

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2011

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 2011.

The Group incurred a net loss of RM8,043,000 during the financial quarter ended 30 June 2011. As of that date, the current liabilities of the Group exceeded their current assets by RM206,425,000.

The owner of the project in Indonesia, which is undertaken by the Group through a Consortium in which the Group has 70% interest, issued a notice in December 2010, indicating its intention to take over the outstanding works of the project following the delays in completing the said project. A notice of demand was also issued to the bank by the owner to call on the performance bond. Following several meetings between the owner and the Consortium, the owner had agreed not to proceed with the take-over and the call on the performance bond. The parties agreed to work out a supplemental agreement to be entered into between the owner and the Consortium for the completion of the outstanding works.

As there was not much development on the proposed supplemental agreement and considering the project was almost 98% completed, the Consortium had submitted a notification for the new commercial operation dates to be mutually agreed upon between the parties, on the basis of the owner’s default under the contract. The notification was supported by a legal opinion given by Indonesian lawyers. Following the provisions in the contract, the Consortium had submitted new commercial operation dates taking into account the owner’s delay of 20 months and 13 days in fulfilling its obligations.

The Consortium has since been corresponding with the owner on the abovementioned requirement for new commercial operation dates to be mutually agreed upon between the parties as provided in the contract. As at this point in time, this issue has not been concluded between the parties yet. In the event the parties fail to agree on the new commercial operation dates, the Consortium would consider exercising its rights under the contract to refer the matter to the dispute mechanism as provided in the contract.

1. Basis of Preparation (Continued)

In the meantime, the Group has completed the physical works on site and both units of the power plant are able to generate power. The Group is in the midst of carrying out necessary preparation for the various tests to be performed in accordance with the contract prior to the achievement of commercial operation of the plant.

No liquidated ascertained damages (“LAD”) claim for delay of commercial operation has been imposed by the owner and the notice of demand on the performance bond has not been issued by the owner at the date of the approval of the financial statements. The Group is of the view that there is no basis for the owner to impose any LAD and will be referring the matter to arbitration in the event the owner gives notice of such imposition. The outstanding progress billings, which comprise mainly retention sums, are expected to be settled by the owner in due course. The Group has, however, recorded an amount of LAD of approximately RM97,134,000 during the financial year ended 31 March 2011 based on the estimated time expected to be taken by the Group to achieve commercial operation after successful completion of the various tests, notwithstanding any counter claims the Group may have against the owner and the subsequent referral of the matter to arbitration in accordance with the provisions of the contract.

The Group has also recognised an amount of approximately RM71,024,000 during the financial year ended 31 March 2011 in respect of estimated LAD to be recovered from the subcontractor / supplier as a result of its delay in completing their scope of work as set out in the agreement for supply. The Group is entitled to impose and receive the LAD in accordance with the provisions of the said agreement. This is supported by external legal advice.

In order to ensure that the Group would have sufficient cash flows for the twelve months from the reporting date to repay the existing borrowings, complete the projects in progress, meet working capital and covenant requirements, and the investing and financing activities, the Group had, in June 2011, obtained a bridging loan facility of RM170,000,000 for a tenure of 5 months, which will be secured on the available-for-sale financial assets of the Group. Up to RM157,000,000 of the proceeds from the said bridging loan facility will be utilised to repay certain existing borrowings of the Group, which are currently secured by the said available-for-sale financial assets. In addition, the Group had, in July 2011, accepted the offer letter for a new term loan facility of RM308,000,000 for a tenure of up to 3 years, part of the proceeds of which will be utilised to repay the bridging loan facility and the other existing borrowings of the Group. The new term loan facility will be secured by the said available-for-sale financial assets in due course.

1. Basis of Preparation (Continued)

The new credit facilities, together with the proceeds from the disposal of certain plant and equipment and the receipt of the progress billings of the projects which are anticipated to be received on the assumption that the projects are completed based on the estimated completion dates, will be utilised to repay the existing borrowings of the Group, complete the projects in progress, meet working capital and covenant requirements, and fund the investing and financing activities for the twelve months from the reporting date.

The Directors are of the view that the plans stated above will enable the Group to have sufficient cash flows to carry on as a going concern and the Group will successfully complete the project in Indonesia within the estimated completion date based on the current progress of the project. In addition, the Group is also actively bidding for new contracts. Accordingly, the financial statements of the Group and the Company are prepared on a going concern basis.

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 March 2011. The new accounting standards which are effective and applicable to the Group in the current quarter did not result in a significant impact to the financial statement of the Group.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the Group's financial statements for the financial year ended 31 March 2011 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 and Year to date**

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) an increase of fair value reserve amounting to RM2.65 million in respect of the available-for-sale investment for the quarter ended 30 June 2011 due to the increase in market value from RM6.41 per IJM Corporation Berhad ("IJM") share to RM6.45 per IJM share.

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 and year to date are as follows:

| | Engineering & construction RM'000 | Property & development RM'000 | Investment & Others RM'000 | Total RM'000 |
|-----------------------------------|--|--|-------------------------------------|-----------------|
| <u>Revenue</u> | | | | |
| Total | 12,573 | 193 | 181 | 12,947 |
| Inter-segment | (140) | - | (4) | (144) |
| External | 12,433 | 193 | 177 | 12,803 |
| <u>Results</u> | | | | |
| Segment (loss) / profit | (5,085) | 24 | (2,532) | (7,593) |
| Interest income | 278 | 2 | 14 | 294 |
| Profit from Islamic deposits | - | - | 1 | 1 |
| Finance costs | (373) | - | (1) | (374) |
| (Loss)/ profit before taxation | (5,180) | 26 | (2,518) | (7,672) |
| Tax expense | | | | (371) |
| Loss for the quarter | | | | (8,043) |

The Group's segmental report for the corresponding three-month financial quarter and year to date ended 30 June 2010 are as follows:-

8. Segmental Reporting (Continued)

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 | 97,954 | 231 | 2,696 | 100,881 | 6,476 |
| Inter-segment | (2,764) | - | (4) | (2,768) | (4,385) |
| External | 95,190 | 231 | 2,692 | 98,113 | 2,091 |
| | Engineering & construction RM'000 | Property & development RM'000 | Investment & others RM'000 | Total RM'000 | Discontinued operation RM'000 |
| Results | | | | | |
| Segment (loss)/profit | 1,377 | (543) | (6,082) | (5,248) | (176) |
| Interest income | 4,752 | 6 | 23 | 4,781 | 48 |
| Gain on disposal of available for sale financial assets | - | - | 6,511 | 6,511 | - |
| Loss on disposal of a subsidiary | - | - | - | - | (4,040) |
| Finance costs | (3,166) | (1) | (4) | (3,171) | (1) |
| Share of results of associates and jointly controlled entities | 501 | - | - | 501 | - |
| (Loss)/profit before Taxation | 3,464 | (538) | 448 | 3,374 | (4,169) |
| Tax credit/(expense) | | | | 1,713 | (170) |
| Profit/(Loss) for the quarter | | | | 5,087 | (4,339) |

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

There is 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 June 2011.

14. Review of Performance

For the current quarter under review, the Group recorded a revenue from continuing operations of RM12.8 million.

The Group recorded a loss after tax from continuing operations of RM8.0 million for the current quarter as compared to RM5.1 million profit in the preceding year's quarter.

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 RM7.7 million as compared to the preceding quarter's loss before taxation from continuing operations of RM198.1 million. The lower loss from continuing operations for the current quarter was mainly due to no further losses incurred on the projects in Indonesia, United Arab Emirates and Kingdom of Saudi Arabia as compared to the previous quarter.

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.

The Group is gearing itself to secure new 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 period.

18. Taxation

| | Current Quarter Ended | | Year-To-Date Ended | |
|------------------------------|-----------------------|------------|--------------------|------------|
| | 30/06/2011 | 30/06/2010 | 30/06/2011 | 30/06/2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Continuing operations | | | | |
| Malaysian income tax | 18 | (1,820) | 18 | (1,820) |
| Overseas income tax | 355 | 108 | 355 | 108 |
| Deferred tax | (2) | (1) | (2) | (1) |
| Tax expense/(credit) | 371 | (1,713) | 371 | (1,713) |

The tax charge incurred by the Group for the quarter and year to date is principally in respect of the withholding tax paid by a subsidiary.

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

There were no sale of unquoted investments and properties outside the ordinary course of business for the current quarter and financial year to date under review.

20. Quoted Securities**Current quarter**

There were no purchases or disposals of quoted securities for the current quarter and financial year to date under review.

The investments in quoted securities as at 30 June 2011 are as follows:

| | |
|------------------------|-----------------|
| (i) at cost | = RM275,033,228 |
| (ii) at carrying value | = RM428,074,284 |
| (iii) at market value | = RM428,074,284 |

21. Status of Corporate Proposals Announced

There was no corporate proposal announced but not completed as at 18 August 2011.

22. Borrowings and Debt Securities

**As at
30.06.11
RM'000**

| (i) Current borrowings | |
|------------------------------------|----------------|
| <i>Secured:-</i> | |
| - Revolving credit | 152,250 |
| - Term loans | 48,755 |
| - Hire purchase liabilities | 67 |
| | 201,072 |
| <i>Unsecured:-</i> | |
| - Term Loan | 412 |
| | 201,484 |
| (ii) Non current borrowings | |
| <i>Secured:-</i> | |
| - Hire purchase liabilities | 21 |
| | 21 |
| Total | 201,505 |

Included in the term loan (current portion) is an amount of RM48.8 million which is denominated in United Arab Emirates Dirhams.

23. Off Balance Sheet Financial Instruments

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

24. (Loss)/ Earnings 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 number of ordinary shares outstanding at the end of the period.

| | Current Quarter Ended | | Year-To-Date Ended | |
|--|-----------------------|----------|--------------------|----------|
| | 30/06/11 | 30/06/10 | 30/06/11 | 30/06/10 |
| Group's (loss)/profit from continuing operations attributable to ordinary equity holders of the parent (RM' 000) | (8,045) | 5,165 | (8,045) | 5,165 |

24. (Loss)/ Earnings Per Share (Continued)

| | Current Quarter Ended | | Year-To-Date Ended | |
|---|-----------------------|----------|--------------------|----------|
| | 30/06/11 | 30/06/10 | 30/06/11 | 30/06/10 |
| Group's loss from discontinued operations attributable to ordinary equity holders of the parent (RM' 000) | - | (4,291) | - | (4,291) |
| Group's (loss)/profit for the period, attributable to the equity holders of the parent (RM' 000) | (8,045) | 874 | (8,045) | 874 |
| Number of ordinary shares in issue (Million) | 563.264 | 563.264 | 563.264 | 563.264 |
| (a) (Loss)/ profit from continuing operations | (1.43) | 0.92 | (1.43) | 0.92 |
| (b) Loss from discontinued operations | - | (0.76) | - | (0.76) |
| (c) (Loss)/profit for the period | (1.43) | 0.16 | (1.43) | 0.16 |
| 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. Supplementary information disclosed pursuant to Bursa Malaysia Securities Listing Requirements

The following analysis of realised and unrealised accumulated losses at the Group is prepared in accordance with Guidance on Special Matter No. 1. Determination of Realised and Unrealised Profits in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

25. Supplementary information disclosed pursuant to Bursa Malaysia Securities Listing Requirements (Continued)

| | As at 30.06.2011 RM'000 | As at 31.03.2011 RM'000 |
|---|-------------------------------|-------------------------------|
| Accumulated losses of the Group and its subsidiaries | | |
| - realised | (1,339,667) | (1,334,067) |
| - unrealised | (57,538) | (59,889) |
| | (1,397,205) | (1,393,956) |
| Consolidated Adjustments | 1,008,499 | 1,013,295 |
| Total accumulated losses as per consolidated accounts | (388,706) | (380,661) |

The disclosure of realised and unrealised losses above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purposes.

26. 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 2011 except in relation to Note 38(d) of the Audited Financial Statements where the court has made an order against a subsidiary company's branch in Abu Dhabi for AED12,300,000 (approximately RM9,840,000) as outstanding payment together with AED300,000 (approximately RM240,000) as compensation and dismissed the branch's counter action to join the project owner as co-defendant in the suit. The subsidiary has filed an appeal against the Court's dismissal of the counter action to join the project owner.

There is no financial impact to the Group as the owner has the contractual obligation to reimburse the Group.

27. Dividends

There was no dividend declared for the quarter under review.

28. 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 18 August 2011.

By order of the Board

**Muhammad Firdaus Bin Abdullah
Secretary**

**Kuala Lumpur
18 August 2011**