Explanatory Notes

1. Corporate information

Zecon Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office is located at 8th Floor, Menara Zecon, No. 92, Lot 393, Section 5, KTLD, Jalan Satok, 93400 Kuching, Sarawak.

The principal activities of the Company are foundation engineering, civil engineering and building contracting works and their related activities. There have been no significant changes in the nature of the principal activities of the Group and of the Company during the financial year.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 May 2012.

2. Significant accounting policies

The audited financial statements of the group for the year ended 31 December 2011 were prepared in accordance with FRS.

The significant account policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011.

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 Group and the Company adopted the following new and amended FRSs 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
- 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 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 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

	Effective for annual periods beginning on or after
Amendments to IC Interpretation 14 Prepayments of a Minimum Funding Requirement	1 July 2011
IC Interpretation 19 Extinguishing Financial Liabilities With Equity Instruments	1 July 2011
FRS 124 Related Party Disclosures	1 January 2012
Amendments to FRS 112: Deferred Tax: Recovery of Underlying Assets	1 January 2012
IC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2013
FRS 9 Financial Instruments	1 January 2013
FRS 10 Consolidated Financial Statements	1 January 2013
FRS 11 Joint Arrangements	1 January 2013
FRS 12 Disclosure of Interest in Other Entities	1 January 2013
FRS 13 Fair Value Measurement	1 January 2013
FRS 119 (2011) Employee Benefits	1 January 2013
FRS 127 (2011) Separate Financial Statements	1 January 2013
FRS 128 (2011) Investment in Associates and Joint Ventures	1 January 2013

Except for the changes in accounting policies arising from the adoption of the new disclosures required under the Amendments to FRS 7, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

2.3 Malaysian Financial Reporting Standards (MFRS Framework)

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer (herein called 'Transitioning Entities').

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework for an additional one year. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2013.

The Group falls within the scope definition of Transitioning Entities and accordingly, will be preparing its financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2013. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

3. Seasonality or cyclicality of operations

The business operations of the Group are not materially affected by any seasonal or cyclicality fluctuations during the quarter under review

4. Changes in estimate

As disclosed in Note 7(i) herein , there is a material change in estimates that affected the current interim results as the group decided to take a prudent approach by incorporating the total effect of the adjustment in project cost regardless of the uncertainty of the final outcome of negotiation with client.

5. Debt and equity securities

There were no issuances, cancellations, repurchases, re-sales and repayments of debt and equity securities for the current quarter under review. There we no share buy-back during the quarter

6. Changes in the composition of the Group

There were no other changes in the composition of the Group for the current quarter under review.

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		Adjustments and eliminations		Total	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE												
External sales	**29,151**	20,895	5		**3,216**	2,791	693	799			33,065	24,485
Inter-segment sales	14,055	9,332							(14,055)	(9,332)		
Total Revenue	43,206	30,227	5		3,216	2,791	693	799			33,065	24,485
Segment Profit – Note A	**(5,422)**	**(86)**	**(220)**	**(168)**	**2,098**	**2,289**	**(26)**	**(41)**			**283**	**1,994**

Note A

Segment profit is reconciled to profit before tax presented in the condensed consolidated statement of comprehensive income as follows :-

	31 March 2012 RM'000	31 March 2011 RM'000
Segment Profit	283	1,994
Share of profit in associate	31	33
Finance Cost	(3,358)	(1,887)
Profit before tax	(3,044)	140

(i) **Construction Sector**

This sector continues to recognize the gross revenue from the ongoing projects of the group that registered an increase of RM8.3 million. However, this sector is registering a loss of RM3.04 million against last year's loss of only RM86,000. This situation arose due to potential claim by client because of anticipated delay for which we are actively seeking the client's indulgence. However, for the purpose of accounting convention, provision has to be made in this quarter to be prudent.

(ii) **Property Sector**

There were no new sales and new progress billings recorded in the current quarter. Emphasis then was to ensure the completion of the obligation from the prior year sales.

(iii) **Toll Concession**

The first quarter of 2012 reflected an increase in revenue contributed by this sector from RM2.8 million to RM3.2million. The increase was substantially contributed by the increase in toll rates which was implemented on 1 January 2012. The increase in the volume of vehicles also contributed towards the improved performance.

(iv) **Others**

Revenue and profit from other operations mainly consists of activities by the Group's Oil and Gas and Asset Management services.

The Group's oil and gas sector has completed the "Proposed Autoblast Station" in Pasir Gudang, Johor. The sector is also in the final stages of constructing the Bintulu Compressor Station.

The directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been transacted on normal commercial terms.

8. The following amounts have been included in arriving at profit/(loss) before taxation:

	Current Quarter 3 months ended 31-Mar 2012 RM'000	Cumulative Quarter 3 months ended 31-Mar 2012 RM'000
Amortization of prepaid land lease payment		
Depreciation of property, plant and equipment	1,442	1,442
Impairment loss on investment on joint venture		
Impairment loss on receivables written-off		
Interest expense	3,358	3,358
Interest income	(276)	(276)
(Gain)/loss on disposal of property, plant and equipment	(15)	(15)
Gain on foreign exchange		
Impairment loss written back		

9. Income Tax Expense

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	31-Mar 2012 RM'000	31-Mar 2011 RM'000	31-Mar 2012 RM'000	31-Mar 2011 RM'000
Current tax :				
Malaysian income tax	Nil	Nil	Nil	Nil
Under/(over) provision in prior years	Nil	Nil	Nil	Nil

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the year.

10. Earnings Per Share

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	31-Mar 2012 RM'000	31-Mar 2011 RM'000	31-Mar 2012 RM'000	31-Mar 2011 RM'000
Net profit attributable to equity holders of the Company (RM'000)	(3,044)	83	(3,044)	83
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)	(2.53)	0.07	(2.53)	0.07

11. 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.

12. Contingencies

There were no contingent liabilities in respect of the Group that had arisen since 31 December 2011 till the date of this quarterly report

13. Capital commitments

There were no capital commitments in respect of the Group that had arisen since 31 December 2011 till the date of this quarterly report

14. Recurrent Related Party Transactions

The aggregate gross value of recurrent related party transactions for the period ended 31 March 2012 were as follows:

	3 months ended 31-Mar 2012 RM'000	3 months ended 31-Mar 2011 RM'000
Aggregate gross value of recurrent related party transactions	304	4,225

The recurrent related party transactions comprise transactions controlled by or connected to certain substantial shareholders and/or Directors of the Company, namely Tan Sri Datuk Amar (Dr.) Hamid Bin Bugo, Datuk Haji Zainal Abidin Bin Haji Ahmad and Haji Abg Azahari Abg Osman.

The above transactions have been entered into in the ordinary course of business and are on terms not more favourable to the Related Party than those generally available to the public.

15. Derivative financial instruments

The Group does not have any outstanding financial derivatives as at 31 March 2012.

16. Gains/Losses arising from fair value changes of financial liabilities

There were no gains or losses arising from fair value changes of the financial liabilities for the current quarter and financial period ended 31 March 2012.

17. Material subsequent event

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

18. Dividends paid

No interim ordinary dividend has been declared for the financial period ended 31 March 2012 (31 March 2011 : Nil)

19. Review of performance

During the quarter under review, the Group recorded total revenue of RM33.1 million as compared to RM24.5 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 and the Kapit Water Treatment Plant.

The group recorded a loss before tax of RM3.0 million compared to a profit before tax of RM0.14 million in the corresponding quarter of the preceding year.

Overall, the group's performance for the quarter under review was adversely effected by the provision made on the potential claims for one of the projects and the one off cost incurred for the funding exercise.

20. Material changes in the quarterly results

The Group recorded revenue of RM33.1 million and loss before tax of RM3.0 million as compared to revenue of RM47.5 million and profit before tax of RM1.588 million recorded in the immediate preceding quarter.

The justification is as what is stated in Note 19.

21. Commentary on prospects

In terms of physical progress, the current projects like 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 and the Kapit Water Treatment Plant are progressing satisfactorily.

Our toll operation will still be one of the major contributors to the profitability of the group as the volume of vehicles registered an increase during the first quarter of the year as well as the effect in the revision of toll rates.

Despite current projects nearing completion, the group anticipates several projects to take-off this year. These projects with a total estimated value in excess of 1.0 billion shall have their fair contribution to the overall revenue of the group during the year.

The group's planning to embark on assets monetizing exercise is still on-going with a view to further enhance the existing gearing and other key financial indicators. The settlement of the Collateralized Loan Obligation being the only major non-project's borrowing will see a positive outlook on the group's overall cash flow as sources of repayment for other major liabilities have been in place.

The property sector for the group is also expected to register more sales judging from the registration of interest by potential buyers obtained to date. The ability to sell the shophouses and residential units will boost up the group performance in 2012.

22. Commentary on the company's progress to achieve the revenue or profit estimate, forecast, projection or internal targets in the remaining period to the end of the financial year and the forecast period which was previously announced or disclosed in a public document and steps taken or proposed to be taken to achieve the revenue of profit estimate, forecast, projection or internal targets.

Not applicable to the Group as no announcements or disclosures were published in a public document as to the revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

23. Statement of the Board of Directors' opinion as to whether the revenue or profit estimate, forecast, projection or internal targets in the remaining period to the end of the financial year and the forecast period which was previously announced or disclosed in a public document and steps taken or proposed to be taken to achieve the revenue or profit estimate, forecast, projections or internal targets as at the date of this announcement.

Not applicable to the Group as no announcements or disclosures were published in a public document as to the revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

24. Variance of Actual Profit from Forecast Profit

The Group has not announce any profit forecast or profit estimate for the current financial year in any public document and hence this information is not applicable

25. Profit Guarantee

This note is not applicable, as no profit forecast was published and the Group is not required to give any profit guarantee.

26. Status of corporate proposals

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

Ƹ7. Interest-bearing loans and borrowings

	31-Mar 2012 RM'000	31-Dec 2011 RM'000	01-Jan 2011 RM'000
Short term borrowings			
Secured	50,438	37,258	61,010
Unsecured	37,895	37,183	36,568
	88,333	**74,441**	**97,578**
Long term borrowings			
Secured	56,731	58,087	70,596
Unsecured			
	56,731	**58,087**	**70,596**
TOTAL BORROWINGS	**145,064**	**132,528**	**168,174**

Ƹ8. Material Litigation

Neither the Company nor its subsidiaries are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which has a material effect on the financial position or business of the Group and the Directors of the Company are not aware of any proceedings pending or threatened against the Group or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Group.

29. Dividend payable

The Board has not declared any interim dividend in the current quarter in respect of the financial period ending 31 March 2012

30. 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.

	Current quarter ended 31-Mar 2012 RM '000	Previous Financial year ended 31 Dec 2011 RM'000
Total retained earnings of the Group		
- Unrealised	3,974	3,974
- Realised	8,135	10,692
	12,109	14,666
Total share of retained Earnings from Associate		
- Unrealised		
- Realised	31	550
	12,140	15,216
Add/(Less) : Consolidation adjustment	2,698	2,642
Retained earnings/(accumulated losses) as per financial statements	**14,838**	**17,857**

31. Auditors' report in preceding annual financial statements

The auditors' report on the audited annual financial statements for the financial year ended 31 December 2011 was not qualified.

32. 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 30 May 2012.