

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2012

**PART B Additional Information as required by Part A of Appendix 9B of the
Bursa Malaysia Listing Requirements**

1. Review of Performance

For the current quarter under review, the Group recorded revenue from engineering and construction operations of RM3.5 million as compared to a revenue of RM95.9 million in the same quarter last year. The current quarter's revenue is mainly attributed to a project carried out for the construction of mixed used development plaza in Abu Dhabi, United Arab Emirates (“UAE”) of RM26.1 million and a reversal of provision for Liquidated Ascertained Damages for a project in Rembang, Indonesia amounting to RM4.9 million. However, the revenue was offset by provisions made on deductions of works and variations/deviations from contract for the Rembang project amounting to RM27.5 million. In the previous corresponding quarter last year, there was a full recognition of revenue contribution from the completed project in Rembang, Indonesia of RM99.1 million.

The revenue recorded from property and development and the investment holding and others segments for the quarter is comparable to the corresponding quarter last year.

The Group recorded a loss after taxation of RM35.2 million for the current quarter as compared to a profit after taxation from continuing operations of RM19.7 million in the same quarter last year. The loss for the quarter is mainly attributable to gross loss of RM7.9 million (30/09/2011: gross profit of RM2.5 million) and the provision of tax expense and its related tax penalty charges of RM32.5 million. However the loss was offset by a gain in fair value of derivative of RM10.6 million (30/9/2011: RM nil) resulting from the valuation of equity collar derivative embedded with the term loan.

2. Material Changes in the Quarterly Results Compared to the preceding quarter

For the current quarter under review, the Group recorded revenue from engineering and construction segment of RM3.5 million as compared to a revenue of RM24.9 million in the preceding first quarter ended 30 June 2012.

2. Material Changes in the Quarterly Results Compared to the preceding quarter (Continued)

The revenue of RM26.1 million is mainly contributed from the progress works on the project in Abu Dhabi, UAE and a reversal of provision for Liquidated Ascertained Damages for a project in Rembang, Indonesia amounting to RM4.9 million. However, the revenue was offset by provisions made on deductions of works and variations/deviations from contract for the Rembang project amounting to RM27.5 million.

The revenue recorded from property and development segment is recurring rental income from office premises and car park bays.

The revenue recorded from the investment holding and others segments of RM5.7 million as opposed to RM0.2 million recorded in preceding quarter is mainly due to dividend received in the current quarter.

For the current quarter, the Group recorded a loss after taxation of RM35.2 million as compared to the preceding quarter's profit after taxation of RM22.9 million. The loss for the quarter is mainly attributable to gross loss of RM7.9 million and the provision of tax expense and its related tax penalty charges of RM32.5 million. However, the loss was offset by a gain on fair value derivative of RM10.6 million. The preceding quarter's profit is mainly attributed by the gain on fair value of derivative of RM21.5 million.

3. Current Year Prospects

For the current year, the Group is focusing on implementing the projects that have already been secured while continuing to secure new local projects.

Moving forward, the Group is expected to generate revenue from the new local projects secured, therefore the Group's performance is expected to be satisfactory for the financial year ending 31 March 2013.

4. Profit Forecast or Profit Guarantee

There was no profit forecast or profit guarantee issued in a public document for the current financial period.

5. Taxation

	Current Quarter Ended		Six months Ended	
	30/09/2012 RM'000	30/09/2011 RM'000	30/09/2012 RM'000	30/09/2011 RM'000
Continuing operations				
Malaysian income tax	23	625	44	643
Overseas income tax	24,114	-	24,129	355
Deferred tax	-	(1)	(1)	(3)
Tax expense	24,137	624	24,172	995

The effective tax rate for the Group 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.

The tax charge incurred by the Group for the quarter and year to date is principally in respect of the potential tax payable to be incurred by a subsidiary's branch.

6. Status of Corporate Proposals Announced

There was no corporate proposal announced but not completed as at 28 November 2012.

7. Borrowings and Debt Securities

**As at
30.09.2012
RM'000**

(i) Current borrowings	
<i>Secured</i>	
- Term loan	65,941
- Hire purchase liabilities	112
- Overdraft	2
	66,055

(ii) Non-current borrowings	
<i>Secured</i>	
- Equity Collar Loan	234,003
- Borrowing cost on equity collar loan	(1,962)
- Hire purchase liabilities	654
	232,695
Total	298,750

7. Borrowings and Debt Securities(Continued)

Included in the term loan (current borrowing) is an amount of RM12.6 million which is denominated in United Arab Emirates Dirhams.

In relation to the term loan facility with equity collar financial derivative above, the Group is required to perform a valuation of the equity collar financial derivative on each reporting date. As a result, the Group has recognised a gain on fair value of RM10.6 million during the quarter and RM32.1 million for the period ended 30 September 2012 arising from the fair value changes on the equity collar options.

These shares are reflected as available-for-sale financial assets. A fair value assessment of the available-for-sale financial assets is carried out at each reporting date, and the change in fair value is recorded in available-for-sale reserves. As at 30 September 2012, the fair value on available-for-sale financial assets reserve stood at RM38.2 million.

8. (Losses)/ Earnings Per Share

The basic (losses)/earnings per share for the financial period are calculated based on the Group's (loss)/profit attributable to the equity holders of the Company, divided by the number of ordinary shares outstanding at the end of the period to date.

	Current Quarter Ended		Six Months Ended	
	30/09/12	30/09/11	30/09/12	30/09/11
Group's (losses)/profit for the period, attributable to the equity holders of the parent (RM' 000)	(35,202)	19,719	(12,216)	11,674
Number of ordinary shares in issue (Million)	563.264	563.264	563.264	563.264
(Loss) /profit per share for the period (sen)	(6.25)	3.50	(2.17)	2.07
Diluted loss per share (sen)	N/A	N/A	N/A	N/A

The Group has no dilution in its (losses) /earnings per ordinary share, as there is no potential dilutive ordinary shares in issue during the current financial period.

9. 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's 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.

	As at 30.09.2012 RM'000	As at 31.03.2012 RM'000
Accumulated losses of the Group and its subsidiaries		
- realised	(1,164,115)	(1,443,869)
- unrealised	(24,903)	(28,225)
	(1,189,018)	(1,472,094)
Accumulated losses of the associates		
- realised	9,332	10,525
- unrealised	(1,137)	(1,137)
	(1,180,823)	(1,462,706)
Consolidated adjustments	801,560	1,095,659
Total accumulated losses as per consolidated accounts	(379,263)	(367,047)

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.

10. 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 reporting date as at 31 March 2012, except in relation to Note 32(c) of the Audited Financial Statements where the Court of Appeal has made an order against a subsidiary company's branch in Abu Dhabi for AED12,916,515.75 (approximately RM11.0 million) as outstanding payment together with AED300,00,000 (approximately RM0.25 million) as compensation and dismissed the subsidiary company's appeal for a counter action to join the project owner as co-defendant in the suit.

10. Changes in Material Litigation (Continued)

On 6 August 2012, 3 September 2012 and 24 September 2012, the Execution Court has issued letters to project owner instructing project owner to deposit the sum of AED14,256,520.17 (approximately RM12.1 million) to the Execution Court in order to pay the judgment obtained by the subcontractor. This has been appealed by the project owner and the matter was fixed for hearing on 7 October 2012. The subsidiary company's branch in Abu Dhabi had then submitted its objection to the said appeal by project owner. On 17 October 2012, the Court has dismissed the said appeal by project owner. Hence, the earlier instruction from the Execution Court for project owner to pay the sum of AED14,256,520.17 to the Execution Court remains. As the process is currently ongoing, the Conservatory Attachment has not been discharged.

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

11. Dividends

There was no dividend declared for the quarter under review.

12. Authorisation for Issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 28 November 2012.

By order of the Board

**Norlida Jamaludin
Secretary**

**Kuala Lumpur
28 November 2012**