

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2014

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”).

MFRSs

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interest in Other Entities
MFRS 13	Fair Value Measurement
Revised	
MFRS 127	Separate Financial Statements
Revised	
MFRS 128	Investments in Associates and Joint Ventures
Amendment to MFRS 101	Presentation of Items of Other Comprehensive Income
Amendments to MFRS 7	Financial Instruments: Disclosures
Amendments to MFRS 136	Impairment of Assets (effective from 1 January 2014)
Amendments to	Consolidated Financial Statements, Joint
MFRS 10, 11 & 12	Arrangements, and Disclosure of Interests in Other Entities: Transition Guidance
Annual improvements 2009 – 2011 Cycle	

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

The adoption of the new MFRS and amendments to the existing standards did not result in a significant impact to the interim financial information of the Group.

MFRS, Amendments to MFRS and IC Interpretation 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 the Group's financial statements for the financial period beginning on or after 1 April 2014:

Amendment to MFRS 132	Offsetting Financial Assets and Liabilities (effective from 1 January 2014)
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities (effective from 1 January 2014)
Amendments to MFRS 139 MFRS 9	Novation of Derivatives and Continuation of Hedge Accounting (effective from 1 January 2014) Financial Instruments: Classifications and Measurement of Financial Assets and Financial Liabilities (effective date yet to be determined)

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 RM10.6 million for the fourth quarter ended 31 March 2014 and a net profit of RM35.2 million for the financial year ended 31 March 2014 and, as of that date, the current liabilities of the Group exceeded its current assets by RM95.5 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 Final Acceptance Certificate for Unit 2 on 7 May 2014 and the Group expects to receive the remaining retention sum, net of liquidated ascertained damages ("LAD"), of USD10.5 million (approximately RM34.3 million), of which USD9.3 million (approximately RM30.4 million) is expected to be received in the first quarter of financial year ending 31 March 2015 and the balance USD1.2 million (approximately RM3.9 million) is expected to be received in the third quarter of the financial year ending 31 March 2015.

1. Basis of Preparation (Continued)Project in Indonesia (continued)

The Group had, in the previous financial year, recognised an estimated LAD receivable of USD22.5 million (approximately RM73.5 million) from a subcontractor / supplier as a result of its delay in the supply of its equipment as set out in the agreement for supply for the above project in Indonesia. 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

On 15 April 2014, the Group entered into a Second Supplementary Agreement with the project owner to recommence the project, subject to the fulfilment of certain terms and conditions, including the payment of the performance bond and the outstanding certified progress billings by the project owner prior to the recommencement of the project. Both the project owner and the Group are working closely to satisfy the terms and conditions set out in the agreement, with a view to recommence the project in the second quarter of the financial year ending 31 March 2015. The successful completion of the remaining construction works is expected to contribute positively to the cash flows of the Group.

The Group recorded a total receivable balance of AED170.1 million (approximately RM151.7 million) due from the project owner as at 31 March 2014, which includes the performance bond drawdown by the project owner. The expected timing of the receipt of the outstanding balance has been considered in arriving at the carrying value of the receivable.

Cash flows of the Group

As at 31 March 2014, the Group is in a net current liabilities position of RM95.5 million. The timeliness of the receipt of retention sums from the project owner in Indonesia, the uncertainties of the outcome of the negotiations with the subcontractor in Indonesia and the successful completion of the remaining construction works in Abu Dhabi indicate the existence of a material uncertainty that may cast a doubt about the ability of the Group to continue as a going concern, and therefore, the Group may be 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.

1. Basis of Preparation (Continued)Cash flows of the Group (continued)

The Group is working closely with the project owners in Indonesia and Abu Dhabi to expedite the receipt of the retention sums and outstanding balances due to the Group for these projects. The Group is also making the necessary preparation to recommence the construction works in Abu Dhabi upon the fulfilment of the terms and conditions as set out in the Second Supplementary Agreement. The Group may consider disposing certain investments and assets in the future, subject to the approval of the shareholders, where applicable, to further improve the cash flow position of the Group.

With the various action plans as disclosed above, the Directors are of the view that the Group will have sufficient cash flows for the next twelve (12) months from the end of the reporting period to meet the operating and financing cash flow requirements. Accordingly, the Board of Directors believes that it is appropriate to prepare the financial statements of the Group 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

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:

The sale of 5,160,000 of IJM shares during the quarter resulted in the transfer of RM8.2 million from the "Fair Value Reserve" to the statement of comprehensive income as gain on disposal of the 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 31 March 2014.

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
<u>Revenue</u>				
Total	112,777	181	760	113,718
Inter-segment	(37,086)	-	(526)	(37,612)
External	75,691	181	234	76,106
<u>Results</u>				
Segment profit / (loss)	4,247	187	(1,203)	3,231
Allowance for doubtful debts	-	(6)	(1)	(7)
Interest income	12,136	1	114	12,251
Profit from Islamic deposits	-	-	56	56
Impairment of property, plant and equipment	(1,863)	-	-	(1,863)
Gain on disposal of available-for-sale financial assets	-	-	8,201	8,201
Depreciation	(319)	(127)	(10)	(456)
Finance costs	(7,626)	-	(248)	(7,874)
Share of results of associates	(248)	-	-	(248)
Profit before taxation	6,327	55	6,909	13,291
Tax expense				(2,651)
Profit for the quarter				10,640

8. Segmental Reporting (Continued)

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
Revenue				
Total	346,504	793	16,242	363,539
Inter-segment	(103,505)	-	(9,827)	(113,332)
External	242,999	793	6,415	250,207
Results				
Segment (loss)/profit	(35,771)	604	(624)	(35,791)
Allowance for doubtful debts	-	(6)	(1)	(7)
Interest income	24,424	3	126	24,553
Profit from Islamic deposits	-	-	114	114
Impairment of property, plant and equipment	(1,863)	-	-	(1,863)
Gain on disposal of available-for-sale financial assets	-	-	106,345	106,345
Loss on fair value of derivative	-	-	(14,597)	(14,597)
Depreciation	(1,942)	(237)	(77)	(2,256)
Finance costs	(25,476)	-	(9,958)	(35,434)
Share of results of associates	(897)	-	-	(897)
(Loss)/profit before taxation	(41,525)	364	81,328	40,167
Tax expense				(4,987)
Profit for the financial year				35,180

The Group's segmental report for the corresponding three-month financial quarter and financial year ended 31 March 2013 is as follows:

Segment analysis for the corresponding 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

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
<u>Results</u>				
Segment profit/(loss)	13,086	(6,947)	(965)	5,174
Interest income	36,667	1	38	36,706
Profit from Islamic deposits	-	-	1	1
Depreciation	(1,214)	-	(116)	(1,330)
Allowance for doubtful debts	(41)	-	-	(41)
Loss on fair value of derivative	-	-	(15,162)	(15,162)
Finance costs	(61,158)	-	(4,030)	(65,188)
Share of results of associates	(1,888)	-	-	(1,888)
Loss before taxation	<u>(14,548)</u>	<u>(6,946)</u>	<u>(20,234)</u>	<u>(41,728)</u>
Tax expense				<u>(3,563)</u>
Loss for the quarter				<u>(45,291)</u>

Analysis by business segments for the corresponding financial period to date:

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

8. Segmental Reporting (Continued)

	Engineering & construction RM'000	Property & development RM'000	Investment & others RM'000	Total RM'000
Results				
Segment (loss) / profit	(944)	(6,375)	1,773	(5,546)
Allowance for doubtful debts	(41)	-	-	(41)
Interest income	32,067	3	559	32,629
Profit from Islamic deposits	-	-	1	1
Depreciation	(2,760)	(147)	(195)	(3,102)
Impairment of property, plant and 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	(58,962)	-	(16,044)	(75,006)
Share of results of associates	(3,261)	-	-	(3,261)
Loss before taxation	<u>(40,603)</u>	<u>(6,519)</u>	<u>(3,467)</u>	<u>(50,589)</u>
Tax expense				<u>(27,285)</u>
Loss for the financial year				<u>(77,874)</u>

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

There is no material event subsequent to the end of the current quarter under review that has not been reflected in the interim financial report, except for the following:-

On 15 April 2014, the Group, through its wholly owned subsidiary Zelan Holdings (M) Sdn Bhd ("ZHSB") had on 15 April 2014 entered into the Second Supplementary Agreement ("SSA") with Meena Holdings LLC, the owner of Meena Plaza Mixed Use Development Project ("Project") in Abu Dhabi, United Arab Emirates, for the settlement of disputes between the parties, and the continuation of works by ZHSB.

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

There was no change in contingent liabilities or contingent assets since the last quarter.