

TALAM CORPORATION BERHAD (1120-H)

Interim financial report for the period ended 31 July 2007

(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 2007.

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 2007.

A2. Seasonality or Cyclicity of Operations

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

A3. Unusual Items

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

A4. Material Changes in Estimates

There was no change to estimate that have a material effect in the current quarter and financial year-to-date.

A5. 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 and financial year-to-date.

A6. Dividends

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

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A7. Segment Information

	6 months ended 31 July 2007 RM'000	6 months ended 31 July 2006 RM'000
Segment Revenue		
Property Investment and Development	75,173	116,807
Hotel and Recreation	7,562	7,329
Total / External Revenue	<u>82,735</u>	<u>124,136</u>
Segment Results		
Property Investment and Development	5,492	(6,481)
Education	(1,107)	-
Hotel and Recreation	(4,893)	(3,712)
Loss before tax	<u>(508)</u>	<u>(10,193)</u>

A8. 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.

A9. 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 save as on 28 June 2007, a subsidiary, Larut Overseas Venture Sdn Bhd has entered into a Share Sale Agreement with IJM Properties Sdn Bhd to dispose 1,515,000 ordinary shares of HK\$1 each representing 50% equity interest in Larut Leisure Enterprise (Hong Kong) Limited ("LLE") for HK\$1 ("the Proposed Disposal"). The completion of the Proposed Disposal is currently pending fulfillment of certain conditions precedent. Upon completion, LLE will cease to be a subsidiary of Talam and become a 50% owned associate company of Talam.

A10. 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 on 28 February 2007, a subsidiary, Noble Rights Sdn Bhd has been wound-up. As such, it has been deconsolidated from the Group's financial statements.

A11. Contingent Liabilities

The Company has provided the following corporate guarantees:-

	RM'000
To financial institutions for	
- facilities granted to subsidiaries	<u>156,948</u>
To non-financial institutions for	
- facilities granted to subsidiaries	320,000
- purchase of land by subsidiaries	<u>212,158</u>

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A11. Contingent Liabilities (Contd.)

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 value estimated at RM200 million.

A12. Capital Commitments

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.

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

B1. Review of Performance

The Group revenue increased by 14.0% as compared to the corresponding quarter in the preceding year mainly attributable to higher progress billings resulting from the financial restructuring undertaken by the Group.

The Group recorded an improvement from a loss of RM4.8 million in the corresponding quarter in the preceding year to a profit of RM1.2 million in the current quarter mainly due to the reversal of provision for liquidated ascertained damages amounting to RM10.6 million of a particular project of a subsidiary where housebuyers' approval for waiver via a court convened meeting has been obtained and court sanction procured.

For the quarter under review, the total finance costs of RM19.0 million charged to the income statement include RM10.3 million arising from continued accrual of finance costs on the Group's defaulted borrowings as approval from the relevant authorities to proceed with the debt restructuring scheme as detailed out in Note B8 is pending. Should the scheme be approved and successfully implemented, these accrued finance costs would potentially be reversed in the future.

B2. Comparison with Preceding Quarter's Results

The Group recorded a pre-tax profit for the current quarter of RM1.4 million, an increase by 173.7% from a pre-tax loss of RM1.9 million in the immediate preceding quarter mainly due to the reversal of provision for liquidated ascertained damages amounting to RM10.6 million of a particular project of a subsidiary where housebuyers' approval for waiver via a court convened meeting has been obtained and court sanction procured.

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B3. Prospects

During the financial year ended 31 January 2007, IJM Construction Sdn Bhd (“IJMC”) was appointed as principal contractor by the Group for construction works in relation to several development projects for a total consideration of RM700 million. The appointment of IJMC is expected to enhance the income stream of the Group to help strengthen the Group’s financial position and to ensure completion of the projects concerned. With the resumption of construction works, the Group would be able to sell its completed unsold units of the launched phases of the projects concerned on a build-and-sell basis.

As such, the Board of Directors is of the opinion that considering the recent developments in the Group, it is confident that there will be a better prospect for the financial year.

B4. Profit Forecast and Guarantee

This note is not applicable.

B5. Income Tax Expense

	Current Quarter ended 31 July 2007 RM '000	6 months Cumulative to 31 July 2007 RM '000
Current tax expense	46	83
Over provision of prior year tax expense	190	(356)
Deferred tax	-	(1,906)
	<u>236</u>	<u>(2,179)</u>
Profit/(loss) before taxation	<u>1,427</u>	<u>(508)</u>
Effective Tax Rate	<u>16.5%</u>	<u>N/A</u>

The effective tax rate for the current quarter and financial year-to-date are lower than the statutory tax rate principally due to certain income not subject to tax and losses incurred by certain subsidiary companies.

B6. Disposal of Unquoted Investments and/or Properties

There is no sale of unquoted investments or properties for the quarter under review and financial year-to-date.

B7. Purchase or Disposal of Quoted Securities

There is no purchase or disposal of quoted investments for the quarter under review and financial year-to-date.

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B8. Status of Corporate Proposals

The Company had on 1 September 2006 announced that it is an affected listed issuer pursuant to Practice Note No. 17/2005 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa”).

In this regard, the Company's advisor, RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bankers Berhad) had on 30 April 2007 on behalf of the Company's Board of Directors submitted to the Securities Commission the following proposals to regularise its financial condition:

- (a) proposed reduction in the share capital of the Company by the cancellation of RM0.30 of the par value of each existing ordinary share of RM1.00 each in the Company (“Proposed Capital Reduction”);
- (b) proposed reduction of RM124,551,076.73 in the share premium account of the Company and the credit arising therefrom to be set-off against the accumulated losses of the Company;
- (c) proposed share split involving the subdivision of every 1 existing ordinary share of RM0.70 each in the Company after the Proposed Capital Reduction into 3.5 new ordinary shares of RM0.20 each;
- (d) proposed restructuring and settlement of debts due and owing to the lenders of the Group, which involves, inter-alia, the:
 - (i) proposed issuance of RM286,002,000 nominal value of 5-year redeemable convertible preference shares (“RCPS”) at RM0.20 each (“Proposed RCPS Issue”);
 - (ii) proposed issuance of up to a total of RM397,344,413 nominal value of 4 classes of zero coupon 5-year redeemable convertible secured loan stocks (“RCSLS”) i.e. RCSLS-A, RCSLS-B, RCSLS-C and RCSLS-D, at 100% of their nominal values (“Proposed RCSLS Issue”);
 - (iii) proposed issuance of up to RM150,000,000 nominal value of 10-year Al-Bai Bithaman Ajil Islamic Debt Securities (“Settlement BaIDS”) at 100% of its nominal value (“Proposed Settlement BaIDS Issue”); and
 - (iv) disposal of certain assets pursuant to the Proposed Divestment Programme (as defined in (e) below)
- (e) divestment programme of the Group's assets, the proceeds of which shall be utilised to pare down the Group's borrowings and to raise funds for working capital purposes;
- (f) proposed assumption by the Company of the indebtedness from Ambang Sentosa Sdn Bhd (“ASSB”) in respect of the outstanding RM498.0 million nominal value of Asset-Backed Al-Bai Bithaman Ajil Islamic Debt Securities;

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B8. Status of Corporate Proposals (Contd.)

- (g) strategic alliance between the Company and IJM Corporation Berhad (“IJM”) vide:
- (i) the appointment of IJM Construction Sdn Bhd, a wholly-owned subsidiary of IJM, as the principal contractor to construct and complete a majority of the Group’s stalled property development projects; and
 - (ii) the joint-venture with IJM Properties Sdn Bhd (“IJMP”), a wholly-owned subsidiary of IJM, in respect of certain property development projects whereby IJMP will be the lead driver in terms of sales and project implementation.
- (h) proposed appointment of Tan Sri Dato’ Hj Lamin Bin Hj Mohd Yunus, Mr. Loy Boon Chen, Mr. Lee Swee Seng and Puan Sri Datin Thong Nyok Choo to the Board of Directors.

The proposed RCPS and Settlement BaIDS issuance would be used to settle the obligations to ASSB.

The proposed RCSLS issuance would be used to settle the obligations to MuNIF noteholders, Maxisegar Sdn. Bhd. BaIDs holders and certain financial institutions.

The Company is currently pending approval from the relevant authorities on the above Proposed Regularization Plan.

The Securities Commission (“SC”) had, vide its letter dated 25 September 2007 (which was received on 26 September 2007), did not approve the Proposed Regularisation Plan based on the following factors:

- (i) The Company will not immediately turnaround post-restructuring based on the financial forecast and projections submitted;
- (ii) substantial accumulated losses of RM156 million remain post restructuring;
- (iii) the proposals appear to benefit the creditors more than the minority shareholders of the Company as the shareholders will be undergoing a capital reduction exercise whilst none of the creditors will be taking a 'hair-cut' on the amount owing to them by the Company;
- (iv) upon completion of the restructuring scheme, Abrar Discounts Berhad (“ADB”) will hold 36.3% equity interest in the Company. There is uncertainty over the possible emergence of a new substantial shareholder which would have an impact on the direction of the Company moving forward as at this juncture, it is not known if ADB will dispose its interest in the Company or the identity of the potential buyer of the block of shares held by ADB; and

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(v) there is no clear indication that IJM is acting as a “white-knight” to the Company's restructuring scheme given that, inter-alia,:

- IJM would not be a substantial shareholder in the Company pursuant to the restructuring scheme. IJM's effective interest in the Company, via its shareholding in Kumpulan Europlus Berhad, is minimal; and
- IJM is involved only in selected stalled projects of the Company.

The Board of Directors of the Company intends to appeal on the SC's decision based on an improved plan to address the above issues.

B9. Group Borrowings and Debt Securities

The Group's borrowings and debt securities as at 31 July 2007 are as follows:

	Secured	Unsecured	Total
	RM'000	RM'000	RM'000
Short term borrowings	660,302	20,039	680,341
Long term borrowings	143,500	1,156	144,656
	803,802	21,195	824,997

Foreign currency borrowings included above:	Foreign	RM
	Currency	Equivalent
	'000	'000
Chinese Renminbi	86,911	39,962

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

a) 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.

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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 again 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 30 May 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.

On 24 November 2006, the Kuala Lumpur High Court granted a further extension to the RO for a period of 180 days effective from 27 December 2006 to 26 June 2007.

On 24 May 2007, the Kuala Lumpur High Court granted a further extension to the RO for a period of 180 days effective from 27 June 2007 to 26 December 2007.

- b) The Inland Revenue Board ("IRB") filed a Writ of Summons on 28 April 2005 against Ukay Land Sdn Bhd ("Ukay Land") claiming RM23,800,567.01 being balance tax payable for the years 2001 and 2002.

Ukay Land's solicitors filed the Statement of Defense on 1 July 2005.

IRB did not proceed with the case for more than a year thereafter. However, IRB served Ukay Land's solicitors notice of intention to proceed with the suit pursuant to Order 3 Rule 6 of the Rules of High Court 1980 on 27 July 2006.

The IRB has applied for summary judgement and order in terms was granted by the Court on 13 March 2007 due to technicality issues. Ukay Land's solicitors have since put in application to set aside the default judgement and a stay of execution on 16 April 2007.

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- c) IRB has filed a Writ of Summons on 13 April 2006 against Expand Factor Sdn Bhd (“Expand Factor”) claiming RM10,186,178.16 being balance tax payable for the years 2001, 2002 and 2003. Expand Factor’s solicitors have filed a Memorandum of Appearance and are in the process of filing the Statement of Defense.
- d) IRB has filed a Writ of Summons on 17 April 2006 against Lestari Puchong Sdn Bhd (“Lestari Puchong”) claiming RM2,061,599.89 being balance tax payable for the year 2003. Lestari Puchong’s solicitors have filed a Memorandum of Appearance. The High Court on 29 August 2006 granted a winding up order against Lestari Puchong vide Companies Winding Up Petition No. D4-28-325-2006. A Creditor of Lestari Puchong filed a stay against the Order. Lestari Puchong’s solicitors will notify IRB that they need leave of Court to proceed with the matter pursuant to Section 226(3) of the Companies Act, 1965.
- e) IRB has filed a Writ of Summons on 23 February 2006 against Alam Johan Sdn Bhd (“Alam Johan”) claiming RM96,660.82 being balance tax payable for the year 2003. Alam Johan’s solicitors have filed Appearance and Defence. IRB has since applied for summary judgement and the Court has fixed mention on 11 September 2007 pending IRB’s solicitors to file their affidavit in reply.

B12. Proposed dividend

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

B13. Earnings Per Share

- a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding treasury shares held by the Company.

	Current Quarter ended 31 July 2007	6 months Cumulative to 31 July 2007
Profit attributable to equity holders of the Company (RM'000)	1,085	2,181
Weighted average number of ordinary shares in issue, excluding treasury shares ('000)	628,305	628,305
Basic earnings per share (sen)	0.17	0.35

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For the purpose of calculating diluted earnings per share, the net profit for the period attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period have been adjusted for the effects of dilutive potential ordinary shares from conversion of 5% ICPS. The adjusted weighted average number of ordinary shares is the weighted average number of ordinary shares which would be issued on the conversion of the outstanding ICPS into ordinary shares. The ICPS are deemed to have been converted into ordinary shares at the date of issuance.

	Current Quarter ended 31 July 2007	6 months Cumulative to 31 July 2007
Profit attributable to equity holders of the Company (RM'000)	1,085	2,181
Weighted average number of ordinary shares in issue, excluding treasury shares ('000)	628,305	628,305
Adjustment for assumed conversion of ICPS ('000)	14,397	14,397
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	642,702	642,702
Diluted earnings per share (sen)	0.17	0.34

B14. Annual Audited Report

Refer to annexure attached.

B15. 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 27 September 2007.

By order of the Board

Noor Azman Bin Adnan & Ting Kok Keong
Joint Company Secretaries

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ANNEXURE TO ANNUAL AUDITED REPORT

B14. Annual Audited Report

- a) The auditor had qualified on the annual audit report of the Group and of the Company for the preceding financial year as follows:
 - i) As disclosed in Note 21 and 26 to the Financial Statements, investment in Irredeemable Convertible Unsecured Loan Stocks and an amount owing by VVSB is carried at cost of RM76,332,000 and RM46,359,000 respectively (collectively referred to as “total investments in VVSB”). Management has represented that the total investments in VVSB are supported by the assets held by VVSB and thus are recoverable. During the current financial year, the Group has conducted independent professional valuations on the underlying assets held by VVSB and based on the valuation conducted, the total carrying value of investment in VVSB is in excess of the fair value as determined by the independent valuers by approximately RM31,691,000. Management has not made any allowance for the shortfall in the total investment in VVSB as the directors are of the opinion that the decline in value of the underlying assets is temporary in nature and that the investment is held for long term.
 - ii) As at 31 January 2007, the Group and the Company have net current liabilities of RM972,362,000 and RM20,660,000 respectively. However, as mentioned in Note 2 to the Financial Statements, the financial statements of the Group and the Company have been prepared on the basis of accounting principles applicable to a going concern. This going concern basis presumes that the Group and the Company will be able to operate profitably in the foreseeable future and consequently, the realisation of assets and settlement of liabilities will occur in the ordinary course of business. As the date of our report, the Group and the Company have submitted a Proposed Regularisation Plan to the relevant authorities referred to in Note 44 to the Financial Statements. In the event that the Proposed Regularisation Plan is not concluded successfully, without any material modifications within the anticipated time frame, the Group and the Company may not be able to realise its assets and discharge its liabilities in the normal course of business, and the basis of preparation of the financial statements as a going concern is rendered inappropriate. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities (including corporate guarantees which may crystallise as disclosed in Note 42 to the Financial Statements) that might be necessary should the Group and the Company be unable to continue as a going concern.
- 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 obligation under the Sukuk al-Ijarah is dependent on the timely rental payments by its related companies and a third party.

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B14. 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.
- 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 RMB110.253 million (equivalent to RM50.186 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) The auditors reported that they have not obtained sufficient evidence to satisfy themselves whether impairment losses on the investment in and amount due from subsidiaries and associates in the financial statements are appropriate.
 - (iii) same as (a)(i), (b)(1)(i).