

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE TWO MONTHS ENDED 31 DECEMBER 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 period to date 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 two months period under review because of their nature, size, or incidence except for:-

- i) the reduction of fair value reserve amounting to RM8.233 million in respect of the available-for-sale investment as compared to 31 October 2007.

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period 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 RM230.398 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 period.

7. Dividends Paid

The amount of dividend paid during the financial period ended 31 December 2007 is as follows:-

	RM'000
a) 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
The dividend was paid on 15 August 2007.	
b) In respect of the financial period ending 31 March 2008	
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 per ordinary share of RM0.50 each, tax exempt	38,583
The dividend was paid on 15 November 2007.	
Total Dividend	<u><u>63,085</u></u>

8. Segmental Reporting

Analysis by business segments for the two (2) months ended 31 December 2007:

	Engineering & construction RM'000	Property & development RM'000	Manufacturing & trading RM'000	Investment & Others RM'000	Total RM'000
<u>Revenue</u>					
Total	158,524	18,599	11,724	145	188,992
Inter-segment	(39,912)	0	(1,965)	(3)	(41,880)
External	<u>118,612</u>	<u>18,599</u>	<u>9,759</u>	<u>142</u>	<u>147,112</u>
<u>Results</u>					
Segment profit/(loss)	7,244	422	1,563	(1,731)	7,498
Interest income	1,796	987	20	41	2,844
Profit from Islamic deposits	2	0	0	161	163
Finance costs	(6)	0	(16)	(9)	(31)
Share of results of associates and jointly controlled entities	734	0	0	0	734
Profit before taxation	<u>9,770</u>	<u>1,409</u>	<u>1,567</u>	<u>(1,538)</u>	<u>11,208</u>
Tax expense					<u>(2,426)</u>
Profit for the period					<u><u>8,782</u></u>

8. Segmental Reporting (Continued)

Analysis by business segments for the financial period to date for the eleven (11) months ended 31 December 2007:

	Engineering & construction RM'000	Property & development RM'000	Manufacturing & trading RM'000	Investment & Others RM'000	Total RM'000
Revenue					
Total	941,633	154,937	57,102	15,780	1,169,452
Inter-segment	(302,024)	0	(13,613)	(10,877)	(326,514)
External	639,609	154,937	43,489	4,903	842,938
Results					
Segment profit/(loss)	61,404	11,761	5,864	(3,471)	75,558
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	5,679	2,429	184	945	9,237
Profit from Islamic deposits	331	0	0	830	1,161
Finance costs	(87)	(134)	(97)	(37)	(355)
Share of results of associates and jointly controlled entities	12,059	0	0	0	12,059
Profit before taxation	79,386	14,056	5,951	40,105	139,498
Tax expense					(23,955)
Profit for the period					115,543

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 these interim financial statements.

11. Changes in Composition of the Group

There were no changes in the composition of the Group during the current two months period ended 31 December 2007 except for the following:

- i) On 28 November 2007, Zelan Corporation Sdn Bhd, a wholly-owned subsidiary of Zelan Holdings (M) Sdn Bhd, disposed of 25% of its existing equity interest of 60% in Ratcha Ploen Company Limited, resulting in a revised shareholding of 35%. As a result, Ratcha Ploen Company Limited became an associate of the Group.

This transaction has no material impact on the Group for the current financial period.

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	33,706
Authorised and contracted for	50,890
	<u>84,596</u>

14. Change of financial year

On 17 December 2007, 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.

Accordingly, there are no comparative figures for the current two (2) months and the cumulative period of eleven (11) months ended 31 December 2007.

15. Review of Performance

For the two months ended 31 December 2007, the Group recorded a revenue of RM147.1 million and a profit after tax of RM8.8 million (after deducting marketing costs of RM2.8 million).

For the eleven (11) months period ended 31 December 2007, the Group recorded a revenue of RM842.9 million and a profit after tax of RM115.5 million as compared to RM641.0 million and RM81.9 million respectively, achieved in the previous financial year ended 31 January 2007.

The growth in revenue has been attributed to the successful completion of two (2) local projects namely Tanjung Bin Power Plant and MAS Hangar and the higher contribution from overseas projects from the Engineering and Construction Business Unit, as well as improved revenue from Hampshire Residences of the Property and Development Business Unit.

The increase in profit after tax is attributable to the increase in revenue and a non-recurring settlement of tax disputes of RM20.3 million incurred in the previous financial year ended 31 January 2007.

Due to the change in the financial year end as stated in Note 14, there are no comparative figures for the current two (2) months period ended 31 December 2007. The quarterly results ended 31 January 2007 have been attached for illustration purpose only.

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

For the two months period ended 31 December 2007, the Group recorded a revenue of RM147.1 million revenue and a profit before taxation of RM11.2 million.

Due to the change in the financial year end as stated in Note 14, the Group is unable to compare the profit before tax for the current two (2) months ended 31 December 2007 with the immediate preceding quarter.

17. 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 financial period to date.

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.

18. Profit Forecast or Profit Guarantee

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

19. Taxation

	Current Two (2) Months Ended	Period-To- Date Eleven (11) Months Ended
	31/12/2007 RM'000	31/12/2007 RM'000
Malaysian income tax	(502)	13,557
Overseas taxation	2,936	10,445
Deferred tax	(8)	(47)
Tax expense	2,426	23,955

The effective tax rate for the Group (excluding share of results of associates and jointly controlled entities) for the two (2) months ended 31 December 2007 is lower than the local statutory tax rate primarily due to write-back of provision of tax in the prior years.

The effective tax rate for the Group (excluding share of results of associates and jointly controlled entities) for the current period 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.

The Inland Revenue Board (IRB) investigations of 13 January 2005 on the two (2) subsidiary companies have been concluded. Based on IRB letters dated 24 January 2008, the IRB has confirmed that there is no additional tax liability to be incurred by the Group.

20. 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 period and financial period to date under review except for the sale of two units of shop-lots which resulted in a gain on disposal of RM0.6 million.

21. Quoted Securities

There were no disposals of quoted securities for the two (2) months ended 31 December 2007 and financial period to date under review except for the following:

During the financial period 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 RM101.247 million and RM2.055 million respectively.

There were no quoted securities purchased during the two months ended 31 December 2007 and financial period to date under review.

The investments in quoted securities as at 31 December 2007 are as follows:-

(i)	at cost	= RM403,149,811
(ii)	at carrying value	= RM708,075,513
(iii)	at market value	= RM708,075,513

22. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at 26 February 2008.

23. Borrowings and Debt Securities

	As at 31.12.07 RM'000
(i) Current borrowings	
Secured:-	
- Term loans	26
Unsecured:-	
- Hire purchase liabilities	968
	<u>994</u>
(ii) Non current borrowings	
Secured:-	
-Term loans	767
Unsecured:-	
-Hire purchase liabilities	1,905
	<u>2,672</u>
Total	3,666 =====

23. Borrowings and Debt Securities (Continued)

Included in the hire purchase liabilities is an amount of RM511,815 which is denominated in United Arab Emirates Dirhams, of which RM214,517 and RM297,298 relate to current and non-current balances, respectively.

24. Off Balance Sheet Financial Instruments

The position of forward foreign exchange contracts of the Group as at 19 February 2008 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 756	1 SGD= RM2.3080	1,746
(ii)	5 February 2008 to 5 August 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 93	1 USD= RM3.2250	301
(iii)	5 February 2008 to 4 August 2008	US Dollar (USD)	Ringgit Malaysia (RM)	USD 54	1 USD= RM3.424	186
(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.

25. 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.

25. Earnings Per Share (Continued)

	Two (2) Months period Ended	Eleven (11) Months period Ended
	31/12/07	31/12/07
Group's profit for the period, attributable to the equity holders of the parent (RM' Million)	7.651	112.808
Weighted average number of ordinary shares in issue (Million) *	563.264	563.264
Earnings per share (sen)		
(a) Basic	1.36	20.03
(b) Diluted	1.36	20.03

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.

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 2007.

27. Dividends

There were no dividends declared for the two months period ended 31 December 2007.

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 26 February 2008.

By order of the Board

**Suhla Al Asri
Ang Seng Oo
Secretaries**

**Kuala Lumpur
26 February 2008**