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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2013

PART A – Explanatory Notes Pursuant to Financial Reporting Standard

1. <u>Basis of Preparation</u>

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 RM75.6 million during the financial year ended 31 March 2013 and, as of that date, the current liabilities of the Group exceeded its current assets by RM75.2 million.

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

Project in Indonesia

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 is expected to expire on 12 August 2013, and the Group expects to receive the remaining net retention sum of USD19.4 million (approximately RM59 million), of which USD9.7 million (approximately RM29 million) is expected to be received in the first quarter and another USD9.7 million (approximately RM29 million) is expected to be received in the second quarter of the financial year ending 31 March 2014.

The Group had, in the previous financial year, recognised an estimated LAD receivable of USD22.5 million (approximately RM71.5 million) from a subcontractor / supplier as a result of its delay in completing its scope of works 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 the external legal advice.

Project in Abu Dhabi

In respect of the Group's project in Abu Dhabi, United Arab Emirates ("UAE"), on 21 November 2012, the owner of the project in Abu Dhabi, UAE, gave notice to terminate the contract and liquidate the performance bond. On 9 December 2012, the guarantor of the performance bond released the performance bond of AED92.5 million (approximately RM78 million) to the project owner.

The Group, through its legal counsels in UAE, immediately initiated all necessary legal actions and issued 5 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 progress claims, the validity of the termination of contract and the validity of the liquidation of performance bond.

The Group has engaged an independent claim consultant to carry out a preliminary review on the Group's claim against the project owner based on the Group's entitlement for extension of time and other additional payments in connection with the project.

1. Basis of Preparation (Continued)

The Group had also obtained legal opinions from external solicitors based in Dubai, UAE and Malaysia on 2 February, 14 April and 23 May 2013, respectively. Based on the claims consultant report and solicitors letters, the Group is of the view that it has strong legal grounds to challenge the basis of the notice of termination issued by the project owner. The Group targets to commence the arbitration process in September 2013 to recover the amount due from the project owner.

The Group recorded a total receivable balance of AED192.1 million (approximately RM161.8 million) due from the project owner as at 31 March 2013, which includes the performance bond drawndown. Based on the advice from the claims consultant and solicitors, the Group is of the view that these amounts due are recoverable. The expected timing of the receipt has been considered in arriving at the carrying value of the receivables.

Cash flows of the Group

The losses incurred by the Group for the financial year ended 31 March 2013, the financial position of the Group as at that date, the ability of the Group to generate positive cash flows which are subject to shareholders' approval, the timeliness of the receipt of retention sums from the project owner in Indonesia and the uncertainty of the outcome of the arbitration of the Group's construction project in Abu Dhabi indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

In order to ensure that the Group would have sufficient cash flows within the next twelve months from the reporting date to repay the existing borrowings, complete the projects in progress, meet working capital and covenant requirements, and the investing and financing activities, the Group had successfully restructured one of its existing unsecured term loan amounting to AED107.1 million (approximately RM88 million) in April 2013 which allows the Group to make progressive principal repayments over a period up to March 2014. The Group has also disposed of some of its existing available-for-sale financial assets which were pledged as security for the Group's secured term loan in May 2013 to repay the first tranche of the term loan which was due in May 2013. The Group is proposing to obtain necessary approvals from the shareholders to dispose its remaining available-for-sale financial assets and considering other fund raising exercises, of which the proceeds generated from these exercises will be utilised to repay the existing borrowings of the Group, complete the projects in progress, meet the working capital and financial covenant requirements, and to carry out all other investing and financing activities for the next twelve months from the date of the approval of the interim financial report.

1. Basis of Preparation (Continued)

The Directors are of the view that the plans stated above, which are subject to shareholders' approval, and the receipt of the remaining retention sum from the project owner in Indonesia will enable the Group to have sufficient cash flows to carry on as a going concern. In addition, the Directors are of the view that the outcome for the arbitration of its project in Abu Dhabi, UAE is expected to be favourable to the Group. 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 operation was 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 March 2013, the fair value of the financial liability derivative was RM22.0 million, resulting in a further loss in fair value of RM15.2 million and a write back of RM10.4 million to the income statement during the quarter and the financial year under review, respectively.

ii) a net increase of fair value reserve amounting to RM31.1 million and a net decrease of RM12.0 million, in respect of the available-for-sale financial assets for the quarter and year ended 31 March 2013, respectively, due to the increase in market price from RM4.98 as at 31 December 2012 per IJM Corporation Berhad ("IJM") share to RM5.45 per IJM share as at 31 March 2013.

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 year ended 31 March 2013.

7. Dividends Paid

For the financial year ended 31 March 2013, no dividend has been 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	118,020	195	183	118,398
Inter-segment	(37,578)	-	(4)	(37,582)
External	**80,442**	**195**	**179**	**80,816**

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
Results				
Segment profit/ (loss)	16,084	(6,916)	(1,020)	8,148
Interest income	33,689	1	39	33,729
Profit from Islamic deposits	-	-	1	1
Depreciation	(371)	(31)	(45)	(447)
Loss on fair value of derivative	-	-	(15,162)	(15,162)
Finance costs	(61,611)		(4,030)	(65,641)
Share of results of associates	(1,662)	-	-	(1,662)
Loss before taxation	(13,871)	(6,946)	(20,217)	(41,034)
Tax expense				(1,987)
Loss for the quarter				**(43,021)**

8. Segmental Reporting (Continued)

Analysis by business segments for the financial year to date:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Revenue				
Total	156,369	776	10,760	167,905
Inter-segment	(37,810)	-	(2,084)	(39,894)
External	**118,559**	**776**	**8,676**	**128,011**

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment profit /(loss)	2,054	(6,344)	1,718	(2,572)
Interest income	29,090	2	560	29,652
Profit from Islamic deposits	-	-	1	1
Depreciation	(1,917)	(178)	(124)	(2,219)
Impairment of property, plant & equipment	(6,702)	-	-	(6,702)
Gain on fair value of derivative	-	-	10,382	10,382
Gain on disposal of available-for-sale financial asset	-	-	57	57
Finance costs	(59,415)	-	(16,044)	(75,459)
Share of results of associates	(3,035)	-	-	(3,035)
Loss before taxation	(39,925)	(6,520)	(3,450)	(49,895)
Tax expense				(25,709)
Loss for the financial year				**(75,604)**

The Group's segmental report for the corresponding three-month financial quarter and financial year ended 31 March 2012 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	(11,539)	192	1,516	(9,831)
Inter-segment	(1,789)	-	(1,337)	(3,126)
External	**(13,328)**	**192**	**179**	**(12,957)**

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Results				
Segment loss	(47,101)	(92)	(2,183)	(49,376)
Interest income	13,116	5	262	13,383
Loss on fair value of derivative	-	-	(6,315)	(6,315)
Loss on liquidation of a subsidiary	-	-	(11)	(11)
Depreciation	28	(22)	(147)	(141)
Finance costs	(6,335)	-	(662)	(6,997)
Share of results of associates	(506)	-	1	(505)
Loss before taxation	(40,798)	(109)	(9,055)	(49,962)
Tax expense				(11,568)
Loss for the quarter				**(61,530)**

Analysis by business segments for the financial year to date:

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Revenue				
Total	180,205	931	9,363	190,499
Inter-segment	(2,083)	-	(1,350)	(3,433)
External	**178,122**	**931**	**8,013**	**187,066**

	Engineering & construction RM'000	Property & development RM'000	Investment & Others RM'000	Total RM'000
Segment profit/(loss)	60,576	546	(7,000)	54,122
Interest income	13,590	9	1,045	14,644
Profit from Islamic deposits	-	-	1	1
Loss on fair value of derivative	-	-	(32,419)	(32,419)
Gain on liquidation of a subsidiary	-	-	3,168	3,168
Depreciation	(719)	(93)	(150)	(962)
Finance costs	(11,844)	-	(667)	(12,511)
Share of results of associates	167	-	1	168
Profit/(loss) before taxation	61,770	462	(36,021)	26,211
Tax expense				(12,699)
Profit for the financial year				**13,512**

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

There was no material event subsequent to the end of the current quarter under review that has not been reflected in the interim financial report.

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.

(i) Following on the Group's announcement on 2 July 2012 on the decision from the Tax Court of Indonesia received by a branch of 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 made a full provision of the amount in the Income Statement.

In relation to the Tax Court ruling above, the Branch had, on 20 May 2013, received a Tax Demand Letter stating that an amount of approximately RM20.7 million is payable as the interest charges on the late payment of the tax charged.

Since the Branch has submitted a Memorandum for Judicial Review to appeal the Tax Court decision, the Directors are of the view that the Group has recorded adequate provision as at 31 March 2013 in relation to the Tax Demand Letter.

As at 31 March 2013, the Company has given guarantees amounting to RM43,887,810 (as at 31 December 2012: RM43,649,808) 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.