

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 JULY 2007

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 2007.

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 2007 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning on or after 1 October 2006:

FRS 117	Leases
FRS 124	Related Party Disclosures

The adoption of the above new/revised FRSs did not result in a significant change in the accounting policies except that the adoption of the revised FRS 117 has resulted in a retrospective application of the change to the accounting policy relating to the classification of leasehold land. The up-front payment made for the leasehold land represents lease prepayments and is amortised on a straight-line basis over the lease term.

Upon adoption of the revised FRS 117 at 1 February 2007, the carrying amount of leasehold land is retained as the surrogate carrying amount of lease prepayments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold land as lease prepayments has been accounted for retrospectively and the prior year comparative has been reclassified accordingly.

The disclosure requirements of the revised FRS 124 will be presented in the annual financial statements for the financial year ending 31 January 2008.

In addition, the Group adopted a new accounting policy during the current quarter with regards to the measurement of its investment in IJM Corporation Berhad whereby after this investment ceased to be an associate of the Group, this investment has been classified as an “available-for-sale investment” on the consolidated balance sheet and is measured at fair value with gains or losses recognised as a separate component of equity. When the investment, or a portion thereof, is derecognised or determined to be impaired, the related cumulative gains or losses previously recognised in equity will be included in the consolidated income statement.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the Group's financial statements for the financial year ended 31 January 2007 was not subject to any qualification.

3. Seasonal or Cyclical Factors

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

4. 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 12,000,000 IJM Corporation Berhad ("IJM") shares of RM31.624 million.
- ii) the creation of a fair value reserve amounting to RM238.631 million in respect of the available-for-sale investment.

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 deemed disposal of an associate of RM10.088 million following the dilution on the Group's shareholding in IJM to 11.4% due to the issuance of 258,881,538 new shares in IJM for its acquisition of Road Builders (M) Holdings Berhad on 2 April 2007. Effective from that date, IJM is no longer considered as an associate of the Group.
- ii) the loss of RM0.038 million incurred on disposal of 3,220,600 Fiamma shares.
- iii) the gain on disposal of 12,000,000 IJM shares of RM31.624 million.
- iv) the creation of a fair value reserve amounting to RM238.631 million in respect of the available-for-sale investment.

5. 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 period.

6. Debt and Equity Securities

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

7. 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.

8. 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	280,977	58,757	15,852	83	355,669
Inter-segment	(93,544)	0	(4,936)	0	(98,480)
External	187,433	58,757	10,916	83	257,189
<u>Results</u>					
Segment profit/(loss)	18,245	3,270	1,577	(2,035)	21,057
Gain on disposal of other investments	0	0	0	31,624	31,624
Interest income	1,195	88	29	584	1,896
Profit from Islamic Deposits	113	0	0	183	296
Finance costs	(24)	0	(25)	(15)	(64)
Share of results of associates and joint ventures	2,401	0	0	0	2,401
Profit before Taxation	21,930	3,358	1,581	30,341	57,210
Tax expense					(6,333)
Profit for the Period					50,877

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
<u>Revenue</u>					
Total	574,819	92,398	29,120	11,302	707,639
Inter-segment	(209,351)	0	(8,270)	(10,861)	(228,482)
External	365,468	92,398	20,850	441	479,157

8. Segmental Reporting (Continued)**Results**

Segment profit/(loss)	40,364	6,398	2,717	(3,499)	45,980
Gain on disposal of other investments	0	0	0	31,750	31,750
Gain on deemed disposal of investment in an associate	0	0	0	10,088	10,088
Interest income	2,079	88	75	596	2,838
Profit from Islamic deposits	321	0	0	290	611
Finance costs	(35)	(1)	(57)	(18)	(111)
Share of results of associates and joint ventures	10,613	0	0	0	10,613
Profit before taxation	53,342	6,485	2,735	39,207	101,769
Tax expense					(13,806)
Profit for the period					87,963

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.

9. 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.

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

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

11. Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter ended 31 July 2007 except for the following:

- i) On 9 July 2007, Zelan Corporation Sdn Bhd, a wholly owned subsidiary of Zelan Berhad, acquired 100% equity interest in Paduan Lima Sejati Sdn. Bhd, a company incorporated in Malaysia.

12. Changes in Contingent Liabilities or Contingent Assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

13. 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	4,317
Authorised and contracted for	0
	<u>4,317</u>

14. Review of Performance

For the current quarter under review, the Group recorded a revenue of RM257.2 million, an increase of 60.1% as compared to the preceding year's quarter. This is achieved due to higher contributions from the overseas projects from the Engineering and Construction Business Unit and improved revenue from the Hampshire Residences of the Property and Development Business Unit.

The Hampshire Residences units have been fully sold. This resulted in marketing costs incurred of RM16.3 million which were charged in full upfront in accordance with FRS 201 whilst revenue is recognised on the percentage of completion method.

The Group recorded a higher profit after tax of RM50.4 million (after deducting marketing costs of RM16.3 million) as compared to RM26.7 million in the preceding year's quarter. This is mainly attributable to an increase in revenue recorded for the current quarter and a gain on disposal of 12.0 million IJM shares amounting to RM31.6 million.

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

For the current quarter, the Group recorded RM257 million revenue, an increase of 15.8% as compared to RM222 million achieved in the immediate preceding quarter.

For the current quarter, the Group recorded a profit before taxation of RM57.2 million as compared to the preceding quarter's profit of RM44.6 million. The higher profit was mainly due to a higher revenue recorded during the current quarter and a gain of RM31.6 million arising from the disposal of 12.0 million IJM shares.

16. Current Year Prospects

Looking forward, the Group's revenue will come from the order book secured in the Kingdom of Saudi Arabia, United Arab Emirates, India and Indonesia.

The revenue from projects in Malaysia will be reduced due to the substantial completion of Tanjung Bin Power Plant and MAS Hangar.

Considering the enhanced order book size and businesses currently being pursued both locally and overseas and barring unforeseen circumstances, the Group is confident of an improved performance for the financial year ending 31 January 2008.

17. Profit Forecast or Profit Guarantee

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

18. Taxation

	Current Quarter Ended		Year-To-Date Ended	
	31/07/2007 RM'000	31/07/2006 RM'000	31/07/2007 RM'000	31/07/2006 RM'000
Malaysian income tax	5,180	5,331	9,349	11,620
Overseas taxation	1,166	0	4,483	0
Deferred tax	(13)	(12)	(26)	(24)
Tax expense	6,333	5,319	13,806	11,596

The effective tax rate for the Group (excluding share of results of associates and jointly controlled entities) for the current quarter is lower than the statutory tax rate primarily due the gain on the deemed disposal of investment in an associate and gain on disposal of other investments which are not taxable.

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

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

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

20. 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 quarter under review, the Group disposed of 12,000,000 shares of IJM for a cash consideration of RM101.247 million.

During the year to date under review, the Group disposed of 12,000,000 shares of IJM and 3,220,600 shares Fiamma Holdings Berhad for a cash consideration of RM 101.247 million and RM2.055 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 July 2007 are as follows:-

(i)	at cost	= RM403,149,811
(ii)	at carrying value	= RM716,308,949
(iii)	at market value	= RM716,308,949

21. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at 27 September 2007.

22. Borrowings and Debt Securities

	As at 31.07.07 RM'000
(i) Current borrowings	
Secured:-	
- Term loans	314
Unsecured:-	
- Hire purchase liabilities	<u>1,009</u>
	<u>1,323</u>
(ii) Non current borrowings	
Secured:-	
-Term loans	767
Unsecured:-	
-Hire purchase liabilities	2,062
	<u>2,829</u>
Total	4,152 =====

22. Borrowings and Debt Securities (Continued)

Included in the hire purchase liabilities is an amount of RM558,188 which is denominated in United Arab Emirates Dirhams, of which RM200,210 and RM357,978 relate to current and non-current balances, respectively.

23. Off Balance Sheet Financial Instruments

The position of forward foreign exchange contracts of the Group as at 20 September 2007 is as follows:-

	Tenure	Currency to be received	Currency to be paid	Amount in foreign currency '000	Contractual rate	RM'000 Equivalent
(i)	17 April 2007 to 10 October 2007	SGD Dollar (SGD)	Ringgit Malaysia (RM)	SGD 981	1 SGD= RM2.273	2,229
(ii)	1 August 07 to 24 January 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 643	1 USD RM3.4270	2,202
(ii)	30 July 07 to 4 February 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 1,00	1 USD RM3.4250	343

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.

24. Earnings Per Share

The basic earnings per share for the financial period has been calculated based on the Group's consolidated profit attributable to the equity holders of the Company, divided by the weighted average number of ordinary shares outstanding at the end of the period.

	Current Quarter Ended		Year-To-Date Ended	
	31/07/07	31/07/06	31/07/07	31/07/06
Group's profit for the period, attributable to the equity holders of the parent (RM' Million)	50.400	26.679	87.308	54.224
Weighted average number of ordinary shares in issue (Million) *	563.264	563.264	563.264	563.264
Earnings per share (sen)				
(a) Basic	8.95	4.74	15.50	9.63
(b) Diluted	8.95	4.74	15.50	9.63

24. 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.

* The weighted average number of ordinary shares is based on the enlarged share capital due to the share split exercise which was completed on 18 July 2007. The comparative period's weighted average number of ordinary shares has been adjusted accordingly.

25. 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 2007.

26. Dividends

A final gross dividend of 2.5 sen per share, tax exempt, on 563,262,970 ordinary shares, amounting to RM14.082 million and 2.5 sen per share, less income tax at 26%, amounting to RM10.420 million in respect of the financial year ended 31 January 2007 was approved by the shareholders of the Company at its Annual General Meeting held on 29 June 2007. The said dividend was paid on 15 August 2007.

An interim dividend of 2.5 sen per ordinary share of RM0.50 each less income tax of 26% and a special dividend of 5.0 sen tax exempt were declared on 27 September 2007 by the Board of Directors in respect of the current financial year-to-date. The interim dividend and special dividend will be paid on 15 November 2007 to every depositor registered in the Record of Depositors at the close of business on 26 October 2007.

Notice of Interim Dividend and Special Dividend Payment and Entitlement Date

Notice is hereby given that an interim dividend of 2.5 sen less income tax of 26% and a special dividend of 5.0 sen tax exempt per ordinary share of RM0.50 each in respect of the financial year ending 31 January 2008 will be payable on 15 November 2007 to the shareholders whose names appear on the Company's Register of Members and / or Record of Depositors at the close of business on 26 October 2007. 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 24 October 2007 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 26 October 2007 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.

27. 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 27 September 2007.

By order of the Board

**Suhla Al Asri
Ang Seng Oo
Secretaries**

**Kuala Lumpur
27 September 2007**