

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2009

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 March 2009.

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 March 2009.

2. Auditors’ Report on Preceding Annual Financial Statements

The auditors’ report on the Group’s financial statements for the financial year ended 31 March 2009 was not subject to any qualification.

3. Seasonal or Cyclical Factors

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

4. Unusual Items

Current quarter

There was no unusual item 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 RM2.3 million in respect of the available-for-sale investment for the quarter ended 31 December 2009.
- ii) the loss on contracts amounting to RM50.5 million in respect of projects in Kingdom of Saudi Arabia (RM44.2 million) and United Arab Emirates (RM6.3 million).

4. Unusual Items(Continued)**Year to date**

There was no unusual item 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 increase of fair value reserve amounting to RM172.2 million in respect of the available-for-sale investment for the financial year to date ended 31 December 2009.
- ii) the loss on contracts amounting to RM50.5 million in respect of projects in Kingdom of Saudi Arabia (RM44.2 million) and United Arab Emirates (RM6.3 million).

5. Changes in Estimates of Amount Reported Previously

There was no change in estimates of amounts reported in the prior financial period that has a material effect in the current quarter.

6. Debt and Equity Securities

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial quarter and year to date.

7. Dividends Paid

For the current financial year to date, no dividend has been paid.

For the preceding year's corresponding financial year to date, a second interim dividend of 6.5 sen per ordinary share of RM0.50 each, less income tax at 25% was paid on 30 June 2008 for the financial year ended 31 March 2008.

An interim dividend of 5.0 sen per ordinary share of RM0.50 each, less income tax at 25% was paid on 9 December 2008 for the financial year ended 31 March 2009.

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
Revenue					
Total	232,497	220	3,793	4,857	241,367
Inter-segment	(8,147)	0	(77)	(4)	(8,228)
External	224,350	220	3,716	4,853	233,139
Results					
Segment (loss)/profit	(65,312)	4,796	(436)	(673)	(61,625)
Interest income	68	13	26	10	117
Profit from Islamic deposits	0	0	0	4	4
Investment income	0	7	0	0	7
Gain on disposal of marketable securities	0	0	0	1,920	1,920
Gain on disposal of other investments	0	0	0	3,627	3,627
Finance costs	(2)	(1)	(1)	(4)	(8)
Share of results of associates and jointly controlled entities	2,466	0	0	50	2,516
(Loss)/profit before taxation	(62,780)	4,815	(411)	4,934	(53,442)
Tax expense					(10,979)
Loss for the quarter					(64,421)

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	948,779	21,728	16,016	19,949	1,006,472
Inter-segment	(36,712)	0	(1,215)	(12)	(37,939)
External	912,067	21,728	14,801	19,937	968,533

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Manufacturing & trading RM'000	Investment & others RM'000	Total RM'000
Segment (loss)/profit	(88,067)	12,742	(1,401)	3,133	(73,593)
Interest income	587	77	299	20	983
Profit from Islamic deposits	0	0	0	70	70
Investment income	0	14	0	0	14
Gain on disposal of marketable securities	0	0	0	3,014	3,014
Reversal of allowance for decline in value of marketable securities	0	0	0	2,507	2,507
Gain on disposal of other investments	0	0	0	3,627	3,627
Finance costs	(9)	(4)	(5)	(16)	(34)
Share of results of associates and jointly controlled entities	7,908	0	0	44	7,952
(Loss)/profit before Taxation	(79,581)	12,829	(1,107)	12,399	(55,460)
Tax expense					(16,482)
Loss for the period					(71,942)

The Group's segmental report for the corresponding three-month financial quarter and year to date ended 31 December 2008 is as follows:-

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
Revenue					
Total	380,304	19,749	11,196	24,332	435,581
Inter-segment	(27,538)	0	(958)	(4)	(28,500)
External	352,766	19,749	10,238	24,328	407,081

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Manufacturing & trading RM'000	Investment & others RM'000	Total RM'000
Results					
Segment (loss)/profit	(157,058)	(2,313)	1,245	21,987	(136,139)
Interest income	891	86	19	20	1,016
Profit from Islamic deposits	0	0	0	132	132
Investment income	0	278	0	0	278
Finance costs	(12)	0	(7)	(10)	(29)
Allowance for decline in value of marketable securities	0	0	0	(288)	(288)
Share of results of associates and jointly controlled entities	3,611	0	0	(5)	3,606
(Loss)/ Profit before taxation	(152,568)	(1,949)	1,257	21,836	(131,424)
Tax expense					600
Loss for the quarter					<u>(130,824)</u>

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	1,380,469	139,016	29,976	28,856	1,578,317
Inter-segment	(91,760)	0	(4,575)	(13)	(96,348)
External	1,288,709	139,016	25,401	28,843	1,481,969
Results					
Segment (loss) /profit	(104,683)	18,590	2,604	18,357	(65,132)
Interest income	2,885	858	441	34	4,218
Profit from Islamic deposits	0	0	0	501	501
Investment income	0	802		210	1,012
Finance costs	(82)	0	(31)	(33)	(146)
Allowance for decline in value of marketable securities	0	0	0	(2,552)	(2,552)
Share of results of associates and jointly controlled entities	9,572	0	0	(43)	9,529
(Loss) /Profit before Taxation	(92,308)	20,250	3,014	16,474	(52,570)
Tax expense					(19,061)
Loss for the period					<u>(71,631)</u>

8. Segmental Reporting (Continued)

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 offers.

9. Valuation of Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Fair value adjustments that have been made at Group level on the acquisition of subsidiaries in the previous years have been brought forward without amendment.

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

Zelan Holdings (M) Sdn Bhd entered into a Share Sale Agreement ("SSA") to sell its entire (50%) equity interest in Zelan EPC Limited for a sale consideration of RM7.7 million. The SSA was dated 2 November 2009 and was completed on 13 January 2010.

Save for the above, there was no material event subsequent to the end of the current quarter under review that has not been reflected in the interim financial report.

11. Changes in Composition of the Group

There was no change in the composition of the Group during the current quarter ended 31 December 2009, except for the disposal of Ratcha Ploen Co. Ltd, a former associate of the Group, which was disposed on 12 November 2009.

12. Changes in Contingent Liabilities or Contingent Assets

There was no change in contingent liabilities or contingent assets since the last annual balance sheet date.

13. Capital Commitments

The Group did not have any capital commitment as at 31 December 2009.

14. Review of Performance

For the current quarter under review, the Group recorded a revenue of RM233.1 million, a decrease of 42.7% as compared to the preceding year's corresponding quarter. This is due to lower contributions from the overseas projects of the Engineering and Construction Business Unit.

The Group recorded a lower loss after tax of RM64.4 million as compared to RM130.9 million loss in the preceding year's quarter. This is mainly attributable to lower gross loss recorded for the current quarter.

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

For the current quarter, the Group recorded a loss before taxation of RM53.4 million as compared to the preceding quarter's loss before taxation of RM8.5 million. Loss for the current quarter was mainly derived from higher gross loss incurred during the quarter, as a result of additional project losses recognised, which is offset by a gain from sale of quoted and other investments.

16. Current Year Prospects

The Group expects to make a loss for the current financial year ending 31 March 2010.

Looking forward, the Group's revenue will continue to come from the order book secured and promising prospects of projects the Group is pursuing in the overseas and domestic markets.

There are signs of recovery in the global economy. The Group is geared to meet the challenges of an improving economic environment.

17. Profit Forecast or Profit Guarantee

There was no profit forecast or profit guarantee issued in a public document for the current financial year.

18. Taxation

	Current Quarter Ended		Year-To-Date Ended	
	31/12/2009 RM'000	31/12/2008 RM'000	31/12/2009 RM'000	31/12/2008 RM'000
Malaysian income tax	14,773	5,817	23,944	15,010
Overseas income tax	(3,779)	(6,405)	(7,274)	4,087
Deferred tax	(15)	(12)	(188)	(36)
Tax expense/(credit)	10,979	(600)	16,482	19,061

The Group operates in the following overseas countries and the statutory tax rates applicable in the respective countries are:-

	<i>Corporate Tax</i>	<i>Branch profit tax</i>
<i>India</i>	33%	N/A
<i>Indonesia</i>		
-Financial period beginning 1 January 2009	3% of billings made	
-Financial period ended 31 December 2008	30%	12.5%
<i>Kingdom of Saudi Arabia (KSA)</i>	20%	N/A
<i>United Arab Emirates (UAE)</i>	Nil	N/A

The effective tax rates for the Group's operations in India approximate the applicable statutory tax rate in India.

The effective tax rates for the Group's operations in KSA is lower than the statutory tax rate in the respective jurisdictions mainly due to project losses incurred.

The tax rates for the Group's operations in Indonesia is based on billings made, which does not take into account the project profitability.

The effective tax rates for the Group's operations locally is higher than the applicable statutory rates mainly due to certain companies within the Group which were loss making and certain expenses which were not deductible for tax purposes.

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

Save for the disclosures under Note 10 and 11 above, there was no sale of unquoted investments and properties outside the ordinary course of business for the current quarter and financial year to date under review.

20. Quoted Securities**Current quarter**

During the financial quarter under review, the Group had subscribed for 11,526,809 rights issue of IJM Corporation Berhad's ("IJM") warrants at a cash consideration of RM2.882 million. Subsequently, the Group disposed of 2,134,800 IJM warrants for a net cash consideration of RM2.443 million.

Year to date

During the financial year to date under review, the Group had:

- i) subscribed for 11,526,809 rights issue of IJM warrants at a cash consideration of RM2.882 million.
- ii) disposed of 8,233,436 of IJM Land Berhad's warrants for a net cash consideration of RM5.165 million.
- iii) disposed of IJM warrants for a net cash consideration of RM2.443 million.

The investments in quoted securities as at 31 December 2009 are as follows:-

a) IJM Quoted Ordinary Shares.

(i)	at cost	= RM477,827,647
(ii)	at carrying value	= RM516,401,118
(iii)	at market value	= RM516,401,118

b) IJM Warrants

(i)	at cost	= RM2,348,002
(ii)	at carrying value	= RM2,348,002
(iii)	at market value	= RM10,612,970

21. Status of Corporate Proposals Announced

There was no corporate proposal announced but not completed as at 25 February 2010.

22. Borrowings and Debt Securities

**As at
31.12.09
RM'000**

(i) Current borrowings	
<i>Secured:-</i>	
- Revolving credit	158,530
- Term loans	48,335
- Hire purchase liabilities	520
	207,385
<i>Unsecured:-</i>	
- Term Loan	10,000
	217,385
(ii) Non current borrowings	
<i>Secured:-</i>	
- Term loan	180
- Hire purchase liabilities	485
	665
Total	218,050

Included in the term loan (current portion) is an amount of RM35.5 million which is denominated in United Arab Emirates Dirhams, and RM2.8 million which is denominated in Saudi Riyal.

Included in term loan (non-current balances) is an amount of RM0.18 million which is denominated in United Arab Emirates Dirhams.

Included in the hire purchase liabilities is an amount of RM0.15 million which is denominated in United Arab Emirates Dirhams, of which RM0.12 million and RM0.03 million 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 18 February 2010 is as follows:-

	Tenure	Currency to be received	Currency to be paid	Amount in foreign currency '000	Contractual rate	RM'000 equivalent
(i)	23 November 2009 to 24 May 2010	United States Dollar (USD)	Ringgit Malaysia (RM)	USD 173	1 USD= RM3.3970	588
(ii)	27 August 2009 to 1 March 2010	Singapore Dollar (SGD)	Ringgit Malaysia (RM)	SGD 17	1 SGD= RM2.4573	42

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. Loss Per Share

The basic loss per share for the financial period has been calculated based on the Group's consolidated loss 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	
	31/12/09	31/12/08	31/12/09	31/12/08
Group's loss for the period, attributable to the equity holders of the parent (RM' Million)	(60,378)	(127,902)	(69,924)	(79,684)
Weighted average number of ordinary shares in issue (Million)	563.264	563.264	563.264	563.264
Loss per share (sen)				
(a) Basic	(10.72)	(22.71)	(12.41)	(14.15)
(b) Diluted	N/A	N/A	N/A	N/A

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 loss per share.

25. Changes in Material Litigation

There was no change 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 March 2009.

26. Dividends

There was no dividend declared for the quarter under review. An interim dividend of 5.0 sen per ordinary share of RM0.50 each less income tax of 25%, was declared in the preceding year's corresponding quarter.

27. Authorisation for Issue

The interim financial report was authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 25 February 2010.

By order of the Board

**Suhla Al Asri
Secretary**

**Kuala Lumpur
25 February 2010**