

TRONOH CONSOLIDATED MALAYSIA BERHAD 27676-V

**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 JULY 2006**

1. Basis of Preparation

The interim financial report of the Group has been prepared in accordance with FRS 134, "Interim Financial Reporting" and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 January 2006.

The significant accounting policies and presentation adopted for the interim financial report are consistent with those adopted in the Group's most recent audited financial statements for the financial year ended 31 January 2006 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for the financial period beginning 1 February 2006:

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 the new/revised FRSs mentioned above did not result in a significant financial impact on the Group except for the effects of the following FRSs discussed below:

FRS 3: Business Combinations and FRS 136: Impairment of Assets

The adoption of these new FRSs have resulted in the Group ceasing its annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006.

1. Basis of Preparation (Continued)

FRS 3: Business Combinations and FRS 136: Impairment of Assets (Continued)

Prior to 1 February 2006, goodwill was amortised on a straight line basis over its estimated useful life of 20 years. The carrying amount of goodwill as at 31 January 2006 of RM47.338 million ceased to be amortised. This has the effect of reducing the amortisation charge by RM1.33 million for the current financial year to date ended 31 July 2006.

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 non-current assets held for sale.

An item is classified as non-current asset held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The non-current asset held for sale is classified in accordance with FRS 5. Immediately before classification to non-current asset as held for sale, the carrying amount of the asset for disposal is measured in accordance with applicable FRSs. Then, on initial classification as non-current asset held for sale, the asset is recognised at the lower of carrying amount and fair value less costs to sell.

As at 1 February 2006, the Group reclassified certain properties previously held under property, plant and equipment and investment properties to non-current assets held for sale in accordance with FRS 5.

FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of results of associates and joint ventures and other disclosures. In the consolidated balance sheet, minority interest is now presented within total equity. In the consolidated income statement, minority interest is presented as an allocation of the total profit for the period. A similar requirement is also applicable to the statement of changes of equity, where it 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 equity holders of the parent and to minority interest.

Share of results in associates and joint ventures is now disclosed net of tax and minority interest in the consolidated income statement.

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

1. **Basis of Preparation (Continued)**

FRS 121: The Effects of Changes in Foreign Exchange Rates

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Under the revised FRS 121, exchange differences arising from translating functional currency into presentation currency of either the reporting entity or the foreign operation for preparation of consolidated financial statement, are to be recognised as a separate component of the equity. Previously, such exchange differences were taken to the income statement. This change in accounting policy does not have significant financial impact on the Group.

FRS 140: Investment Property

The adoption of this new FRS has resulted in a change in accounting policy for investment properties. Investment properties are now stated at cost and measured in accordance with the requirements of FRS 116. Prior to 1 February 2006, investment properties were stated at cost less any impairment in value.

The comparatives at 31 January 2006 have been restated, as highlighted in Note 2 below.

2. **Comparatives**

The following comparative amounts have been restated due to the adoption of FRS 101 and FRS 140:

	As previously stated RM'000	Effects on adoption of FRS RM'000	As restated RM'000
As at 31 January 2006			
Property, plant and equipment	31,696	(1,007)	30,689
Investment properties	7,365	1,007	8,372
6 months ended 31 July 2005			
Share of results of associates	19,506	(6,176)	13,330
Taxation	(20,010)	6,176	(13,834)

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the Group's financial statements for the financial year ended 31 January 2006 was not subject to any qualification.

4. Seasonal or Cyclical Factors

The Group's operations were not materially affected by any seasonal or cyclical factors.

5. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the quarter under review because of their nature, size, or incidence except for :-

- i) the gain on disposal of IJM Corporation Berhad ("IJM") warrants of RM5.880 million.
- ii) the gain on disposal of IJM Plantations Berhad ("IJMP") shares of RM0.868 million.
- iii) Write back of allowance for decline in market value of quoted investments of RM0.132 million.

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial year to date under review because of their nature, size, or incidence except for :-

- i) the gain on disposal of IJM Corporation Berhad ("IJM") warrants of RM12.674 million.
- ii) the gain on disposal of IJM Plantations Berhad ("IJMP") shares of RM2.776 million.
- iii) Write back of allowance for decline in market value of quoted investments of RM2.350 million.

6. Changes in Estimates of Amount Reported Previously

There were no changes in estimates of amounts reported in the prior financial year that have a material effect in the current quarter.

7. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial year.

8. Dividends Paid

For the current financial year-to-date, no dividend has been paid. For the preceding year's corresponding period, no dividend was paid.

9. Segmental Reporting

Analysis by business segments for the quarter :

	Engineering & construction RM'000	Property & development RM'000	Manufacturing & trading RM'000	Investment & Others RM'000	Total RM'000
<u>Revenue</u>					
Total	150,699	5,546	20,872	247	177,364
Inter-segment	(8,091)	0	(8,607)	0	(16,698)
External	142,608	5,546	12,265	247	160,666
<u>Results</u>					
Segment profit/ (loss)	14,223	(71)	1,562	(1,689)	14,025
Gain on disposal of investments				6,764	6,764
Interest income	1,234	48	36	169	1,487
Finance costs					(190)
Share of results of associates and joint ventures	10,332				10,332
Profit before taxation					32,418
Taxation					(5,319)
Profit for the period					27,099

9. Segmental Reporting (Continued)

Analysis by business segments for the financial year to date:

	Engineering & construction RM'000	Property & development RM'000	Manufacturing & trading RM'000	Investment & Others RM'000	Total RM'000
Revenue					
Total	289,459	11,681	50,590	581	352,311
Inter-segment	(14,536)	0	(21,681)	0	(36,217)
External	274,923	11,681	28,909	581	316,094
Results					
Segment profit/ (loss)	28,023	(1,734)	4,934	(1,023)	30,200
Gain on disposal of investments				15,537	15,537
Interest income	2,591	90	78	333	3,092
Finance costs					(533)
Share of results of associates and joint ventures	18,394				18,394
Profit before taxation					66,690
Taxation					(11,596)
Profit for the period					55,094

The primary reporting segment information of the Group is in respect of business segments as the Group's risks and returns are affected predominantly by the differences in the products and services it produces.

10. Valuation of Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Fair value adjustments that have been made at Group level on the property, plant, and equipment on the acquisition of subsidiaries in the previous years have been brought forward without amendment.

11. Material Events Subsequent to the End of the Reporting Period

Material events subsequent to the end of the period under review that have not been reflected in the financial statements for the current quarter include:

- (i) Subsequent to the period under review, Tronoh Consolidated Malaysia Berhad (“TCMB”) sold 3,002,000 IJM warrants for a cash consideration of RM3,296,547.
- (ii) On 14 June 2006, Zelan Holdings (M) Sdn Bhd (“ZHSB”), a wholly owned subsidiary of TCMB, and Bagan Pesona Sdn Bhd (“BPSB”) executed a Share Sale Agreement (“SSA”) for the purchase of 875,000 ordinary shares of European Profile (M) Sdn Bhd (“EPMSB”) for a cash consideration of RM7,525,000 from Bagan Pesona Sdn Bhd. The acquisition of the shares would increase ZHSB’s equity interest in EPMSB from 55% to 80%. The sale was concluded on 16 August 2006.

This transaction has no material impact on the Group.

- (iii) Zelan Holdings (M) Sdn Bhd, a wholly-owned subsidiary of TCMB, had on 24th August 2006, accepted the Letter of Award through its associate company Zelan Arabia Co. Ltd, the Subcontract Works for the Engineering, Procurement, Construction, Completion and Warranty of the Civil Offshore Works for the Shuaibah 3 IWPP Desalination Plant, Kingdom of Saudi Arabia amounting to USD24,684,240.00.
- (iv) On 7 September 2006, Zelan Construction Arabia Co. Ltd. (ZCACL), a wholly-owned subsidiary of Zelan Holdings (M) Sdn Bhd, obtained its Commercial Registration Certificate from the Ministry of Commerce, Kingdom of Saudi Arabia.
- (v) Zelan Holdings (M) Sdn Bhd, a wholly-owned subsidiary of TCMB, in consortium with IJM Construction Sdn Bhd (“IJMC”), Sunway Construction Sdn Bhd (“SCSB”), and LFE Engineering Sdn Bhd (“LFESB”) (collectively the “IJMC Lead Consortium”) executed a Letter of Award for the contract with Tamouh Investments LLC on 9 September 2006 for the award of the “Design, Execution and Completion of Zone C, Phase 1, Plot 1, which consist of Five (5) Towers, known as CT1, CT2, CT3, CT4 and CT5, together with associated podium and seven (7) villas” in Abu Dhabi, United Arab Emirates (the “Project”). ZHSB, IJMC, SCSB and LFESB shall respectively have equal interest in the IJMC Lead Consortium. The contract sum for the above Letter of Award for the project shall be AED1,330,000,000.00.

12. **Changes in Composition of the Group**

There were no changes in the composition of the Group during the current quarter ended 31 July 2006.

13. **Changes in Contingent Liabilities or Contingent Assets**

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date, except for the following, which is written in bold and underlined:-

The Australian tax authority had issued a notice of assessment dated 23 May 2003 and subsequently amended its assessment on 7 February 2006 to Golden Solitaire (Australia) B.V. ("GSA"), an overseas subsidiary of the Company, indicating that GSA is subject to a capital gains tax of AUD86,230,151-00, an additional tax for late lodgment of AUD200-00 and an interest charge of AUD119,052,083-60 (as at the date of the amended notice of assessment) in respect of disposal of shares in 1998. In addition, the Australian tax authority had also issued a notice of assessment dated 24 June 2003 and subsequently amended its assessment on 12 January 2006 to the Company for a capital gains tax of AUD443,623-00. (as at the date of the amended notice of assessment) in respect of disposal of shares in the same company in 1998. **The Australian Tax authority had on 9 May 2006 and subsequently on both 20 July 2006 and 24 August 2006, further issued to the Company a General Interest Charge for a cumulative total interest charge of AUD649,393-45** . Notices of objection have been filed and the Australian tax authority has issued decisions on the objections disallowing the primary grounds of objection. Both the Company and GSA had on 12th January 2006 and 25th January 2006 respectively through its solicitors lodged an application to the Federal Court of Australia to appeal to the Federal Court against the disallowance of GSA's and the Company's Notice of Objections. The issue arises as a result of the Australian tax authority's interpretation of a tax treaty and/or a change in foreign tax legislation around the time of disposals.

Based on the legal advice, no provisions have been made.

14. **Capital Commitments**

The amount of commitments as at the date of this report is as follows:-

	RM'000
<u>Property, plant and equipment</u>	
Authorised but not contracted for	4,282
Authorised and contracted for	0
	<u>4,282</u>

15. Review of Performance

For the current quarter under review, the Group recorded higher turnover due to contribution from new projects secured during the last financial year and higher revenue recognised from the Property Development business unit and Manufacturing & Trading business unit.

For the current quarter under review, the Group registered a profit before tax of RM32.418 million as compared to the preceding year corresponding quarter's profit of RM28.050 million. The higher profit was mainly due to improved performance from an associate company, IJM and gain on disposal of investments as compared to the preceding year corresponding quarter's profit.

However, the Group achieved lower margin due to the tapering off of higher margin contracts in the current quarter.

16. Comparison of Profit Before Tax for the Current Quarter with Immediate Preceding Quarter

For the current quarter, the Group recorded a profit before taxation of RM32.418 million as compared to the preceding quarter's profit of RM34.272 million. The lower profit was mainly due to lower write back of allowance for decline in market value of investments and lower gain on disposal of investments.

17. Current Year Prospects

Considering the size of the existing order book and businesses being pursued both locally and overseas, barring unforeseen circumstances, the Group remains confident of a sustainable performance for the current financial year ending 31 January 2007,

18. Profit Forecast or Profit Guarantee

There was no profit forecast or profit guarantee issued for the current financial year.

19. Taxation

	Current Quarter Ended		Year-To-Date Ended	
	31/07/2006 RM'000	31/07/2005 RM'000	31/07/2006 RM'000	31/07/2005 RM'000
Current taxation	5,331	6,975	11,620	13,418
Deferred taxation (Over)/under accruals in prior years	(12) 0	(76) (40)	(24) 0	(88) 504
Tax expense	5,319	6,859	11,596	13,834

The effective tax rate for the Group for the financial year is lower than the statutory tax rate primarily due to gain on disposal of investments and writeback of allowance for decline in market value of investments which are not subject to tax.

The Inland Revenue Board commenced investigations on two (2) subsidiary companies on 13 January 2005. There has been no development as at the date of this announcement.

20. Profit/(Loss) on Sale of Unquoted Investments and Properties

There were no sale of unquoted investments and properties for the current quarter and financial year to date under review.

21. Quoted Securities

There were no disposals of quoted securities for the current quarter and financial year to date under review except for the following:-

During the current quarter under review the Group disposed of 580,000 IJMP shares, 5,660,000 IJM warrants, and 240,200 Oriental Food Industries Holdings Berhad shares for cash considerations of RM0.868 million, RM6.163 million and RM0.316 million respectively.

During the financial year under review, the Group disposed of 1,957,013 IJMP shares, 15,204,872 IJM warrants, 300,000 Arab Malaysian Corporation Berhad shares and 1,240,200 Oriental Food Industries Holdings Berhad shares for cash considerations of RM2.776 million, RM13.434 million, RM0.380 million and RM1.606 million respectively.

21. Quoted Securities (Continued)

There were no quoted securities purchased during the current quarter under review and year-to-date.

The investments in quoted securities as at 31 July 2006 are as follows:-

(i)	at cost	= RM478,809,494
(ii)	at carrying value	= RM471,573,012
(iii)	at market value	= RM545,956,547

22. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at 25 September 2006.

23. Borrowings and Debt Securities

	As at 31.07.06 RM'000
(i) Current borrowings	
Secured:-	
- Term loans	323
Unsecured:-	
- Hire purchase liabilities	741
	<u>1,064</u>
(ii) Non current borrowings	
Secured:-	
-Term loans	1,412
Unsecured:-	
-Hire purchase liabilities	1,143
	<u>2,555</u>
Total	3,619 =====

24. Off Balance Sheet Financial Instruments

The position of forward foreign exchange contracts of the Group as at 18 September 2006 is as follows:-

	Tenure	Currency to be received	Currency to be paid	Amount in foreign currency '000	Contractual rate	RM'000 Equivalent
i)	24 February 2006 to 6 September 2006	US Dollar (USD)	Ringgit Malaysia (RM)	USD 100	1 USD= RM3.635	364
ii)	6 September 2006 to 23 February 2007	Singapore Dollar (SGD)	Ringgit Malaysia (RM)	SGD 910	1 SGD= RM2.330	2,121
iii)	1 September 2006 to 26 February 2007	Brunei Dollar (BND)	Ringgit Malaysia (RM)	BND 125	1 BND= RM2.350	294
iv)	30 May 2006 To 30 November 2006	US Dollar (USD)	Ringgit Malaysia (RM)	USD 244	1 USD= RM3.615	880
v)	5 June 2006 to 1 December 2006	Sterling Pound (GBP)	Ringgit Malaysia (RM)	GBP 367	1 GBP RM6.72	2,466
vi)	19 July 2006 to 5 January 2007	Singapore Dollar (SGD)	Ringgit Malaysia (RM)	SGD 162	1 SGD= RM2.261	366

These contracts are executed with creditworthy financial institutions and therefore the Directors are of the view that, at present, the credit and market risks associated with these contracts are minimal.

25. Earnings Per Share

The basic earnings per share for the financial year has been calculated based on the Group's consolidated profit after taxation and minority interest divided by the weighted average number of ordinary shares outstanding at the end of the year.

	Current Quarter Ended		Year-To-Date Ended	
	31/07/06	31/07/05	31/07/06	31/07/05
Group's profit for the period, attributable to the equity holders of the parent (RM' Million)	26.679	20.879	54.224	37.199
Weighted average number of ordinary shares in issue (Million)	281.632	281.632	281.632	281.632
Earnings per share (sen)				
(a) Basic	9.47	7.41	19.25	13.21
(b) Diluted	9.47	7.41	19.25	13.21

The Group does not have in issue any financial instruments or other contracts that may entitle its holder to ordinary shares and therefore dilute its basic earnings per share.

26. Changes in Material Litigation

There were no changes in material litigation, including the status of pending material litigation in respect of the Company and its subsidiaries since the last annual balance sheet date of 31 January 2006.

27. Dividends

A final gross dividend of 5 sen per share, tax exempt, on 281,631,485 ordinary shares, amounting to RM14.082 million and 5 sen per share, less income tax at 28%, amounting to RM10.139 million in respect of the financial year ended 31 January 2006 was approved by the shareholders of the Company at its Annual General Meeting held on 27 July 2006. The said dividend was paid on 15 August 2006.

An interim tax exempt dividend of 5 sen per ordinary share of RM1.00 each was declared on 25 September 2006 by the Board of Directors in respect of the current financial year-to-date. The interim dividend will be paid on 15 November 2006 to every depositor registered in the Record of Depositors at the close of business on 16 October 2006.

27. Dividends (Continued)

Notice of Interim Dividend Payment and Entitlement Date

Notice is hereby given that an interim tax exempt dividend of 5 sen per ordinary share of RM1.00 each in respect of the financial year ending 31 January 2007 will be payable on 15 November 2006 to the shareholders whose names appear on the Company's Register of Members and / or Record of Depositors at the close of business on 16 October 2006. A depositor shall qualify for entitlement to the dividend only in respect of:-

- (a) shares deposited into the depositor's securities account before 12.30 p.m. on 12 October 2006 in respect of shares which are exempted from mandatory deposit.
- (b) shares transferred into the depositor's securities account before 4.00 p.m. on 16 October 2006 in respect of ordinary shares.
- (c) shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia.

28. Authorisation for Issue

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 25 September 2006.

By order of the Board

Muhammad Firdaus Bin Abdullah
Secretary

Kuala Lumpur
25 September 2006