

**TALAM CORPORATION BERHAD (1120-H)****Condensed Consolidated Balance Sheet**  
**As at 30 April 2006**

	<b>Unaudited</b>	<b>(Restated)</b>
	<b>as at</b>	<b>Audited</b>
	<b>end of</b>	<b>as at</b>
	<b>current</b>	<b>preceding</b>
	<b>quarter</b>	<b>financial</b>
	<b>30-Apr-06</b>	<b>year end</b>
	<b>RM000</b>	<b>31-Jan-06</b>
	<b>RM000</b>	<b>RM000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	203,303	204,109
Land held for property development	1,175,189	1,087,512
Investment properties	124,660	124,660
Prepaid lease payments	12,348	12,517
Investments in associates	9,981	9,988
Other investments	76,332	76,332
Sinking fund held by trustees	17,051	16,298
	<b>1,618,864</b>	<b>1,531,416</b>
<b>Current assets</b>		
Property development costs	1,176,922	1,204,671
Inventories	77,427	73,816
Trade and other receivables	362,265	346,502
Cash and bank balances	72,044	74,515
	<b>1,688,658</b>	<b>1,699,504</b>
<b>TOTAL ASSETS</b>	<b>3,307,522</b>	<b>3,230,920</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	641,713	641,028
Treasury shares	(844)	(844)
Reserves	(322,234)	(319,944)
	<b>318,635</b>	<b>320,240</b>
<b>Minority interest</b>	<b>19,895</b>	<b>19,158</b>
<b>Total equity</b>	<b>338,530</b>	<b>339,398</b>
<b>Non-current liabilities</b>		
Irredeemable convertible unsecured loan stocks	0	33
Borrowings	149,856	149,904
Other payables	75,725	77,268
Deferred tax liabilities	12,447	12,365
	<b>238,028</b>	<b>239,570</b>
<b>Current liabilities</b>		
Provision for other liabilities	135,865	136,067
Borrowings	748,724	705,341
Trade and other payables	1,164,322	1,142,563
Deferred progress billings	493,421	487,110
Current tax payable	188,632	180,871
	<b>2,730,964</b>	<b>2,651,952</b>
<b>Total liabilities</b>	<b>2,968,992</b>	<b>2,891,522</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,307,522</b>	<b>3,230,920</b>
Net assets per share attributable to ordinary equity holders of the Company (RM)	<b>0.51</b>	<b>0.52</b>

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 January 2006.

**TALAM CORPORATION BERHAD (1120-H)****Condensed Consolidated Income Statements  
For the financial period ended 30 April 2006***(The figures have not been audited)*

	Individual period		Cumulative period	
	Current year quarter 30/04/2006 RM'000	(Restated) Preceding year corresponding quarter 30/04/2005 RM'000	Current year to-date 30/04/2006 RM'000	(Restated) Preceding year corresponding period 30/04/2005 RM'000
<b>Continuing Operations</b>				
<b>Revenue</b>	71,649	175,954	71,649	175,954
Cost of sales	(40,675)	(144,737)	(40,675)	(144,737)
<b>Gross profit</b>	30,974	31,217	30,974	31,217
Other operating income	339	3,087	339	3,087
Administration and operating expenses	(25,625)	(55,855)	(25,625)	(55,855)
Finance costs, net	(8,449)	(4,964)	(8,449)	(4,964)
Share of results of associates	(7)	0	(7)	0
<b>Loss before tax</b>	(2,768)	(26,515)	(2,768)	(26,515)
Income tax expense	(2,281)	7,244	(2,281)	7,244
<b>Loss for the period</b>	(5,049)	(19,271)	(5,049)	(19,271)
Attributable to:				
Equity holders of the parent	(5,016)	(19,237)	(5,016)	(19,237)
Minority Interest	(33)	(34)	(33)	(34)
	(5,049)	(19,271)	(5,049)	(19,271)
<b>Loss per share attributable to equity holders of the Company:</b>				
Basic / Diluted (sen)	(0.80)	(3.21)	(0.80)	(3.21)

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 January 2006.

**TALAM CORPORATION BERHAD (1120-H)**

**Condensed Consolidated Statement of Changes in Equity  
For the financial period ended 30 April 2006**

*(The figures have not been audited)*

	Attributable to Equity Holders of the Parent							Minority Interest	Total Equity	
	Non-Distributable					Distributable				
	Share Capital	Treasury Shares	Capital Reserves	Share Premium	Foreign Exchange Reserve	Equity Component of ICULS	Retained Profits/ (Accumulated losses)			Total
RM '000	RM '000	RM '000	RM'000	RM'000	RM '000	RM'000	RM '000	RM'000	RM '000	
<b>At 1 February 2005</b>										
As previously stated	619,868	0	11,201	124,551	11,734	18,161	286,100	1,071,615	2,575	1,074,190
Prior year adjustments - effects of adopting FRS 117	0	0	0	0	0	0	(2,332)	(2,332)	(411)	(2,743)
<b>At 1 February 2005 (restated)</b>	<b>619,868</b>	<b>0</b>	<b>11,201</b>	<b>124,551</b>	<b>11,734</b>	<b>18,161</b>	<b>283,768</b>	<b>1,069,283</b>	<b>2,164</b>	<b>1,071,447</b>
Loss for the period	0	0	0	0	0	0	(19,237)	(19,237)	(34)	(19,271)
Total recognised income and expenses for the period	619,868	0	11,201	124,551	11,734	18,161	264,531	1,050,046	2,130	1,052,176
Conversion of 7% ICULS 2003/2005	2,370	0	0	0	0	(2,370)	0	0	0	0
Increase in equity component of ICULS	0	0	0	0	0	987	0	987	0	987
Liability component of ICPS	1,282	0	0	0	0	0	0	1,282	0	1,282
Shares repurchased held at treasury shares, at cost	0	(844)	0	0	0	0	0	(844)	0	(844)
<b>At 30 April 2005 (restated)</b>	<b>623,520</b>	<b>(844)</b>	<b>11,201</b>	<b>124,551</b>	<b>11,734</b>	<b>16,778</b>	<b>264,531</b>	<b>1,051,471</b>	<b>2,130</b>	<b>1,053,601</b>
<b>At 1 February 2006</b>										
As previously stated	641,028	(844)	11,201	124,551	33,418	652	(486,418)	323,588	19,749	343,337
Prior year adjustments - effects of adopting FRS 117	0	0	0	0	0	0	(3,348)	(3,348)	(591)	(3,939)
<b>At 1 February 2006 (restated)</b>	<b>641,028</b>	<b>(844)</b>	<b>11,201</b>	<b>124,551</b>	<b>33,418</b>	<b>652</b>	<b>(489,766)</b>	<b>320,240</b>	<b>19,158</b>	<b>339,398</b>
Loss for the period	0	0	0	0	0	0	(5,016)	(5,016)	(33)	(5,049)
Total recognised income and expenses for the period	641,028	(844)	11,201	124,551	33,418	652	(494,782)	315,224	19,125	334,349
Conversion of 7% ICULS 2003/2006	685	0	0	0	0	(685)	0	0	0	0
Increase in equity component of ICULS	0	0	0	0	0	33	0	33	0	33
Foreign exchange differences	0	0	0	0	3,378	0	0	3,378	770	4,148
<b>At 30 April 2006</b>	<b>641,713</b>	<b>(844)</b>	<b>11,201</b>	<b>124,551</b>	<b>36,796</b>	<b>0</b>	<b>(494,782)</b>	<b>318,635</b>	<b>19,895</b>	<b>338,530</b>

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 January 2006.

**TALAM CORPORATION BERHAD (1120-H)**

**Condensed consolidated cash flow statement**

**For the financial period ended 30 April 2006**

*(The figures have not been audited)*

	<b>Current year to-date RM '000</b>	<b>Preceding year corresponding period RM '000</b>
Net cash used in operating activities	(1,131)	(57,540)
Net cash generated from investing activities	881	26,012
Net cash (used in)/generated from financing activities	(2,048)	37,774
Net (decrease)/increase in cash and cash equivalents	<u>(2,298)</u>	<u>6,246</u>
Cash and cash equivalents at beginning of the financial year	720	6,065
Cash and cash equivalents at end of the financial period	<u><u>(1,578)</u></u>	<u><u>12,311</u></u>

Cash and cash equivalents at the end of the financial period comprise the following:

Cash and bank balances	12,952	24,752
Deposits	59,092	61,354
	<u>72,044</u>	<u>86,106</u>
Bank overdrafts	(15,005)	(15,178)
	<u>57,039</u>	<u>70,928</u>
Less : Short term deposit restricted in use	(58,617)	(58,617)
	<u><u>(1,578)</u></u>	<u><u>12,311</u></u>

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 January 2006.

# **TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **PART A: EXPLANATORY NOTES PURSUANT TO FRS 134**

#### **A1. Basis of Preparation**

The interim financial statements are unaudited and have been prepared in accordance with FRS 134: 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 for the year ended 31 January 2006.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the latest audited annual financial statements.

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 year ended 31 January 2006.

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

The significant accounting policies adopted by the Group in the interim financial statements ended 30 April 2006 are consistent with those adopted in the financial statements for the year ended 31 January 2006 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") that are effective for financial period commencing 1 February 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 Accounting 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: Disclosures and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

In addition to the above, the group has also taken the option of early adoption of the new/revised FRS for the financial period beginning 1 February 2006:

FRS 117	Leases
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# TALAM CORPORATION BERHAD (1120-H)

Interim financial report for the period ended 30 April 2006

(The figures have not been audited)

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### A2. Changes in Accounting Policies (Contd)

The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRSs will be as follows :-

(a) FRS 101: Presentation of Financial Statements

With the adoption of FRS 101, minority interest will be presented within total equity in the consolidated balance sheet and as an allocation from net profit for the period in the consolidated income statement. The movement of the minority interest will be presented in the consolidated statement of changes in equity.

(b) FRS 117: Leases

With the adoption of the FRS 117 as from 1 February 2006, the leasehold interest in land is accounted for as being held under an operating lease and the prepaid lease payments amortised on a straight line basis over the remaining lease term of the land.

(c) FRS 140: Investment Property

With the adoption of FRS 140, properties held for rental or capital appreciation will be reclassified to investment properties.

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

#### Balance Sheet as at 31 January 2006

	<b>Audited RM'000</b>	<b>Effect of FRS 117 &amp; 140 RM'000</b>	<b>Restated RM'000</b>
Property, plant and equipment	221,818	(17,709)	204,109
Investment properties	123,407	1,253	124,660
Prepaid lease payments	-	12,517	12,517
Accumulated losses	(486,418)	(3,348)	(489,766)
Minority interest	19,749	(591)	19,158

#### Income Statement for financial period ended 30 April 2005

	<b>As previously reported RM'000</b>	<b>Effect of FRS 117 RM'000</b>	<b>Restated RM'000</b>
Administration and operating expenses	55,684	171	55,855
Minority interest	8	26	34

# TALAM CORPORATION BERHAD (1120-H)

Interim financial report for the period ended 30 April 2006

(The figures have not been audited)

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### A3. Annual Audited Report

Refer to annexure attached.

### A4. Seasonality or Cyclicity of Operations

The business operations of the Group are not affected by any material seasonal or cyclical factors.

### A5. Unusual Items

There were no unusual items that have material effects on the assets, liabilities, equity, net income, or cash flows for the current financial year-to-date.

### A6. Material Changes in Estimates

There was no change to estimate that have a material effect in the current quarter.

### A7. Debt and Equity Securities

There were no issuance and repayment of debt and equity security, share buy-back, shares cancellation during the quarter under review save the issuance as follows:

	Current year Quarter 30 April 2006	Current year To-Date 30 April 2006
<b>Issuance of ordinary shares</b>		
Issuance of ordinary shares of RM1.00 each pursuant to the conversion of Irredeemable Convertible Unsecured Loan Stocks 2003/2006	684,640	684,640

### A8. Dividend

No dividends have been paid since the beginning of the current financial period.

# TALAM CORPORATION BERHAD (1120-H)

Interim financial report for the period ended 30 April 2006

(The figures have not been audited)

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### A9. Segment Information

	3 months ended 30 April 2006 RM'000	3 months ended 30 April 2005 RM'000
<b>Segment Revenue</b>		
Property Investment and Development	68,309	174,537
Hotel and Recreation	3,340	1,417
Total / External Revenue	<u>71,649</u>	<u>175,954</u>
<b>Segment Results</b>		
Property Investment and Development	(1,316)	(26,063)
Hotel and Recreation	(1,452)	(452)
Loss before tax	<u>(2,768)</u>	<u>(26,515)</u>

### A10. Valuation of Property, Plant and Equipment

The valuations of property, plant and equipment have been brought forward without amendment from the latest audited annual financial statements.

### A11. Material Subsequent Events

There were no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

### A12. Changes in the Composition of The Group

There were no material changes in the composition of the Group for the current quarter and financial year-to-date save as follows:

- a) On 8 February 2006, a subsidiary, Europlus Corporation Sdn Bhd acquired the entire issued and paid-up ordinary share capital of Mutual Prosperous Sdn Bhd ("MPSB") for a cash consideration of RM2. MPSB has two wholly-owned subsidiaries, Zhinmun Sdn Bhd and Untung Utama Sdn Bhd.
- b) On 7 April 2006, MPSB acquired the entire issued and paid-up capital of Envy Vista Sdn Bhd for a cash consideration of RM2.

### A13. Contingent Liabilities

The Company has provided corporate guarantees of RM526.068 million to its subsidiaries for the credit facilities granted.

The Company has contingent liabilities of up to RM188 million pursuant to an Option Agreement entered into on 14 July 2003, correspondingly there is a contingent asset of 800 acres of land valued at RM200 million.

The Company has a capital commitment of up to RM150 million pursuant to the Option Agreement entered on 10 January 2005 in relation to the Sukuk Al-Ijarah Issuance of RM150 million.



# **TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

#### **B1. Review of Performance**

For the current quarter, the Group achieved revenue of RM71.649 million, pre-tax loss of RM2.768 million and post-tax loss of RM5.049 million. The Group revenue decreased by 59.3% as compared to the corresponding quarter in the preceding year mainly attributable to lower locked in sales and soft property market. The 89.6% decrease in pre-tax loss and 73.8% decrease in post-tax loss were mainly attributable to a reduction in administration and operating expenses resulting from a one-off provision for impairment of inventory made in the corresponding quarter of the preceding year and decrease in staff related costs.

#### **B2. Comparison with Preceding Quarter's Results**

The Group's pre-tax loss for the current quarter decreased by 98.8% as compared to the results of the immediate preceding quarter (from RM235.374 million to RM 2.768 million) mainly due to provisions made for impairment of investment properties & land held for development, liquidated ascertained damages and doubtful debts, all of which were made in the immediate preceding quarter.

#### **B3. Prospects**

The Board expects the financial year to be a challenging one in the face of a soft property market. The Group is currently working with its advisers to formulate a Group wide debt restructuring exercise ("PDRS") which proposed to settle the outstanding debt obligations vide issuance of certain listed and tradable instruments. The Board is of the opinion that the PDRS will be successfully implemented. Upon the completion of the PDRS, the Group would be able pick up the momentum in the construction of the unbilled locked-in sales units and achieve future profitable operations.

#### **B4. Profit Forecast and Guarantee**

This note is not applicable.

**TALAM CORPORATION BERHAD (1120-H)**

Interim financial report for the period ended 30 April 2006

(The figures have not been audited)

**NOTES TO CONDENSED FINANCIAL STATEMENTS****B5. Income Tax Expenses**

	<b>Current Quarter ended 30 April 2006 RM '000</b>	<b>3 months Cumulative to 30 April 2006 RM '000</b>
Current tax expense	0	0
Under provision of prior year tax expense	2,281	2,281
	<u>2,281</u>	<u>2,281</u>
Loss before taxation	<u>(2,768)</u>	<u>(2,768)</u>
Effective Tax Rate	<u>N/A</u>	<u>N/A</u>

The computation of effective tax rate for the current quarter is not applicable due to the Group losses incurred by certain subsidiary companies.

**B6. Disposal of Unquoted Investments and/or Properties**

There is no sale of unquoted investments or properties during the quarter under review.

**B7. Purchase or Disposal of Quoted Securities**

There is no purchase or disposal of quoted investments during the quarter under review.

**B8. Status of Corporate Proposals**

No corporate proposals have been announced during the financial quarter under review up to the date of this report.

**B9. Group Borrowings and Debt Securities**

The Group's borrowings and debt securities as at 30 April 2006 are as follows:

	<b>Secured</b>	<b>Unsecured</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Short term borrowings	690,287	58,437	748,724
Long term borrowings	147,989	1,867	149,856
	<u>838,276</u>	<u>60,304</u>	<u>898,580</u>
		<b>Foreign</b>	<b>RM</b>
Foreign currency borrowings included above:		<b>Currency</b>	<b>Equivalent</b>
		<b>'000</b>	<b>'000</b>
Chinese Renminbi		<u>101,913</u>	<u>46,044</u>

# **TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

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

The Group did not contract for any financial instruments with off balance sheet risk as at the date of this announcement.

### **B11. Material Litigation**

#### **Maxisegar Sdn Bhd Vs. Silver Concept Sdn Bhd**

By an agreement dated 31 March 1997 made between Silver Concept Sdn Bhd (“Silver Concept”) and Maxisegar Sdn Bhd (“Maxisegar”), Silver Concept agreed to sell and Maxisegar agreed to purchase 1,142.48 acres of land in Mukim Batang Kali and in Mukim Rasa, all in the District of Ulu Selangor (“the said Agreement”).

Pursuant to the said agreement, Maxisegar has paid a total sum of RM 42.071 million to Silver Concept being 10% deposit and second installment.

On 29 December 1997, Maxisegar issued a Writ in the Kuala Lumpur High Court against Silver Concept claiming the refund of RM 42.071 million paid to Silver Concept on the grounds that the said agreement has been frustrated.

Judgment was delivered in favour of Silver Concept on 7 March 2001. Maxisegar appealed to the Court of Appeal against the Judgment and on 5 May 2005, the Court of Appeal has dismissed the Appeal.

Maxisegar has filed an application to stay of execution in the Court of Appeal and subsequently further filed to Federal Court for leave to appeal together with stay of execution against the Judgment delivered by Court of Appeal on 5 May 2005.

On 8 August 2005, the Court of Appeal granted the Order for stay of execution and the application for leave to appeal in Federal Court has been dismissed by the Federal Court on 1 March 2006. Pursuant to the Federal Court’s decision, Maxisegar has provided in full for the deposit and also made a provision for judgement sum of RM38.325 million.

On 28 March 2006, Kuala Lumpur High Court has granted a Restraining Order (“RO”) pursuant to Section 176 of the Companies Act, 1965 to Maxisegar.

The RO is valid for 90 days and effective from 28 March 2006 to facilitate the convening of creditors’ meeting concerning the implementation of a proposed debt restructuring scheme.

The Restraining Order is not expected to have material financial and operational impact on the Talam Group in view that:-

- a) The Restraining Order is to facilitate the finalization of Maxisegar’s proposed restructuring scheme; and
- b) Currently the operation of Talam Group is maintained at the level sufficient to meet the outstanding and urgent requirements of the Talam Group.

On 1 June 2006, the Kuala Lumpur High Court granted an extension to the RO for a period of 180 days effective from 27 June 2006 to 27 December 2006.

**TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**B12. Proposed dividend**

No dividend has been declared for the current financial year to-date.

**B13. Loss Per Share**

a) Basic loss per share

The calculation of loss per share for the quarter is based on the net loss attributable to ordinary shareholders of RM5.016 million and the weighted average number of ordinary shares outstanding net of treasury shares in hand during the quarter was 627.705 million.

b) Diluted loss per share

There is no diluted loss per share disclosure for current quarter as the ICPS 2003/2008 is anti-dilutive.

**B14. Authorization for Issue**

The interim financial reports were authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 26 September 2006.

By order of the Board

Leow Chi Lih  
Company Secretary

# **TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **ANNEXURE TO ANNUAL AUDITED REPORT**

#### **A3. Annual Audited Report**

- a) The auditor has qualified on the annual audit report of the Group and of the Company for the preceding financial year as follows:
- 1) (i) The Group and the Company incurred net losses of RM771.796 million and RM466.782 million respectively and, as of that date, the Group's and Company's current liabilities exceeded their current assets by RM484.025 million and RM29.733 million respectively.
  - (ii) The Group and the Company have defaulted on the repayment of various financing obligations and further discloses that the management together with their consultants are currently formulating restructuring schemes to restructure the said financing obligations. The outcome of the restructuring exercise may result in adjustments being made to certain amounts and reclassification of assets and liabilities of the Group and of the Company, the final outcome of which is uncertain as at the date of the auditors' report.
  - (iii) On 28 March 2006, the Kuala Lumpur High Court granted a Restraining Order pursuant to Section 176 of the Companies Act, 1965 to a subsidiary, Maxisegar Sdn. Bhd. ("MSSB"). The directors of MSSB together with their consultants are currently working on a debt restructuring scheme which is conditional upon the approval of the relevant regulatory authorities. The nature and the outcome of the debt restructuring scheme may result in adjustments being made to certain amounts and classification of assets and liabilities of the Group and MSSB, the final outcome of which is uncertain as at the date of this report. As a result, there are significant uncertainties regarding the future operations of the Group and MSSB, the recoverability of their assets and their ability to repay debts. The financial statements of the Group and MSSB do not include any adjustments that might result from these uncertainties.

The above factors raised substantial doubt that the Group and the Company will be able to continue as a going concern. The ability of the Group and of the Company to continue as a going concern is dependent upon the successful implementation of the restructuring exercise and resumption of normal operations and return to profitability of the Group and of the Company. The financial statements of the Group and of the Company do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Group and the Company be unable to continue as a going concern.

# **TALAM CORPORATION BERHAD (1120-H)**

## **Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

### **NOTES TO CONDENSED FINANCIAL STATEMENTS**

#### **A3. Annual Audited Report (Contd)**

- 2) Investment in Irredeemable Convertible Unsecured Loan Stocks of Venue Venture Sdn. Bhd. ("VVSB") is carried at cost of RM76.332 million. The financial statements further discloses that the amount due from VVSB stood at RM65 million as at 31 January 2006 ("collectively referred as "total investments in VVSB"). The management has represented to us that the total investments in VVSB are supported by the assets held by VVSB and thus are recoverable. However, as no recent independent professional valuations were conducted on the underlying assets, we are unable to ascertain as to whether the carrying amount of the total investments in VVSB is fairly stated.
- 3) The net realisable value of certain development properties costing RM373.189 million have not been ascertained as no recent independent professional valuations were conducted. Accordingly, we are unable to ascertain as to whether the carrying amounts of the said development properties are fairly stated.
- 4) Certain transactions were omitted from the financial statements of the Group and MSSB in the prior years. We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the amounts and disclosures made in the financial statements.
- 5) Included in trade receivables are amounts of RM56.169 million due from certain contractors of the Group. The management is of the opinion that these receivables are fully recoverable. We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves that the said amounts are fully recoverable.
- 6) The property development costs of the Group amounted to RM1,039.926 million and for the year ended 31 January 2006, revenue from development properties and cost of development properties recognised in the Group's consolidated income statement amounted to RM565.153 million and RM740.346 million respectively. During the year, the Group's review of the estimates of costs attributable to certain property development projects ("project costings") indicates that the estimated financial outcome of the said property development projects could have been varied if compared to the prior estimates. However, the project costings have not been updated accordingly. As the financial outcome of the said property development projects have not been fully estimated, we are unable to satisfy ourselves as to whether the Group's property development costs, revenue from development properties and cost of development properties sold for the year then ended have been stated in accordance with the requirements of FRS 201: Property Development Activities.
- 7) No provision for liabilities in respect of the corporate guarantees has been made in the Company's financial statements as the quantum of the shortfall of which the Company is liable to make good cannot be presently determined pending the resolution of the uncertainties referred to in paragraph (a) above. These corporate guarantees have been disclosed as contingent liabilities in the financial statements. As at 31 January 2006, the corporate guarantees to financial institutions and non-financial institutions amount to approximately RM202.539 million and RM539.206 million respectively.

# **TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **A3. Annual Audited Report (Contd)**

The Board wishes to highlight the qualifications reported in the Auditors' Report above shall be addressed as follows:

- a) (1)(i), (ii) & (iii) - The Group is working with its advisers to formulate a Group wide debt restructuring exercise ("PDRS"). The directors are of the opinion that the PDRS will be successfully implemented and the Group will achieve future profitable operations.
- b) (2) & (3) - Independent professional valuations shall be obtained as the valuation exercise is on-going and the directors reckon that it will take approximately three to six months for the issuance of the said reports. Necessary adjustments, if any, will be recorded in accordance to the valuation reports.
- c) (4) - The prior year adjustments are explained in Note 45 to the financial statements.
- d) (5) - The directors will seek legal opinion to substantiate its view on the recoverability of the said receivables.
- e) (6) - The directors will appoint an independent project consultant to ascertain and advise on the matter accordingly. Necessary adjustments, if any, will be recorded in accordance with the requirements of FRS 201: Property Development Activities.
- f) (7) - As disclosed in Note 41 to the financial statements, upon the successful implementation of the PDRS, the directors will make the necessary adjustments, if any.

The Board of Directors is confident that all matters expressed by the auditors which lead to their inability to express their opinion are financial based and will be regularised upon the completion of the PDRS.

- b) The auditor has qualified on the annual audit report of certain subsidiaries for the preceding financial year as follows:
  - 1) Audit emphasis of matters of certain subsidiaries:
    - (i) appropriateness of going concern basis of accounting is dependent on continued financial support given by the Company.
    - (ii) ability to meet its obligation under the Sukuk al-Ijarah is dependent on the timely rental payments by its related companies and a third party.

# **TALAM CORPORATION BERHAD (1120-H)**

**Interim financial report for the period ended 30 April 2006**

(The figures have not been audited)

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **A3. Annual Audited Report (Contd)**

- 2) Disclaimer of opinion on certain subsidiaries based on the following reasons:
  - (i) suffered significant losses during the year.
  - (ii) was in a capital deficiency position.
  - (iii) prepared the financial statements under the going concern basis of accounting despite doubt as to their ability to operate as a going concern.
  - (iv) defaulted on the repayment of loans and interests.
  - (v) same as (a)(3), (4), (5) & (6) above.
  - (vi) on 28 March 2006, the Kuala Lumpur High Court granted a Restraining Order pursuant to Section 176 of the Companies Act 1965. The management together with their consultants are currently working on a debt restructuring scheme as elaborated in Note 41 to the financial statements, which is conditional upon the approval of the relevant regulatory authorities. The nature and the outcome of the debt restructuring scheme may result in adjustments being made to certain amounts and classification of assets and liabilities, the final outcome of which is uncertain as at the date of this report. As a result, there are significant uncertainties regarding the future operations, the recoverability of their assets and their ability to repay debts. The financial statements do not include any adjustments that might result from these uncertainties.
- 3) Except for opinion for certain subsidiaries:
  - (i) The auditors reported that they are unable to verify the completeness of the development costs of a development property amounting to RMB110.080 million (equivalent to RM50.494 million) as the construction of the said development property is incomplete.

The directors based on the available market information are of the opinion that there is no diminution in the value of the above development properties.
  - (ii) same as (a)(2) & (6).