

ZELAN BERHAD
(“ZB” or “the Group”)
(Company No: 27676-V)

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 OCTOBER 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 period ending 31 March 2008.

In addition, the Group adopted a new accounting policy during the previous quarter with regards to the measurement of its investment in IJM Corporation Berhad (“IJM”) 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 are 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.

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 the investment in 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 Holdings Berhad 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

The amount of dividends paid during the financial period ended 31 October 2007 was as follows:

	RM'000
In respect of the financial year ended 31 January 2007	
Final dividend of 2.5 sen per ordinary share of RM0.50 each tax exempt and 2.5 sen per ordinary share of RM0.50 each, less income tax at 26%	24,502
	<u>24,502</u>

The dividend was paid on 15 August 2007.

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	208,290	43,940	16,258	4,333	272,821
Inter-segment	(52,761)	0	(3,378)	(13)	(56,152)
External	155,529	43,940	12,880	4,320	216,669
<u>Results</u>					
Segment profit/(loss)	13,797	4,941	1,584	1,758	22,080
Interest income	1,804	1,354	89	308	3,555
Profit from Islamic deposits	8	0	0	379	387
Finance costs	(46)	(133)	(24)	(10)	(213)
Share of results of associates and jointly controlled entities	712	0	0	0	712
Profit before taxation	16,275	6,162	1,649	2,435	26,521
Tax expense					(7,723)
Profit for the period					18,798

8. 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	783,109	136,338	45,378	15,635	980,460
Inter-segment	(262,112)	0	(11,648)	(10,874)	(284,634)
External	520,997	136,338	33,730	4,761	695,826
Results					
Segment profit/(loss)	54,160	11,339	4,301	(1,740)	68,060
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	3,883	1,442	164	904	6,393
Profit from Islamic deposits	329	0	0	669	998
Finance costs	(81)	(134)	(81)	(28)	(324)
Share of results of associates and jointly controlled entities	11,325	0	0	0	11,325
Profit before taxation	69,616	12,647	4,384	41,643	128,290
Tax expense					(21,529)
Profit for the period					106,761

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 on the property, plant, and equipment that have been made at the Group level 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, except for :-

10. Material Events Subsequent to the End of the Reporting Period (Continued)

- i) The financial year of the Company has been changed from 31 January to 31 March commencing financial period ending 31 March 2008 and thereafter to end on 31 March of every subsequent year. The next audited financial statements shall be for a period of 14 months, made up from 1 February 2007 to 31 March 2008.

11. Changes in Composition of the Group

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

- i) On 26 September 2007, Zelan Holdings (M) Sdn Bhd, a wholly owned subsidiary of Zelan Berhad, via an unincorporated integrated joint venture on 70.30 basis with Al Ambia Sdn. Bhd, received a Letter of Intent from Tamouh Investments LLC stating its intention to award the main construction package for Meena Plaza to Zelan Al-Ambia JV for a fixed lump sum price of AED903.7 million, equivalent to RM864,368,612.

This has no material impact on the Group for the financial year-to-date.

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	4,144
Authorised and contracted for	0
	<u>4,144</u>

14. Review of Performance

For the current quarter under review, the Group recorded a revenue of RM216.7 million, an increase of 70.7% 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 Group recorded a higher profit after tax of RM17.8 million (after deducting marketing costs of RM4.9 million) as compared to RM3.3 million in the preceding year's quarter. This is mainly attributable to an increase in revenue recorded for the current quarter. The preceding year's profit for the quarter was affected by the settlement of tax disputes of RM20.3 million.

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

For the current quarter, the Group recorded RM216.7 million revenue, a decrease of 15.7% as compared to RM257.2 million achieved in the immediate preceding quarter, mainly due to progress of works in Kingdom of Saudi Arabia, United Arab Emirates and Indonesia being affected by lower activity during the months of September and October 2007.

For the current quarter, the Group recorded a profit before taxation of RM26.5 million as compared to the preceding quarter's profit before taxation of RM57.2 million, mainly due a non-recurring gain of RM31.6 million on the disposal of available-for-sale investment in the preceding quarter.

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 successful completion of Tanjung Bin Power Plant and MAS Hangar during the quarter.

Considering the current projects on hand and the results to-date, barring unforeseen circumstances, the Group is expected to achieve an improved performance for the financial period ending 31 March 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	
	31/10/2007 RM'000	31/10/2006 RM'000	31/10/2007 RM'000	31/10/2006 RM'000
Malaysian income tax	5,395	3,495	14,060	15,115
Overseas taxation	2,341	0	7,508	0
Deferred tax	(13)	(15)	(39)	(39)
Tax expense	7,723	3,480	21,529	15,076
Tax- Settlement of disputes	0	20,323	0	20,323

The effective tax rate for the Group (excluding share of results of associates and jointly controlled entities) for the current quarter is higher than the local statutory tax rate primarily due to certain companies within the Group which were loss making, certain expenses which were not deductible for tax purposes and higher tax rates experienced by the foreign subsidiaries in India and Indonesia.

The effective tax rate for the Group (excluding share of results of associates and jointly controlled entities) for the current year to date is lower than the local statutory tax rate primarily due to the gain on the deemed disposal of investment in an associate and the 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 except for the sale of two units of shop-lots which resulted in a gain on disposal of RM0.7 million.

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 financial 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 net cash consideration of RM 101.247 million and RM2.055 million respectively.

20. Quoted Securities (Continued)

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

The investments in quoted securities as at 31 October 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 17 December 2007.

22. Borrowings and Debt Securities

	As at 31.10.07 RM'000
(i) Current borrowings	
Secured:-	
- Term loans	143
Unsecured:-	
- Hire purchase liabilities	944
	<u>1,087</u>
(ii) Non current borrowings	
Secured:-	
-Term loans	767
Unsecured:-	
-Hire purchase liabilities	2,116
	<u>2,883</u>
Total	<u>3,970</u> =====

Included in the hire purchase liabilities is an amount of RM552,049 which is denominated in United Arab Emirates Dirhams, of which RM214,272 and RM337,777 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 8 December 2007 is as follows:-

	Tenure	Currency to be received	Currency to be paid	Amount in foreign currency '000	Contractual rate	RM'000 Equivalent
(i)	10 October 2007 to 14 April 2008	SGD Dollar (SGD)	Ringgit Malaysia (RM)	SGD 981	1 SGD= RM2.3080	2,263
(ii)	1 August 07 to 24 January 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 443	1 USD RM3.4270	1,517
(iii)	30 July 07 to 4 February 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 100	1 USD RM3.4250	343
(iv)	2 November 2007 to 6 May 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 850	1 USD RM3.3150	2,818

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	
	31/10/07	31/10/06	31/10/07	31/10/06
Group's profit for the period, attributable to the equity holders of the parent (RM' Million)	17.849	3.312	105.157	57.536
Weighted average number of ordinary shares in issue (Million) *	563.264	563.264	563.264	563.264
Earnings per share (sen)				
(a) Basic	3.17	0.59	18.67	10.21
(b) Diluted	3.17	0.59	18.67	10.21

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

An interim dividend of 2.5 sen per ordinary share of RM0.50, less income tax of 26% and a special dividend of 5.0 sen per ordinary share of RM0.50, tax exempt were declared on 27 September 2007 by the Board of Directors in respect of the current financial year.

The interim and the special dividends were paid on 15 November 2007.

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 17 December 2007.

By order of the Board

**Suhla Al Asri
Ang Seng Oo
Secretaries**

**Kuala Lumpur
17 December 2007**