

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

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

**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 RM51.3 million as compared to a revenue of RM3.5 million in the same quarter last year. The current quarter's revenue is mainly attributed to local projects revenue of RM57.6 million and offset by an adjustment on the revenue and cost of sales on Meena Plaza project in Abu Dhabi, United Arab Emirates (“UAE”) of RM6.3 million as compared to revenue for the construction of Meena Plaza in Abu Dhabi of RM26.1 million, and a reversal of net provision for Liquidated Ascertained Damages for a project in Rembang, Indonesia amounting to RM22.6 million recorded in corresponding quarter last year.

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

For the investment and others segment, the Group recorded lower revenue of RM0.1 million (30.09.2012: RM5.5 million) mainly due to the dividend recognition from its available-for-sale financial assets in the corresponding quarter last year.

The Group recorded a loss after taxation of RM6.2 million for the current quarter as compared to a loss after taxation of RM35.2 million in the same quarter last year. The loss is mainly derived from the gross profit from local projects amounting to RM8.3 million (30.09.2012: overseas projects loss of RM7.9 million), gain from sale of available-for-sale financial assets amounting to RM2.1 million (30.09.2012: RM0.1 million). However, the gross profit and gain from sale of available-for-sale financial assets is offset by the loss in fair value of derivative of RM5.9 million (30.9.2012: gain of RM10.6 million) resulting from the valuation of the fair value of the equity collar derivative embedded with the term loan obtained in November 2011. In addition, the Group incurred finance cost of RM11.1 million (30.09.2012: RM3.6 million). The Group had also recorded an unfavourable unrealised foreign exchange loss of RM0.5 million (30.9.2012: RM1.4 million) for the current quarter. In the corresponding quarter last year there was a provision of tax expense and its related tax penalty charges of RM32.5 million incurred.

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 RM51.3 million as compared to a revenue of RM64.5 million in the preceding first quarter ended 30 June 2013.

The revenue for the both quarters is mainly contributed from the local projects of RM57.6 million in the current quarter and RM64.4 million in the first quarter ended 30 June 2013.

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 segment of RM0.1 million as opposed to the segment revenue of RM6.0 in the preceding first quarter is mainly due to the dividend recognised from available-for-sale financial assets in the first quarter ended 30 June 2013.

For the current quarter, the Group recorded a loss after taxation of RM6.2 million as compared to the preceding first quarter's profit after taxation of RM7.9 million. The loss for the quarter is mainly attributable to the loss on fair value of the derivative of RM5.9 million (30.06.2013: RM8.4 million) and higher finance cost of RM11.1 million (30.06.2013: RM8.4 million).

3. Current Year Prospects

For the current year, the Group is focusing on completing the projects that have already been secured while continuing to secure new local projects. Cost optimization and, where appropriate, cost reduction will continue to be the focal points in driving increased operational efficiencies.

The Group has embarked on the corporate exercise to dispose its available-for-sale investment, capital restructuring and issuance of rights issue with detachable warrants in order to enhance its financial position, strengthening its balance sheet and at the same time reducing its gearing position by paring down significantly its bank borrowings.

Based on the foregoing, the Group expects to be in a position to remain profitable for the financial year ending 31 March 2014.

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	
	30/09/2013 RM'000	30/09/2012 RM'000	30/09/2013 RM'000	30/09/2012 RM'000
Malaysian income tax	58	23	76	44
Overseas income tax	-	24,114	-	24,129
Deferred tax	(2)	-	(3)	(1)
Tax expense	56	24,137	73	24,172

The effective tax rate for the Group is lower than the applicable statutory rates mainly due to certain companies within the Group which were loss making and certain income which was capital in nature and not subject to tax.

6. Status of Corporate Proposals Announced

There is no other corporate proposal announced up to the date of this announcement except for:-

- a) On 19 November 2013 an announcement was made by AFFIN Investment Bank Berhad on behalf of Zelan Berhad that the sealed order of the High Court of Malaya in Kuala Lumpur confirming the Par Value Reduction and Share Premium Reduction dated 14 November 2013 has been lodged with the Companies Commission of Malaysia on 15 November 2013. The Certificate of Lodgment of Order of High Court Confirming Reduction of Share Capital dated 15 November 2013 has been received from the Companies Commission of Malaysia on 19 November 2013, marking the completion of the Par Value Reduction and Share Premium Reduction effective from 15 November 2013. Following the completion of the Par Value Reduction and the Share Premium Reduction, the Amendment to the Company's Memorandum of Association was completed on the same date.

7. Borrowings and Debt Securities

As at
30.09.2013
RM'000

(i) Current borrowings	
<i>Secured</i>	
- Term loan	170,664
- I-Financing	13,585
- Hire purchase liabilities	420
	184,669
<i>Unsecured</i>	
- Overdraft	1
- Term loan	94,960
Total	279,630

(ii) Non-current borrowings	
<i>Secured</i>	
- Term loan	72,363
- I-Financing	55,463
- Hire purchase liabilities	1,362
Total	129,188

Included in the overdraft and term loan (current borrowing) is an amount of RM95.0 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 RM5.9 million during the quarter and RM14.3 million during the period ended 30 September 2013 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 30 September 2013, the fair value on the available-for-sale financial assets reserve stood at RM92.7 million.

8. (Losses) / Earnings Per Share

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

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

	Current Quarter Ended		Six Months Ended	
	30.09.13	30.09.12	30.09.13	30.09.12
Group's (loss)/profit for the period, attributable to the equity holders of the parent (RM' 000)	(6,216)	(35,202)	1,640	(12,216)
Number of ordinary shares in issue (Million)	563.264	563.264	563.264	563.264
Basic and diluted (loss) /earnings per share for the period (sen)	(1.10)	(6.25)	0.29	(2.17)

The Group has no dilution in its 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 30.09.2013 RM'000	As at 31.03.2013 RM'000
Accumulated losses of the Group and its subsidiaries		
- realised	(1,341,353)	(1,185,116)
- unrealised	105,852	163,166
	(1,235,501)	(1,021,950)
Accumulated losses of the associates		
- realised	7,113	7,263
- unrealised	(4,898)	(4,763)
	(1,233,286)	(1,019,450)
Consolidated adjustments	842,377	626,901
Total accumulated losses as per consolidated accounts	(390,909)	(392,549)

9. Supplementary information disclosed pursuant to Bursa Malaysia Securities Listing Requirements (Continued)

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 2013, except in relation to Note 32 (d) of the Audited Financial Statement, the contractor, in the process of valuing the work done has submitted a revised claim in the sum of AED83,888,747 to three Court Experts for consideration. The subsidiary company's branch in Abu Dhabi has submitted its objection to the revised claim on the basis that there is no provision for the amount claimed under the contract and the sum claimed is not substantiated by documentary proof. The Court Experts fixed 5 December 2013 for a meeting for both parties to submit their final Memorandum.

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 November 2013.

By order of the Board

**Norlida Jamaludin
Secretary**

**Kuala Lumpur
26 November 2013**