

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2008

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 ended 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 quarter under review because of their nature, size, or incidence except for:-

- i) the reduction of fair value reserve amounting to RM205.836 million in respect of the available-for-sale investment as compared to 31 December 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 RM24.562 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 quarter.

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 March 2008 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 ended 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>63,085</u> |

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 | 532,301 | 54,213 | 10,777 | 1,002 | 598,293 |
| Inter-segment | (56,681) | 0 | (4,123) | (6,665) | (67,469) |
| External | 475,620 | 54,213 | 6,654 | (5,663) | 530,824 |
| <u>Results</u> | | | | | |
| Segment profit/(loss) | 26,921 | 9,834 | 1,388 | (2,735) | 35,408 |
| Interest income | 966 | 208 | 42 | 263 | 1,479 |
| Investment income | 0 | 277 | 0 | 170 | 447 |
| Profit from Islamic deposits | 1 | 0 | 0 | 225 | 226 |
| Finance costs | 0 | 0 | (12) | (12) | (24) |
| Share of results of associates and jointly controlled entities | 8,189 | 0 | 0 | 0 | 8,189 |
| Profit before taxation | 36,077 | 10,319 | 1,418 | (2,089) | 45,725 |
| Tax expense | | | | | (9,692) |
| Profit for the period | | | | | <u>36,033</u> |

8. Segmental Reporting (Continued)

Analysis by business segments for the financial period 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 | 1,473,934 | 209,150 | 67,879 | 16,782 | 1,767,745 |
| Inter-segment | (358,705) | 0 | (17,736) | (17,542) | (393,983) |
| External | 1,115,229 | 209,150 | 50,143 | (760) | 1,373,762 |
| <u>Results</u> | | | | | |
| Segment profit/(loss) | 88,325 | 21,595 | 7,252 | (6,206) | 110,966 |
| 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 | 6,364 | 2,283 | 226 | 956 | 9,829 |
| Investment income | 281 | 631 | 0 | 422 | 1,334 |
| Profit from Islamic deposits | 332 | 0 | 0 | 1,055 | 1,387 |
| Finance costs | (87) | (134) | (109) | (49) | (379) |
| Share of results of associates and jointly controlled entities | 20,248 | 0 | 0 | 0 | 20,248 |
| Profit before taxation | 115,463 | 24,375 | 7,369 | 38,016 | 185,223 |
| Tax expense | | | | | (33,647) |
| Profit for the period | | | | | 151,576 |

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 quarter ended 31 March 2008.

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 | 9,864 |
| Authorised and contracted for | 0 |
| | <u>9,864</u> |

14. Change of Financial Year

On 17 December 2007, the financial year of the Company was changed from 31 January to 31 March commencing financial period ended 31 March 2008 and thereafter to end on 31 March of every subsequent year.

Accordingly, there are no comparative figures for the current quarter and the preceding year corresponding period.

15. Review of Performance

For the quarter ended 31 March 2008, the Group recorded a revenue of RM530.8 million and a profit after tax of RM36.1 million. Included in the operating expenses of RM8.7 million is an unrealised foreign exchange loss of RM4.8 million arising from trade advances made to the Group's overseas branch and foreign subsidiaries.

For the fourteen (14) months period ended 31 March 2008, the Group recorded a revenue of RM1.38 billion and a profit after tax of RM151.6 million as compared to RM641.0 million and RM81.9 million respectively, achieved in the previous financial year ended 31 January 2007 of twelve months.

15. Review of Performance (Continued)

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, in particular from the Rembang power plant project in Indonesia, 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 gain on disposal of IJM shares of RM31.6 million in the current financial period and a non-recurring settlement of tax disputes of RM20.3 million incurred in the previous financial year ended 31 January 2007.

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

For the quarter ended 31 March 2008, the Group recorded a revenue of RM530.8 million and a profit before taxation of RM45.7 million as compared to a revenue of RM147.1 million and profit before taxation of RM11.2 million in the preceding two (2) months ended 31 December 2007.

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 quarter ended 31 March 2008 and the immediate preceding quarter of two (2) ended 31 December 2007.

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.

Considering the current projects on hand and taking into account the rising cost of construction materials, the Group's performance is expected to be satisfactory for the financial year ending 31 March 2009.

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 | Current Period- Fourteen (14) Months Ended |
|----------------------|-----------------------------|--|
| | 31/03/2008 RM'000 | 31/03/2008 RM'000 |
| Malaysian income tax | 4,371 | 17,929 |
| Overseas taxation | 5,334 | 15,778 |
| Deferred tax | (13) | (60) |
| Tax expense | 9,692 | 33,647 |

The effective tax rate for the Group (excluding share of results of associates and jointly controlled entities) for the quarter ended 31 March 2008 approximates the local statutory tax rate of 26%.

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 a letter from IRB dated 24 January 2008, the IRB has confirmed that there is no additional tax liability to be incurred by the Group. The IRB refunded a sum of RM2 million (previously classified as deposit) on 7 April 2008.

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 quarter ended 31 March 2008.

During the financial period under review, there was a 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 quarter ended 31 March 2008 and financial period to date under review except for the following:

21. Quoted Securities (Continued)

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 quarter ended 31 March 2008 and financial period to date under review.

The investments in quoted securities as at 31 March 2008 are as follows:-

| | | |
|-------|-------------------|-----------------|
| (i) | at cost | = RM403,149,811 |
| (ii) | at carrying value | = RM502,239,608 |
| (iii) | at market value | = RM502,239,608 |

22. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at 29 May 2008.

23. Borrowings and Debt Securities

| | | As at 31.03.08 RM'000 |
|-------------|-------------------------------|--------------------------------------|
| (i) | Current borrowings | |
| | Secured:- | |
| | - Overdraft | 1,998 |
| | - Term loans | 15,193 |
| | Unsecured:- | |
| | - Term loans | 25,423 |
| | Unsecured:- | |
| | - Hire purchase liabilities | 943 |
| | | <u>43,557</u> |
| (ii) | Non current borrowings | |
| | Secured:- | |
| | -Term loans | 0 |
| | Unsecured:- | |
| | -Hire purchase liabilities | 1,598 |
| | | <u>1,598</u> |
| | Total | 45,155 ===== |

23. Borrowings and Debt Securities (Continued)

Included in the term loan (current portion) is an amount of RM4,576,513 (secured) which is denominated in United Arab Emirates Dirhams and (unsecured) RM25,422,934 which is denominated in Saudi Riyal.

Included in the hire purchase liabilities is an amount of RM442,829 which is denominated in United Arab Emirates Dirhams, of which RM210,534 and RM232,295 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 21 May 2008 is as follows:-

| | Tenure | Currency to be received | Currency to be paid | Amount in foreign currency '000 | Contractual rate | RM'000 Equivalent |
|-------|------------------------------------|-------------------------|-----------------------|---------------------------------|------------------|-------------------|
| (i) | 14 April 2008 to 14 October 2008 | SGD Dollar (SGD) | Ringgit Malaysia (RM) | SGD 700 | 1 SGD= RM2.3530 | 1,647 |
| (ii) | 5 February 2008 to 5 August 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 42 | 1 USD= RM3.2250 | 137 |
| (iii) | 7 May 2008 to 31 October 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 850 | 1 USD= RM3.2230 | 2,740 |
| (iv) | 22 February 2008 to 26 August 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 2,464 | 1 USD= RM3.2165 | 7,927 |
| (v) | 4 April 2008 to 8 October 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 250 | 1 USD= RM3.1930 | 798 |
| (vi) | 4 April 2008 to 8 October 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 100 | 1 USD= RM3.1930 | 319 |

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 |
|--------|------------------------------------|-------------------------|-----------------------|---------------------------------|------------------|-------------------|
| (vii) | 7 May 2008 to 10 November 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 1,800 | 1 USD= RM3.1520 | 5,674 |
| (viii) | 14 May 2008 to 17 November 2008 | US Dollar (USD) | Ringgit Malaysia (RM) | USD 400 | 1 USD= RM3.2320 | 1,293 |
| (ix) | 22 February 2008 to 26 August 2008 | SGD Dollar (SGD) | Ringgit Malaysia (RM) | SGD 1,404 | 1 SGD= RM2.2960 | 3,224 |

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.

| | Quarter Ended | Fourteen (14) Months Ended |
|---|---------------|----------------------------|
| | 31/03/08 | 31/03/08 |
| Group's profit for the period, attributable to the equity holders of the parent (RM' Million) | 30.122 | 142.930 |
| Weighted average number of ordinary shares in issue (Million) * | 563.264 | 563.264 |
| Earnings per share (sen) | | |
| (a) Basic | 5.35 | 25.38 |
| (b) Diluted | 5.35 | 25.38 |

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.

25. Earnings Per Share (Continued)

* 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

- a) A second interim dividend of 6.5 sen per ordinary share of RM0.50 each less income tax at 25% was declared on 29 May 2008 by the Board of Directors in respect of the current financial period-to-date. The second interim dividend will be paid on Monday, 30 June 2008 to every depositor registered in the Record of Depositors at the close of business on Monday, 16 June 2008.
- b) Previous year's quarter ended 31 January 2007: 2.5 sen per ordinary share of RM0.50, tax exempt, amounting to RM14.082 million and 2.5 sen per ordinary share of RM0.50, less income tax at 26%, amounting to RM10.420 million, paid on 15 August 2007.

Notice of Second Interim Dividend Payment and Entitlement Date

Notice is hereby given that a second interim dividend of 6.5 sen less income tax at 25% per ordinary share of RM0.50 each in respect of the financial period ended 31 March 2008 will be payable on Monday, 30 June 2008 to the shareholders whose names appear on the Company's Register of Members and / or Record of Depositors at the close of business on Monday, 16 June 2008. A depositor shall qualify for entitlement to the dividend only in respect of:-

27. Dividends (Continued)

| | | | |
|----|--|------------------|-------------------|
| a) | shares transferred into the depositor's securities account before 4.00 p.m. on Monday, 16 June 2008 in respect of ordinary shares. | | |
| b) | shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia. | | |
| c) | Total dividend for the current financial period | | |
| | | <u>sen/share</u> | <u>RM'million</u> |
| | i) Interim dividend of 2.5 sen per share, less income tax at 26% | 2.5 | 10.420 |
| | ii) Special dividend of 5 sen per share, tax exempt | 5.0 | 28.163 |
| | iii) Second interim dividend of 6.5 sen per share, less income tax at 25% | 6.5 | 27.459 |
| | | <u>14.0</u> | <u>66.042</u> |
| | | ===== | ===== |

28. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 29 May 2008.

By order of the Board

**Suhla Al Asri
Ang Seng Oo
Secretaries**

**Kuala Lumpur
29 May 2008**