KRETAM HOLDINGS BERHAD

(Company No.: 168285 - H)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2006

This interim financial report is unaudited and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2005.

A. CONDENSED CONSOLIDATED INCOME STATEMENT

	INDIVIDUAL QUARTER: Quarter Ended 31 Mar		CUMULATIVE: 3 Months Ended 31 Mar	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Continuing Operations:				
Revenue	15,321	12,346	15,321	12,346
Profit/(loss) before finance cost, depreciation and taxation	4,255	2,599	4,255	2,599
Finance cost	(3,234)	(2,787)	(3,234)	(2,787)
Depreciation and amortisation	(70)	(384)	(70)	(384)
Profit/(loss) before taxation and share of results of associated companies	951	(572)	951	(572)
Share of results of associated companies	0	0	0	0
Profit/(loss) before taxation	951	(572)	951	(572)
Income tax	(485)	(734)	(485)	(734)
Profit/(loss) after taxation from continuing operations	466	(1,306)	466	(1,306)
Discontinued Operations:				
Profit/(loss) after taxation from discontinued operations	812	(5)	812	(5)
Profit after taxation for the quarter/period	**1,278**	**(1,311)**	**1,278**	**(1,311)**
Profit/(loss) after taxation is attributable to:				
- Shareholders of the Company	1,262	(1,173)	1,262	(1,173)
- Minority interests	16	(138)	16	(138)
	1,278	**(1,311)**	**1,278**	**(1,311)**
Earnings per share ("EPS") (Note 25):-				
	sen	**sen**	**sen**	**sen**
(i) Basic EPS:				
- for profit from continuing operations	0.40	(1.13)	0.40	(1.13)
- for profit from discontinued operations	0.70	0.13	0.70	0.13
- for profit after taxation for the quarter/period	**1.10**	**(1.00)**	**1.10**	**(1.00)**
(ii) Diluted EPS:				
- for profit from continuing operations	0.85	0.30	0.85	0.30
- for profit from discontinued operations	0.22	0.03	0.22	0.03
- for profit after taxation for the quarter/period	**1.07**	**0.33**	**1.07**	**0.33**

B. CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31.03.2006 (Unaudited) RM'000	As at 31.12.2005 (Restated) RM'000
NON-CURRENT ASSETS		
Property, plant and equipment	80,159	92,187
Biological assets	173,705	173,040
Land and development expenditure held for development	0	44,624
Investments	0	3,183
Goodwill on consolidation	9,032	9,032
CURRENT ASSETS		
Inventories	6,488	8,744
Receivables	33,172	24,739
Amount due from associates	0	9
Tax refundable	13,642	13,656
Marketable securities	0	1
Fixed deposits and short-term placements	22,559	24,578
Cash and bank balances	16,683	5,723
	92,544	77,450
Non-current assets held for sale	59,851	0
	152,395	77,450
CURRENT LIABILITIES		
Payables	49,253	36,481
Trust accounts	10,227	9,955
Short-term borrowings	60,685	58,636
Provision for taxation	3,954	3,534
	124,119	108,606
Liabilities directly associated with non-current assets classified as held for sale	3,651	0
	127,770	108,606
NET CURRENT ASSETS/(LIABILITIES)	24,625	(31,156)
NON-CURRENT LIABILITIES		
Loan stocks	90,017	89,730
Borrowings	0	4,172
Deferred taxation	56,924	57,473
	140,580	139,535
EQUITY		
Equity attributable to shareholders of the Company		
Share capital	116,855	116,855
Equity component of loan stocks	75,715	75,715
Revaluation reserve	49,512	49,585
Other reserves	47,235	47,235
Accumulated losses	(153,609)	(154,943)
	135,708	134,447
Minority interests	4,872	5,088
	140,580	139,535
NET ASSETS PER SHARE (SEN)	**120.3**	**119.4**

C. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to:				
	Shareholders of the Company				
	Share Capital	Reserves (not distributable)	Accumulated Losses	Minority Interests	TOTAL
	RM'000	RM'000	RM'000	RM'000	RM'000
CURRENT YEAR TO DATE:					
At 1 January 2006, as previously reported	116,855	172,535	(156,562)	5,088	137,916
Prior year adjustments:					
- effects of adopting FRS 3	0	0	1,618	0	1,618
At 1 January 2006 (Restated)	116,855	172,535	(154,944)	5,088	139,534
Realisation of revaluation reserve		(73)	73		0
Acquisition of Redeemable Non-cumulative Preference Shares in subsidiary from minority interests	0	0	0	(232)	(232)
Profit/(loss) after taxation for the period	0	0	1,262	16	1,278
At 31 March 2006	116,855	172,462	(153,609)	4,872	140,580
PREVIOUS YEAR CORRESPONDING PERIOD:					
At 1 January 2005, as previously reported	116,855	176,223	(146,708)	6,060	152,430
Prior year adjustments:					
- effects of adopting FRS 3	0	0	1,618	0	1,618
At 1 January 2005 (Restated)	116,855	176,223	(145,090)	6,060	154,048
Movement in equity portion of loan stocks	0	614	0	0	614
Profit after taxation for the period	0	0	(1,173)	(138)	(1,311)
At 31 March 2005 (Restated)	116,855	176,837	(146,263)	5,922	153,351

D. CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 Months Ended 31 Mar	
	2006	2005
	RM'000	RM'000
Net cash flow generated from/(used in):-		
- Operating activities	12,228	11,516
- Investing activities	(1,417)	(1,037)
- Financing activities	(439)	(499)
Increase/(decrease) in cash and cash equivalents	10,372	9,980
Cash and cash equivalents:-		
- At beginning of the year	28,313	91,942
- At end of the period	38,685	101,922

E. EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD FRS 134

1. CHANGES TO ACCOUNTING POLICIES

The interim financial statements are prepared as required by Paragraph 9.22 of the Bursa Malaysia Listing Requirements and comply with Financial Reporting Standard FRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (MASB).

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the audited financial statements for the year ended 31 December 2005 except for changes arising on the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for the financial period beginning 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	*Investments in Associates*
FRS 131	*Interests 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 Property*

The adoption of FRSs 2, 102, 108, 110, 116, 121, 127, 128, 131, 132, 133 and 140 did not have any significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are as follows:-

(a) FRS 3 *Business Combinations*, FRS 136 *Impairment of Assets* and FRS 138 *Intangible Assets*

The new FRS 3 had resulted in consequential amendments to FRS 136 and FRS 138. Goodwill is now stated at cost less accumulated impairment losses and is now tested for impairment annually, or at more frequent intervals if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in the consolidated income statement and subsequent reversal is not allowed. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006.

Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over its cost of acquisition (previously referred to as "negative goodwill"), after reassessment, is required to be recognised immediately as a gain in the consolidated income statement. Prior to 1 January 2006, negative goodwill was carried in the consolidated balance sheet, and offset against goodwill. Under the transitional provisions of FRS 3, such negative goodwill, amounting to RM1,618,000, was derecognised, with a corresponding adjustment to the opening balance of accumulated losses.

(c) FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The Group has applied FRS 5 prospectively in accordance with its transitional provisions, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Prior to 1 January 2006, under the previous FRS 135 *Discontinuing Operations*, the Group would have recognised a discontinued operation at the earlier of the date the Group enters into a binding sale agreement and the date the board of directors have approved and announced a formal disposal plan. FRS 5 requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of the component or is a subsidiary acquired exclusively with a view to resale. The result of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than under the previous FRS 135 due to the stricter criteria in FRS 5. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The assets and liabilities of a discontinued operation (a disposal group) that are classified as held for sale are measured in accordance with FRS 5. Immediately before classification as held for sale, the carrying amounts of all the assets and liabilities in the disposal group are measured in accordance with applicable FRSs. Then, on initial classification as held for sale, the disposal group is recognised at the lower of carrying amount and fair value less costs to sell.

(d) FRS 101 *Presentation of Financial Statements*

The adoption of the revised FRS 101 affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented as part of the Group's equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to shareholders of the Company and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with accordingly.

Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

		Adjustments/Reclassifications		
	Previously stated RM'000	**FRS 3 Note 2(a) RM'000**	**FRS 101 Note 2(d) RM'000**	**Restated RM'000**
At 31 December 2005:				
Property, plant and equipment	265,227	0	(173,040)	92,187
Biological assets	0	0	173,040	173,040
Goodwill on consolidation	7,414	1,618	0	9,032
Accumulated losses	(156,562)	1,618	0	(154,944)

2. AUDITORS' REPORT FOR THE PREVIOUS FINANCIAL YEAR

The auditors' report on the Group's consolidated financial statements for the year ended 31 December 2005 was not qualified.

3. SEASONAL OR CYCLICAL FACTORS

The Group's production from its plantations generally experiences an "up-down" cycle once a year, with low production usually in the early part of the year, and peak production in the final quarter of the year. Brokerage fees from the Group’s stockbroking operations are generally dependent on trading volumes and sentiment on the Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

4. SIGNIFICANT ITEMS/EVENTS

During the period under review, there were no items or events which arose, which affected assets, liabilities, equity, net income or cash flows, which are unusual by reason of their nature, size or incidence other than as disclosed in Note 1.

5. MATERIAL CHANGES IN ACCOUNTING ESTIMATES

During the period under review, there were no:

(i) material changes in estimates of amounts reported in the previous interim periods of the current financial year; and
(ii) material changes in estimates of amounts reported in prior financial years.

6. DEBT AND EQUITY SECURITIES

During the period under review, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities.

7. DIVIDENDS

There were no dividends paid during the period under review.

8. SEGMENT REVENUE AND RESULTS FOR THE 3 MONTHS ENDED 31 MARCH 2006

	Continuing Operations				Discontinued Operations		
	Plantations RM'000	Others RM'000	Elimination RM'000	Total RM'000	Securities/ derivatives RM'000	Property RM'000	Total RM'000
Revenue - external sales	15,321	0	0	**15,321**	1,520	1,385	**2,905**
Inter-segment sales	18	75	(93)	**0**	0	0	**0**
Total revenue	15,339	75	(93)	**15,321**	1,520	1,385	**2,905**
Results							
Segment profit/(loss)	4,360	(4)	0	**4,356**	(79)	371	**292**
Unallocated corporate expenses				**(307)**	0	0	**0**
Operating profit				**4,049**	(79)	371	**292**
Other income				**109**	652	19	**671**
Finance costs				**(3,207)**	0	(151)	**(151)**
Profit/(loss) before taxation				**951**	573	239	**812**
Income tax				**(485)**	0	0	**0**
Profit/(loss) after taxation				**466**	573	239	**812**

9. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The valuations of leasehold land, plantations and buildings have been brought forward, without amendment from the previous audited financial statements (for the year ended 31 December 2005).

10. SUBSEQUENT EVENTS

On 1 May 2006, the Group’s 91.67%-owned subsidiary, Rising Resources (BVI) Ltd., which was incorporated in the British Virgin Islands (“BVI”) was struck off from the BVI Registry, thereby ceasing to be a subsidiary of the Group. Rising Resources (BVI) Ltd. had been inactive since the end of 1999. The strike-off is not expected to have any material effect on the Group’s results or financial position.

As at the date of this report, there were no other material events which arose subsequent to the end of the period under review.

11. EFFECT OF CHANGES IN THE COMPOSITION OF THE GROUP

During the period under review there were no:

(i) acquisitions or disposals of subsidiary or associated companies or long-term investments; and
(ii) corporate restructuring.

Discontinued operations relate to the prospective disposal of Innosabah Securities Berhad (“ISB”) and Jeffa Construction Sdn. Bhd. (“JCSB”), which represent the Group’s stockbroking and property activities. Further information on the status of their disposal is provided in Note 20(a) below. The results of these discontinued operations during the period under review are shown in Note 8 above.

12. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets since 31 December 2005.

F. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

13. REVIEW OF PERFORMANCE

The Group's performance for the period under review was boosted by firm palm oil prices and improved fresh fruit bunch production. However, inherently low yields from newly-matured oil palm areas in the Tawau district led to such areas making negative contributions - these areas would only improve with increase in their stage of maturity.

14. COMPARISON WITH THE PREVIOUS QUARTER’S RESULTS

The Group’s profit before taxation from continuing operations of RM0.95 million for the quarter represents an improvement when compared to the previous quarter’s loss before taxation from continuing operations of RM0.19 million.

15. CURRENT YEAR PROSPECTS

The Group’s plantations are expected to perform satisfactorily in 2006 based on expectation that palm oil prices will remain at or above existing levels. Revenue from the Group’s new oil palm estates in the Tawau district are expected to increase progressively as more areas attain maturity.

16. EXPLANATION OF VARIANCES FROM PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Company did not provide any profit forecast or profit guarantee in any public document.

17. TAXATION

	Current Quarter RM'000	**Year to Date RM'000**
Provision in respect of results for the current quarter/period	1,034	1,034
Overprovision for taxation in respect of previous years	0	0
Writeback of deferred taxation	(549)	(549)
	485	485
Plantation Activities - Profit before taxation (see Note 8)	4,360	4,360

The tax provisions were made in respect of the Group’s plantation activities, which recorded a profit.

18. SALE OF INVESTMENTS OR PROPERTIES

There was no sale of unquoted investments or properties during the period under review.

19. PURCHASES, SALES AND HOLDINGS OF QUOTED SECURITIES

All purchases, sales and holdings of quoted securities during the period under review were carried out by the stockbroking subsidiary, Innosabah Securities Berhad (“ISB”). Consequently, the Group is exempted from disclosing information on the values of quoted securities traded or held during the period under review.

20. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT YET COMPLETED

Status of Proposed Rationalisation

Pursuant to the Securities Commission approving the Group’s Debt Restructuring Scheme (as reported in previous quarters’ reports) on 11 September 2002, the Group is required to disclose the status of the implementation of the proposed rationalisation as contemplated by the Group in its quarterly reports and annual report, which is as follows:

PROPOSAL	STATUS
1. Proposed disposal of Jeffa Construction Sdn. Bhd. (“JCSB”)	The Group had initiated negotiations with several interested parties for the outright disposal of JCSB, its subsidiary involved in the development of the Pandan Place project in Johor Bahru. However, finalisation of the disposal failed to materialise despite numerous attempts. Whilst pursuing potential buyers for JCSB, the Group has taken the following steps to enhance its value: • enhancing the operations of the Wholesale Market and the Pandan Retail Market; and • resolution of legal cases affecting the abovementioned markets.
2. Proposed disposal of Innosabah Securities Berhad ("ISB")	The Group is still actively seeking buyers to acquire either its investment in or the assets and stockbroking business of ISB.

21. GROUP BORROWINGS

	As at 31.03.2006 RM'000	As at 31.12.2005 RM'000
Short-term secured:		
Bank overdraft	394	1,282
Redeemable Convertible Secured Loan Stocks	56,923	54,428
Hire purchase	10	9
Other loan	2,484	2,066
Short-term unsecured:		
Irredeemable Convertible Unsecured Loan Stocks	874	851
Total Short-term Borrowings	**60,685**	**58,636**
Borrowings (secured) included in Liabilities associated with non-current assets classified as held for sale:		
Hire purchase	34	0
Other loan	3,616	0
	3,650	**0**
Long-term secured:		
Redeemable Convertible Secured Loan Stocks	89,660	88,944
Hire purchase	0	38
Other loan	0	4,134
Long-term unsecured:		
Irredeemable Convertible Unsecured Loan Stocks	357	786
Total Long-term Borrowings	**90,017**	**93,902**
TOTAL BORROWINGS	**154,352**	**152,538**

The above borrowings are denominated in Malaysian Ringgit.

22. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 23 May 2006, there were no off-balance sheet financial instruments held by the Group.

23. CHANGES IN STATUS OF MATERIAL LITIGATION UP TO 23 MAY 2006

ISB had since 1998 served Notices of Demand/Writ of Summons on 29 of its clients (collectively "the Defendants"). The claims by ISB, for a sum totalling RM400,185,839 (based on claims above RM1.0 million) are in respect of trading losses incurred by the Defendants while they were ISB's clients. These losses include losses incurred through margin and normal trading accounts. ISB is claiming for the principal sum for the margin debts and trading debts together with interest and other costs. The respective cases are at different stages of the legal recovery process.

24. DIVIDENDS

No dividend has been declared or recommended in respect of the period under review.

25. EARNINGS/(LOSS) PER SHARE ("EPS")

Basic and diluted EPS for the period under review is calculated based on the following:

	Quarter ended	3 months ended
	31 March 2006	
Weighted average number of shares in issue	**116,855,266**	**116,855,266**
Number of shares in issue as at 31 March 2006	116,855,266	116,855,266
Potential number of shares from conversion of loan stocks	257,867,408	257,867,408
Number of shares that would be issued upon exercise of warrants	0	0
Number of shares used in the calculation of diluted EPS	374,722,674	374,722,674

(a) EPS for profit after taxation from continuing operations

	RM'000	RM'000
Profit after taxation from continuing operations	466	466
less: profit after taxation from continuing operations attributable to minority interests	(22)	(22)
Profit after taxation from continuing operations attributable to shareholders of the Company	444	444
Interest expense saved from potential conversion of:		
- Redeemable Convertible Secured Loan Stocks	2,000	2,000
- Irredeemable Convertible Unsecured Loan Stocks	308	308
Adjusted profit after taxation from continuing operations attributable to shareholders of the Company	3,196	3,196
EPS for profit after taxation from continuing operations:	**sen**	**Sen**
- Basic	0.40	0.40
- Diluted	0.85	0.85

(b) EPS for profit after taxation from discontinued operations

	RM'000	RM'000
Profit after taxation from discontinued operations	812	812
less: loss after taxation from discontinued operations attributable to minority interests	6	6
Profit after taxation from discontinued operations attributable to shareholders of the Company	818	818
EPS for profit after taxation from discontinued operations:	**sen**	**Sen**
- Basic	0.70	0.70
- Diluted	0.22	0.22

Basic EPS for profit after taxation from continuing operations is calculated by dividing the "Profit after taxation from continuing operations attributable to shareholders of the Company" by the "Weighted average number of shares in issue during the period".

Basic EPS for profit after taxation from discontinued operations is calculated by dividing the "Profit after taxation from discontinued operations attributable to shareholders of the Company" by the "Weighted average number of shares in issue during the period".

Diluted EPS for profit after taxation from continuing operations is calculated by dividing the "Adjusted profit after taxation from continuing operations attributable to shareholders of the Company" by the "Number of shares used in the calculation of diluted EPS".

Diluted EPS for profit after taxation from discontinued operations is calculated by dividing the "Profit after taxation from discontinued operations attributable to shareholders of the Company" by the "Number of shares used in the calculation of diluted EPS".

By Order of the Board,

Lim Nyuk Sang @ Freddy Lim
Chief Executive Officer
25 May 2006