

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2011

PART A – Explanatory Notes Pursuant to Financial Reporting Standard

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. It should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 March 2011.

The Group recorded a net profit of RM63,364,000 and RM75,042,000 during the financial quarter and the nine months period ended 31 December 2011 respectively.

With regards to the Group’s project in Indonesia, at the date of this report, the consortium has concluded a global settlement and entered into a Negotiation Agreement dated 21 February 2012. Based on the revised Effective Date of the Contract and agreed Extension of Time, there is a delay of 45 days for Unit 1 and there was no delay for Unit 2.

The consortium has agreed with the project owner that the amount of the Liquidated Ascertained Damages (“LAD”) due to the owner for the said delay is USD9,199,703 (approximately RM28,983,000) only and the amount of deviations/variations due to the owner is USD4,744,710 (approximately RM14,948,000).

The Group has earlier recorded a provision for LAD of approximately RM97,134,000 and a provision of deviations/variations of approximately RM32,222,000 during the financial year ended 31 March 2011. Accordingly, the Group has recognised write back of provisions of LAD and deviations/variations amounting to RM68.0 million and RM17.2 million respectively as disclosed in Part A Note 4(ii) to the financial information.

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 a 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 an external legal advice.

1. Basis of Preparation (Continued)

As part of the Group's planning for its cash flows requirement, the Group had, in June 2011, obtained a bridging loan facility of RM170,000,000 for a tenure of 5 months. Up to RM157,000,000 of the proceeds from the said bridging loan facility has been utilised to repay certain existing borrowings of the Group, which were previously secured by the available-for-sale financial assets.

During the quarter ended 31 December 2011, the Group has drawdown RM285,607,000 of a new term loan facility and fully settled the RM170,000,000 million bridging loan facility on 21 December 2011. The balance was utilised to repay certain existing borrowings and working capital requirements. The new term loan facility is secured by the available-for-sale financial asset.

The Directors are of the view that with the new term loan facility and other identified potential cash resources, the Group will have sufficient cash to carry on as a going concern. 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 RM43.140 million in respect of the available-for-sale financial assets for the quarter ended 31 December 2011 due to the increase in market value from RM5.00 per IJM Corporation Berhad ("IJM") share to RM5.65 per IJM share.

4. **Unusual Items (Continued)**

- ii) included in the revenue are amounts relating to a write back of provisions of Liquidated Ascertained Damages of RM68.0 million and reversal of provision made on deviations/variations of RM17.2 million for a project in Indonesia. This is a result of the Negotiation Agreement entered by the consortium and the owner of the project on 21 February 2012.
- iii) a recognition of a loss on fair value of RM26.1 million in the profit and loss arising from the fair value changes on the equity collar option. The equity collar financial derivative option is embedded in the term loan facility of RM285 million obtained from a financial institution.

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, except as disclosed in the financial information

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 the period to date ended 31 December 2011, except for as disclosed in Part B, Note 7.

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 current quarter is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<u>Revenue</u>				
Total	83,217	183	2,838	86,238
Inter-segment	(78)	-	(4)	(82)
External	83,139	183	2,834	86,156

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment profit/(loss)	88,883	182	(4,395)	84,670
Interest income	280	1	452	733
Gain on liquidation of a subsidiary	-	-	3,179	3,179
Loss on fair value of derivative	-	-	(26,104)	(26,104)
Finance costs	352	-	(3)	349
Share of results of associate	673	-	-	673
Profit/(Loss) before taxation	90,188	183	(26,871)	63,500
Tax expense				(136)
Profit for the quarter				63,364

Analysis by business segments for the nine months period to date:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Revenue				
Total	191,744	739	7,847	200,330
Inter-segment	(294)	-	(13)	(307)
External	191,450	739	7,834	200,023

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Segment profit/(loss)	107,004	496	(4,823)	102,677
Interest income	473	4	784	1,261
Profit from Islamic deposits	-	-	1	1
Gain on liquidation of a subsidiary	-	-	3,179	3,179
Loss on fair value of derivative	-	-	(26,104)	(26,104)
Finance costs	(5,509)	-	(5)	(5,514)
Share of results of associate	673	-	-	673
Profit/(loss) before taxation	102,641	500	(26,968)	76,173
Tax expense				(1,131)
Profit for the period				75,042

8. Segmental Reporting (Continued)

The Group's segmental report for the corresponding three-month financial quarter and the nine months period ended 31 December 2010 are as follows:-

Segment analysis for the quarter is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Revenue				
Total	(42,246)	366	6,435	(35,445)
Inter-segment	(3,759)	-	-	(3,759)
External	(46,005)	366	6,435	(39,204)
	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment loss	(28,106)	(186)	(2,808)	(31,100)
Interest income	5,447	2	80	5,529
Gain on disposal of financial assets	-	-	17,980	17,980
Loss on disposal of associate and jointly controlled entity	(150)	-	(16)	(166)
Finance costs	(3,688)	-	(1)	(3,689)
Share of results of associates and jointly controlled entities	(12,819)	-	-	(12,819)
Profit/(Loss) before taxation	(39,316)	(184)	15,235	(24,265)
Tax expense				(16,232)
Loss for the quarter				(40,497)

Analysis by business segments for the financial period to date:

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000	Discontinued operation RM'000
Revenue					
Total	75,276	31,147	51,511	157,934	6,476
Inter-segment	(8,316)	(30,000)	(30,008)	(68,324)	(4,385)
External	66,960	1,147	21,503	89,610	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
<u>Results</u>					
Segment loss	(88,773)	(897)	(1,999)	(91,669)	(176)
Interest income	15,777	13	138	15,928	48
Gain on disposal of financial assets	0	0	47,664	47,664	-
Loss on disposal of associate and jointly controlled entity	(150)	0	(16)	(166)	-
Loss on disposal of a subsidiary	-	-	-	-	(4,040)
Finance costs	(10,637)	0	(7)	(10,644)	(1)
Share of results of associates	(16,999)	0	0	(16,999)	0
Profit/(Loss) before taxation	(100,782)	(884)	45,780	(55,886)	(4,169)
Tax expense				(15,417)	(170)
Loss for the period				(71,303)	(4,339)

9. 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, except as disclosed in the basis of preparation in the financial information.

10. Changes in Composition of the Group

There was no change in the composition of the Group during the current quarter, except for the liquidation of Golden Solitaire (Australia) B.V, a 66.6% subsidiary of the Company.

11. Changes in Contingent Liabilities or Contingent Assets

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