

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 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 RM9.7 million as compared to a revenue of RM83.1 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 RM9.5 million. In the previous corresponding quarter last year, the revenue is mainly attributed to the reversal of provisions made on the Liquidated Ascertained Damages (“LAD”) for a project in Indonesia of RM68.0 million and the project in Abu Dhabi of RM14.2 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 RM20.3 million for the current quarter as compared to a profit after taxation of RM63.4 million in the same quarter last year. The loss for the quarter is derived from a gross loss of RM0.7 million (31/12/2011: gross profit of RM94.0 million), loss in fair value of derivative of RM6.6 million (31/12/2011: RM26.1 million) resulting from the valuation of equity collar derivative embedded with the term loan and the impairment loss on the property, plant and equipment of the project in Abu Dhabi of RM6.7 million (31/12/2011-Nil). The loss is further impacted by other net operating and income tax expenses of RM6.3 million (31/12/2011: RM4.5 million).

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 RM9.7 million as compared to a revenue of RM3.5 million in the preceding second quarter ended 30 September 2012.

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

The revenue is mainly contributed from the progress works on the project in Abu Dhabi, UAE of RM9.5 million. For the preceding quarter, the revenue recorded from a project in Abu Dhabi of RM26.1 million was offsetted by negative revenue of RM22.5 million for the project in Rembang. The negative revenue was derived as a result of a reversal of provision for Liquidated Ascertained Damages amounting to RM4.9 million against further 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 RM2.9 million as opposed to RM5.7 million recorded in preceding quarter is mainly due to lesser dividend received in the current quarter.

For the current quarter, the Group recorded a loss after taxation of RM20.3 million as compared to the preceding quarter's loss after taxation of RM35.2 million. The loss for the quarter is mainly derived from gross loss of RM0.7 million, impairment loss on property, plant and equipment of RM6.7 million, loss on fair value of derivative amounting to RM6.6 million and other net operating and income tax expenses of RM6.3 million. The preceding quarter's loss of RM35.2 million is mainly attributed by the provision of tax expense and its related tax penalty charges of RM32.5 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.

The Group has commenced work on some of its new local projects and expects to generate revenue in the financial quarter ending 31 March 2013 onwards.

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		Nine months Ended	
	31/12/2012 RM'000	31/12/2011 RM'000	31/12/2012 RM'000	31/12/2011 RM'000
Continuing operations				
Malaysian income tax	(447)	21	(402)	664
Overseas income tax	-	116	24,125	471
Deferred tax	(3)	(1)	(1)	(4)
Tax (credit)/expense	(450)	136	23,722	1,131

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 year to date is principally in respect of the potential tax payable incurred by a subsidiary's branch.

6. Status of Corporate Proposals Announced

There was no corporate proposal announced but not completed as at 26 February 2013.

7. Borrowings and Debt Securities

**As at
31.12.2012
RM'000**

(i) Current borrowings	
<i>Secured</i>	
- Term loan	136,592
- Financing-i	6,354
- Hire purchase liabilities	116
- Overdraft	2
	143,064
<i>Unsecured</i>	
- Overdraft	78,123
	221,187

7. Borrowings and Debt Securities (Continued)

(ii) Non-current borrowings	
<i>Secured</i>	
- Term Loan	155,230
- Hire purchase liabilities	607
	155,837
Total	377,024

Included in the overdraft and term loan (current borrowing) is an amount of RM84.2 million which is denominated in United Arab Emirates Dirhams.

In relation to the term loan facility with equity collar financial derivative, 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 loss on fair value of derivative of RM6.6 million during the quarter and a gain of RM25.5 million for the period ended 31 December 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 the fair value reserve in equity. As at 31 December 2012, the fair value on available-for-sale financial assets reserve stood at RM55.4 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		Nine Months Ended	
	31/12/12	31/12/11	31/12/12	31/12/11
Group's (losses)/profit for the period, attributable to the equity holders of the parent (RM' 000)	(20,215)	63,377	(32,431)	75,051
Number of ordinary shares in issue (Million)	563.264	563.264	563.264	563.264
(Loss) /profit per share for the period (sen)	(3.59)	11.25	(5.76)	13.32
Diluted loss per share (sen)	N/A	N/A	N/A	N/A

8. (Losses)/ Earnings Per Share (Continued)

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 31.12.2012 RM'000	As at 31.03.2012 RM'000
Accumulated losses of the Group and its subsidiaries		
- realised	(962,280)	(1,443,869)
- unrealised	(34,628)	(28,225)
	(996,908)	(1,472,094)
Accumulated losses of the associates		
- realised	8,488	10,525
- unrealised	(1,137)	(1,137)
	(989,557)	(1,462,706)
Consolidation adjustments	590,079	1,095,659
Total accumulated losses as per consolidated accounts	(399,478)	(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 the project owner to pay the sum of AED14,256,520.17 to the Execution Court remains.

However, due to delay in obtaining the judgment sum from the project owner, the subcontractor instead executed the judgment obtained against the subsidiary company's branch in Abu Dhabi by requesting the Execution Court to execute the judgment against the attached bank account of subsidiary company's branch in Abu Dhabi that the subcontractor has earlier made. The bank has since released the sum attached in the bank account of subsidiary company's branch in Abu Dhabi to the Execution Court to realize part of the judgment obtained by the subcontractor.

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 26 February 2013.

By order of the Board

**Norlida Jamaludin
Secretary**

**Kuala Lumpur
26 February 2013**