

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

**NOTES TO THE INTERIM FINANCIAL REPORT**  
**FOR THE QUARTER ENDED 30 JUNE 2012**

**PART A – Explanatory Notes Pursuant to Financial Reporting Standard**

**1. Basis of Preparation**

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 March 2012. The 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 31 March 2012.

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual audited financial statements for the financial year ended 31 March 2012 except for the adoption of the following new standards, amendments to and interpretations on existing standards which are applicable in accordance to Group's financial statements.

The Group adopted the new IFRS-compliant framework, Malaysian Financial Reporting Standards (“MFRS”) with effect from 1 April 2012. In adopting the new framework, the Group has applied MFRS 1 “First Time Adoption of MFRS”.

The Group and Company have consistently applied the same accounting policies in its opening MFRS statement of financial position at 1 April 2011 (transition date) and throughout all periods presented, as if these policies had always been in effect. Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. The adoption of MFRS 1 did not result in a significant impact on the financial statements of the Group, hence no reconciliations from FRSS to MFRSS were prepared.

In addition, the financial statements comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for the quarter ended 30 June 2012. MFRS 1 First Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

In preparing its opening MFRS Statement of Financial Position as at 1 April 2012, the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS.

The Group recorded a net profit of RM22,984,000 for the three months period ended 30 June 2012.

In respect of the project in Indonesia which was undertaken by the Group through a Consortium in which the Group has 70% interest, the Group achieved the commercial operation dates for both Unit 1 and Unit 2 on 10 December 2011. Accordingly, the Consortium had, on 21 February 2012, reached a negotiated sum with the owner of the project amounting to USD13.9 million (approximately RM42.0 million) and both parties agreed that any claims in relation to effective date of the contract, extension of time, variations works and liquidated damages between the owner and the Consortium will be considered settled and neither party will be liable for further claims in relation to such completion of works except for certain items which were subject to further negotiations. In addition, the Consortium is in the midst of obtaining the taking over certificate for Unit 1 and Unit 2 from the owner.

The Group also anticipates recovering an estimated LAD of USD22.5 million (approximately RM68 million) from the subcontractor / supplier as a result of delay in completing their scope of work as set out in the agreement for supply for the above project. The Group is virtually certain that it is entitled to impose and receive the LAD in accordance with the provisions of the said agreement, which is supported by external legal advice.

In respect of the Group's on-going project in the Middle East, the project has a revised completion date of 21 months from the re-commencement date of 16 July 2011 based on a supplementary agreement entered into with the owner of the project on 9 June 2011. Accordingly, the project has a revised contractual completion date of 15 April 2013. Based on the current progress of the project of less than 50% completion as at the date of this announcement, the Group will need to expedite the work on site in order to achieve the revised contractual completion date of 15 April 2013. The Board of Directors does not anticipate any foreseeable losses for this project nor any provision for LAD at this stage as the Group is in the midst of negotiations with the owner of the project to get its commitment to certify the progress billings issued without undue delay and make timely payments on the certified billings, which would then facilitate the progress of the work on site to meet the revised contractual completion date on 15 April 2013.

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

The Directors are also confident that the Group would be able to obtain an extension of time if required, as the delays were attributed to the owner.

In addition, the Board of Directors anticipate that, with the owner's commitment to make timely payments on certified billings, there will not be any additional funding required from the Group in order to complete the project.

In order to ensure that the Group would have sufficient cash flows in the twelve months from the reporting date to repay the existing borrowings, complete the projects in progress, meet the working capital and covenant requirement, and the investing and financing activities, the Group may need to dispose of its available-for-sale financial assets, subject to the approval of the shareholders.

The Directors are of the view that the disposal of the available-for-sale financial assets, subject to approval of the shareholders, the continuing support from the existing bankers and the cash generated from the projects will enable the Group and the Company to carry on as going concerns. Accordingly, the financial statements of the Group and the Company are prepared on going concerns basis.

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

The auditors' report on the Group's financial statements for the financial year ended 31 March 2012 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 Period 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) as at 30 June 2012, the fair value of the derivative amounts to RM10.9 million, and accordingly results in a write back of RM21.5 million in the profit or loss during the quarter under review.
- ii) a decrease of fair value reserve amounting to RM40.4 million in respect of the available-for-sale financial assets for the quarter ended 30 June 2012 due to the decrease in market value from RM5.63 per IJM Corporation Berhad ("IJM") share as at 31 March 2012 to RM5.02 per IJM share as at 30 June 2012.

## 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 quarter ended 30 June 2012.

## 7. Dividends Paid

For the current financial period-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 and period to date is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<b><u>Revenue</u></b>				
Total	24,991	198	1,850	27,039
Inter-segment	(77)	-	(1,672)	(1,749)
External	<b>24,914</b>	<b>198</b>	<b>178</b>	<b>25,290</b>

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<b><u>Results</u></b>				
Segment profit/(loss)	19,551	168	(1,374)	18,345
Interest income	1,775	1	230	2,006
Depreciation	(273)	(22)	(1)	(296)
Gain on fair value of derivative	-	-	21,533	21,533
Finance costs	(14,514)	-	(4,010)	(18,524)
Share of results of associate	(45)	-	-	(45)
Profit before taxation	6,494	147	16,378	23,019
Tax expense				(35)
Profit for the quarter				<b>22,984</b>

## 8. Segmental Reporting (Continued)

The Group's segmental report for the corresponding three-month financial quarter and financial period to date ended 30 June 2011 is as follows:

Segment analysis for the quarter and period to date is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<b><u>Revenue</u></b>				
Total	12,573	193	181	12,947
Inter-segment	(140)	-	(4)	(144)
External	<b>12,433</b>	<b>193</b>	<b>177</b>	<b>12,803</b>

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<b><u>Results</u></b>				
Segment (loss)/profit	(4,862)	48	(2,512)	(7,326)
Depreciation	(223)	(24)	(20)	(267)
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 credit				(371)
Loss for the quarter				<b>(8,043)</b>

## 9. Material Events Subsequent to the End of the Reporting Period

Save and except as disclosed below, there is no other material event subsequent to the end of the current quarter under review that has not been reflected in the interim financial report.

- (i) On 2 July 2012, the Company had announced that pursuant to an Application for Tax Audit and Revision by a Branch of its wholly owned subsidiary in Indonesia, Zelan Holdings (M) Sdn Bhd ("Branch"), by an Application no. 001/TAX/ZH/8/10 dated 8 September 2010 against the decision of the Director General of Taxation on 15 June 2010, the Tax Court has delivered its verbal decision on 29 June 2012 whereby it has ruled not in favour of the Branch. The ruling resulted in a potential tax payable and related tax penalties of approximately RM25.1 million to be incurred by the Branch.

## **9. Material Events Subsequent to the End of the Reporting Period (Continued)**

During the quarter, the written decision from the Tax Court has been received by the Branch. The Branch's tax agent in Indonesia (Messrs Ernst & Young) has advised that based on the facts of the case, the Branch stands a good chance to succeed in its appeal against this decision through a judicial review to be filed at the Supreme Court of Indonesia. Based on this advice, the Company's intention is to file a judicial review against this decision not later than 30 October 2012.

- (ii) On 5 July 2012, the Company announced that its wholly-owned subsidiary company, Konsensei Pusat Asasi Gambang Sdn Bhd (formerly known as TCMB Power Sdn Bhd) ("Concession Company"), entered into a Concession Agreement with the Government of Malaysia and International Islamic University Malaysia ("IIUM"), whereby IIUM has granted to the Concession Company the concession to undertake the development of the Centre for Foundation Studies (Phase 3), IIUM, Gambang Campus in Pahang on a Build-Lease-Manage-Transfer basis by way of Private Finance Initiative scheme.
- (iii) Further to its prior announcements, the Company had, on 2 August 2012, announced further development on the Letter of Intent received from Mudajaya Corporation Berhad ("Mudajaya") in respect of civil works for 1,000MW coal fired power plant at Tanjung Bin, Johor ("Works") as follows:
  - (a) Zelan Construction Sdn Bhd ("ZCSB"), a wholly owned subsidiary of the Company, had on 2 August 2012 entered into a Definitive Collaboration Agreement ("Collaboration Agreement") with Balanced Engineering & Construction Pte Ltd ("BEC") to form a joint venture on an unincorporated basis by the name of Zelan BEC Consortium for the sole purpose of undertaking the execution and completion of the Works; and
  - (b) On the same day, Zelan BEC Consortium, in which the Company has 51% participating interest, had accepted the letter of award issued by Mudajaya for the design and build of chimney for the development of the Works for the lump sum price of Ringgit Malaysia Thirty Four Million Seven Hundred Seventy Thousand Seven Hundred Forty Three and Sixty Three (RM34,770,743.63) only.

**10. Changes in Composition of the Group**

There was no change in the composition of the Group during the current quarter.

**11. Changes in Contingent Liabilities or Contingent Assets**

Save and except as disclosed in item 9 (i) of this Part A and item 10 of Part B of this Bursa Announcement on the Interim Financial Reporting, there was no other change in contingent liabilities or contingent assets since the last annual reporting date.

**12. Insurance Liability**

The Company has given guarantee amounting to RM8,651,780 to an owner of a project as security for a subsidiary's performance of its obligations under the relevant project and the Company does not anticipate any outflows of economic benefits arising from these undertakings.