

ZELAN BERHAD
(formerly known as Tronoh Consolidated Malaysia Berhad)
(“ZB” or “the Group”)
(Company No: 27676-V)

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 OCTOBER 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 RM2.00 million for the current financial year to date ended 31 October 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 a 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
9 months ended 31 October 2005			
Share of results of associates	29,608	(9,057)	20,551
Taxation	(29,379)	9,057	(20,322)

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 RM3.146 million.
- ii) allowance for decline in market value of quoted investments of RM0.856 million.
- iii) On 30 November 2006, ZB announced that the Company and Golden Solitaire (Australia) BV (the "GSA"), a subsidiary of ZB, ("the Companies") had entered into a Deed of Confidentiality and Settlement ("The Deed") with The Commissioner of Taxation of Australia (the "Commissioner") on 30th November 2006, to settle disputes relating to alleged Australian income tax liabilities of the Companies ("Disputes").

The Deed represents the full and final settlement of the Disputes between the Companies and the Commissioner. The Company's and GSA's contribution to the settlement sum was AUD\$7,130,787.79 (RM20,322,745.20).

This has been reflected in the current quarter results following the full and final settlement of the Disputes as the Group has previously disclosed the Disputes as a contingent liability as included in the Group's audited financial statements for the year ended 31 January 2006.

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 RM15.820 million.

5. **Unusual Items (Continued)**

- 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 RM1.494 million.
- iv) On 30 November 2006, ZB announced that the Company and Golden Solitaire (Australia) BV (the "GSA"), a subsidiary of ZB ("the Companies") had entered into a Deed of Confidentiality and Settlement ("The Deed") with The Commissioner of Taxation of Australia (the "Commissioner") on 30th November 2006, to settle disputes relating to alleged Australian income tax liabilities of the Companies ("Disputes").

The Deed represents the full and final settlement of the Disputes between the Companies and the Commissioner. The Company's and GSA's contribution to the settlement sum was AUD\$7,130,787.79 (RM20,322,745.20).

This has been reflected in the financial year to date results following the full and final settlement of the Disputes as the Group has previously disclosed the Disputes as a contingent liability as included in the Group's audited financial statements for the year ended 31 January 2006.

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**

The amount of dividends paid during the financial period ended 31 October 2006 was as follows:

	RM'000
In respect of the financial year ended 31 January 2006 as reported in the directors' report of that year:	
First and final dividend of 5 sen per share tax exempt and 5 sen per share, less income tax at 28%	<u>24,221</u>

The dividend was paid on 15 August 2006.

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	117,601	5,083	14,067	426	137,177
Inter-segment	(6,550)	0	(3,678)	0	(10,228)
External	111,051	5,083	10,389	426	126,949
<u>Results</u>					
Segment profit	12,374	111	941	509	13,935
Gain on disposal of investments				3,146	3,146
Interest income	761	43	80	308	1,192
Finance costs					(65)
Share of results of associates and joint ventures	8,887				8,887
Profit before Taxation					27,095
Tax expense					(3,480)
Tax - Settlement of disputes					(20,323)
Profit for the period					3,292

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	407,060	16,764	64,657	1,007	489,488
Inter-segment	(21,086)	0	(25,359)	0	(46,445)
External	385,974	16,764	39,298	1,007	443,043
Results					
Segment profit/ (loss)	40,397	(1,623)	5,875	(514)	44,135
Gain on disposal of investments				18,683	18,683
Interest income	3,352	133	158	641	4,284
Finance costs					(598)
Share of results of associates and joint ventures	27,281				27,281
Profit before taxation					93,785
Tax expense					(15,076)
Tax - Settlement of disputes					(20,323)
Profit for the period					58,386

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) On 13 November 2006, Zelan Corporation Sdn Bhd, a wholly owned subsidiary of ZB, acquired 100% equity interest in Lancar Impian Sdn Bhd. This has no material impact on the Group for the financial year-to-date.
- (ii) On 7 December 2006, Zelan Holdings (M) Sdn Bhd Dubai branch office (hereinafter referred to as "ZHSB"), a wholly-owned subsidiary of the Company, had through a Letter of Acceptance issued by His Excellency Ali Bin Khalfan Al Mutawa Al Dhahry (the "Client"), been awarded the Main Contract Works for the Construction of Sidra Tower 3G+B+45 Floor Developments (Offices and Services Apartments) on Plot No.B-001-011, Dubai Internet City, Dubai, United Arab Emirates (the "Project").

The lump sum fixed contract price for the Project is Dirham Three Hundred Eighteen Million Five Hundred Seventy Thousand and Seventy Seven Fills only (AED318,570,000-77) equivalent to approximately Ringgit Malaysia Three Hundred Eight Million One Hundred Forty Four Thousand Four Hundred Eleven and Thirty Nine Cents only (RM 308,144,411.39).

12. Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter ended 31 October 2006, except as follows:-

- i) On 1 August 2006, Zelan Arabia Co Ltd, a 40% owned associate company of Zelan Holdings (M) Sdn Bhd, obtained its Commercial Registration Certificate from the Ministry of Commerce, Kingdom of Saudi Arabia.
- ii) On 7 September 2006, Zelan Construction Arabia Co. Ltd., a wholly-owned subsidiary of Zelan Holdings (M) Sdn Bhd, obtained its Commercial Registration Certificate from the Ministry of Commerce, Kingdom of Saudi Arabia.
- iii) On 27 September 2006, Zelan Corporation Sdn Bhd, a wholly owned subsidiary of ZB, acquired 60% equity interest in Ratcha Ploen Co Ltd, a company incorporated in Thailand.

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:-

The contingent liabilities statement as disclosed in Note 35 (i) of the Group's audited financial statements for the financial year ended 31 January 2006 is no longer applicable as the Group has entered into a full and final settlement of the Disputes with The Commissioner of Taxation of Australia as disclosed in Note 5 of this announcement.

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	4,292
Authorised and contracted for	850
	<u>5,142</u>

15. Review of Performance

For the current quarter under review, the Group recorded lower turnover due to near completion of earlier projects and lower contributions from new projects secured during the last financial year, which are still at their early stage of implementation.

For the current quarter under review, the Group registered a profit before tax of RM27.095 million as compared to the preceding year corresponding quarter's profit of RM26.897 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.

The profit after tax for the period was affected by the settlement of tax disputes as mentioned in Note 5 above.

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 RM27.095 million as compared to the preceding quarter's profit of RM32.418 million. The lower profit was mainly due to lower revenue, lower gain on disposal of investments and an allowance made for decline in value 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	
	31/10/2006 RM'000	31/10/2005 RM'000	31/10/2006 RM'000	31/10/2005 RM'000
Current taxation	3,495	6,500	15,115	19,918
Deferred taxation	(15)	(12)	(39)	(100)
(Over)/under accruals in prior years	0	0	0	504
Tax expense	3,480	6,488	15,076	20,322
Tax - settlement of disputes	20,323	0	20,323	0

The effective tax rate for the Group (excluding settlement of disputes) 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.

19. Taxation (Continued)

Settlement of disputes relates to a payment of RM20.3 million to the Commissioner of Taxation of Australia pursuant to the “Deed of Confidentiality and Settlement” to settle disputes relating to alleged Australian income tax liabilities, as per Note 5 above.

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, except as follows:-

On 23 May 2006, the company entered into a sale and purchase agreement (SPA) to sell 220 acres of agricultural land for a sale consideration of RM3,524,527, registering a profit of RM2,944,122. The SPA was substantially completed on 7 September 2006.

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 3,002,000 IJM warrants for a cash consideration of RM3.297 million.

During the financial year under review, the Group disposed of 1,957,013 IJMP shares, 18,206,872 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, RM16.731 million, RM0.380 million and RM1.606 million respectively.

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

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

(i)	at cost	= RM478,659,394
(ii)	at carrying value	= RM470,566,524
(iii)	at market value	= RM588,815,040

22. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at 19 December 2006.

23. Borrowings and Debt Securities

		As at 31.10.06 RM'000
(i)	Current borrowings	
	Secured:-	
	- Term loans	163
	Unsecured:-	
	- Hire purchase liabilities	<u>708</u>
		<u>871</u>
(ii)	Non current borrowings	
	Secured:-	
	-Term loans	1,412
	Unsecured:-	
	-Hire purchase liabilities	1,417
		<u>2,829</u>
	Total	3,700 =====

24. Off Balance Sheet Financial Instruments

The position of forward foreign exchange contracts of the Group as at 12 December 2006 is as follows:-

	Tenure	Currency to be received	Currency to be paid	Amount in foreign currency '000	Contractual rate	RM'000 Equivalent
i)	1 September 2006 to 26 February 2007	Brunei Dollar (BND)	Ringgit Malaysia (RM)	BND 16	1 BND= RM2.276	37
(ii)	6 September 2006 to 23 February 2007	US Dollar (USD)	Ringgit Malaysia (RM)	USD 100	1 USD= RM3.635	364
(iii)	6 September 2006 to 23 February 2007	Singapore Dollar (SGD)	Ringgit Malaysia (RM)	SGD 480	1 SGD= RM2.330	1,119

24. Off Balance Sheet Financial Instruments (Continued)

	Tenure	Currency to be received	Currency to be paid	Amount in foreign currency '000	Contractual rate	RM'000 Equivalent
(iv)	26 September 2006 to 28 March 2007	US Dollar (USD)	Ringgit Malaysia (RM)	USD 732	1 USD= RM3.639	2,664
(v)	11 October 2006 to 13 April 2007	SGD Dollar (SGD)	Ringgit Malaysia (RM)	SGD 1,680	1 SGD= RM2.317	3,893
(vi)	1 December 2006 to 28 February 2007	US Dollar (USD)	Ringgit Malaysia (RM)	USD 138	1 USD RM3.59	496

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	
	31/10/06	31/10/05	31/10/06	31/10/05
Group's profit for the period, attributable to the equity holders of the parent (RM' Million)	3.312	19.536	57.536	56.735
Weighted average number of ordinary shares in issue (Million)	281.632	281.632	281.632	281.632
Earnings per share (sen)				
(a) Basic	1.18	6.94	20.43	20.15
(b) Diluted	1.18	6.94	20.43	20.15

25. Earnings Per Share (Continued)

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

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 was paid on 15 November 2006.

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 19 December 2006.

By order of the Board

**Ang Seng Oo
Secretary**

**Kuala Lumpur
19 December 2006**