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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013

PART A – Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134

1. Basis of Preparation

The interim financial information is unaudited and has 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 information should be read in conjunction with the audited financial statements for the financial year ended 31 March 2013. The explanatory notes attached to the interim financial information 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 2013.

The accounting policies and methods of computation adopted for the interim financial information are consistent with those adopted for the annual audited financial statements for the financial year ended 31 March 2013 except for the adoption of the following new Malaysian Financial Reporting Standards ("MFRS") and IC Interpretations ("IC Int.").

<u>MFRSs/IC Interpretations</u>

MFRS 9	Financial Instruments - Classifications and Measurements of Financial Assets and Financial Liabilities
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interest in Other Entities
MFRS 13	Fair Value Measurement
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income
Amendments to MFRS 7	Financial Instruments: Disclosures

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

MFRS, Amendments to MFRS and IC Intepretation that are applicable to the Group but not yet effective

The Group did not early adopt the following standards that have been issued by the Malaysian Accounting Standards Board as these are effective for financial period beginning on or after 1 April 2014:

Amendment to MFRS 132	Financial Instruments: Presentation (effective from 1 April 2014)
Amendment to MFRS 9	Financial Instruments: Classifications and Measurement of Financial Assets and Financial Liabilities (effective date from 1 April 2015)

In addition, the interim financial information complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Group recorded a net profit of RM7.9 million during the quarter ended 30 June 2013 and, as of that date, the current liabilities of the Group exceeded its current assets by RM267.5 million.

The Directors have considered the following matters in preparing the interim financial information of the Group on a going concern basis:

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. On 31 July 2013, the owner issued the Final Acceptance Certificate for Unit 1 dated 15 July 2013, and subsequently on 15 August 2013, the Group received partial retention sum, net of liquidated ascertained damages ("LAD") of USD9.4 million (approximately RM29.8 million). The Group expects to receive the remaining retention sum, net of LAD, of USD9.7 million (approximately RM30.8 million) in the third 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 RM71.2 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 in Indonesia.

1. Basis of Preparation (Continued)

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 the Middle East

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, has to date, issued 8 Notices of Intention to Commence Arbitration on 27 December, 31 December 2012, 19 February 2013 and 22 August 2013 due to the disputes which include under-certification of progress claims, the validity of the termination of contract, the validity of the liquidation of performance bond, dispute on the rejection of entitlement to extension of time by the owner's engineer, dispute on the engineer's certification of interim claims and the owner's payments and dispute on the insurance claim submission.

The Group has engaged an independent claim consultant to carry out a 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.

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 external legal advice, 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 AED175.7 million (approximately RM151.1 million) due from the project owner as at 30 June 2013, which includes the performance bond drawndown. Based on the advice from the claims consultant and the solicitors, the Group is of the view that these amounts are recoverable. The expected timing of the receipt has been considered in arriving at the carrying value of the receivables.

1. Basis of Preparation (Continued)

Cash flows of the Group

As at 30 June 2013, the Group had net current liabilities of RM267.5 million. The financial position of the Group as at 30 June 2013, 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, and therefore, the Group maybe unable to realise the assets and discharge the liabilities in the normal course of business. If the Group ceases to be a going concern, assets are to be stated at their estimated recoverable amounts and provisions are to be made for any further estimated liabilities which might arise.

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 RM89 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, June and July 2013 to repay a portion of the term loan. The Group is proposing to obtain necessary approvals from the shareholders to dispose of its remaining available-for-sale financial assets and undertake a corporate exercise which include a proposed capital restructuring and rights issue with warrants as set out in Note 6 of Part B of the notes to the interim financial report, 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 reporting date. It is anticipated that the Group will complete the disposal of the available-for-sale financial assets and the corporate exercise by the fourth quarter of the financial year ending 31 March 2014, subject to the approval from the shareholders.

With the various action plans by the Board as disclosed above, the Directors are of the view that the Group will have sufficient cash flows for the next twelve months from the end of the reporting period to meet the operating and financing cashflow requirements. Accordingly, the interim financial information of the Group is 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 2013 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 30 June 2013, the fair value of the derivative was RM30.2 million, resulting in a further loss in fair value of RM8.4 million in the profit or loss during the quarter under review.

ii) a net increase of fair value reserve amounting to RM0.8 million in respect of the available-for-sale financial assets for the quarter ended 30 June 2013 due to the increase in market value from RM5.45 per IJM Corporation Berhad ("IJM") share as at 31 March 2013 to RM5.65 per IJM share as at 30 June 2013. The sale of 8,292,400 of IJM Corporation Berhad ("IJM") shares resulted in the transfer of RM12.0 million from the "Fair Value Reserve" to the statement of comprehensive income as gain on disposal of available-for-sale financial assets.

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 June 2013.

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 and period to date is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
Revenue				
Total	75,317	209	7,138	82,664
Inter-segment	(10,777)	-	(1,160)	(11,937)
External	**64,540**	**209**	**5,978**	**70,727**

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
Results				
Segment profit	4,277	121	4,176	8,574
Interest income	5,268	1	34	5,303
Gain on disposal of available-for-sale financial assets	-	-	12,070	12,070
Depreciation	(527)	(37)	(22)	(586)
Loss on fair value of derivative	-	-	(8,410)	(8,410)
Finance costs	(4,296)	-	(4,162)	(8,458)
Share of results of associates	(621)	-	-	(621)
Profit before taxation	4,101	85	3,686	7,872
Tax expense				(17)
Profit for the quarter				**7,855**

The Group's segmental report for the corresponding three-month financial quarter and financial period to date ended 30 June 2012 is as follows:

Segment analysis for the quarter and period to date is as follows:

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
Revenue				
Total	24,991	198	1,850	27,039
Inter-segment	(77)	-	(1,672)	(1,749)
External	**24,914**	**198**	**178**	**25,290**

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
Segment profit /(loss)	19,551	182	(1,353)	18,380
Interest income	1,775	1	230	2,006
Depreciation	(273)	(36)	(22)	(331)
Gain on fair value of derivative	-	-	21,533	21,533
Finance costs	(14,514)	-	(4,010)	(18,524)
Share of results of associates	(45)	-		(45)
Profit before taxation	6,494	147	16,378	23,019
Tax expense				(35)
Profit for the quarter				**22,984**

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) As at 30 June 2013, the Company has given guarantees amounting to RM23,148,131 (as at 31 March 2013: RM43,887,810) 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.

12. Fair Value Measurements

The disclosure of fair value measurements by level of the fair value measurement hierarchy is as follows:

Level 1:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

Level 2:

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);

Level 3:

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the available-for-sale financial assets and the equity collar embedded in the term loan for the Group that are measured at fair value as at 30 June 2013:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 30 June 2013				
Available-for-sale financial assets	327,743	-	-	327,743
Derivative financial liability on equity collar	-	-	30,235	30,235

Recurring fair value measurements using significant unobservable inputs (Level 3).

	30.06.2013 RM'000
At 1 April 2013	22,037
Loss recognised in the profit or loss	8,410
Unwinding of the derivative financial liability	(212)
At 30 June 2013	30,235

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the last financial year ended 31 March 2013.