

**1. Basis of Preparation**

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MASB 26: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2004. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2004.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the financial statements for the year ended 30 June 2004.

**2. Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the financial statements for the year ended 30 June 2004 was not qualified.

**3. Comments About Seasonal or Cyclical Factors**

The Group's performance is not affected materially by any seasonal or cyclical factors.

**4. Unusual Items Due to Their Nature, Size or Incidence**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30 June 2005.

**5. Changes in Estimates**

There were no changes in estimates that have had a material effect in the current quarter results.

**6. Debt and Equity Securities**

For the current quarter, There were no issuance, cancellations, repurchases and repayment of debt and equity securities other than the RM100 million nominal value Al-Bai' Bithaman Ajil Fixed Rate Serial Bonds ("ABBA Bonds") issued in year 2003. These are classified within short and long term borrowings in Note 22.

**7. Dividends Paid**

At the Ninth Annual General Meeting held on 15 December 2004, the shareholders approved a final dividend of 10 sen per share, tax exempt, amounting RM14,186,000 to be paid on 15 March 2005 in respect of the financial year ended 30 June 2004.

## 8. Segmental Information

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

- i) Oil palm plantations and palm products processing – management and operations of plantation, manufacture and sales of palm products, and operations of bulking installations;
- ii) Trading of industrial products – purchase and sales of diesel; and
- iii) Bio-mass energy – generate and supply of energy and steam.

Others business segments include letting of commercial properties and a stone and gravel quarry, none of which are of a sufficient size to be reported separately.

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

Segmental information for the current financial period ended 31 December 2004 are as followed:

	<i>Oil palm plantations and Palm products processing RM '000</i>	<i>Trading of industrial products RM '000</i>	<i>Bio-mass energy RM '000</i>	<i>Others RM '000</i>	<i>Elimination RM '000</i>	<i>Total RM '000</i>
<b>Revenue</b>						
External sales	669,058	2,340	-	-	-	671,398
Internal sales	226,077	3,760	4,799	25	(232,661)	-
Total revenue	895,135	6,100	4,799	25	(232,661)	671,398
<b>Results</b>						
Segment profit before taxation	17,623	256	1,963	(191)		30,487
Finance costs, net						(6,219)
Profit before taxation						24,268
Taxation						(5,000)
Profit after taxation						19,268
Minority interests						905
Profit for the period						20,173

## 9. Carrying Amount of Revalued Assets

The valuations of property, plant and equipment have been brought forward without amendment from the financial statements for the year ended 30 June 2004.

## **10. Subsequent Event**

Saved as disclosed below, there were no material events subsequent to the end of the current quarter.

- i) On 29 November 2004 (Initial Announcement), the Group announced that it has proposed to acquire the entire equity interest in the companies named hereunder which are involved in the operation of oil palm plantations:
  - a) 250,000 ordinary shares of RM1 each in Kwantas Land Development Sdn. Bhd. (KLD) for a total purchase consideration of RM86,936,588 to be fully satisfied by the issuance of 16,718,574 new Kwantas Corporation Bhd (Kwantas) Shares at an issue price of RM5.20 per Kwantas Shares; and
  - b) 2 ordinary shares of RM1 each in Kwantas Oleo Sdn. Bhd. (KOSB) for a total purchase consideration of RM3,713,368 to be fully satisfied by the issuance of 714,108 new Kwantas Shares at an issue price of RM5.20 per Kwantas Share.

Further to the Initial Announcement, the Group had, on 4 January 2005, entered into supplemental share sale agreements (SSA) to acquire the above-mentioned companies at a revised purchase consideration as follows:

- a) 250,000 ordinary shares of RM1 each in KLD for a total purchase consideration of RM63,352,702 to be fully satisfied by the issuance of 12,183,210 new Kwantas Shares at an issue price of RM5.20 per Kwantas Share; and
- b) 2 ordinary shares of RM1 each in KOSB for a total purchase consideration of RM2,628,196 to be fully satisfied by the issuance of 505,422 new Kwantas Shares at an issue price of RM5.20 per Kwantas Share.

The supplemental SSAs were entered into due to a revision in the net tangible assets (NTA) of KLD and KOSB as at 30 June 2004. As a result of the said revision, the total purchase consideration and number of consideration shares to be issued pursuant to the proposed acquisitions were revised accordingly.

The revision in NTAs of KLD and KOSB as at 30 June 2004 were as a result of an overstatement of assets valuation reserve in the audited accounts as at 30 June 2004 due to the omission of plantation development expenditure in deriving at the asset revaluation reserve.

The Proposed KLD Acquisition and the Proposed KOSB Acquisition are not inter-conditional on each other.

- ii) On 27 January 2005, the Company increased its issued and paid-up ordinary share capital from RM141,794,000 to RM141,860,000 by way of the issuance of 66,000 ordinary shares of RM1 each for cash pursuant to the Company's Employee Share Options Scheme at an exercise price of RM1.03 per ordinary share. The new ordinary shares issued subsequent to the current quarter rank pari passu in all respects with the existing ordinary shares of the Company.

## **11. Changes in Composition of the Group**

There were no changes in the composition of the Group during the current quarter.

## **12. Changes in Contingent liabilities and Contingent Assets**

### **Unsecured**

- i) The Company has provided corporate guarantees to secure banking facilities given to a subsidiary company. The amount utilised and outstanding as at 31 December 2004 amounted to approximately RM167 million.
- ii) The Group is disputing a claim amounting to approximately RM5 million from RHB Bank Berhad on an alleged foreign currency forward contract entered into by a subsidiary company. Legal proceedings are in progress and the outcome is yet to be determined. The Company's lawyers are of the opinion that the Group has a good prospect of succeeding in this litigation.
- iii) There is a dispute between Enco Engineering Sdn. Bhd. ("Enco") and Palm Energy Sdn. Bhd. ("PESB"), a wholly owned subsidiary company of Kwantas, in the purchase by the latter of a 9.8 Mega Watt co-generation power plant. PESB is claiming for liquidated damages, loss of productive/revenue and refurbishment costs totalling approximately RM4.07 million. There has been a counterclaim by Enco for the balance of the original contract sum amounting to RM1,005,357 and variation order works totalling RM1,021,295. The parties have agreed to use the Kuala Lumpur Regional Centre for Arbitration but have not been able to agree on the appointing authority or on the appointment of an arbitrator.

## **13. Capital Commitments**

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 December 2004 is as follows:

	<i>RM'000</i>
Approved and contracted for	<u>17,033</u>

## **14. Performance Review**

Palm product prices have decreased moderately during the quarter under reviewed. The oil palm plantation and palm products processing activities continued to be the major contributor to the Group's revenue and profit. Group's Biomass electricity power generation plant is operation and contributed revenue of RM 4.8 million. However, the profit grew marginally as annual maintenance was carried out in current quarter.

The Group's latest China investment consisted of Refinery and Shortening Plants has begun its production during this quarter under review. Mixed contribution from the new operations as the products have just entered into the market.

**15. Comment on Material Change in Profit Before Taxation**

The Group's profit before taxation decreased to RM 6.39 million from RM 16.73 million for the respective periods. The decreased of RM 10.33 million or 62% was mainly caused by disappointing margin from Soya Bean oil trading in China.

**16. Commentary on Prospects**

The Directors are of the view that the overall performance of the Group will continue to be strong, particularly on the contribution from the proposed acquisition of new oil palm plantations and current palm products processing segments. The China processing facilities are at its pioneer run and are expected to show marginal improvement to the Group's revenue and profit in the coming quarter.

**17. Profit Forecast or Profit Guarantee**

The disclosure requirements for explanatory notes for the variance of actual profit after tax and minority interest and forecast profit after tax and minority interest and for the shortfall in profit guarantee are not applicable.

**18. Taxation**

	<i>3 months ended 31.12.2004 RM'000 (Unaudited)</i>	<i>6 months ended 31.12.2004 RM'000 (Unaudited)</i>
Income tax:		
Malaysian income tax	1,500	5,000
Foreign tax	-	-
 Deferred taxation	 -	 -
	<u>1,500</u>	<u>5,000</u>

The effective tax rate for the periods presented above was lower than the statutory income tax rate principally due the availability of unabsorbed capital, reinvestment and investment tax allowances, double tax deduction and unused tax losses of certain subsidiary companies for set-off against the current period/year's taxable profit for its biomass power plant and palm product processing operations, and certain expenses which are not deductible for tax purposes.

**19. Sales of Unquoted Investments and Properties**

There were no sales of unquoted investments and properties for the current quarter.

**20. Marketable Securities**

There was no purchase or disposal of marketable securities for the current quarter.

**Notes to the interim financial statements – 31 December 2004**

**21. Corporate Proposals**

Save as disclosed in Note 10, there are no corporate proposals announced but not completed as at 21 February 2005.

**22. Borrowings and Debts Securities**

	<i>As at 31.12.2004</i>
	<i>RM'000</i>
Short term borrowings	
- Unsecured	-
- Secured	224,718
- Total	<u>224,718</u>
Long term borrowings	
- Unsecured	-
- Secured	120,953
- Total	<u>120,953</u>
	<u>345,671</u>

Included in long term secured borrowings represents RM90 million ABBA Bonds.

All of the above borrowings are denominated in Ringgit Malaysia, except for the following:

	Renminbi '000	RM '000 equivalent
Borrowings denominated in foreign currency – Renminbi	76,751	35,237
	<u>76,751</u>	<u>35,237</u>

**23. Off Balance Sheet Financial Instruments**

	<i>Notional amount</i>
	<i>as at</i>
	<i>31.12.2004</i>
	<i>RM '000</i>
Contingent liabilities	7,000
Contingent Assets	4,000
Forward foreign exchange contracts used to hedged anticipated sales	<u>183,193</u>

Credit risk, or the risk of counterparties defaulting, is controlled by limiting the Group's association to creditworthy financial institutions in Malaysia.

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Exposure to market risk may be reduced through offsetting on and off balance sheet positions.

There are no significant credit and market risks posed by the above off balance sheet financial instruments.

### Off Balance Sheet Financial Instruments (cont'd)

The related accounting policy for the off balance sheet financial instruments disclosed in the financial statements for the year ended 30 June 2004 is as follows:

### Forward Foreign Exchange Contracts

Forward foreign exchange contracts are not recognised in the financial statements on inception. The underlying foreign currency assets or liabilities are translated at their respective hedged exchange rates and all exchange gains or losses are recognised as income or expense in the income statement in the same period as the exchange differences on the underlying hedged items. Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transactions, at which time they are included in the measurement of such transactions.

### 24. Changes in Material Litigation

As at 21 February 2005, there were no changes in material litigation, including the status of pending material litigation since the last annual balance sheet date of 30 June 2004, as details in Note 12.

### 25. Dividend Payable

No dividend was declared for the financial period ended 30 June 2005.

### 26. Earning Per Share

#### (a) Basic

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the financial period.

	<i>3 months ended 31.12.2004</i>	<i>6 months ended 31.12.2004</i>
Net profit for the period (RM'000)	6,394	20,173
Weighted average number of ordinary shares in issue ('000)	141,794	141,794
Basic earnings per share (sen)	<u>4.51</u>	<u>14.23</u>

**(b) Diluted**

For the purpose of calculating diluted earnings per share, the net profit for the period and the weighted average number of ordinary shares in issue during the period have been adjusted for the dilutive effects of all potential ordinary shares and shares granted to employees.

	<i>3 months ended 31.12.2004</i>	<i>6 months ended 31.12.2004</i>
Net profit for the period (RM'000)	6,394	20,173
Weighted average number of ordinary shares in issue ('000):	141,794	141,794
Effect of dilution:		
Share options	4,341	4,341
Adjusted weighted average number of ordinary shares in issue and issuable	146,135	146,135
Diluted earnings per share (sen)	4.38	13.80

**27. Authorised for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26 February 2005.