,171)
Non-current liabilities	
Long term borrowings	(9,107)
Provision for retirement benefits	(2,207)
Deferred tax liabilities	(13,377)
	(24,691)
Total net assets	166,643
Less: Non-controlling interests	(8,216)
Group's share of net assets	158,427
Bargain purchase gain	(18,427)
Total cost of acquisition	140,000

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Net cash outflow on acquisition of subsidiary

	RM'000
Consideration paid in cash	140,000
Less: Cash and cash equivalents acquired	(27,218)
	112,782

The acquired subsidiary has contributed the following results to the Group during the financial year:-

	RM'000
Revenue	503,965
Profit for the year	2,091

If the acquisition had occurred on 1 January 2011, the Groupsôresults for the current financial year would have been as follows:-

	RM'000
Revenue	3,554,681
Profit for the year	369,479

Other than the above, there was no change in the composition of the Group during the current financial year ended 31 December 2011.

11. Capital Commitments

The amount of capital commitments not provided for in the financial statements as at 31 December 2011 were as follows:-

	RM'000
Property, plant and equipment	
- Approved and contracted for	83,819
- Approved but not contracted for	130,403
	214,222
Share of capital commitment of a jointly controlled entity	
- Approved and contracted for	1,112
	215,334

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12. Contingent Liabilities and Contingent Assets

The contingent liabilities as at 31 December 2011 were as follows:-

	RM'000
Letters of guarantee issued to government agencies	96
Pending litigation (Note B11)	11,039
	11,135

There was no contingent asset as at 31 December 2011.

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B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

1. Review of Performance

Current Quarter vs. Corresponding Quarter Last Year

For the quarter under review, the Group's revenue increased to RM804.2 million from RM293.4 million achieved for the corresponding quarter last year. The increase in revenue was mainly due to the increase in production of palm products and the consolidation of Mardec Berhad Group's revenue from October 2011 to December 2011 following the completion of acquisition of Mardec Berhad on 10 October 2011. Excluding the non-recurring bargain purchase gain of RM18.4 million arising from the acquisition of Mardec Berhad, the Group's profit before tax decreased to RM101.7 million for the current quarter under review from RM120.3 million for the same quarter last year. The decrease in profit before tax was mainly due to the decrease in prices of palm products, higher operating expenses of Plantation segment and lower share of profit of a jointly controlled entity.

The performance of respective operating business segments for the current quarter as compared to the corresponding quarter last year is analysed as follows:-

i. Plantation – Despite the prices of oil palm products being lower during the current quarter under review, revenue increased by RM10.9 million mainly due to the increase in production of palm products. However, pre-tax profit reduced by RM15.6 million mainly due to the decrease in prices of palm products, increase in manuring cost resulting from higher fertiliser prices and lower share of profit of a jointly controlled entity.

ii. Property Development – No revenue was recognised for the current quarter under review as the Custom Immigration and Quarantine Complex ("CIQ") project at Kota Putra was completed in prior years. The pre-tax loss of RM4.9 million for the current quarter was mainly due to the additional works undertaken for the CIQ project to ensure that the completed works are in tandem with the overall development of the township and in compliance with the requirement of the Jabatan Kerja Raya, local authority and utilities provider.

iii. Investment Holding – Revenue and pre-tax profit were recorded at RM49.3 million and RM43.6 million respectively for the current quarter as compared to RM49.1 million and RM42.7 million respectively for the corresponding quarter last year. Revenue mainly comprised dividend income and management income from subsidiaries.

iv. Manufacturing and Trading – There are no comparatives for the corresponding quarter last year as this comprises the newly acquired subsidiary, Mardec Berhad. This segment recorded a pre-tax loss of RM52,000 on the back of RM504.0 million in revenue. The pre-tax loss was mainly due to the losses incurred by the overseas operations resulting from the seasonal fluctuation coupled with stiff competition for raw materials.

Current Year vs. Last Year

For the year ended 31 December 2011, the Group's revenue increased to RM1,703.5 million from RM909.1 million achieved for the previous year. The increase in revenue was mainly due to higher prices and production of palm products and the 3 months contribution from the newly-acquired subsidiary, Mardec Berhad. In line with the increase in revenue coupled with better performance of jointly controlled entity, the Group's profit before tax improved to RM478.2 million from RM282.4 million for the previous year.

The performance of respective operating business segments for the current year as compared to the previous year is analysed as follows:-

i. Plantation – Revenue increased by RM294.4 million mainly due to higher prices and production of palm products. In line with the increase in revenue which resulted in better profit margin, pre-tax profit increased by RM182.6 million.

ii. Property Development - No revenue was recognised for the current financial year as the CIQ project at Kota Putra was completed in prior years. The pre-tax loss of RM5.0 million for the current financial year was mainly due to the additional works undertaken for the CIQ project as explained above.

iii. Investment Holding – The increase in revenue by RM23.2 million for the current year was mainly due to higher dividend income and management income from subsidiaries. In line with the increase in revenue, pre-tax profit also increased by RM22.3 million.

iv. Manufacturing and Trading – As explained above, there are no comparatives for the previous year as this comprises the newly acquired subsidiary, Mardec Berhad.

2. Material Change in the Profit Before Taxation for the Quarter Reported On as Compared with the Immediate Preceding Quarter

	Quarter Reported On RM'000	Immediate Preceding Quarter RM'000	Decrease RM'000
Profit before taxation	120,133	144,052	(23,919)

For the current quarter under review, the Group recorded profit before taxation of RM120.1 million, representing a decrease of RM24.0 million from RM144.1 million recorded for the immediate preceding quarter. The decline in profit before taxation was mainly due to lower prices of oil palm products and production of fresh fruit bunches resulting from seasonal trend and unfavourable weather during the quarter under review.

3. Prospects

Plantation

The profitability of the Plantation business segment in 2012 is very much determined by the price movements of oil palm products. Crude palm oil price is expected to trade in a volatile range of RM2,800 to RM3,500 per tonne in 2012 in view of the uncertain global economic sentiment, unresolved Euro zone debt crisis and the expectation of a slowdown in the China economy.

The labour shortage experienced by the industry will continue to affect plantation operations whilst rising labour cost and the expected increase in fertiliser prices will exert downward pressure on profit margins.

To mitigate the negative impact of rising cost, shortage of labour and potential price fluctuation of oil palm products, the Group will remain committed to consolidate the plantation operations with focus on field mechanisation, operational efficiency, yield enhancement and stringent cost control.

Property Development

No development is expected in 2012.

Manufacturing and Trading

The Group's local and overseas factories will remain competitive in securing raw materials from the rubber suppliers. The rubber price is expected to remain steady and firm in 2012 and will be dictated by the supply situation and demand from the automotive and glove industries. The Group, as a quality, consistent and reliable supplier, will continue to enjoy selling at premium prices to the prime tyre manufacturers. As both a volume and margin operator, this will have positive impact on the Group's performance.

While the Board anticipates that the market will remain competitive in 2012, the results for the year is expected to remain satisfactory based on the prevailing prices of palm products and rubber.

4. Variance of Actual Profit from Forecast Profit

The Group has not provided any profit forecast for the current financial year in a public document.

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5. Profit before tax

Profit before tax is arrived at after charging/(crediting):-

	Current Year Quarter RM'000	Current Year To date RM'000
Depreciation and amortisation	29,469	105,053
Gain on disposal of quoted investments	-	(176)
Gain on disposal of properties arising from compulsory acquisition	-	(2,992)
Finance costs	10,376	24,894
Finance income	(612)	(1,392)
Inventories written off	6	39
Foreign exchange loss	1,301	1,301
Bargain purchase gain	(18,427)	(18,427)
Fair value gain on derivative instruments	(7,307)	(7,307)

There was no provision for and write off of receivables and impairment of assets for the current quarter under review and financial year ended 31 December 2011.

6. Taxation

	Current Year Quarter RM'000	Current Year To date RM'000
Income tax expense	22,925	108,878
Deferred tax	4,467	14,605
Real property gains tax	-	20
Over provision in prior years	(7,351)	(11,498)
	20,041	112,005

The taxation charge of the Group for the financial year to date reflects an effective tax rate which is lower than the statutory income tax rate mainly due to the adjustment for over provision in prior years.

7. (a) Status of Corporate Proposals

There was no corporate proposal announced but not completed as at 16 February 2012, being the latest practicable date, other than those disclosed in Note A9.

(b) Status of Utilisation of Proceeds Raised from Corporate Proposal

There was no corporate proposal involving fund raising.

8. Group Borrowings and Debt Securities

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

	RM'000
Short term	
Secured	429,260
Unsecured	376,082
	805,342
Long term	
Secured	397,518
Unsecured	14,355
	411,873
Total borrowings	1,217,215

The above include borrowings denominated in foreign currency as follows:-

	RM'000
United States Dollar	11,007
Indonesian Rupiah	63,133
Thai Baht	1,702
	75,842

9. Derivative Financial Instruments

Foreign exchange forward contracts are entered into by the Group to hedge the committed sales and purchases denominated in US Dollar and Euro for Manufacturing and Trading segment that existed at the reporting date. The hedging of foreign currencies is to minimise the Group's exposure to fluctuations in foreign exchange arising from sales and purchases.

The outstanding foreign exchange forward contracts as at 31 December 2011 are as follows:-

	RM'000
Derivative assets	
Fair value of foreign exchange forward contracts	218
Derivative liabilities	
Fair value of foreign exchange forward contracts	(2,964)
Foreign exchange forward contracts	
Nominal value	(183,201)

All the outstanding foreign exchange forward contracts as at 31 December 2011 have maturity period of less than one year.

There is no significant concentration of credit and market risks associated with the above contracts as the contracts are executed with reputable financial institutions in Malaysia.

It is the Group's policy that no foreign exchange forward contracts shall be undertaken except for the use as hedging for the committed sales and purchases denominated in foreign currencies. In addition, the maturity dates of the foreign exchange forward contracts approximate the timing of the expected cash flows of the underlying hedged items. Therefore, cash requirement risk is minimal.

Foreign exchange forward contracts are initially measured at fair value and are subsequently re-measured at fair value at each reporting date. The resulting gain or loss arising from the re-measurement is recognised in profit or loss.

10. Gains or Losses arising from Fair Value Changes of Financial Liabilities

Gain arising from fair value changes of financial liabilities for the current quarter and current financial year are as follows:-

	Current Year Quarter RM'000	Current Year To date RM'000
Foreign exchange forward contracts	7,307	7,307

The gain arising from fair value changes of foreign exchange forward contracts was due to favourable movements of foreign exchange rates from the date of acquisition of Mardec Berhad. The fair value changes of these contracts were calculated based on forward exchange rates.

11. Material Litigation

The pending material litigation against the Group is a claim filed against a subsidiary of Mardec Berhad, Mardec Yala Co. Ltd., for the alleged wrongful transfer of shares and the claim for compensation of Thai Baht (BHT)110.0 million (approximately RM11.039 million). On 3 December 2007, the Court had dismissed the claim and issued a written judgment. However, the claimant has filed an appeal against the judgment of which the Court has dismissed the claims. The claimant has filed a second appeal to the Supreme Court on 30 July 2010. Pending the outcome of the second appeal expected to be given by the end of 2013, no provision has been made in the financial statements

Other than the above, there was no material litigation as at 16 February 2012, being the latest practicable date.

12. Dividend

The Board of Directors declared a first interim dividend of 5 sen per ordinary share less income tax of 25% (2010: 5 sen per ordinary share less income tax of 25%) amounting to RM19,843,254 (2010: RM19,843,254) for the financial year ended 31 December 2011 paid to the shareholders on 23 December 2011.

13. Earnings Per Share

(a) Basic earnings per share

The basic earnings per share for the current year is calculated by dividing the profit for the year attributable to owners of the parent of RM335,464,000 by the weighted average number of ordinary shares (after assuming conversion of ICULS into ordinary shares) outstanding during the current year of 629,153,415.

(b) Diluted earnings per share

Diluted earnings per share is not applicable and not presented because there are no dilutive potential ordinary shares to be issued as the ICULS have been included in the basic earnings per share calculation.

14. Audit Report of the Preceding Year's Consolidated Financial Statements

The auditorsôreport of the preceding annual financial statements was not subject to any qualification.

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15. Disclosure on realised and unrealised profit/loss

The retained earnings as at 31 December 2011 and 31 December 2010 are analysed as follows:-

	31.12.2011 RM'000	31.12.2010 RM'000
Total retained earnings of the Company and its subsidiaries:-		
- Realised	984,664	813,329
- Unrealised	(101,010)	(81,482)
	883,654	731,847
Total share of retained earnings/(accumulated losses) from a jointly controlled entity:-		
- Realised	3,762	(1,274)
- Unrealised	(237)	(237)
	3,525	(1,511)
Total share of retained earnings from associates:-		
- Realised	26,455	-
- Unrealised	1,414	-
	27,869	-
	915,048	730,336
Less: Consolidation adjustments	(78,430)	(189,496)
Total Group's retained earnings as per consolidated financial statements	836,618	540,840

By Order of the Board
ZAINAL RASHID BIN AB RAHMAN (LS007008)
Company Secretary

Kuala Lumpur
21 February 2012