

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

**NOTES TO THE INTERIM FINANCIAL REPORT**  
**FOR THE QUARTER ENDED 31 DECEMBER 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 RM20,344,000 during the financial quarter and incurred a net loss of RM32,583,000 for the nine months period ended 31 December 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 is the consortium leader, the owner of the project has issued the taking over certificate (“TOC”) for Unit 1 dated 1 February 2012 on 12 December 2012 and the Consortium received partial retention sum of USD11.4 million (approximately RM35 million) on 28 December 2012. Subsequently, on 28 January 2013, the owner has issued TOC for Unit 2 dated 1 May 2012 and the retention sum of USD11.5 million (approximately RM35 million) was received on 26 February 2013. The defect liability period for this project will expire on 30 April 2013.

In respect of the Group’s project in Abu Dhabi, United Arab Emirates (“UAE”) on 21 November 2012, the Group received two letters from the owner of the project in Abu Dhabi, UAE, giving fourteen (14) days’ notice to terminate the contract and liquidate the performance bond.

The Group is contesting the notice of termination as it is invalid and wrongful in view of the application for extension of time submitted prior to the notice of termination which has yet to be 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 wrongful notice of termination of contract and the subsequent notice of liquidation of the performance bond in accordance with the provisions of the contract and laws of UAE.

However on 9 December 2012, the guarantor of the performance bond has released the performance bond of AED93 million (approximately RM77 million) to the project owner. As a result, the Group has issued Notices of Intention to Commence Arbitration on 27 December, 31 December 2012 and 19 February 2013 due to the disputes which include under-certification of claim, wrongful termination of contract and wrongful liquidation or performance bond. The Group’s application for extension of time was only decided by the owner’s engineer on 8 January 2013.

Management has engaged an independent claim consultant to carry out a review on the Group’s claim against the owner based on the Group’s entitlement for extension of time and other additional payments in connection to the project. Based on the report prepared by the claim consultant, there is a potential recovery of AED387 million (approximately RM322 million) if the outcome of arbitration is in favour of the Group and a potential counter claim of AED117 million (approximately RM97 million) by the owner in the event that the termination of its employment was correct and in accordance with the contract.

The Group has also obtained a legal opinion from an external solicitor in Dubai, UAE on 2 February 2013, who are of the view that the Group has strong legal grounds to challenge the basis of the notice of termination issued by the owner.

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

As at 31 December 2012, the amount of AED93 million (approximately RM77 million) representing the performance bond released is recorded in other receivables as the Group is virtually certain of its recovery based on advice from its legal counsels and claim consultant in the UAE on the basis of wrongful termination of contract and wrongful call of performance bond by the project owner. Based on the above, the Board of Directors are 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 proceeds from 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:

- i) as at 31 December 2012, the fair value of the financial liability derivative was RM6.8 million, resulting in a further loss in fair value of RM6.6 million and a write back of RM25.5 million to the income statement during the quarter and nine months period under review, respectively.

#### 4. Unusual Items (Continued)

- ii) a net increase of fair value reserve amounting to RM17.2 million and a net decrease of RM43.1 million, in respect of the available-for-sale financial assets for the quarter and nine months period ended 31 December 2012, respectively, due to the increase in market value from RM4.72 as at 30 September 2012 per IJM Corporation Berhad ("IJM") share to RM4.98 per IJM share as at 31 December 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 31 December 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
<b><u>Revenue</u></b>				
Total	9,788	191	2,835	12,814
Inter-segment	(78)	-	(4)	(82)
External	<b>9,710</b>	<b>191</b>	<b>2,831</b>	<b>12,732</b>

## 8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
<b>Results</b>				
Segment (loss)/profit	(12,363)	151	194	(12,018)
Interest income	(6,387)	1	26	(6,360)
Depreciation	(482)	(31)	(1)	(514)
Impairment of property, plant & equipment	(6,702)	-	-	(6,702)
Loss on fair value of derivative	-	-	(6,616)	(6,616)
Finance costs	16,272		(4,012)	12,260
Share of results of associates	(844)	-	-	(844)
(Loss)/profit before taxation	<u>(10,506)</u>	<u>121</u>	<u>(10,409)</u>	<u>(20,794)</u>
Tax credit				450
Loss for the quarter				<u><b>(20,344)</b></u>

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
<b>Revenue</b>				
Total	38,350	580	10,577	49,507
Inter-segment	(233)	-	(2,079)	(2,312)
External	<u><b>38,117</b></u>	<u><b>580</b></u>	<u><b>8,498</b></u>	<u><b>47,195</b></u>

## 8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<b>Results</b>				
Segment (loss) /profit	(14,030)	572	2,738	(10,720)
Interest income	(4,601)	2	522	(4,077)
Depreciation	(1,546)	(147)	(79)	(1,772)
Impairment of property, plant & equipment	(6,702)	-	-	(6,702)
Gain on fair value of derivative	-	-	25,544	25,544
Gain on disposal of available for sale financial asset	-	-	57	57
Finance costs	2,196	-	(12,014)	(9,818)
Share of results of associates	(1,373)	-	-	(1,373)
(Loss)/profit before taxation	(26,056)	427	16,768	(8,861)
Tax expense				(23,722)
Loss for the period				<b>(32,583)</b>

The Group's segmental report for the corresponding three-month financial quarter and financial period to date ended 31 December 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
<b>Revenue</b>				
Total	83,217	183	2,838	86,238
Inter-segment	(78)	-	(4)	(82)
External	<b>83,139</b>	<b>183</b>	<b>2,834</b>	<b>86,156</b>

## 8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
<b>Results</b>				
Segment profit	89,061	241	(4,377)	84,925
Interest income	280	1	452	733
Loss on fair value of derivative	-	-	(26,104)	(26,104)
Gain on liquidation of a subsidiary	-	-	3,179	3,179
Depreciation	(178)	(59)	(18)	(255)
Finance costs	352	-	(3)	349
Share of results of associates	673	-	-	673
Profit before taxation	90,188	183	(26,871)	63,500
Tax expense				(136)
Profit for the quarter				<b>63,364</b>

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
<b>Revenue</b>				
Total	191,744	739	7,847	200,330
Inter-segment	(294)	-	(13)	(307)
External	<b>191,450</b>	<b>739</b>	<b>7,834</b>	<b>200,023</b>

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Segment profit/(loss)	107,713	551	(4,766)	103,498
Interest income	473	4	784	1,261
Profit from Islamic deposits	-	-	1	1
Loss on fair value of derivative	-	-	(26,104)	(26,104)
Gain on liquidation of a subsidiary	-	-	3,179	3,179
Depreciation	(709)	(55)	(57)	(821)
Finance costs	(5,509)	-	(5)	(5,514)
Share of results of associates	673	-	-	673
Profit/(loss) before taxation	102,641	500	(26,968)	76,173
Tax expense				(1,131)
Profit for the period				<b>75,042</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.

- a) Zelan had on 2 January 2013 and subsequently on 21 February 2013 announced that its wholly owned subsidiary, Zelan Holdings (M) Sdn Bhd's Abu Dhabi Branch ("Zelan Abu Dhabi"), has issued notices of intention to commence arbitration on several disputes in relation to the Project with Meena Holdings LLC ("Employer"), the Employer for the Project, in accordance with the provisions of the Contract.

The notices which have been issued by Zelan Abu Dhabi are as follows:-

- (i) A Notice of Intention to Commence Arbitration dated 27 December 2012, in respect of the dispute between Zelan Abu Dhabi and the Employer on the Employer's under certification of the value of materials on site in the progress claims submitted by Zelan Abu Dhabi;
- (ii) Two (2) Notices of Intention to Commence Arbitration both dated 31 December 2012, in respect of the disputes between Zelan Abu Dhabi and the Employer on the delay and progress of works;
- (iii) Two (2) additional Notices of Intention to Commence Arbitration both dated 19 February 2013 in respect of the disputes between Zelan Abu Dhabi and the Employer on the validity of Engineer's Certification of Zelan Abu Dhabi's persistent defaults under the Condition of the Contract, the Employer's Notice of Termination and the Zelan Abu Dhabi's rejection of the Employer's Notice of Termination and the dispute on the validity of the Employer's call on the Performance Bond.

It is further provided in the Contract where a notice of intention to commence arbitration as to a dispute has been given, the parties shall attempt to settle such dispute amicably before commencement of arbitration.

Provided that, unless the parties otherwise agree, arbitration may be commenced on or after the fifty sixth (56<sup>th</sup>) day after the day on which notice of intention to commence arbitration of such dispute was given, even if no attempt at amicable settlement thereof has been made.

- b) Zelan had on 3 January 2013 announced that its wholly owned subsidiary, Konsesi Pusat Asasi Gambang Sdn Bhd (formerly known as TCMB Power Sdn Bhd) ("Concession Company"), had received a letter from the Ministry of Higher Education Malaysia which confirms that the Concession Company has fulfilled all the conditions precedent in the Concession Agreement, and accordingly declares 2 January 2013 as the Effective Date of the Concession Agreement.



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

b) Based on the provisions of the Concession Agreement, the Construction Works shall commence fourteen (14) days from the Effective Date (“Construction Commencement Date”) and shall complete within thirty six (36) months thereafter. The Concession Period of twenty three (23) years granted to the Concession Company shall commence on the Construction Commencement Date.

**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 quarter.

As at 31 December 2012, the Company has given guarantees amounting to RM43,649,808 (as at 30 September 2012: 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.