

Explanatory Notes

1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (FRS) 134: *Interim Financial Reporting* and Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2010. These 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 December 2010.

2. Significant accounting policies

2.1 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2011, the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2011.

- FRS 1: First-time Adoption of Financial Reporting Standards
- FRS 3: Business Combinations (revised)
- Amendments to FRS 2: Share-based Payment
- Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 127: Consolidated and Separate Financial Statements
- Amendments to FRS 138: Intangible Assets
- Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- IC Interpretation 12: Service Concession Arrangements
- Amendment to IC Interpretation 15: Agreements for the Construction of Real Estate
- IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17: Distributions of Non-cash Assets to Owners
- Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Amendments to FRS 1: Additional Exemptions for First-time Adopters
- Amendments to FRS 2: Group Cash-settled Share-Based Payment Transactions
- Amendments to FRS 7: Improving Disclosures about Financial Instruments
- Amendments to FRS 'Improvements to FRS (2010)'
- IC Interpretation 4: Determining Whether An Arrangement Contains a Lease
- IC Interpretation 18: Transfers of Assets from Customers
- TR i-4: Shariah Compliant Sale Contracts

2.2 FRS and IC Interpretations issued but not yet effective

The Company has not adopted the following FRS and IC Interpretations that have been issued but not yet effective:

Effective for annual periods beginning on or after 1 July 2011

- Amendments to IC Interpretation 14: Prepayments of a Minimum Funding Requirement
- IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments

Effective for annual periods beginning on or after 1 January 2012

- FRS 124: Related Party Disclosures
- IC Interpretation 15: Agreements for the Construction of Real Estate

The directors expect that the adoption of the FRS and IC Interpretations above will have no material impact on the financial statements in the period of initial application.

3. Seasonal or cyclical factors

The Group's performance in the current quarter and financial year-to-date was not affected by any seasonal or cyclical factors.

4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter and financial year-to-date.

5. Changes in estimates

There were no significant changes in the estimates of amounts reported in prior quarters which have a material impact on the current financial statements.

6. Dividends paid

No dividend has been paid in the current quarter and year ended 31 December 2010.

7. Segmental Reporting

The segment revenue and segment results for business segments predominantly conducted in Malaysia for the financial year-to-date were as follows:

	Construction	Property Development	Toll concession	Others	Eliminations	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE						
External sales	112,347	7,964	11,871	819		133,001
Inter-segment sales	80,123				(80,123)	
Total Revenue	192,470	7,964	11,871	819	(80,123)	133,001
RESULTS						
Segment operating profit/(loss)	4,699	2,467	9,064	(2,602)		13,628
Interest expense						(10,078)
Share of profit of associate						99
Profit before taxation						3,649
Income tax expense						(2,523)
Profit for the year						1,126

8. Carrying amount of revalued assets

There were no changes to the revalued amount of property, plant and equipment brought forward to the current quarter and financial year-to-date.

9. Material subsequent event

There were no material subsequent events that have been reflected in the financial statements for the current quarter under review.

10. Changes in the composition of the Group

On 25 November 2011, Zalpoint Tanah Putih Sdn Bhd ("ZTPSB"), a wholly-owned sub-subsidiary of Zecon Berhad, had acquired the entire issued and paid up capital of Creative Venture Sdn Bhd ("CVSB"). Consequent thereto, CVSB became a wholly-owned subsidiary of ZTPSB.

Save for the above, there were no other changes in the composition of the Group for the current quarter under review.

11. Review of performance

During the quarter under review, the Group recorded total revenue of RM47.5 million as compared to RM36.6 million reported in the corresponding quarter of the preceding year. The main contributors to this quarter's revenue are still the Matang Revised Route project, the Construction of Sg Triang Dam under Package 5 of the Triang Water Scheme project, the Faculty of Medicine and Health Science of Universiti Malaysia Sarawak (UNIMAS), Bintulu Compressor Station Building Works, Kapit Water Treatment Plant and also the Auto Blast and Priming Workshop Contract at Pasir Gudang, Johore.

The group recorded a profit before tax of RM1.588 million compared to a profit before tax of RM6.663 million in the corresponding quarter of the preceding year.

12. Material changes in the quarterly results

The Group recorded revenue of RM47.5 million and profit before tax of RM1.588 million as compared to revenue of RM36.8 million and profit before tax of RM1.805 million recorded in the immediate preceding quarter.

13. Commentary on prospects

The year 2012 will see the Group completing its on-going projects such as the Construction of the Dam in Negeri Sembilan, Compressor Building in Bintulu, Kapit Water Supply Extension and Matang Revised Route. However, the Group's position should continue to improve with the finalization of new projects with a total estimated scheme value of RM1.0 billion. The starting of the construction of Hypermarket Mall with a value of RM155.5 million will contribute positively to the Group.

In strategizing towards achieving a healthy gearing for the Group, full settlement of most major non-project based banking facilities was done in 2011. Effectively, this achievement should put the Group in an ideal position in anticipating new financing requirement for those new projects in the pipeline.

14. Variance of Actual Profit from Forecast Profit

Not applicable.

15. Profit Guarantee

Not applicable.

16. Taxation

	RM'000
Tax expenses – underprovision in prior year	1,429
Current Year Tax expenses	1,094

Income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit.

17. Status of corporate proposals

There were no corporate proposals during the quarter and financial year-to-date.

18. Borrowings

Short and long term borrowings	RM'000
Unsecured	37,774
Hire Purchase	1,756
Secured	92,600
	<u>132,130</u>

19. Material Litigation

On 12 April 2005, Zalpoint Tanah Putih Sdn. Bhd. ("ZTPSB"), a wholly-owned subsidiary of Zecon International Limited (ZTPSB was formerly a wholly-owned subsidiary of Zecon Land Sdn Bhd ("ZLSB"), which is in turn a wholly-owned subsidiary of the Company, was served with a Writ of Summons dated 30 March 2005 by Estatequest Sdn. Bhd. ("Estatequest"), for damages on loss of profits totalling RM12,968,780, declaratory orders, interests and costs.

According to Estatequest, ZTPSB had breached the Memorandum of Agreement ("MOA") dated 19 August 1999 entered between ZTPSB and Estatequest relating to, inter-alia, the charging of the land for the Tanah Putih Development Project ("Project") by ZTPSB. Estatequest being the Sub-developer of the said Project at the material time alleged that ZTPSB had failed to make partial redemption of the sub-lots or parcels allocated to Estatequest and as a result, they could not continue with the remaining development of the Project.

ZTPSB had instructed their solicitors, Messrs Reddi & Co Advocates, to vigorously defend the claim made by the Sub-developer.

Under the Share Sale Agreement (SSA) entered between the vendors of ZTPSB ("Vendors") and ZLSB dated 15 December 2003, the Vendors had provided an indemnity clause in the SSA, to hold ZLSB harmless from and against any damages, deficiencies, losses, costs, liabilities and expenses (including legal fees and disbursements) resulting from and arising out of any breach of presentations, warranties, covenants and agreements made by the Vendors.

In addition, counter-claims were made by ZTPSB on 12 May 2005 against both Estatequest and directors of Estatequest for breach of contract and personal liability as guarantors, respectively.

The full trial has been disposed of on 13 April 2009 and the Court passed judgement on 24 April 2009 dismissing the Plaintiff's (Estatequest's) claim and ZTPSB's counter claim. Both Estatequest being the Plaintiff and ZTPSB being the Defendant filed Notice of Appeal on their claims and counter claims on 7 May 2009 and 19 May 2009 respectively.

Hearing for both appeals was heard by the Court of Appeal sitting in Kuching on 13 February 2012 whereby the decision of the High Court has been upheld. Estatequest has thirty (30) days from issuance of the sealed order by the Court of Appeal to file an application for leave to appeal to the Federal Court if they wish to do so. The said sealed order is not extracted yet however leave to appeal (if applied by Estatequest) is very unlikely to be granted by the Federal Court in this case as the appeal is not based on question of laws but instead interpretation of contract.

Therefore in essence ZTPSB being the proprietor of the land is now free to deal with the land.

20. Dividend payable

The Board has not declared any interim dividend in the current quarter in respect of the financial year ending 31 December 2011.

21. Earnings Per Share

	Individual Quarter 3 months ended 31 Dec		Cumulative Quarter 12 months ended 31 Dec	
	2011	2010	2011	2010
Net profit attributable to equity holders of the Company (RM'000)	580	4,213	1,259	1,729
Weighted average number of ordinary shares in issue ('000)	119,106	119,106	119,106	119,106
Basic earnings per ordinary share for profit for the year (sen)	0.49	3.54	1.06	1.45

22. Breakdown of realised and unrealised profit or loss

The breakdown of the retained earnings of the group into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No 1, Determination of Realised and Unrealised Profit or Loss in the context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, as issued by the Malaysian Institute of Accountants.

	As at 31 Dec 2011 RM	As at 31 Dec 2010 RM
Total retained earnings of the Group		
- Unrealised	3,324,375	17,695,051
- Realised	15,853,870	14,715,559
Total share of retained Earnings from Associate		
- Unrealised		
- Realised	549,983	459,690
Less : Consolidation adjustment	(2,745,221)	(2,806,525)
Retained earnings/(accumulated losses) as per financial statements	16,983,007	30,063,775

23. Authorisation for Issue

The interim financial statements were authorized for issue in accordance with the resolution passed at the Board of Directors' Meeting held on 27 February 2012.