

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2010

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 2010.

The Group incurred a net loss of RM35,893,000 and RM35,145,000 during the financial quarter ended 30 September 2010 and for the six months period ended 30 September 2010, respectively. As of that date, the current liabilities of the Group exceeded their current assets by RM72,244,000.

The Group had partially disposed off its available-for-sale investment and received gross proceeds of approximately RM48.3 million between October and November 2010. The proceeds from the disposal have been utilised towards repayment of borrowings and for working capital.

As of the date of the approval of this interim financial report, the Group is in the process of disposing further available-for-sale investment which has been approved by the shareholders at a recent Extraordinary General Meeting on 7 September 2010 and negotiating with the bankers to secure credit facilities in order to ensure that the Group would have sufficient cash flows to complete the construction contracts in progress, meet working capital requirements, loan repayments, covenant requirements, and the investing and financing activities for the next twelve months from the date of the approval of this interim financial report.

The Group is actively bidding for new contracts and is gearing itself to secure new contracts in order to return to profitability.

On 23 July 2010, the Group announced that it received a letter from Unit Kerjasama Awam Swasta (UKAS), Jabatan Perdana Menteri, which states that the Government has agreed, inter alia, that the development project of the integrated transport terminal at Gombak Selangor will be implemented, on the basis of public private partnership by the joint venture between Zelan Berhad and Landasan Kapital (M) Sdn Bhd, subject to further negotiations and a Concession Agreement to be entered into. Zelan Berhad owns 95.0% of the equity in the joint venture while Landasan Kapital (M) Sdn Bhd owns the remaining 5.0%.

1. **Basis of Preparation (Continued)**

The Directors are of the view that the proposed disposal of the available-for-sale investment of the Group which has been approved by the shareholders at a recent Extraordinary General Meeting, the continuing support from the existing bankers and the successful negotiations in securing credit facilities will allow the Group to carry on as a going concern. Accordingly, this interim financial report of the Group are prepared on a going concern basis.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 March 2010, except for the adoption of the following new Financial Reporting Standards (“FRSs”) Amendments to FRSs and Interpretations with effect from 1 April 2010.

- Amendment to FRS 1 “First-time Adoption of Financial Reporting Standards”
- Amendment to FRS 2 “Share-based Payment - Vesting Conditions and Cancellations”
- Amendment to FRS 5 “Non-current Assets Held for Sale and Discontinued Operations”
- FRS 7 “Financial Instruments: Disclosures”
- Amendment to FRS 7 “Financial Instruments: Disclosures”
- FRS 8 “Operating Segments”
- Amendment to FRS 8 “Operating Segments”
- Revised FRS 101 “Presentation of Financial Statements”
- Amendment to FRS 107 “Statement of Cash Flows”
- Amendment to FRS 108 “Accounting Policies, Changes in Accounting Estimates and Errors”
- Amendment to FRS 110 “Events after the Balance Sheet Date”
- Amendment to FRS 116 “Property, Plant and Equipment
- Amendment to FRS 117 “Leases”
- Amendment to FRS 118 “Revenue”
- Amendment to FRS 119 “Employee Benefits”
- FRS 123 “Borrowing Costs”
- Amendment to FRS 123 “Borrowing Costs”
- Amendment to FRS 127 “Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”
- Amendment to FRS 127 “Consolidated and Separate Financial Statements”
- Amendment to FRS 128 “Investments in Associates”
- Amendment to FRS 131 “Interests in Joint Ventures”
- Amendment to FRS 132 “Financial Instruments: Presentation”
- Amendment to FRS 134 “Interim Financial Reporting”
- Amendment to FRS 136 “Impairment of Assets”
- Amendment to FRS 138 “Intangible Assets”
- FRS 139 “Financial Instruments: Recognition and Measurement”

1. **Basis of Preparation (Continued)**

- Amendment to FRS 139 “Financial Instruments: Recognition and Measurement”
- Amendment to FRS 140 “Investment Property”
- IC Interpretation 9 “Reassessment of Embedded Derivatives”
- IC Interpretation 10 “Interim Financial Reporting and Impairment”
- IC Interpretation 11 “FRS 2 – Group and Treasury Share Transactions”
- IC Interpretation 13 “Customer Loyalty Programmes”
- IC Interpretation 14 “FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction”
- MASB’s improvements project

Other than the application of FRS 8, FRS 101 and FRS 139, the application of the above FRSs, Amendments to FRSs and Interpretations did not result in any significant changes in the accounting policies and presentation of the financial results of the Group. The effects of the adoption of FRS 8, Revised FRS 101 and FRS 139 are as follows:

(a) FRS 8: Operating Segments (“FRS 8”)

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group’s segmental reporting had been presented based on the internal reporting to the chief operating decision maker, who makes decisions on the allocation of resources and assesses the performance of the reportable segments.

This standard does not have any impact on the financial position and results of the Group.

(b) Revised FRS 101 : Presentation of Financial Statements (“FRS 101 revised”)

This revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity. ‘Non-owner changes in equity’ are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

The Group has elected to adopt the one performance statement presentation; i.e. the statement of comprehensive income.

1. **Basis of Preparation (Continued)**

(c) FRS 139: Financial Instruments – Recognition and Measurements (“FRS 139”)

FRS 139 sets out the new requirements for the recognition and measurement of the Group’s financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet date reflects the designation of the financial instruments. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at the transitional date on 1 April 2010.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity, available-for-sale (“AFS”) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group’s financial assets include cash and short-term deposits, loans and receivables and AFS investments.

(i) Loans and receivables

The Group’s receivables, previously measured at invoiced amount and subject to impairment, are now classified as loans and receivables and measured at fair value plus transaction costs initially and subsequently, at amortised cost using the effective interest method.

When loans and receivables are impaired, the carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. Impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset’s original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

1. Basis of Preparation (Continued)**(c) FRS 139: Financial Instruments – Recognition and Measurements (“FRS 139”) (Continued)****(ii) AFS investments**

The AFS investment is initially recognised at fair value plus transaction costs. After the initial recognition, the Group measures the AFS investment at its fair value based on quoted prices in an active market.

Any gain or loss arising from a change in the fair value of the AFS investment is recognised directly in equity as “fair value reserve”, except for impairment losses and foreign exchange gains and losses, if any, until the AFS investment is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in the statement of comprehensive income.

The Group assesses at each balance sheet date whether there is objective evidence that an AFS investment is impaired. In the case of equity securities classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for an AFS investment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that AFS investment previously recognised in statement of comprehensive income – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Financial liabilities

The Group’s financial liabilities include trade and other payables and are carried at amortised cost.

1. **Basis of Preparation (Continued)**

(c) FRS 139: Financial Instruments – Recognition and Measurements (“FRS 139”) (Continued)

Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 March 2010 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 April 2010.

	As previously reported 31 March 2010	Effects of adoption of FRS 139	As restated 1 April 2010
	RM'000	RM'000	RM'000
Current Assets			
Other investments	433	(433)	-
Trade and other receivables	610,719	(26,599)	584,120
Financial assets at fair value through profit or loss	-	557	557
Current Liabilities			
Trade and other payables	655,036	(18,981)	636,055
Equity			
Reserves	159,465	(7,494)	151,971

2. **Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the Group's financial statements for the financial year ended 31 March 2010 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 the following:

- i) a net increase of fair value reserve amounting to RM3.0 million in respect of the available-for-sale investment for the quarter ended 30 September 2010 due to the increase in market value from RM4.92 per IJM Corporation Berhad (“IJM”) share to RM5.19 per IJM shares, offset by the sale of 24.5 million IJM shares which has resulted in the transfer of RM23.2 million from the “Fair Value Reserve” to the statement of comprehensive income as gain on disposal of available-for-sale investment.
- ii) the loss on contracts amounting to RM40.5 million in respect of projects in Kingdom of Saudi Arabia .

Year to date

There was no unusual item affecting assets, liabilities, equity, net income, or cash flows during the period ended 30 September 2010 because of their nature, size, or incidence except for the following:

- (i) a net increase of fair value reserve amounting to RM0.3 million in respect of the available-for-sale investment for the year-to-date ended 30 September 2010 due to increase in market value from RM4.88 per IJM share to RM5.19 per IJM share, offset by the sale of 33.9 million of IJM shares. This has resulted in the transfer of RM29.7 million from the “Fair Value Reserve” to the statement of comprehensive income as gain on disposal of available-for-sale investment.
- (ii) European Profile (M) Sdn Berhad was disposed of for a consideration of RM10 million, resulting in a loss on disposal of RM4.4 million.
- (iii) the loss on contracts amounting to RM40.5 million in respect of projects in Kingdom of Saudi Arabia.

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 period, no dividend was paid.

8. Segmental Reporting

Segment analysis for the quarter is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<u>Revenue</u>				
Total	19,568	30,550	42,379	92,497
Inter-segment	(1,792)	(30,000)	(30,004)	(61,796)
External	17,776	550	12,375	30,701
<u>Results</u>				
Segment (loss)/profit	(62,043)	(169)	6,891	(55,321)
Interest income	5,577	5	36	5,618
Gain on disposal of available-for-sale investment	-	-	23,173	23,173
Finance costs	(3,783)	1	(2)	(3,784)
Share of results of associates and jointly controlled entities	(4,681)	-	-	(4,681)
(Loss)/ profit before taxation	(64,930)	(163)	30,098	(34,995)
Tax expense				(898)
Loss for the quarter				(35,893)

Analysis by business segments for the financial year to date:

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
<u>Revenue</u>					
Total	117,522	30,781	45,076	193,379	6,476
Inter-segment	(4,557)	(30,000)	(30,008)	(64,565)	(4,385)
External	112,965	781	15,068	128,814	2,091

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
Results					
Segment (loss)/profit	(60,666)	(712)	809	(60,569)	(176)
Interest income	10,329	11	59	10,399	48
Gain on disposal of available-for-sale investment	-	-	29,684	29,684	-
Loss on disposal of a subsidiary	-	-	-	-	(4,040)
Finance costs	(6,949)	(0)	(6)	(6,955)	(1)
Share of results of associates and jointly controlled entities	(4,180)	0	0	(4,180)	0
(Loss)/profit before taxation	(61,466)	(701)	30,546	(31,621)	(4,169)
Tax credit/(expense)				815	(170)
Loss for the period				(30,806)	(4,339)

The Group's segmental report for the corresponding three-month financial quarter and year to date ended 30 September 2009 is as follows:-

Analysis by business segments for the quarter:

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
Revenue					
Total	338,696	12,092	12,753	363,541	5,588
Inter-segment	(11,740)	-	(4)	(11,744)	(251)
External	326,956	12,092	12,749	351,797	5,337

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
Results					
Segment (loss)/profit	(17,348)	4,404	3,576	(9,368)	(1,251)
Interest income	170	25	6	201	218
Profit from Islamic Deposits	-	-	27	27	-
Investment income	-	3	-	3	-
Gain on disposal of marketable securities	-	-	32	32	-
Decline in value of marketable securities	-	-	(22)	(22)	-
Finance costs	(69)	(1)	(5)	(75)	(2)
Share of results of associates and jointly controlled entities	1,755	-	(3)	1,752	-
(Loss)/profit before Taxation	(15,492)	4,431	3,611	(7,450)	(1,035)
Tax credit/(expense)				(7,549)	205
Loss for the Quarter				(14,999)	(830)

Analysis by business segments for the financial year to date:

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
Revenue					
Total	716,283	21,508	15,092	752,883	12,223
Inter-segment	(28,566)	-	(8)	(28,574)	(1,138)
External	687,717	21,508	15,084	724,309	11,085

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
Results					
Segment (loss)/profit	(21,473)	7,946	3,802	(9,725)	(2,099)
Interest income	519	64	10	593	273
Profit from Islamic deposits	-	-	66	66	-
Investment income	-	7	-	7	-
Gain on disposal of marketable securities	-	-	1,094	1,094	-
Reversal of decline in value of marketable securities	-	-	2,507	2,507	-
Finance costs	(151)	(3)	(12)	(166)	(4)
Share of results of associates and jointly controlled entities	5,442	-	(6)	5,436	-
(Loss)/profit before taxation	(15,663)	8,014	7,461	(188)	(1,830)
Tax credit/(expense)				(5,662)	159
Loss for the period				(5,850)	(1,671)

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

Material events subsequent to the end of the period under review that have not been reflected in the financial statements for the current quarter include:

- i) the sale of 9,045,300 ordinary shares of RM1.00 each in IJM for a cash consideration of RM48.3 million. The gain on disposal of these shares amounted to approximately RM10.8 million.

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.

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 30 September 2010.

14. Review of Performance

For the current quarter under review, the Group recorded a revenue from continuing operations of RM30.7 million, a decrease of 91.3% 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 loss after tax from continuing operations of RM35.9 million as compared to RM15.0 million loss in the preceding year's quarter. This is mainly attributable to the higher losses incurred by the existing overseas projects of the Engineering and Construction Business Unit. These projects encountered cost overrun due to material price escalation, underbudgeted items and additional costs arising from work delays offset by gain on sale of investments.

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

For the current quarter, the Group recorded a loss before taxation from continuing operations of RM34.9 million as compared to the preceding quarter's loss before taxation from continuing operations of RM7.4 million. The loss from continuing operations 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 partially offset by a gain from sale of investments.

16. Current Year Prospects

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

Amidst signs of recovery in the economy, the Group is gearing itself to secure new engineering and construction contracts in order to return to profitability.

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	
	30/09/2010 RM'000	30/09/2009 RM'000	30/09/2010 RM'000	30/09/2009 RM'000
Continuing operations				
Malaysian income tax	244	7,755	(1,578)	9,331
Overseas income tax	367	(45)	475	(3,496)
Deferred tax	287	(161)	288	(173)
Tax expense/(credit)	898	7,549	(815)	5,662

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>	3% of billings collected	
<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.

18. Taxation (Continued)

The effective tax rates for the Group's operations in KSA is lower than the statutory tax rate in this jurisdiction 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 profitability of the project.

The effective tax rate 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 Note 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 disposed of 24,500,000 IJM shares for a net cash consideration of RM124.703 million.

Year to date

During the financial year to date under review, the Group disposed of 33,900,000 IJM shares for a net cash consideration of RM170.168 million.

The investments in quoted securities as at 30 September 2010 are as follows:

(i)	at cost	= RM337,194,086
(ii)	at carrying value	= RM422,300,470
(iii)	at market value	= RM422,300,470

21. Status of Corporate Proposals Announced

As announced on 7 September 2010, the Company had obtained a mandate from its shareholders for the Company to, if deemed fit in the future, dispose of up to 30,000,000 ordinary shares of RM1.00 each held in IJM Corporation Berhad for cash to buyers to be identified and at price(s) to be determined later.

To date, the Company had sold 24,045,300 shares of the 30,000,000 shares mandated by the shareholders. As at 30 September 2010, 15,000,000 shares have been sold for a cash consideration of RM76.793 million, realising a gain on sale of RM14.632 million.

21. Status of Corporate Proposals Announced(Continued)

Subsequent to 30 September 2010 till 18 November 2010, a further 9,045,300 shares have been sold for a cash consideration of RM48.321 million, realising a gain on sale of RM10.836 million.

22. Borrowings and Debt Securities

**As at
30.09.10
RM'000**

(i) Current borrowings	
<i>Secured:-</i>	
- Revolving credit	178,232
- Term loans	49,547
- Hire purchase liabilities	185
	227,964
(ii) Non current borrowings	
<i>Secured:-</i>	
- Term loan	7
- Hire purchase liabilities	69
	76
Total	228,040

As at 30 September 2010, the outstanding revolving credit balance of RM46.3 million in respect of a subsidiary of the Company was subject to compliance with two financial loan covenants, which had not been complied with as at the balance sheet date.

Included in the term loan (current portion) is an amount of RM49.5 million which is denominated in United Arab Emirates Dirhams.

Included in term loan (non-current balances) is an amount of RM0.01 million which is denominated in United Arab Emirates Dirhams.

Included in the hire purchase liabilities is an amount of RM0.01 million which is denominated in United Arab Emirates Dirhams, of which relate to current balances.

The carrying amount of the term loans with fixed interest rate which are due within one year approximate their fair values at balance sheet date.

23. Off Balance Sheet Financial Instruments

There was no derivative instrument in issue for the current quarter under review.

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	
	30/09/10	30/09/09	30/09/10	30/09/09
Group's loss from continuing operations attributable to ordinary equity holders of the parent (RM' 000)	(35,106)	(13,230)	(29,941)	(7,871)
Group's loss from discontinued operations attributable to ordinary equity holders of the parent (RM' 000)	-	(625)	(4,291)	(1,675)
Group's loss for the period, attributable to the equity holders of the parent (RM' 000)	<u>(35,106)</u>	<u>(13,855)</u>	<u>(34,232)</u>	<u>(9,546)</u>
Weighted average number of ordinary shares in issue (Million)	563.264	563.264	563.264	563.264
Basic loss per share for (sen):				
(a) Loss from continuing operations	(6.23)	(2.34)	(5.32)	(1.39)
(b) Loss from discontinued operations	-	(0.11)	(0.76)	(0.30)
(c) Loss for the period	<u>(6.23)</u>	<u>(2.45)</u>	<u>(6.08)</u>	<u>(1.69)</u>
Diluted loss per share (sen)	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 2010.

26. Dividends

There was no dividend declared for the quarter under review.

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 19 November 2010.

By order of the Board

**Suhla Al Asri
Secretary**

**Kuala Lumpur
19 November 2010**