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

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

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 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.

The Group incurred a net loss of RM35,223,000 during the financial quarter ended 30 September 2012 and incurred a net loss of RM12,239,000 for the six months period ended 30 September 2012, respectively.

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

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 final settlement sum with the owner of the project amounting to USD13.9 million (approximately RM42.3 million) which comprised Liquidated Ascertained Damages ("LAD") of USD9.2 million (RM28.1 million) and deviation list of USD4.7 million (RM14.2 million). The LAD amount is now revised to USD7.7 million (RM23.4 million), as a result of savings earned from the additional seven (7) days extension of time granted by the owner of the project. 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. On 12 September 2012, a revised Negotiation Agreement was entered to replace the earlier Negotiation Agreement signed on 21 February 2012. The Amendment Agreement No. 4, is currently being finalised and completed. Based on that Amendment Agreement, the contract sum is revised to USD 563.1 million (RM1,756.0 million) from the original contract sum of USD 572.4 million (RM1,785.0 million). The reduction of USD9.3 million (RM29.0 million) in the contract sum is mainly attributed by the variations/deviations and deduction of works. In addition, the Consortium is in the midst of obtaining the taking over certificates for Unit 1 and Unit 2 from the owner.

The Group also anticipates to recover an estimated LAD of USD22.5 million (approximately RM68.0 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 in Abu Dhabi, United Arab Emirates ("UAE') 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, the Group has written to the owner to apply for a six months extension of time for completion on 15 October 2013. The Board of Directors does not anticipate any foreseeable losses for this project nor any provision for LAD.

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

However, on 21 November 2012, the Group received a letter from the owner of the project in Abu Dhabi, UAE, giving 14 days notice to terminate the contract and liquidate the performance bond.

The Group is contesting the notice of termination as baseless and wrongful in view of the application for extension of time submitted prior to the notice of termination which has yet to be assessed and determined in accordance with the provisions of the contract. The Group, through its legal counsels in UAE, has immediately initiated all necessary legal actions to dispute the notice of termination of contract and notice of liquidation of the performance bond in accordance with the provisions of the contract and laws of UAE.

Based on the advice given by its legal counsels, the Board of Directors is of the view that it is not necessary to make any provision in the financial statements of the Group at this juncture.

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 seek further financing from the banks and 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, the continuing support from the existing bankers which include seeking new financing facilities and the cash generated from the existing projects will enable the Group to carry on as a going concern. Accordingly, the financial statements of the Group are prepared on a going concern 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:

4. Unusual Items (Continued)

i) as at 30 September 2012, the fair value of the derivative was RM0.2 million, resulting in a write back of RM10.6 million and RM32.2 million to the income statement during the quarter and six months period under review, respectively.

ii) a net decrease of fair value reserve amounting to RM19.9 million and RM60.4 million, in respect of the available-for-sale financial assets for the quarter and six months ended 30 September 2012 respectively due to the decrease in market value from RM5.14 as at 30 June 2012 per IJM Corporation Berhad ("IJM") share to RM4.72 per IJM shares as at 30 September 2012, offset by the sale of 68,106 IJM shares which has resulted in the transfer of RM57,600 from the "Fair Value Reserve" to the statement of comprehensive income as gain on disposal of available-for-sale investment.

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 September 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 is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Revenue				
Total	3,571	191	5,892	9,654
Inter-segment	(77)	-	(404)	(481)
External	**3,494**	**191**	**5,488**	**9,173**

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment (loss)/profit	(21,218)	253	3,918	(17,047)
Interest income	10	1	266	277
Depreciation	(844)	(79)	(39)	(962)
Gain on fair value of derivative	-	-	10,627	10,627
Gain on disposal of available for sale financial assets	-	-	57	57
Finance costs	438		(3,992)	(3,554)
Share of results of associates	(484)	-	-	(484)
(Loss)/profit before taxation	(22,098)	175	10,837	(11,086)
Tax expense				(24,137)
Loss for the quarter				**(35,223)**

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
Revenue				
Total	28,562	389	7,742	36,693
Inter-segment	(155)	-	(2,075)	(2,230)
External	**28,407**	**389**	**5,667**	**34,463**

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment (loss) /profit	(1,667)	421	2,544	1,298
Interest income	1,786	1	496	2,283
Depreciation	(1,064)	(116)	(78)	(1,258)
Gain on fair value of derivative	-	-	32,160	32,160
Gain on disposal of available for sale financial asset	-	-	57	57
Finance costs	(14,076)	-	(8,002)	(22,078)
Share of results of associates	(529)	-	-	(529)
(Loss)/profit before taxation	(15,550)	306	27,177	11,933
Tax expense				(24,172)
Loss for the period				**(12,239)**

The Group's segmental report for the corresponding three-month financial quarter and financial period to date ended 30 September 2011 is 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	95,954	363	4,829	101,146
Inter-segment	(78)	-	(4)	(82)
External	**95,876**	**363**	**4,825**	**101,064**

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment profit	23,560	313	2,123	25,996
Interest income	(84)	1	317	234
Depreciation	(186)	(23)	(19)	(228)
Finance costs	(5,656)	-	(1)	(5,657)
Profit before taxation	17,634	291	2,420	20,345
Tax expense				(624)
Profit for the quarter				**19,721**

8. Segmental Reporting (Continued)

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
Revenue				
Total	108,526	556	5,010	114,092
Inter-segment	(217)	-	(8)	(225)
External	**108,309**	**556**	**5,002**	**113,867**

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Segment profit/(loss)	18,530	361	(389)	18,502
Interest income	194	3	331	528
Profit from Islamic deposits	-	-	1	1
Depreciation	(409)	(47)	(39)	(495)
Finance costs	(5,861)	-	(2)	(5,863)
Profit/(loss) before taxation	12,454	317	(98)	12,673
Tax expense				(995)
Profit for the period				**11,678**

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.

a) Zelan had on 14 November 2012, announced that its wholly owned subsidiary, Zelan Construction Sdn Bhd, has been awarded by Pelabuhan Tanjung Pelepas Sdn Bhd, the contract for the construction, completion and maintenance of wharf structures for Berths 13 & 14 and back of wharf works at Pelabuhan Tanjung Pelepas in Johor Darul Takzim for the contract sum of Ringgit Malaysia One Hundred Seventy Nine Million Three Hundred Twenty Five Thousand One Hundred Ninety Five and Sen Twenty Three (RM179,325,195.23) only.

   The completion period for the abovementioned works is 17 months, commencing on 12 November 2012.

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

b) A subsidiary company, had on 21 November 2012, received a letter from the owner of its project in Abu Dhabi, United Arab Emirates ("UAE"), giving 14 days' notice to terminate the contract and to liquidate the performance bond.

The Company is contesting the notice of termination as baseless and wrongful in view of the application for extension of time submitted prior to the notice of termination which has yet to be assessed and determined in accordance with the provisions of the contract. The Company, through its legal counsels in UAE has immediately initiated all necessary legal actions to dispute the notice of termination of contract and notice of liquidation of the performance bond in accordance with the provisions of the contract and laws of UAE.

Based on the advice given by its legal counsels, the Board of Directors is of the view that it is not necessary to make any provision in the financial statement of the Company at this juncture.

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

Further to the announcement made on 2 July 2012 on the written decision from the Tax Court of Indonesia received by Zelan Holdings (M) Sdn Bhd ("Branch"), whereby the Tax Court has ruled that a potential tax payable and related tax penalties of approximately RM32.5 million to be incurred by the Branch, the Group has now decided to make a full provision of RM32.5 million in the financial statements.

The provision is made after considering and adopting the legal opinion rendered by the Branch's solicitors in Indonesia on the chances of the Branch succeeding in the Judicial Review submitted by the Branch to the Supreme Court of the Republic of Indonesia. Although the solicitors are of the position that the petition for Judicial Review has a strong legal basis and that the Branch has a credible chance of prevailing strictly based on the merits of the case and the applicable tax regulation, there is no assurance that the Supreme Court will reach such a favourable decision.

12. **Insurance Liability**

The Company has given guarantee amounting to RM27,106,878 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.