

SRIWANI HOLDINGS BERHAD (104556 X)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2004

1. Accounting Policies

The interim financial statements are unaudited and have been prepared in accordance with MASB 26: Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). The same accounting policies and methods of computations are followed in the interim financial statements as compared with the financial statements for the year ended 31 December 2003, except for the following:

MASB 31 and MASB 32 were adopted for the first time during the financial year and the related accounting policies are as follows:

- (i) MASB 31: Accounting for Government Grants and Disclosure of Government Assistance
- (ii) MASB 32: Property Development Activities

The adoption of MASB 31 and MASB 32 have not given rise to any adjustments to the opening balances of retained profits as at 1 January 2003 and 1 January 2004.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2003. These explanatory notes attached 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 end of previous financial year.

2. Declaration of Audit Qualification

The financial statements of the Group for the year ended 31 December 2003 were qualified by the Auditors as they were of the opinion that the financial effects of the reduction in interest rates from the original rates stipulated by the financial lenders to 4% per annum under the Debt Restructuring Agreement (“DRA”) should only be recognised upon successful implementation and completion of the Group’s restructuring scheme.

However, on 27 February 2004, the Company has obtained a legal opinion which states that, subject to all the qualifications, presumptions and assumptions stated in the legal opinion, it is more probable to apply the interest rate of 4% as per the DRA for interest chargeable for the financial year ended 31 December 2003, based on, inter-alia:

- The Company has the option to implement the Proposed Capital Reduction and Consolidation, Proposed Restricted Issue, Proposed Rights Issue, Proposed Debt Restructuring Scheme, Proposed Assets Injection and Proposed Additional Issue (collectively referred to as the “Proposals”) which was approved by the Securities Commission (“SC”) on 31 October 2002 should the new proposal submitted in December 2003 to SC be rejected;
- There is no occurrence of any event of default as defined in the DRA;
- All Conditions Precedent of the DRA has been met; and
- If all the conditions, covenants and undertakings under the DRA are fulfilled by the Scheme Companies.

3. Seasonal or Cyclical Factors

The Duty Free segment is affected by seasonal holidays and festivities where the peak in this seasonal factor is experienced in November to February annually.

4. Nature and Amount of Exceptional Items

There were no items that have a material effect on the assets, liabilities, equity, net income or cash flows during the period under review.

5. Nature and Amount of Changes in Estimates

There were no material changes in estimates in respect of amounts reported in prior interim periods of the current financial year or prior financial year.

6. Debt and Equity Securities

There were no issuance and repayment of debts and equity securities, share buy-backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current quarter under review.

7. Dividend

No dividend has been paid or declared by the Company since the end of the previous financial year.

8. Segmental Reporting

(By Business Segment) (6 months ended 30 June)	Revenue		Profit/(Loss) before Tax	
	2004 RM '000	2003 RM '000	2004 RM '000	2003 RM '000
Duty Free	64,593	54,315	7,066	4,700
Property Management & Hospitality	19,141	19,375	(7,946)	(11,631)
Others	85	95	(3,907)	(880)
Total	83,819	73,785	(4,787)	(7,811)

The Group is generally organised into 2 major business segments, namely trading of duty free goods and non-dutiable merchandise and properties management and hospitality.

Other business segments include recreation, tours and travels and provision of corporate services, none of which are of a sufficient size to be reported separately.

Segmental reporting by geographical locations is not presented as the activities of the Group are predominantly carried out in Malaysia.

9. Valuations of Property, Plant and Equipment

The valuations of land and buildings have been brought forward without amendment from the previous annual financial statements for the year ended 31 December 2003.

10. Subsequent Events

There were no material events subsequent to the end of the current quarter under review.

11. Changes in the Composition of the Group

There were no other changes in the composition of the Group for the current quarter including business combinations or disposal of subsidiaries and long-term investment, restructuring and discontinuing of operations.

12. Contingent Liabilities

	Group 24/8/2004 RM' 000	Company 24/8/2004 RM' 000
Corporate guarantees extended in support of banking and other credit facilities granted to subsidiaries:-		
• Secured	-	141,041
• Unsecured	-	47,357
	<hr/>	<hr/>
	-	188,398
Corporate guarantees extended in support of banking and other facilities granted to a former subsidiary:-		
• Secured	10,000	10,000
Bankers' guarantees given to authorities for trade facilities granted to certain subsidiary companies – Secured	1,077	-
	<hr/>	<hr/>
	11,077	198,398

13. Review of Performance

Revenues of the Group improved by RM6.6 million (approximately 18.9%) from RM35.0 million in the corresponding period in previous year to RM41.6 million. This is mainly due to improvement in revenue of the Duty Free segment following the improved sentiments of global economies and recovery from SARS.

Loss before taxation ("LBT") of the Group has improved from RM5.3 million in corresponding period in previous year to RM0.4 million profit before taxation during the quarter. There is a gross improvement in operating profit of RM3.0 million from the increased revenues and RM3.8 million reversal of impairment loss on property, plant and equipment in the current financial quarter under review. The net increase is reduced to RM0.4 million due to the recognition of RM1.2 million gain on disposal of marketable securities of Eden Enterprises (M) Berhad in the corresponding quarter in previous year.

14. Comparison with Immediate Preceding Quarter's Results

	Current Quarter 30/06/2004 RM '000	Immediate Preceding Quarter 31/03/2004 RM '000
Revenue	41,600	42,219
Profit/(Loss) before taxation	404	(5,191)

14. Comparison with Immediate Preceding Quarter's Results (continue)

In view of lesser school holidays and festivities as compared to the immediate preceding quarter and instability in the Southern Thai region, revenue generated from Duty Free Segment has been reduced by RM1.3 million during the financial quarter under review. However, this has been off set against improved revenue from the property and hospitality division.

In contrast, PBT for the current quarter was RM5.6 million higher than that of the immediate preceding quarter. This was mainly due to additional contribution generated from the property and hospitality division and RM3.8 million reversal of impairment loss on property, plant and equipment of the Property Management and Hospitality segment.

15. Current Year Prospects

Barring any unforeseen circumstances, the Directors expect the operational performance in the remaining quarters of the year to be satisfactory.

16. Profit Forecast

Not applicable, as no profit forecast was published.

17. Taxation

	Individual Quarter		Cumulative Quarter	
	30/06/2004	30/06/2003	30/06/2004	30/06/2003
	RM '000	RM '000	RM '000	RM '000
Current taxation	466	261	890	854
Deferred taxation	8	(8)	(16)	(49)
	<u>474</u>	<u>253</u>	<u>874</u>	<u>805</u>

Provision for taxation for the current quarter and financial period to date is calculated based on the taxable profit attributable from certain profit making subsidiaries.

The effective rate of taxation of the Group is higher than the statutory rate of taxation principally due to losses of certain subsidiaries which cannot be set off against profits made by other companies in the Group as no group relief are available.

18. Quoted Securities

There were no sales of quoted securities during the financial quarter under review.

	Current Quarter 30/06/2004 RM'000	Cumulative Quarter 30/06/2004 RM'000
Sales proceeds from disposal of quoted securities	<u>-</u>	<u>1,506</u>
Gain on disposal of quoted securities	<u>-</u>	<u>-</u>

19. Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments and properties during the financial quarter under review.

20. Status of Corporate Proposals

Save as disclosed below, there are no other changes in the status of the Company's plan to regularise its financial condition since the end of previous financial year end:

- (i). On 16 March 2004, Securities Commission ("SC") has approved an extension of time to 21 September 2004 for the implementation of ESOS;
- (ii). On 15 April 2004, SC has approved the Existing Restructuring Plan, Proposed Property Disposal and Proposed Alternative Restructuring Plan, subject to certain conditions, for certain revisions to the existing plan of the Company to regularize its financial condition, details of which has been announced on Bursa Malaysia on 16 April 2004.
- (iii). On 12 May 2004, Commerce International Merchant Bankers Berhad ("CIMB") announced that SC has through its letter dated 11 May 2004 approved the proposed placement exercise of SHB Shares to be received by Multi Esprit Sdn. Bhd., Stuart Saw Teik Siew, Yeoh San Hai and Saw Eng Huat Properties Sdn. Bhd. Pursuant to the restructuring plan of the Company in order to meet the public shareholding spread requirements of Bursa Malaysia.
- (iv). Referring to Naluri Berhad ("Naluri") announcement dated 27 May 2004, Hazman Bin Ahmad ("Plaintiff"), a shareholder of Naluri, has served a Writ of Summons together with a Statement of Claim on the Special Administrators ("SAs") of Naluri claiming that the appointment of the SAs is invalid and the consequential order that all transactions entered into by the SAs purportedly for and on behalf of Naluri, are null and void.

Hence, on 2 June 2004, CIMB on behalf of the Company announced that the Board of Directors of the Company is not aware of any other information and/or developments other than that announced by Naluri on the aforesaid date. In view of the limited information available, the Board is not able to ascertain any impact on the Company and/or the Proposals at this juncture.

- (v). On 24 June 2004, SC has approved an extension of time to 30 November 2004 for the implementation of the Existing Restructuring Plan and MA Sepang Debt Settlement.
- (vi). On 29 June 2004, CIMB on behalf of the Company announce that SC (on behalf of Foreign Investment Committee) has through its letter dated 28 June 2004 approved the Proposed Alternative Restructuring Plan under the Foreign Investment Committee Guidelines for the Acquisition of Assets, Mergers and Take-Overs. 1974. CIMB and the Company are required to inform SC at such time when the Proposed Alternative Restructuring Plan is completed.
- (vii). On 1 July 2004, CIMB has announced that Bursa Malaysia has on 30 June 2004 approved the following:-
 - The re-quotation for SHB Shares on the Main Board of Bursa Malaysia upon completion of the rights issue and placement exercise, subject to the condition that the Company has at least 15% public shareholding spread; and
 - An extension of time of six (6) months from the completion of the rights issue for the Company to comply with the minimum 25% public shareholding spread requirement.
- (viii). On 5 July 2004, CIMB on behalf of the Company announced that Cergasjaya Properties Sdn. Bhd. ("CPSB"), a wholly owned subsidiary of the Company, has on even date entered into a supplemental agreement ("Supplemental SPA") to the conditional sale and purchase agreement dated 12 December 2003 between CPSB and Naluri for the proposed disposal of the leases of three (3) pieces of leasehold development land comprising a golf and country club and vacant land to Naluri for a total consideration of approximately RM27.481 million, details of which have been announced on Bursa Malaysia on 13 December 2003. The execution of the Supplemental SPA will not have any effects on the issued and paid-up share capital, shareholdings of major shareholders, net tangible assets and earnings of the Company and its subsidiaries.

20. Status of Corporate Proposals (continue)

(ix). On 18 August 2004, CIMB on behalf of the Company announced that the Company and its subsidiaries, namely Kelana Megah Sdn. Bhd., Blossom Time Sdn. Bhd., Cerah Menang (M) Sdn. Bhd. and Cergasjaya Properties Sdn. Bhd., and Naluri have mutually agreed to an extension of time to 31 October 2004 for the fulfillment of all conditions precedent to the following agreements:

- A conditional subscription agreement dated 12 December 2003 between the Company and Naluri for the purpose of subscription by Naluri of new ordinary shares of RM1.00 each and irredeemable convertible preference shares – A of RM0.10 each in SHB; and
- Conditional sale and purchase agreements dated 12 December 2003 between the subsidiaries and Naluri for the purpose of the proposed disposal of properties.

In addition, CIMB on behalf of the Company informs that the Company proposes to revise the utilisation of proceeds arising from the restricted issue and rights issue of SHB and the Company shall be allowed to repay to other financial institutions (“FIs”) in event that borrowings are taken from these FIs to finance any repayment to be made to the scheme creditors pursuant to the debt restructuring scheme of SHB, prior to the completion of the rights issue of SHB.

(x). On 25 August 2004, CIMB on behalf of the Company announced that the Company proposed the following:-

- Amendments to the existing bye-laws of the ESOS (“ESOS Bye-Laws”) of SHB and its subsidiaries. The Proposed Bye-Laws Amendments shall include increase in the maximum number of ordinary shares of RM1.00 each in SHB (“SHB Shares”) that may be issued under the ESOS from 10% to 15% of the issued and paid-up capital of SHB at any one time; and the participation of eligible Non-Executive Directors of SHB and its subsidiaries in the ESOS, save for those subsidiaries which are dormant; and
- Amendment to the Articles of Association of SHB pursuant to the Proposed Bye-Laws Amendments in order to facilitate the participation of eligible Non-Executive Directors of the Group in the ESOS

(xi). On 26 August 2004, CIMB on behalf of the Company announced that an Extraordinary General Meeting will be held at Shangri-La’s Golden Sands Resort, Batu Ferringhi Beach, 11100 Penang on Tuesday, 21 September 2004 at 9.30a.m. for the purpose of approving the Proposed Alternative Restructuring Plan, Proposed Property Disposals, Proposed Leaseback Arrangement, Proposed Amendments to ESOS Bye-Laws, Proposed Grant of Option under ESOS and Proposed Amendments to the Articles Of Association of the Company.

21. Group Borrowings

Group borrowings and debt securities as at 30 June 2004, all denominated in Ringgit Malaysia are: -

Short Term Borrowings	RM’000
Secured	604,460
Unsecured	52,656
Total Short Term Borrowings	657,116
Long Term Borrowings	RM’000
Secured	3,099
Unsecured	2,250
Total Long Term Borrowings	5,349

22. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk during the current quarter ended 30 June 2004.

23. Material Litigation

Apart from those mentioned below, there are no changes in the status of the other litigation matters: -

- a) Bumiputra-Commerce Bank Berhad (“BCB”) claiming RM10,838,023 from Cergasjaya Sdn. Bhd. (“CJSB”) and the Company as Guarantor

BCB through their solicitors has given its undertaking not to execute the Judgment against CJSB. Should the Proposals mentioned in Note 20 above is unsuccessful, BCB intends to execute the said Judgment where a prior notice of 2 weeks will be given to CJSB’s solicitors to enable them to file a fresh application to set aside the said Judgment.

- b) AmBank Berhad (“AMBB”) (formerly known as Arab Malaysian Bank Berhad claiming RM4,256,560 against Sriwani Trading Sdn. Bhd. (“STSB”) and the Company as Guarantor

The above legal action has been transferred to the Penang High Court and a new suit number has been allocated. STSB and the Company’s solicitors have written to AMBB’s solicitors to withdraw the above legal action in view of the DRA entered into by both parties, however AMBB’s solicitors have informed the Company that they wish to keep the matter in abeyance pending further instructions from AMBB.

- c) Zainal Azman Bin Md. Zain (“ZAMZ”) against the Company and six (6) others

On 8 August 1995, ZAMZ, the administrator of the estate of Wan Zainab binti M.A.Bakar, commenced legal proceedings against the Company and six (6) of its Directors at that point in time in the Penang High Court for the alleged:-

- (i). Fraudulent and non-payment transfer of 36,666 units of shares in Syarikat Sriwani (M) Sdn Bhd (“SSSB”) to the Company for the amount of RM36,666 which belonged to his mother, Wan Zainab binti M.A.Bakar;
- (ii). Fraudulent and underpayment of transfer of 5,000 units of shares in SSSB to the Company which is valued at RM3.50 each totaling RM17,500 which also belonged to his mother, Wan Zainab binti M.A.Bakar; and
- (iii). Breach of trust by failing to give a full and frank disclosure of the said transfer of shares.

ZAMZ is claiming for the sum of RM13,901,268 being the value of the shares, general, aggravated and exemplary damages of RM30,000 together with interest and costs.

The solicitors noted that exposure to liability is RM36,666 if the Court finds that no consideration was given. The solicitors are also of the opinion that ZAMZ is unlikely to succeed in equitable tracing. Therefore the claim of RM13,901,268 is farfetched but not impossible. The general, aggravated and exemplary damages if at all allowed will be minimal.

On 4 December 2003, the Court has granted Order In Terms in respect of the Plaintiff’s application to amend the Writ of Summons. However, the learned Deputy Registrar has ordered the Plaintiff to bear the costs of the said application. The Court has fixed for Case Management on 25 May 2004. The Court has fixed 25 to 27 August 2004 for trial.

23. Material Litigation (continue)

- d) Cergasjaya Sdn. Bhd. (“CJSB”) claiming RM1,708,596 from Malayan Banking Berhad (“MBB”)

Subsequent to the serving of Writ of Summons on MBB on 7 November 2002 and MBB filing its statement of defence on 27 December 2003, the case has come up for Pre Trial Case Management on 15 January 2004 and the learned High Court Judge has fixed the hearing on 20 April 2004.

On 20 April 2004, the learned High Court Judge has fixed the case for Pre Trial Case Management on 18 May 2004. On 18 May 2004, the Court granted the order for the amendment to the Statement of Defence. The matter has been fixed for hearing on 6 September 2004.

- e) Sriwani Holdings Berhad claiming RM3,043,537 from Eden Enterprises (M) Berhad (“EEB”)

The Company had through its solicitors sent a letter of demand dated 5 September 2003 to EEB’s solicitors claiming for the sum of RM3,043,537 (as at 30 September 2002), being the outstanding amounts due from EEB to the Company through various transactions and/or inter-companies loans while EEB and its subsidiaries were subsidiaries of the Company. The Statement of Claim against EEB was filed in the Shah Alam High Court on 30 December 2003. The Statement of Claim was extracted on 11 February 2004 and the same was served on EEB on 12 February 2004.

EEB has filed its Statement of Defence on 7 April 2004 and served on the Company on 14 April 2004. The Company’s solicitors have filed the reply to the defence on 28 May 2004.

- f) Nasturi Jaya Sdn Bhd (“NJSB”) claiming RM831,707 from Kelana Megah Sdn Bhd (“KMSB”)

NJSB instituted claims on KMSB for goods sold and delivered for the sum of RM831,707. The main contractor is Mancon Berhad whilst NJSB is the nominated sub-contractor. The contract documents have specific provision to state there is no privity of contract between NJSB with KMSB although KMSB has made some payments on behalf of the main contractor to NJSB directly.

KMSB has filed a defence and no further procedural steps are pending at this stage save and except for the request for the contract documents by NJSB pursuant to Order 24 rule 10 of the Ruled of High Court 1980.

NJSB has filed an application pursuant to Order 14A of the Rules of the High Court 1980 whereby they have sought to seek a ruling of this Court that their claim is outside the contract between the main contractor and NJSB. KMSB’s solicitors are in the process of filing an affidavit in reply to the Order 14A application.

The solicitor has expressed their opinion that NJSB would have a difficult time to prove any privity of contract and consequently any liability on the part of KMSB.

- g) Eden Enterprises (M) Berhad (“EEB”) against Sriwani Duty Free Centre (Langkawi) Sdn Bhd (“SDFC”) and two others

On 10 April 2004, SDFC has filed a defence and affidavit to strike out the Statement of Claim filed by EEB against SDFC and two (2) others for Tort of Conspiracy in respect of a lease agreement entered into between EEB and SDFC on 20 August 2002 (“Lease Agreement”). The case has been fixed for hearing on 16 May 2004. The matter has been fixed for clarification and decision on 1 August 2004.

23. Material Litigation (continue)

- g) Eden Enterprises (M) Berhad (“EEB”) against Sriwani Duty Free Centre (Langkawi) Sdn Bhd (“SDFC”) and two others (continue)

The solicitor representing SDFC is of the opinion that the SDFC has a good case to strike out the Statement of Claim filed by EEB. The solicitor is also of the opinion that based on EEB’s own pleadings that the details of the claims would be unjustifiable and constitute an abuse of process in the light of the valuation that SDFC has since obtained.

On 28 July 2004, the Company announced that EEB has on 25 July 2004 filed an application in the Alor Setar High Court to discontinue the aforementioned suit and such application is pending a hearing date. In the interim, EEB’s solicitors are asking for an adjournment on 1 August 2004 pending disposal of their application. The matter is further adjourned and fixed for hearing at the Alor Setar High Court on 18 October 2004.

24. Loss Per Share

The basic loss per share for the current financial quarter has been calculated based on the Group’s loss after taxation and minority interests divided by the number of ordinary shares in issue during the financial period.

	Individual Quarter		Cumulative Quarter	
	30/06/2004	30/06/2003	30/06/2004	30/06/2003
Net loss for the period (RM ‘000)	(85)	(5,622)	(5,680)	(8,680)
Number of Ordinary Shares (‘000)	121,214	121,214	121,214	121,214
Basic loss per share (sen)	(0.07)	(4.64)	(4.69)	(7.16)

The diluted loss per share is not presented as the assumed conversion of warrants to ordinary shares is anti dilutive.