

## **A. NOTES TO THE INTERIM FINANCIAL REPORT**

### **A1. Basis Of Preparation**

The interim financial report for the first quarter ended 31 March 2006 is unaudited and has been prepared in accordance with the requirements of FRS134 *Interim Financial Reporting* and Part A of Appendix 9B of the Bursa Malaysia Securities Bhd (BMSB) Listing Requirements.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005.

### **A2. Changes in Accounting Policies**

The accounting policies and methods of the computation adopted by the Group in this interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2005 except for the adoption of the following new/ revised Financial Reporting Standards ("FRSs") effective for financial period commencing on 1 January 2006 :-

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
FRS 131	Interest in Joint Ventures
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Properties

The above new/revised FRSs does not have significant financial impact on the Group except for the following as discussed below:-

#### **a) FRS 3 : Business Combinations & FRS 136 Impairment of Assets**

FRS 3 requires goodwill to be recorded at cost less accumulated impairment losses. Review of impairment shall be on an annual basis or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. Any impairment loss is recognized in income statements and subsequent reversal is not allowed in accordance with FRS 136.

## **A2. Changes in Accounting Policies (continued)**

Prior to 1 January 2006, the Group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortisation was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 25 years.

In accordance with the transitional rules of FRS 3, the Group has ceased to amortise goodwill with effect from 1 January 2006 and has tested the goodwill in accordance with FRS 136.

### **b) FRS 101 : Presentation of Financial Statements**

The effects of the revised FRS 101 on the presentation of financial statements and restatement of comparative figures for the Group are as follows :-

#### **i) Statement of changes in equity**

The opening balance of total equity was amended to include Minority Interests following the adoption of FRS 101.

#### **ii) Consolidated balance sheet**

Land and buildings held for own use was previously accounted as property, plant and equipment by the Group. With the adoption of FRS 101, certain land and buildings have been reclassified from the property, plant and equipment as investment properties in the non-current assets of the consolidated balance sheet for financial period ended 31 March 2006.

The presentation in the consolidated balance sheet of the Group for financial year ended 31 December 2005 has been reclassified to conform with the current year's presentation.

## **A3. Audit Report**

The audit report of the Group for the preceding annual financial statements for the year ended 31 December 2005 was not qualified.

## **A4. Seasonal Or Cyclical Factors**

The Group is principally engaged in property development and the business operations are dependent on the Malaysian economy and general market confidence.

## **A5. Unusual Items**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows because of their nature, size or incidence for the current financial period under review.

**A6. Changes In Estimates**

There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that have material effect in the financial period under review.

**A7. Debt And Equity Securities**

There were no issuance, cancellations, repurchase, resale and repayments of debt and equity securities for the current financial period under review.

**A8 Dividend Paid**

There were no dividend paid for the current financial period under review.

**A9. Segmental Reporting**

	<u>Turnover</u> RM'000	<u>Profit/(Loss)</u> <u>Before Taxation</u> RM'000
<b><u>Malaysia</u></b>		
Property development	13,970	1,985
Trading	353	(86)
Plantation	195	35
	<u>14,518</u>	<u>1,934</u>
Investment	-	4
	<u>14,518</u>	<u>1,938</u>
 <b><u>China</u></b>		
Manufacturing	28,455	(4,463)
Property development	-	(429)
	<u>28,455</u>	<u>(4,892)</u>
 <b><u>Group's share in</u></b> <b><u>Associated Companies</u></b>		
China - Manufacturing	-	(1,643)
	<u>-</u>	<u>(1,643)</u>
 Grand Total	 42,973 =====	 (4,597) =====

#### **A10. Revaluation Of Property, Plant And Equipment**

The Group has maintained its accounting policies of measuring the property, plant and equipment using the cost model. As such, the valuation of certain land and buildings has been reversed to restate the cost of the land and buildings.

#### **A11. Material Events Subsequent To Balance Sheet Date**

There were no material events as at 20 May 2006 that have not been reflected in the financial statements for the current financial period.

#### **A12. Changes In Group's Composition**

There were no changes in the composition of the Group during the current financial period and financial year under review.

#### **A13. Changes In Contingent Liabilities**

The changes in contingent liabilities of the Group since the last annual financial year ended 31 December 2005 are as follows :

	As At 31 Mar 2006 RM '000	As At 31 Dec 2005 RM '000
<b>Secured</b>		
Bank guarantees issued in favour of various third parties	1,915	2,064
	<u>1,915</u>	<u>2,064</u>
	=====	=====

- Note : 1) The decrease in contingent liabilities was due to cancellation of bank guarantees issued upon expiry.
- 2) The contingent liabilities of the Group remain unchanged as at 20 May 2006 has been reduced to RM0.821 million due to cancellation of bank guarantee.

**B. ADDITIONAL INFORMATION REQUIRED BY THE BMSB'S LISTING REQUIREMENTS**

**B1. Review Of Performance Of The Company And Its Principal Subsidiaries**

The Group registered a turnover of RM42.973 million and loss before tax of RM4.597 million for the financial period from 1 January 2006 to 31 March 2006 under review compared to RM54.455 million and RM6.755 million respectively for the preceding year corresponding period.

The losses recorded by the Group for the period under review were mainly attributable to the operational losses of the foreign operations in the People's Republic of China.

**B2. Material Changes In The Quarterly Results Compared To The Results Of The Preceding Quarter**

The Group's loss before tax for the current financial period decreased by RM5.116 million from a loss before tax of RM9.713 million for the preceding financial period to a loss before tax of RM4.597 million.

**B3. Prospect For Current Financial Year**

The Company is actively pursuing the disposal of its investments in China due to the continuing losses recorded by the China operations. The disposal of the China Investments is a key factor in the turnaround of the Group's performance.

Barring any unforeseen circumstances, the Group will continue to make every effort to improve efficiency and productivity with a view to achieving better performance.

**B4. Variance Of Profit Forecast**

The Group did not issue any profit forecast to the shareholders during the current financial period and current financial year under review.

## B5. Taxation

(i) Taxation comprises : -

	Current Year Quarter 31/3/2006 RM'000	Preceding Year Corresponding Quarter 31/3/2005 RM'000	Current Year Cumulative 31/3/2006 RM'000	Preceding Year Cumulative 31/3/2005 RM'000
- current taxation	(883)	(407)	(883)	(407)
- in respect of prior years	-	(388)	-	(388)
	<u>(883)</u>	<u>(795)</u>	<u>(883)</u>	<u>(795)</u>
	=====	=====	=====	=====

Despite the Group's loss before income tax for the current financial period, provision for taxation has been made due to profit of the Company and certain subsidiaries which, for tax purposes, cannot be offset against losses of the other subsidiaries in the Group.

(ii) Deferred Taxation

Deferred tax asset has not been recognised as it is not probable that future taxable profit of the Company and of the Group will be available against which the Company and the Group can utilise the benefits.

## B6. Profit on sale of Investments and /or Properties

There were no disposal of investment for the financial period under review.

## B7. Quoted Securities

- (a) There were no purchase and disposal of quoted securities in the current financial period and financial year under review.
- (b) Total investments in quoted securities as at 31 March 2006 are as follows:-

	As At 31/3/2006 RM'000
At cost	99
Less : Provision for diminution in value	(86)
At book value	<u>13</u>
	=====
Market value	<u>13</u>
	=====

## **B8. Status of Corporate Proposals**

1. As announced on 28 February 2006, the Securities Commission had approved the following proposals :

- i) Proposed settlement of the outstanding debt under USD Syndication due to syndicated lenders (“Syndicated Lenders”) through the issuance of Redeemable Convertible Secured Bonds (“RCSB”);
- ii) Proposed settlement of the outstanding debt under the bilateral facilities due to bilateral lenders (“Bilateral Lenders”) through the issuance of Redeemable Convertible Secured Loan Stocks (“RCSLS”) or conversion of the outstanding debt into term loan; and
- iii) Proposed issuance of Irredeemable Convertible Unsecured Loan Stocks (“ICULS”) to Syndicated Lenders and Bilateral Lenders; (collectively known as “Proposed Debt Settlement”)

Accordingly, an extraordinary general meeting will be convened to consider and approve the following proposals :

- a) Proposed debt settlement
  - b) Proposed increase in the authorised share capital from RM300,000,000 comprising 300,000,000 Farlim shares to RM500,000,000 comprising 500,000,000 Farlim shares ; and
  - c) Proposed alterations to the Memorandum and Articles of Association of Farlim
2. The status of proposed acquisition of freehold lands measuring 60.067 acres held in Mukim Kajang and Mukim Cheras, all in Daerah Ulu Langat, Selangor Darul Ehsan by Bandar Subang Sdn Bhd, a wholly-owned subsidiary, from Rakyat Corporation Sdn Bhd for a cash consideration of RM38,000,000/- as announced in relation to the last financial period ended 31 December 2005 remains unchanged as at 20 May 2006.

## **B9. Group Borrowings and Debt Securities**

Total group borrowings as at 31 March 2006 are as follows :

	<b>RM'000</b>
<b>Long Term Bank Borrowings</b>	
<u>Secured</u>	
Term loans	31,128
Syndicated revolving credit	9,979
Revolving credit	2,388
	<hr/>
	43,495
Hire purchase	<hr/>
	171
	<hr/>
	43,666
<b>Short Term Bank Borrowings</b>	<b>RM'000</b>
<u>Secured</u>	
Bank overdrafts	539
Syndicated revolving credit	28,354
Term loans	91,447
Bankers' acceptance	796
Revolving credit	2,552
	<hr/>
	123,688
Hire purchase	<hr/>
	124
	<hr/>
	123,812
Total	<hr/>
	167,478
	<hr/>

- Note : (i) The syndicated revolving credit is a foreign loan of USD10.346 million equivalent to RM38.333 million.
- (ii) Included in the short term loans of RM91.447 million are foreign loans of RM72.812 million equivalent to Renminbi 155.300 million.
- (iii) The other borrowings are denominated in local currency.

## **B10. Off Balance Sheet Financial Instruments**

The Group did not have any financial instruments with off balance sheet risk as at 20 May 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

## **B11. Material Litigations**

- (i) The status of the material litigation between Bandar Subang Sdn Bhd , a wholly-owned subsidiary and Cygal Berhad (“CB”) in respect of the arbitration of the building contract as announced in relation to the last financial period ended 31 December 2005, remains unchanged as at 20 May 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report). CB has yet to close its case and the next arbitration hearing will recommence on 26 July 2006 to 28 July 2006.
- (ii) The status of the material litigation between the Company and Esphere Enterprises Sdn Bhd (“EESB”) in respect of the Company’ petition for winding-up of EESB as announced in the last financial period ended 31 December 2005, remains unchanged as at 20 May 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report). On 10 May 2006, the Kuala Lumpur High Court has heard our application and allowed for Leave to commence action against EESB notwithstanding it has been wound up. Both counsels who represented the liquidators and the Company cross examined the directors of EESB and the matter is now fixed for Mention on 14 June 2006.

EESB is indebted to the Company for the sum of RM6,864,684.93 in respect of deposit refundable to the Company by EESB and compensation thereon pursuant to the terms of a Letter of Intent dated 3 May 2000, for the purchase of the entire 100% equity interest in Mahawira Sdn. Bhd. which was subsequently aborted.

## **B12. Basic Earnings Per Share**

- a) Basic Earnings/(Loss) Per Share Attributable To Equity Holders Of The Parent

The calculation of basic earnings per share for the current financial period is based on the net loss attributable to ordinary shareholders of RM2.799 million and the weighted average number of ordinary shares in issue during the period as follows:

Net loss attributable to ordinary shareholders (RM'000)	2,799
Weighted average number of ordinary shares ('000)	120,000
Basic loss per share (sen)	2.33

- b) Diluted Earnings Per Share

The diluted earning per share is not computed as it is anti-dilutive.

## **B13. Dividend**

No dividend is recommended for the financial period under review.

**B14. Provision of Financial Assistance**

Pursuant to paragraph 8.23 and 10.08 of the Listing Requirements and Practice Note No 11/2001 of the Bursa Malaysia Securities Berhad, the following are the financial assistance provided by the Group for the current financial period under review :-

Financial Assistance Provided By	The Financial Assistance Provided To	Type of Financial Assistance	Financial Assistance Provided As At 31/3/2006 (RM)	Financial Assistance During The Quarter (Jan, Feb And Mar 2006) (RM)
<b><u>Loan To Unlisted Holding Company</u></b>				
Farlim Group (Malaysia) Bhd	Farlim Holding Sdn Bhd	Loan (additional sum due to interest charged) Repayment	61,228,505.83	797,457.31 <u>(1,256,000.00)</u> <u>(458,542.69)</u>
<b><u>Loan From Wholly Owned Subsidiary to Non Wholly Owned Subsidiary</u></b>				
Bandar Subang Sdn Bhd	LJ Harta Sdn Bhd (80% owned)	Loan (additional sum due to interest charged) Repayment	7,677,936.22	58,230.40 <u>(919,664.00)</u> <u>(861,433.60)</u>
	<b>Sub - Total</b>			<b>(1,319,976.29)</b>

Financial Assistance Provided By	The Financial Assistance Provided To	Type of Financial Assistance	Financial Assistance Provided As At 31/3/2006 (RM)	Financial Assistance During The Quarter (Jan, Feb And Mar 2006) (RM)
<b><u>Loan From Non-Wholly Owned Subsidiary to Wholly Owned Subsidiary</u></b>				
Farlim (Johor) Sdn Bhd (51% owned by FGMB)	Bandar Subang Sdn Bhd (100% owned by FGMB)	Repayment thru expenses paid on behalf	1,074,159.46	(26,724.91)
<b><u>Loan From Non-Wholly Owned Subsidiary to Sub-Subsidiary</u></b>				
Q.F.G.C.(Limited) (51% owned) (QFGCL)	Quanzhou Bao Jia Garment Co Ltd. (70% owned by QFGCL)	Monthly interest charged	1,047,073.61	12,601.64
Q.F.G.C.(Limited) (51% owned)	Quanzhou Fuji-Sino Elevators Co Ltd. (65.16% owned by QFGCL)	Monthly interest charged	2,255,801.15	28,869.14
	<b>Sub - Total</b>			<b>14,745.87</b>
	<b>Grand Total</b>			<b>(1,305,230.42)</b>