

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
FOR THE FINANCIAL QUARTER ENDED 31 December 2007

1. Basis of Preparation

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

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. 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 31 December 2006.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2006.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2006 was unqualified.

4. Comments About Seasonal or Cyclical Factors

The Group's performance for the period under review has not been affected by seasonal or cyclical factors.

5. Unusual Items Due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equities, net income, or cash flows during the financial period ended 31 December 2007.

6. Changes in estimates

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

7. Debts and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities in the current quarter.

8. Dividends Paid

An interim dividend of 4.4% tax exempt and 0.8% per share less 27% tax totaling 5.2% of interim dividend for the financial year ended 31 December 2007 amounting to RM24.5 million was paid on 26 December 2007.

9. Segmental Information

No segmental information is presented as the activities of the Group during the current and previous periods are substantially in the importing, buying, processing and selling of rice and/or by-products and/or paddy and were predominantly conducted in Malaysia.

10. Carrying Amount of Revalued Assets

There are no assets carried at valuation.

11. Significant and Subsequent Events

- (a) On 26 October 2007, the Economic Planning Unit ("EPU") had approved the Company's application to the Government of Malaysia ("the Government") on the extension of the BERNAS Agreement dated 12 January 1996 between the Government and BERNAS ("BERNAS Agreement").

The BERNAS Agreement, which will be expiring on 11 January 2011, has been extended to a further five year period until 11 January 2016.

- (b) On 6 December 2007, a General Release was executed between the Company and BK Asiapac Pte. Ltd. which provides, inter alia, the mutual agreement of both Parties to release each other from any claim, demand or liability effective from 9 November 2007 being the redemption date of the RCCPS by Cosmo for a total agreed redemption sum of RM7,057,239.99.

In relation thereto, the Company has no further interest in Cosmo.

12. Changes in Composition of the Group

There are no changes in the composition of the Group since date of the previous announcement other than that disclosed in Note 11 above.

13. Changes in Contingent Liabilities and Contingent Assets

- (a) The Company was served with a Writ and Statement of Claim dated 14 October 2005 by Konsortium Pemborong Beras (Melayu) Kelantan Sdn Bhd ("KBK") and was named as the First Defendant. KBK is seeking, the following:

- (i) A declaration that the Company violated the terms of the Joint Venture Agreement ("JVA") by not complying with its duties and obligations as a member/partner of Formula Timur Sdn Bhd ("the Joint Venture Company");
- (ii) A declaration that the Company's action in stopping the supply of rice to the Joint Venture Company is contrary to the provisions of the JVA, was wrongful and invalid;

13. Changes in Contingent Liabilities and Contingent Assets (Cont'd)

- (iii) A declaration that the Company by commission or omission committed a fraud upon the minority shareholders of the Joint Venture Company and/or abuse of power;
- (iv) General damages of RM112 million to be paid by the Company to the Joint Venture Company;
- (v) Rebate of RM760,000;
- (vi) Interest under Section 11 of the Civil Law Act, 1965 and in equity on the damages at 8% per annum from August 2003 till payment; and
- (vii) Injunction and Costs and other reliefs as the Court deem just.

The Company filed the application to strike out the said Statement of Claim against the Company on the ground that there is no valid cause of action.

The Company's Notice of Appeal to Judge in Chambers against the Senior Assistant Registrar's decision on 7 May 2007 pertaining to the Company's striking out application is now fixed for hearing on 25 April 2008.

- (b) The Company was served with Summons in Chambers dated 3 March 2006 by KBK for an interlocutory injunction, inter alia, the following:
 - (i) Restrain the Company from selling, hiring and supplying rice to any third party or allowing any activities which may compete with the business of the Plaintiff; and
 - (ii) Instruct the Company to resume selling, hiring and supplying rice to the Plaintiff.

KBK's application for injunctive relief has been fixed for Mention on 25 April 2008. The Company had instructed its solicitors to set aside the said injunction application.

- (c) The Company was served with a Writ of Summons and Statement of Claim dated 5 May 2006 initiated by A Halim Bin Hamzah & 291 others ('the Plaintiffs'). The civil suit is brought by the Plaintiffs against the Company & 24 others for, inter alia, the following claims:
 - (i) A declaration that the 2000 VSS scheme initiated by the Company is void and of no effect;
 - (ii) A declaration that the Defendants had by unlawful means conspired and combined together to defraud or injure the Plaintiffs;
 - (iii) Alternatively, a declaration that the Defendants had acted in furtherance of a wrongful conspiracy to injure the Plaintiffs;
 - (iv) Damages to be assessed; and
 - (v) Interest and costs.

13. Changes in Contingent Liabilities and Contingent Assets (Cont'd)

- (i) That the Writ and Statement of Claim as against the Defendants be struck out as it discloses no reasonable course of actions, scandalous, frivolous, vexatious and/or an abuse of process of the Court;
- (ii) That the cost of the said Order to be borne by the Plaintiffs; and
- (iii) Such further or other orders as the Court deemed fit.

The Court has granted Order In Terms for the Company's application to strike out the 21st Defendant with cost but dismissed the Company's application to strike out the 2nd to 12th Defendants on 3 September 2007. The appeal against the decision in dismissing the Company's application to strike out the 2nd to 12th Defendants is now fixed for clarification and decision on 3 March 2008.

- (d) The Company was served with an Originating Summons and Affidavit in Support ('the Application') affirmed by Zainon Bt Ahmad for and on behalf of the 690 others ('the Plaintiffs') for the following claims:
 - (i) A declaration that the Plaintiffs as employees of the Company whose service of employment has been terminated before attaining the age of 55 due to reasons other than that of compulsory retirement, optional retirement, death or a disability are entitled to the Retirement/Termination Benefits provided for in clause 7.3 of the 'Terma dan Syarat Perkhidmatan Kumpulan Eksekutif dan Kumpulan Bukan Eksekutif' and in clause 5.5 of the 'Buku Panduan Kumpulan Eksekutif dan Bukan Eksekutif'.
 - (ii) An order that the Company pays the Retirement/Termination Benefits due to the Plaintiffs as follows:
 - for those Plaintiffs who have attained the age of retirement of 55 years as at the date of the order, the Retirement/Termination Benefits be paid directly to them; and
 - for those Plaintiffs who have not attained the age of retirement of 55 years as at the date of the order, the Retirement/Termination Benefits be paid into their accounts at the Employment Provident Fund.
 - (iii) Interest at the rate of 8% per annum from 1 January 2004 to the date of payment as ordered by the Court.
 - (iv) Such further orders, directions or relief that the Court deems fit and appropriate.
 - (v) Costs to be paid by the Defendant to the Plaintiffs.

The Plaintiffs' Application was heard on 28 November 2007 and the matter which was fixed for decision on 20 February 2008 has been postponed to 26 February 2006.

There are no other changes in contingent liabilities since the last annual balance sheet as at 31 December 2006. The Group does not have any contingent assets.

14. Capital Commitments

	As at 31.12.2007 RM'000
Capital expenditure approved and contracted for:	
Property, plant and equipment	<u>13,846</u>
Capital expenditure approved and contracted for:	
Property, plant and equipment	<u>25,341</u>

15. Performance Review

Group's revenue in the current quarter increase by 10.2% to RM570.2 million as compared to RM517.1 million recorded in the same quarter last year. For the period of twelve months of 2007, the Group recorded an increase in revenue by 4.7% to RM2.2 billion despite a 3.5% reduction in total MT sales volume. This is due to higher sales of premium grade rice, which fetches premium price.

Gross profit in the current quarter is similarly better than the previous quarter due to higher volume of sales and better grade of local rice. However, gross profit for the twelve month period remain almost unchanged compared to the twelve month period of 2006 as gross profit margin dropped from 17.4% for the whole year of 2006 to 16.6% in the current year. The drop is mainly attributable to the 30% increase in international rice price since the beginning of 2007.

Operating expenditure increased by 38.6% in the current quarter mainly due to higher emolument cost in addition to the lower base value in corresponding quarter 2006 attributable to write back of certain expenses. For the twelve-month period, the Group's operating expenditure increased by 19% attributable to a group-wide increase in overall fuel and input cost in addition to the Voluntary Separation Scheme expenditure incurred amounting to RM14.6 million.

As a result, the Group has recorded a drop in net profit by 40.9% to RM16.7 million for the current quarter as compared to RM33.6 million for the corresponding quarter last year. For the period of twelve months of 2007, the Group recorded net profit of RM100.1 million, a drop of 22.3% as compared to RM135.2 million for the corresponding period of last year.

16. Comments on Material Changes in Profit Before Taxation

The Group recorded pre tax profits of RM26.2 million for the quarter ended 31 December 2007, a decrease of 34.55% compared to the preceding quarter's pre-tax profits of RM40 million. The decrease was primarily due to higher emolument cost which is a part of the administrative expenses.

17. Commentary on Prospects

The year 2007 has been a difficult year for the Group as high international rice price and widespread increase in fuel and other input cost have caused a drop in profitability. The year 2008 is expected to be similarly characterised by high and sustained food commodity prices as global food demand growth shows no sign of abating and supply to remain fairly constant. Global rice stock ending 2007 was estimated at 72.5 mil MT, the lowest since 1984, signifying that a continued trend of high price in 2008 can be expected.

17. Commentary on Prospects (Cont'd)

The Group is expected to experience increasing international price trend of rice for the remaining period of 2008. However, steps have been taken to mitigate the impact.

18. Profit Forecast or Profit Guarantee

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

19. Taxation

	3 months ended		12 months ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Tax expense for the period				
Malaysian Income Tax	7,192	5,464	37,471	35,601
Deferred Tax	2,340	877	(2,030)	7,378
	<u>9,532</u>	<u>6,341</u>	<u>35,441</u>	<u>42,979</u>

The effective tax rates for the current quarter ended 31 December is higher than the statutory tax rate applicable to the Group due to certain subsidiaries losses that cannot be utilised against profits of other subsidiaries.

20. Sale of Unquoted Investments and Properties

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

21. Marketable Securities

There are no sales or purchases of marketable securities for the current quarter.

22. Corporate Proposals

There are no new corporate developments since the date of the previous announcement.

23. Borrowings and Debt Securities

	As at	As at
	31.12.2007	31.12.2006
	RM'000	RM'000
Short Term Borrowings		
Secured	34,890	15,178
Unsecured	164,766	206,005
	<u>199,656</u>	<u>221,183</u>

23. Borrowings and Debt Securities (Cont'd)

	As at 31.12.2007	As at 31.12.2006
Short Term Borrowings	199,656	221,183
Long Term Borrowings Secured	<u>11,611</u>	<u>9,554</u>
	<u>211,267</u>	<u>230,737</u>

All the above borrowings are denominated in Ringgit Malaysia.

24. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at 26 February 2008.

25. Changes in Material Litigation

As at 28 February 2008, there were no changes in material litigation, including status of pending material litigation since the last annual balance sheet date of 31 December 2006 other than as disclosed in Note 13.

26. Dividend Payable

There is no dividend payable for the current quarter.

27. Earnings Per Share

Earnings-per-share ("EPS") is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

	3 months ended		12 months ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Net profit for the period (RM'000)	16,652	33,668	105,067	135,226
Weighted average number of ordinary shares in issue ('000)	470,402	470,402	470,402	470,402
Basic earnings per share (sen)	<u>3.54</u>	<u>7.16</u>	<u>22.34</u>	<u>28.75</u>

28. Authorisation 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 2008.

BY ORDER OF THE BOARD

NASLIZA MOHD NASIR
COMPANY SECRETARY
PADIBERAS NASIONAL BERHAD