

ATLAN HOLDINGS BHD – 173250 W
(Incorporated in Malaysia)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 31 MAY 2011**

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). The interim financial statements have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 28 February 2011. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 28 February 2011.

2. Summary of Significant Accounting Policies

(i) Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 28 February 2011, except for the adoption of the following new Financial Reporting Standards (“FRSs”), Amendments to FRSs and Interpretations by the Group with effect from 1 March 2011:

FRS 1 First-time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (Revised)
Amendments to FRS 2 Share-based Payment
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 127 Consolidated and Separate Financial Statements
Amendments to FRS 138 Intangible Assets
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
IC Interpretation 12 Service Concession Arrangements
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17 Distributions of Non-cash Assets to Owners
Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1 Additional Exemptions for First-time Adopters
Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions
Amendments to FRS 3 Business Combinations
Amendments to FRS 7 Improving Disclosures about Financial Instruments
Amendments to FRS 101 Presentation of Financial Statements
Amendments to FRS 121 The Effects of Changes in Foreign Exchange Rates
Amendments to FRS 128 Investments in Associates
Amendments to FRS 131 Interests in Joint Ventures

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2. Summary of Significant Accounting Policies (cont'd)

(i) Changes in Accounting Policies (cont'd)

Amendments to FRS 132 Financial Instruments: Presentation
Amendments to FRS 139 Financial Instruments: Recognition and Measurement
IC Interpretation 4 Determining Whether an Arrangement contains a Lease
IC Interpretation 13 Amendments to IC Interpretation 13
IC Interpretation 18 Transfers of Assets from Customers

Adoption of the above standards and interpretations did not have significant impact on the financial performance or position of the Group.

(ii) Standards Issued But Not Yet Effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Effective for financial periods beginning on or after 1 July 2011

IC Interpretation 14 Prepayments of a Minimum Funding Requirement (Amendment to IC Interpretation 14)
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

Effective for financial periods beginning on or after 1 January 2012

IC Interpretation 15 Agreements for the Construction of Real Estate
Amendments to FRS 124 Related Party Disclosures

Except for the changes in accounting policies arising from the adoption of IC Interpretation 15, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of IC Interpretation 15 is described below.

IC Interpretation 15 Agreements for the Construction of Real Estate

This Interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the Interpretation provides guidance on how to determine whether an agreement is within the scope of FRS 111 Construction Contracts or FRS 118 Revenue.

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2. Summary of Significant Accounting Policies (cont'd)

(ii) Standards Issued But Not Yet Effective (cont'd)

IC Interpretation 15 Agreements for the Construction of Real Estate (cont'd)

The Group currently recognises revenue arising from property development projects using the stage of completion method. Upon the adoption of IC Interpretation 15, the Group may be required to change its accounting policy to recognise such revenues at completion, or upon or after delivery. The Group is in the process of making an assessment of the impact of this Interpretation.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 28 February 2011 was not qualified.

4. Comments About Seasonal or Cyclical Factors

The business operations of the Group have not been materially affected by any seasonal or cyclical factors during the financial quarter under review.

5. Unusual Items Due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial quarter ended 31 May 2011, except for the gain on disposal of lands, as further explained in Note 11(iii).

6. Changes in Estimates

There were no changes in estimates that have had a material effect in the current quarter.

7. Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 31 May 2011, except for the repurchase of its 1,000 ordinary shares of RM1.00 each at an average price of RM3.35 per share. The total cash consideration paid was approximately RM4,000. The shares were bought with internally generated funds and are currently held as treasury shares.

As at 31 May 2011, the number of ordinary shares issued and fully paid up is 253,650,458 and the number of treasury shares held by the Company is 1,649,649 shares. Accordingly, the number of outstanding shares in issue after deducting treasury shares held is 252,000,809 ordinary shares of RM1.00 each.

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8. Dividends Paid and Distributed

On 13 April 2011, the Company paid a fourth interim single tier ordinary share dividend of 5% in respect of the financial year ended 28 February 2011 amounting to RM12.6 million (2010: 6% single tier).

9. Segmental Information

	Individual Quarter		Cumulative Quarter	
	Ended	Ended	Ended	Ended
	31-May-11	31-May-10	31-May-11	31-May-10
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Investments	1,819	12,688	1,819	12,688
Hotel and property	25,771	26,993	25,771	26,993
Duty free	193,035	162,846	193,035	162,846
Manufacturing	30,447	39,164	30,447	39,164
Others	2,082	2,000	2,082	2,000
	<u>253,154</u>	<u>243,691</u>	<u>253,154</u>	<u>243,691</u>
Eliminations	(75,862)	(67,729)	(75,862)	(67,729)
Group revenue	<u>177,292</u>	<u>175,962</u>	<u>177,292</u>	<u>175,962</u>
Segment Results				
Investments	(6,237)	(173)	(6,237)	(173)
Hotel and property	72,127	1,156	72,127	1,156
Duty free	19,610	16,145	19,610	16,145
Manufacturing	(641)	8,504	(641)	8,504
Others	24,138	8,669	24,138	8,669
Profit before taxation	<u>108,997</u>	<u>34,301</u>	<u>108,997</u>	<u>34,301</u>

10. Valuations of Property, Plant and Equipment

There are no changes to the valuations of the property, plant and equipment since the audited financial statements for the year ended 28 February 2011.

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11. Significant and Subsequent Events

- (i) On 28 November 2006, Maybank Investment Bank Berhad (“Maybank-IB”) announced that the Board of Directors (“Board”) of the Company had proposed the acquisition of the entire business undertakings of Naluri Corporation Berhad (“Naluri”) including all its assets and liabilities and all the holdings in all its subsidiaries and associated companies for a total purchase consideration of approximately RM435.432 million (or equivalent to RM0.75 per ordinary share of RM1.00 each in Naluri) to be satisfied entirely by cash (“Proposed Acquisition”).

The Proposed Acquisition was approved by the shareholders at the Extraordinary General Meeting (“EGM”) on 2 March 2007 and the Ministry of International Trade and Industry (“MITI”) on 28 March 2007. On 3 July 2008, Maybank-IB, on behalf of the Board of the Company announced that the completion of the Proposed Acquisition had taken place on the said date.

Upon the completion of the Acquisition, Naluri had proceeded, on 3 March 2010, to file a Petition to the High Court to confirm the Proposed Capital Repayment in order to give effect to the Special Resolution of Naluri passed at the EGM held on 8 March 2007, pursuant to Section 64 of the Companies Act 1965 (“Petition”). An application for dispensation of inquiry as to creditors had also been filed on 8 March 2010 (“Application”). The Court had on 19 March 2010 granted order in terms of the Application.

The Court has now adjourned the case management for the Petition for Proposed Capital Repayment to 11 August 2011.

On 18 August 2010, Maybank-IB, on behalf of the Board of the Company announced that SC had vide its letter dated 17 August 2010, approved the extension of time of one year from 3 August 2010 to 2 August 2011 for Naluri to complete the Proposed Capital Repayment.

- (ii) On 28 June 2010, Affin Investment, on behalf of the Board of the Company, announced that the Company had entered into two conditional sale and purchase agreements (“SPAs”) with Esmart Holdings Limited (“Esmart”) for the following:
- proposed acquisition by Esmart of 156,861,702 ordinary shares of RM1.00 each in DFZ Capital Berhad (“DFZ Shares”) or 74.71% equity interest representing the Company’s entire equity interest therein for a disposal consideration of RM470,585,106 or equivalently RM3.00 per DFZ Share to be satisfied by the issuance of 12,702,123,773 new ordinary shares in Esmart (“Esmart Shares”) at the issue price of SGD0.015765 per Esmart Share and 1,270,212,377 free warrants on the basis of one free warrant for every 10 Esmart Shares (“Proposed Injection of DFZ”); and

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11. Significant and Subsequent Events (cont'd)

(ii) (cont'd)

- proposed acquisition by Esmart of 1,000,002 ordinary shares of RM1.00 each in Darul Metro Sdn Bhd (“Darul Metro Shares”) representing the Company’s entire equity interest therein for a disposal consideration of RM200,000,000 or equivalently RM200.00 per Darul Metro Share to be satisfied by the issuance of 5,398,438,502 new Esmart Shares at the issue price of SGD0.015765 per Esmart Share and 539,843,850 free warrants on the basis of one free warrant for every 10 Esmart Shares (“Proposed Injection of Darul Metro”).

The aggregate consideration of RM670,585,106 which is equivalent to SGD285,355,364 at the agreed exchange rate of RM2.35 to SGD1.00.

The Proposed Injection of DFZ and Proposed Injection of Darul Metro form the basis for the Proposal as the Proposed Injection of DFZ and Proposed Injection of Darul Metro will result in a reverse take-over of Esmart by the Company which will ultimately control DFZ Capital Berhad and Darul Metro Sdn Bhd via Esmart.

On 1 October 2010, Affin Investment, on behalf of the Board of the Company, announced that Bank Negara Malaysia had, vide its letter dated 23 September 2010, approved for the Company to undertake an investment overseas involving the subscription of Consideration Shares and Consideration Warrants to be issued by Esmart pursuant to the Proposal subject to the Company obtaining the approvals and complying with the conditions imposed by the relevant authorities in Malaysia.

On 15 December 2010, the Company announced that the shareholders of the Company had at the Extraordinary General Meeting (“EGM”) approved the ordinary resolution for the Proposed Injections and Proposed Offer.

On 28 December 2010, Affin Investment, on behalf of the Board of the Company, announced that the two conditional SPAs dated 28 June 2010 entered between the Company and Esmart pursuant to the Reverse Take Over had become unconditional on the said date.

Further, pursuant to the requirements of Part III of the Malaysian Code on Take-Overs and Mergers, 2010 (“Code”), Esmart has an obligation to undertake an unconditional take-over offer (“Offer”) to acquire all the remaining 53,102,127 DFZ Shares that are not already held by Esmart and its parties acting in concert (“PACs”) (“Offer Shares”) representing approximately 25.29% of the issued and paid-up share capital of DFZ. Accordingly, the Company, being a person having an interest in the Offer pursuant to the SPAs, is the ultimate offeror for purposes of the Offer.

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11. Significant and Subsequent Events (cont'd)

(ii) (cont'd)

In relation to the Offer, on 28 December 2010, Esmart has, through Affin Investment, served a Notice of Mandatory Take-over Offer dated 28 December 2010 (“Notice”) notifying the Board of Directors of DFZ of Esmart’s obligation to extend a mandatory take-over offer for all the remaining ordinary shares of RM1.00 each in DFZ not already owned by Esmart.

On 7 January 2011, Affin Investment announced that the two conditional SPAs entered into between the Company and Esmart on 28 June 2010 pursuant to the Reverse Take Over have been completed (“Completion”). Accordingly, upon Completion, DFZ is a 74.71%-owned subsidiary company of Esmart and Darul Metro is a wholly-owned subsidiary company of Esmart. Atlan, in turn, is the controlling shareholder of Esmart.

The Offer Document in respect of the Offer were despatched to the shareholders of DFZ on 18 January 2011. The first Closing Date for the Offer was on 8 February 2011. On 2 February 2011, Affin Investment announced that the Closing Date for the Offer has been extended to 1 March 2011. Affin Investment also announced that based on the level of acceptances as at 31 January 2011, Esmart held 91.20% of the issued and paid-up share capital of DFZ.

In accordance with the terms of the SPAs and in conjunction with the Completion, Esmart had on 1 February 2011 entered into a sale and purchase agreement with Mr. Lee Keow Chin, the former Chief Executive Officer and a former Director of Esmart for the disposal of all the equity interests held by Esmart in the six Esmart Subsidiaries at a consideration of Singapore Dollar (“SGD”) 1.00 only for each subsidiary, amounting to SGD6.00 in total, for the purpose of the disposal of Esmart’s former electronics business as disclosed in the Circular.

On 8 February 2011, Affin Investment announced that the Offer has been validly accepted by the holders of not less than nine-tenths in the nominal value of the Offer Shares. Affin Investment also announced that based on the level of acceptances as at 8 February 2011, Esmart held 97.58% of the issued and paid-up share capital of DFZ. As set out in Section 4 of the Offer Document dated 18 January 2011 which sets out the details, terms and conditions of the Offer, Esmart invoked the provisions of Section 222 of the Capital Markets & Services Act, 2007 (“CMSA”) to compulsorily acquire any remaining Offer Shares for which acceptances have not been received if Esmart receives valid acceptances of not less than nine-tenths (9/10) in the nominal value of the Offer Shares.

On 2 March 2011, Affin Investment announced that the Offer has closed on 1 March 2011. Based on the level of acceptances as at 1 March 2011, Esmart held 99.49% of the issued and paid-up share capital of DFZ which amounts to 208,908,845 DFZ shares.

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11. Significant and Subsequent Events (cont'd)

(ii) (cont'd)

On 15 March 2011, Affin Investment announced that Bursa Securities has vide their letter dated 14 March 2011, informed that pursuant to Paragraph 16.07 (a) of the Main Market Listing Requirements of Bursa Securities, the entire issued and paid-up share capital of DFZ will be removed from the Official List of Bursa Securities with effect from 9.00 a.m. (Malaysian Time) on Thursday, 17 March 2011.

On 1 April 2011, Affin Investment announced that pursuant to the Compulsory Acquisition, the transfer of the remaining DFZ Shares from the dissenting shareholders to Esmart has been effected on the said date and the payment for the remaining DFZ Shares not already held by Esmart and its parties acting in concert has been dispatched. DFZ is now a wholly-owned subsidiary of Esmart, upon the completion of the Compulsory Acquisition.

(iii) On 19 November 2010, the Company announced that Blossom Time Sdn Bhd (“BTSB”) and Radiant Ranch Sdn Bhd (“RRSB”), both wholly-owned subsidiaries of the Company, have entered into two separate conditional Sale and Purchase Agreements (“SPAs”) with Utara Malaya Realty Sdn Bhd (“URSB”) for the proposed disposal of the following lands for a total cash consideration of RM145 million:

- (a) Six pieces of freehold land owned by BTSB for a sale consideration of RM104,419,957.40, measuring approximately 43.95 acres, located at Mukim 17, North-East District of Pulau Pinang, Pulau Pinang (“BTSB Land”); and
- (b) One piece of freehold land owned by RRSB for a sale consideration of RM40,580,042.60, measuring approximately 17.08 acres, located at Mukim 17, North-East District of Pulau Pinang, Pulau Pinang (“RRSB Land”).

On 23 November 2010, the Company announced that BTSB and RRSB have entered into two separate Novation Agreements with Uptrend Housing Development Sdn Bhd (“Uptrend”) to novate the rights and obligations of URSB under BTSB SPA and RRSB SPA, respectively to Uptrend, subject to the terms and conditions contained in the Novation Agreements.

On 16 March 2011, M&A Securities Sdn Bhd announced that the resolution for the above transactions was tabled at the Extraordinary General Meeting of the Company and was duly approved by the shareholders of the Company. The above transactions were completed on 30 May 2011 and resulted in a gain on disposal (net of tax) of approximately RM87 million.

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11. Significant and Subsequent Events (cont'd)

(iv) On 17 March 2011, the Board of the Company announced that a wholly-owned subsidiary of the Company, Tegapasti Sdn Bhd, has entered into a conditional SPA to dispose two pieces of freehold land in Batu Ferringhi, Penang to Glass Bay Sdn Bhd for a total cash consideration of RM33 million, subject to and upon the terms and conditions in the SPA.

The above proposed disposal has not been completed as at the date of this report and is expected to be completed before the end of third quarter of financial year 2012.

During the current quarter under review, the net book value of the lands and its related expenditure of RM9,197,000 was reclassified as assets classified as held for sale.

(v) On 23 May 2011, the Company entered into a Conditional Shares Sale Agreement with its 51% owned subsidiary, MHS Land Sdn Bhd, for the proposed acquisition of the entire issued and paid up share capital in Gardenia Success Sdn Bhd ("GSSB") comprising 10,000,000 ordinary shares of RM1.00 each for a total consideration of RM56 million ("Proposed Acquisition"). Upon completion of the Proposed Acquisition, GSSB shall become a wholly-owned subsidiary of the Company. The above Proposed Acquisition has not been completed as at the date of this report and is expected to be completed by second quarter of financial year 2012.

Other than as disclosed, there were no other material events during and subsequent to the current quarter ended 31 May 2011.

12. Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter ended 31 May 2011.

13. Contingent Liabilities and Contingent Assets

The contingent liabilities of the Company are as follows:

	Company 11-Jul-11 RM'000
Corporate guarantees extended in support of banking and other financing facilities granted to certain subsidiaries:	
- Secured	<u>42,500</u>

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14. Commitments

The amount of commitments not provided for in the interim financial statements as at 31 May 2011 were as follows:

a) Capital commitments

RM'000

Purchase of property, plant and equipment:

Approved and contracted for 3,115

Approved but not contracted for 778

3,893

b) Non-cancellable operating lease commitments

RM'000

Rental payable

5,925

15. Performance Review

The Group's revenue for the current quarter ended 31 May 2011 has increased to RM177.3 million as compared to RM176.0 million in the corresponding quarter in previous year, mainly due to the improved performance in the duty free segment.

In the current quarter, the Group generated a profit before taxation of RM109.0 million as compared to profit of RM34.3 million in the corresponding quarter in the previous year, mainly due to the gain on disposal of lands as mentioned in Note 11(iii).

16. Comment on Material Change in Profit Before Taxation

The Group generated a profit before taxation of RM109.0 million in the current quarter as compared to loss of RM7.6 million in the previous quarter mainly due to gain on disposal of lands in the current quarter, as mentioned in Note 11(iii). In the previous quarter, the loss before taxation was mainly due to the cost of acquisition and reorganization of RM40.5 million.

17. Commentary on Prospects

Barring unforeseen circumstances, the Group is expected to continue to perform positively.

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18. Profit Forecast or Profit Guarantee

The disclosure requirements for explanatory notes for the profit forecast and profit guarantee is not applicable.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Ended 31-May-11 RM'000	Ended 31-May-10 RM'000	Ended 31-May-11 RM'000	Ended 31-May-10 RM'000
Income tax				
- current period provision	14,331	3,417	14,331	3,417
Deferred taxation	-	96	-	96
	14,331	3,513	14,331	3,513

Provision for taxation for the current quarter and financial period to date is calculated based on the taxable profit attributable from certain profit making subsidiaries.

20. Sale of Unquoted Investments and Properties

There were no sale of unquoted investments and properties during the current quarter ended 31 May 2011.

21. Marketable Securities

Investment in marketable securities:

	As at 31-May-11 RM'000
At cost/book value	3,997
At market value	4,013

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22. Retained Earnings/(Accumulated Losses)

	As at 31-May-11 RM'000	As at 28-Feb-11 RM'000
Accumulated Losses:		
- Realised	(57,035)	(138,460)
- Unrealised	(32,950)	(33,439)
	(89,985)	(171,899)
- Consolidation adjustments	158,028	160,307
Total retained earnings/(accumulated losses) as per Consolidated Statement of Financial Position	68,043	(11,592)

23. Corporate Proposals

The status of corporate proposals announced but not completed as at 13 July 2011 are as follows:

- (i) On 28 November 2006, Maybank-IB announced that the Board of the Company had proposed the acquisition of the entire business undertakings of Naluri including all its assets and liabilities and all the holdings in all its subsidiaries and associated companies for a total purchase consideration of approximately RM435.432 million (or equivalent to RM0.75 per ordinary share of RM1.00 each in Naluri) to be satisfied entirely by cash (“Proposed Acquisition”).

The Proposed Acquisition was approved by the shareholders at the Extraordinary General Meeting (“EGM”) on 2 March 2007 and the Ministry of International Trade and Industry (“MITI”) on 28 March 2007. On 3 July 2008, Maybank-IB, on behalf of the Board of the Company announced that the completion of the Proposed Acquisition had taken place on the said date.

Upon the completion of the Acquisition, Naluri had proceeded, on 3 March 2010, to file a Petition to the High Court to confirm the Proposed Capital Repayment in order to give effect to the Special Resolution of Naluri passed at the EGM held on 8 March 2007, pursuant to Section 64 of the Companies Act 1965 (“Petition”). An application for dispensation of inquiry as to creditors had also been filed on 8 March 2010 (“Application”). The Court had on 19 March 2010 granted order in terms of the Application.

The Court has now adjourned the case management for the Petition for Proposed Capital Repayment to 11 August 2011.

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23. Corporate Proposals (cont'd)

(i) (cont'd)

On 18 August 2010, Maybank-IB, on behalf of the Board of the Company announced that SC had vide its letter dated 17 August 2010, approved the extension of time of one year from 3 August 2010 to 2 August 2011 for Naluri to complete the Proposed Capital Repayment.

(ii) The SC had vide its letter dated 21 April 2011 approved an extension of time to the Group for twenty-four (24) months to 6 April 2013 for complying with the condition to rectify the structure/building extension which has been built but not yet approved and subsequently to obtain the certificate of fitness for occupation (“CF”) based on the ‘as-built plans’ for landed property at Lot 4999 and 5000, Mukim Kapar, Daerah Klang, Selangor. The Group is still in the midst of obtaining the CFs for these properties.

(iii) On 17 March 2011, the Board of the Company announced that a wholly-owned subsidiary of the Company, Tegapasti Sdn Bhd, has entered into a conditional SPA to dispose two pieces of freehold land in Batu Ferringhi, Penang to Glass Bay Sdn Bhd for a total cash consideration of RM33 million, subject to and upon the terms and conditions in the SPA. The above proposed disposal has not been completed as at the date of this report and is expected to be completed before the end of third quarter of financial year 2012.

(iv) On 23 May 2011, the Company entered into a Conditional Shares Sale Agreement with its 51% owned subsidiary, MHS Land Sdn Bhd, for the proposed acquisition of the entire issued and paid up share capital in Gardenia Success Sdn Bhd (“GSSB”) comprising 10,000,000 ordinary shares of RM1.00 each for a total consideration of RM56 million (“Proposed Acquisition”). Upon completion of the Proposed Acquisition, GSSB shall become a wholly-owned subsidiary of the Company. The above Proposed Acquisition has not been completed as at the date of this report and is expected to be completed by second quarter of financial year 2012.

24. Borrowings and Debt Securities

As at 31 May 2011, the Group’s borrowings were as follows:

	RM'000
Long Term Borrowings - Secured	
- Syndicated Term Loan	210,000
- Others	2,740
	<u>212,740</u>

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24. Borrowings and Debt Securities (cont'd)

	RM'000
Short Term Borrowings - Secured	
- Overdraft	797
- Commercial Papers / Medium Term Notes	74,000
- Syndicated Term Loan	8,000
- Term Loan	29,290
- Others	9,992
	<u>122,079</u>

25. Financial Instruments

(a) Contract value and fair value of derivatives as of 31 May 2011

There were no derivative financial instruments as at 31 May 2011.

(b) Gain/(loss) arising from fair value changes of financial liabilities/financial assets

The fair value changes of forward contract liabilities/assets had resulted in a gain of RM573,000 for the current quarter ended 31 May 2011.

There is no change in the significant policy for mitigating or controlling the interest rate risk, credit risk, liquidity risk and foreign currency risk for the Group nor the related accounting policies except those changes which have been disclosed under Note 2(i) (Changes in accounting policies) of this quarterly report. Other related information associated with the financial instruments is consistent with the disclosures in the audited financial statements for the financial year ended 28 February 2011.

Reason and Basis in arriving at fair value changes

Forward foreign exchange contract:

The gain or loss from the fair value changes of a forward foreign exchange contract is the amount that would be payable or receivable on termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and forward exchange rate as at the statement of financial position date applied to a contract of similar quantum and maturity profile.

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26. Changes in Material Litigation

Apart from those mentioned below, there are no other changes to the status of material litigation matters involving Atlan Holdings Bhd (“AHB”) and/or its subsidiaries as at 13 July 2011:

(a) Originating Summons by Shahidan Bin Shafie (“Shahidan”)

Shahidan, a shareholder of AHB, had commenced legal proceedings at the High Court against AHB and Atlan Properties Sdn Bhd (“APSB”) on 2 April 2004, seeking *inter alia* that the proposals by AHB relating to the acquisition of shares of Naluri Corporation Berhad (“Naluri”) and the funding structure and bond issuance related thereto, be declared void, and that AHB and APSB be restrained from proceeding with the proposals.

Upon the application by AHB and APSB to strike out the suit, the High Court dismissed the suit with costs on 26 April 2004. Shahidan appealed to the Court of Appeal against the dismissal. The Court of Appeal allowed Shahidan’s appeal and granted leave to Shahidan to amend the Originating Summons. The suit was thereafter remitted back to the High Court to effect the amendments to the Originating Summons and to hear the amended Originating Summons.

AHB and APSB have applied to the High Court to strike out the amended Originating Summons. These applications to strike out came up for hearing on 11 June 2009 and for decision on 31 July 2009. On 31 July 2009, the High Court allowed these applications to strike out, and accordingly, dismissed the suit.

On 13 August 2009, Shahidan filed a notice of appeal to the Court of Appeal against the High Court’s dismissal of the suit. The Court of Appeal has not fixed any date for this appeal.

(b) Writ of Summons and Statement of Claim by Shahidan

Shahidan, a shareholder of Naluri, had commenced legal proceedings at the High Court against AHB and APSB on 26 May 2004, seeking *inter alia* an order that AHB and APSB jointly and severally make a mandatory take-over offer to all shareholders of Naluri (except Pengurusan Danaharta Nasional Berhad, Danaharta Urus Sdn Bhd and Danaharta Managers Sdn Bhd (collectively “Danaharta”)) at an offer price of RM1.98 per ordinary share of Naluri, and for damages be assessed.

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26. Changes in Material Litigation (cont'd)

(b) Writ of Summons and Statement of Claim by Shahidan (cont'd)

AHB and APSB had applied to strike out the suit but these applications were dismissed by the Senior Assistant Registrar of the High Court on 8 September 2004. AHB and APSB have appealed to the High Court Judge against the Senior Assistant Registrar's dismissal of the striking out applications. These appeals against the dismissal of the striking out application were dismissed by the High Court Judge on 11 March 2010 with costs in cause ("Dismissal"). A further appeal against the Dismissal had been filed to the Court of Appeal by APSB on 29 March 2010 and AHB on 8 April 2010, respectively. Shahidan had written to the High Court Judge on 2 September 2010 for an adjournment of the trial fixed on 11 to 13 October 2010. The Court has adjourned the case management fixed on 16 June 2011 to 11 August 2011.

Shahidan had also applied to the High Court *via* an interlocutory application to adduce further evidence at the hearing of AHB's and APSB's aforesaid appeal to the High Court Judge. On 1 October 2009, the High Court allowed this application with costs in the said appeal.

(c) Claim by Tan Sri Dato' Tajudin Ramli ("TSDTR")

By way of a Defence and Counterclaim dated 29 June 2006, AHB, APSB and Naluri have been made a party to the legal proceedings commenced by Danaharta against TSDTR in the High Court. DFZ was subsequently made a party to the legal proceedings by way of a Re-Amended Defence and Counterclaim dated 30 October 2008.

TSDTR is seeking from AHB, APSB, Naluri, DFZ and 8 other defendants, jointly and/or severally, *inter alia*:-

- (i) various declarations to declare void the Agreement dated 11 August 2003 between Danaharta and APSB in relation to the sale and purchase of Naluri shares from Danaharta; to declare that these defendants have acted ultra vires their respective powers and/or in bad faith by causing APSB and/or Naluri to enter into the said Agreement dated 11 August 2003 and/or the Naluri Scheme (as referred to in the Counterclaim, which includes the Capital Repayment and Naluri Acquisitions) and therefore all transactions entered into between the relevant parties in relation to the Naluri Scheme be also declared void;
- (ii) consequential orders as may be necessary to restore all persons to their position prior to the execution and/or purported completion of the aforesaid transactions or agreements and/or to give effect to any other orders sought by TSDTR;

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26. Changes in Material Litigation (cont'd)

(c) Claim by Tan Sri Dato' Tajudin Ramli ("TSDTR") (cont'd)

- (iii) an account of all dividends and/or other payments received by APSB in relation to its Naluri shares, and order that APSB forthwith pays the same to TSDTR;
- (iv) general damages to be assessed.

Further and/or in the alternative, TSDTR is also seeking from AHB, APSB and 11 other defendants, jointly and/or severally, *inter alia*, damages to be assessed and orders that they make a mandatory take-over offer to all shareholders of Naluri at an offer price of RM1.98 per ordinary share in accordance with the Securities Commission Act, 1993 and the Takeover Code and pay to TSDTR the sum of RM613,103,040 pursuant to the mandatory take-over.

TSDTR is also seeking from DFZ and 26 other defendants to the Counterclaim, jointly and/or severally, *inter alia* the sum of RM6,246,492,000 (being shares in the 10th defendant to the Counterclaim at RM24 per share); general, aggravated and exemplary damages to be assessed; and damages for conspiracy to be assessed.

Further and in addition, TSDTR is also seeking from all the 38 Defendants to the Counterclaim, jointly and severally, *inter alia* the sum of RM7,214,909,224; damages for conspiracy to be assessed; various declarations in regards to the invalidity of the vestings made in favour of Danaharta and the acts, deeds and agreements, transfers, conveyances, dealings executed by Danaharta and the then Special Administrators of Naluri pursuant to the said vestings in favour of Danaharta, including the return and restoration of all assets and monies transferred or conveyed; damages, including aggravated and exemplary damages to be assessed; and interest and costs.

AHB, APSB, Naluri and DFZ have applied to strike out the suit, wherein the Court had on 7 December 2009 allowed the striking out application with cost to be paid to AHB and Naluri. TSDTR had on 4 January 2010 filed an appeal against the decision granting the striking out the said application. The Court of Appeal has adjourned the case management fixed on 16 June 2011 to 11 August 2011.

TSDTR had also applied to the High Court *via* an interlocutory application to seek leave to re-amend the Counterclaim. The Senior Assistant Registrar of the High Court allowed this application to re-amend with costs. AHB, APSB and Naluri have appealed to the High Court Judge against the Senior Assistant Registrar's decision, wherein the Court had on 12 November 2009 allowed the appeal and by reason thereof DFZ is not a party in the Counterclaim.

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26. Changes in Material Litigation (cont'd)

(c) Claim by Tan Sri Dato' Tajudin Ramli ("TSDTR") (cont'd)

TSDTR had also applied to the High Court *via* an interlocutory application for *inter alia* a *mareva injunction* order that Naluri, whether by itself or otherwise, be restrained from completing the Proposed Business Transfer and Proposed Capital Repayment (each as described in the Counterclaim) and/or any other similar proposals. On 14 April 2008, the High Court allowed TSDTR's application for a *mareva injunction* order. AHB, APSB and Naluri then appealed to the Court of Appeal against the High Court's grant of the *mareva injunction* order and these appeals were allowed by the Court of Appeal on 28 April 2008. TSDTR then applied to the Federal Court for leave to appeal to the Federal Court against the decision of the Court of Appeal, but leave to appeal was refused by the Federal Court on 21 January 2009.

(d) Writ of Summons and Statement of Claim by TSDTR

TSDTR had commenced legal proceedings at the High Court against AHB and Naluri on 16 April 2007, seeking from AHB, Naluri and all other 11 defendants, jointly and/or severally, *inter alia*:-

- (i) a declaration that the resolutions purportedly passed at the extraordinary general meeting of Naluri dated 8 March 2007 pursuant to Naluri's circular to shareholders dated 12 February 2007 are void;
- (ii) an order that Naluri and/or AHB be restrained from putting into effect any resolutions purportedly passed at the said extraordinary general meeting and/or completing the proposed disposal of the business and the capital repayment of Naluri or any other similar proposals pursuant to the resolutions;
- (iii) general, aggravated and exemplary damages to be assessed, and damages for conspiracy, misrepresentation and breach of statutory duty to be assessed;
- (iv) all necessary orders as may be required to give effect to the declarations and orders sought and/or as the Court thinks fit.

AHB and Naluri have applied to strike out the suit. These applications to strike out have been granted by the Judge on 28 April 2010. TSDTR had filed an appeal on 17 May 2010 against the decision of the Judge in allowing the striking out application. TSDTR had on 29 July 2010 filed a Notice of Motion to the Court of Appeal to adduce further evidence during the hearing of TSDTR's appeal against the Judge's decision in allowing the striking out. The Court has adjourned the case management fixed on 16 June 2011 to 11 August 2011.

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26. Changes in Material Litigation (cont'd)

(d) Writ of Summons and Statement of Claim by TSDTR (cont'd)

TSDTR had also applied to the High Court *via* an interlocutory application seeking jointly and/or severally against Naluri and 9 other defendants, *inter alia* that they be restrained from putting into effect any resolutions purportedly passed at the said extraordinary general meeting and/or completing the proposed disposal of the business and the capital repayment of Naluri or any other similar proposals pursuant to the resolutions, pending completion of the trial of the suit.

(e) Writ of Summons and Statement of Claim by Adenan Bin Ismail (“Adenan”)

Adenan, a shareholder of Naluri, commenced legal proceedings at the High Court against AHB and APSB on 16 September 2008, following the completion of the corporate exercises by AHB and/or APSB in relation to the Agreement dated 11 August 2003 between Danaharta and APSB for the sale and purchase of Naluri shares from Danaharta. Adenan is seeking against AHB, APSB and 7 other defendants, *inter alia*:-

- (i) an order that AHB, APSB and 6 other defendants are persons acting in concert for the purposes of gaining control of Naluri, that the defendants have acquired control of Naluri as at 2 March 2005 or such other date as the Court determines;
- (ii) an order that AHB and/or APSB make a take-over offer to all existing shareholders of Naluri to acquire their shares at RM1.98 per share of Naluri and that the Securities Commission directs that AHB and/or APSB effect such take-over offer, and if such take-over is not effected, then the capital repayment and the acquisitions by Naluri as described in the Statement of Claim are rendered void.

APSB's and AHB's application to strike out the suit has been allowed by the Court on 20 October 2010. Adenan has filed an appeal against the High Court's decision. No date has been fixed by the Court of Appeal.

(f) Writ of Summons and Statement of Claim by Adenan

Adenan, a shareholder of Naluri, commenced legal proceedings at the High Court against Naluri, AHB and Darul Metro Sdn Bhd (“DMSB”) on 19 September 2008, purportedly for the benefit of Naluri. Adenan is seeking against Naluri, AHB, DMSB and 9 other defendants, *inter alia*:-

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26. Changes in Material Litigation (cont'd)

(f) Writ of Summons and Statement of Claim by Adenan (cont'd)

- (i) various declarations as against AHB and DMSB, to declare that they are jointly and severally liable to account to Naluri for the difference between the actual value of Naluri's assets as described in the Sale of Business Agreement dated 5 January 2007 between Naluri and DMSB and the sum actually paid by AHB or such other sum as the Court thinks fit, and that they are liable to account to Naluri for all benefits gained or derived from the use of Naluri's assets as described in the said Sale of Business Agreement;
- (ii) various orders as against all defendants (except Naluri), to rescind the said Sale of Business Agreement and the Subscription Agreement dated 5 January 2007 between AHB and DMSB; for loss and damage to be assessed; interest and costs.

The applications by Naluri, AHB and DMSB to strike out the suit have been granted by the Court on 18 May 2010. An appeal had been filed by Adenan on 7 June 2010.

The Court of Appeal had vide its letter dated 6 May 2011 fixed the appeal for hearing on 20 June 2011. Subsequent to the hearing date of 20 June 2011, the Court of Appeal has not fixed any new date for the hearing of the appeal.

(g) Writ of Summons and Statement of Claim by Malaysian Airline System Berhad and 2 others

Malaysian Airline System Berhad ("MASB"), MAS Golden Holidays Sdn Bhd ("MGH") and MAS Hotels & Boutiques Sdn Bhd ("MHB") had commenced legal proceedings on 26 May 2006 against Naluri and 4 other defendants seeking, *inter alia*:-

- (i) various declarations as against Naluri, to declare that Naluri is liable to MASB and/or MGH as a constructive trustee for allegedly assisting in the breach of fiduciary duties and/or obligations by TSDTR and/or knowingly receiving monies paid in breach of TSDTR's fiduciary duties or obligations, and to declare that Naluri holds on trust for MASB and/or MGH any payment or profit received arising from the said alleged assistance and is liable to pay the same to MASB and/or MGH;
- (ii) damages for dishonest assistance and/or knowing receipt, for conspiracy and/or for unlawful interference in the business of MASB and/or MGH.

A Notice to attend pre-trial case management had been filed on 29 September 2010 and the suit had been fixed for case management on 9 November 2010 before the High Court Judge. However, in view of the global settlement in respect of all suits involving TSDTR, the suit fixed for mention on 21 June 2011 has been adjourned to 11 August 2011 for case management.

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26. Changes in Material Litigation (cont'd)

(h) Winding-up Petition by Shahidan

Shahidan, a shareholder of Naluri, had commenced winding-up proceedings at the High Court against Naluri on 29 February 2008. Shahidan is seeking *inter alia* that Naluri be wound up by the Court under the provisions of section 218(1)(f) and section 218(1)(i) of the Companies Act, 1965, and that the Official Receiver be appointed as provisional liquidator of Naluri.

Naluri had applied to the High Court, seeking *inter alia*:-

- (i) to strike out the suit, or alternatively, that all proceedings under the suit be stayed;
- (ii) to restrain Shahidan and/or its solicitors from giving any notice of the winding-up proceedings to any third party; and pending disposal of this application by Naluri or until further order by the High Court, that the suit and all proceedings therein be stayed;
- (iii) to validate the transfer of all shares of Naluri made since the commencement of the winding-up proceedings.

On 24 April 2008, the High Court allowed with costs Naluri's application to strike out the suit, and validated all transfers of shares of Naluri made since the commencement of the winding-up proceedings. Shahidan has appealed to the Court of Appeal against the said decisions of the High Court. The matter fixed for case management on 16 June 2011 has been adjourned to 11 August 2011.

(i) Arbitration proceedings by Mancon Berhad ("MB") on behalf of Nilai Barisan Sdn Bhd ("NBSB")

MB, on behalf of NBSB, had commenced arbitration proceedings against Kelana Megah Sdn Bhd ("KMSB") on 24 May 1999 in relation to NBSB's engagement as a sub-contractor nominated by KMSB for the supply, installation, testing and commissioning of air-conditioning and mechanical ventilation works in the construction of the Johor Bahru Duty Free Complex. The sum claimed by MBSB is approximately RM2,467,776. KMSB has counter-claimed that it incurred loss/damage in the sum of approximately RM1,908,898 in rectifying defective and/or incomplete works of NBSB.

KMSB's solicitors informed the Arbitrator on 21 January 2002 that NBSB had been wound up on 8 August 2000. In view that NBSB had been wound up, parties were not able to resume the arbitration proceedings and the same is currently in abeyance.

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26. Changes in Material Litigation (cont'd)

(i) Arbitration proceedings by Mancon Berhad (“MB”) on behalf of Nilai Barisan Sdn Bhd (“NBSB”) (cont'd)

KMSB’s solicitors had issued numerous letters to the Arbitrator to seek the Arbitrator’s instructions on the arbitration proceedings and/or instructions that the arbitration proceedings be closed. To date, KMSB has not received any response from the Arbitrator. KMSB’s solicitors had also written to the liquidator of NBSB to request that the liquidator decides either if NBSB wishes to continue with the arbitration proceedings or to withdraw the claims against KMSB. To date, KMSB has not received any response from the liquidator.

(j) Writ of Summons and Statement of Claim by LH Technology Sdn Bhd (“LHT”)

LHT had commenced legal proceedings at the High Court against KMSB on 30 December 1999, claiming a sum of RM1,025,855 in relation to LHT’s engagement as a sub-contractor for the design, supply and installation of curtain walling, frameless glass panel, shopfront, balustrading, aluminum and glazing works in the construction of the Johor Bahru Duty Free Complex.

On 26 June 2000, the Senior Assistant Registrar of the High Court allowed LHT’s application for a summary judgment against KMSB. KMSB appealed to the High Court Judge against the said summary judgment, and this appeal was allowed. LHT then appealed to the Court of Appeal against the decision of the High Court Judge.

On 28 July 2008, LHT’s appeal was dismissed with no order as to costs by the Court of Appeal. KMSB’s solicitor has informed the High Court of the said dismissal of the LHT’s appeal, and requested the High Court to fix a mention date for the suit. The High Court has not fixed any date for this suit.

(k) Writ of Summons and Statement of Claim by Eden Enterprises (M) Berhad (“EEB”)

EEB had commenced legal proceedings at the High Court on 31 January 2004 against DFZ Duty Free (Langkawi) Sdn Bhd (“DDFL”) and 2 other defendants in respect of an alleged tort of conspiracy on a long-term lease of twenty-eight (28) years entered into between EEB and DDFL for a duty free outlet and staff living quarters in Langkawi (“premises”).

EEB had also applied to the High Court *via* an interlocutory application to compel DDFL to quit, vacate and deliver up to EEB the premises. EEB’s application was dismissed by the High Court on 6 December 2005.

EEB then appealed to the Court of Appeal against the said dismissal by the High Court. The Court of Appeal dismissed EEB’s appeal on 27 May 2009.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
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26. Changes in Material Litigation (cont'd)

(k) Writ of Summons and Statement of Claim by Eden Enterprises (M) Berhad (“EEB”) (cont'd)

DDFL had filed an application for an interim injunction to restrain EEB and its subsidiary from exercising self-help to regain vacant possession of the premises and interfering with DDFL’s quiet enjoyment of the same. DDFL also filed another application subsequently for an interim injunction to restrain EEB and its subsidiary from prohibiting and qualifying DDFL’s use of lanes around the premises for access to or egress from the premises.

Consent Order was duly recorded between the parties on 23 November 2010 before the High Court Judge wherein EEB withdraws all claims against DDFL and DDFL withdraws its counterclaim against EEB without any order as to costs (“Consent Order”).

Pursuant to the terms of the Consent Order, the parties had duly appointed their respective valuers to undertake a valuation of the market rate for Lot No.970, 971, 973, and 1556, Mukim Kedawang, Daerah Langkawi (excluding the staff living quarters) (“Demised Premises”). However, as there is a dispute arising from the Consent Order, DDFL had on 24 May 2011 filed a Writ of Summons and Statement of Claim (“Case”) in the Alor Setar High Court vide Civil Suit No. 22-158-2011, seeking amongst other, for the following declaratory reliefs:-

- (i) a declaration that paragraph (c) of the Consent Order be declared void for uncertainty;
- (ii) a declaration that the valuation dated 3 January 2011 by EEB’s valuer be declared null and void; and
- (iii) an order that EEB grant a lease of the Demised Premises occupied by DDFL for a term of three (3) years commencing from 1 January 2011 and thereafter, renewable every three (3) years until 31 March 2024 at the rate of RM1.60 per square feet in accordance with the valuation by DDFL’s valuer.

The Case has been fixed for mention on 25 July 2011.

Subsequent thereto, a Summons In Chambers and an Affidavit In Support had been filed on 26 June 2011 seeking for the following orders:-

- (i) an interim injunction to restrict and prohibit EEB whether by itself, or through its employees or agents or any of them, from exercising self-help to recover vacant possession of the Demised Premises until the determination or conclusion of the suit; and
 - (ii) an interim injunction to restrict and prohibit any interference with the peaceful possession, occupation and quiet enjoyment of the Demised Premises until the determination or conclusion of the suit.
- (collectively “Application for Injunction”)

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26. Changes in Material Litigation (cont'd)

(k) Writ of Summons and Statement of Claim by Eden Enterprises (M) Berhad (“EEB”) (cont'd)

On 17 June 2011, EEB had filed a Summons In Chambers together with an Affidavit In Support to strike out DDFL’s Case (“Striking Out Application”).

The Court had on 10 July 2011 directed for parties to exchange affidavits in respect of both the Application for Injunction and for the Striking Out Application and has fixed the matter for mention on 4 September 2011.

27. Dividend Payable and Distributable

There is no dividend declared for the financial period ended 31 May 2011.

28. Earnings Per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period. The basic earnings per share was calculated as follows:

	Individual Quarter		Cumulative Quarter	
	Ended	Ended	Ended	Ended
	31-May-11	31-May-10	31-May-11	31-May-10
Profit attributable to ordinary equity holders of the parent (RM'000)	92,235	24,208	92,235	24,208
Weighted average number of ordinary shares in issue ('000)	252,002	240,874	252,002	240,874
Basic earnings per share (sen)	36.60	10.05	36.60	10.05

(b) Diluted

There is no unconverted ESOS and ICPS. Thus, there is no diluted earning per share.

29. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors.