

**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, KTL D, 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 August 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:

	<b>Effective for annual periods beginning on or after</b>
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 cyclical of operations**

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

**4. Changes in estimate**

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

**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 were 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. Property, plant and equipment – acquisition and disposals**

During the current quarter, the group acquired property, plant and equipment costing about RM76,000.00 by hire purchase financing.

Property, plant and equipment with a carrying amount of RM730,356 were disposed of during the quarter under review.

**8. 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	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011	30 June 2012	30 June 2011	30 June 2012	30 June 2011	30 June 2012	30 June 2011	30 June 2012	30 June 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
<b>REVENUE</b>												
External sales	69,021	42,665	2,335		6,267	5,634	22	371			77,645	48,670
Inter-segment sales	43,817	37,976					1,387	2,078	(45,204)	(40,054)	45,204	
<b>Total Revenue</b>	<b>112,838</b>	<b>80,641</b>	<b>2,335</b>		<b>6,267</b>	<b>5,634</b>	<b>1,409</b>	<b>2,449</b>	<b>(45,204)</b>	<b>(40,054)</b>	<b>122,849</b>	<b>48,670</b>
<b>Segment Profit – Note A</b>	<b>(2,285)</b>	<b>1,296</b>	<b>163</b>	<b>(346)</b>	<b>4,789</b>	<b>4,483</b>	<b>(128)</b>	<b>(210)</b>			<b>2,539</b>	<b>5,223</b>

**Note A**

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

	30 June 2012 RM'000	30 June 2011 RM'000
Segment Profit	2,539	5,223
Share of profit in associate	83	85
Finance Cost	(5,181)	(5,052)
(Loss)/Profit before tax	<b>(2,559)</b>	<b>256</b>

**(i) Construction Sector**

This sector continues to recognize the gross revenue from the ongoing projects of the group that registered revenue of RM39.2 million against RM21.2 million achieved in the same quarter in 2011.

This is mainly due to the higher work done claims from 2 projects, Matang Revised Route project which in this year showed a higher structural work claims from the 2 bridges, 1 of which has been completed (Siol Bridge) and Unimas Project which is at the M&E stage as at this quarter.

The Kapit Water Treatment Plants also contributed to the higher revenue in this year's 2<sup>nd</sup> quarter.

**(ii) Property Sector**

The property sector achieved revenue of RM2.3 million. There are new sales and new progress billings recorded in the current quarter.

Emphasis is still to ensure the completion of the obligation from the prior year sales.

**(iii) Toll Concession**

The 2<sup>nd</sup> quarter of 2012 reflected an increase in revenue contributed by this sector from RM2.8 million in the corresponding quarter last year to RM3.1million.

The increase was contributed by the increase in toll rates which was implemented on 1 January 2012.

**(iv) Others**

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

**Consolidated profit before tax**

The group's current quarter profit before tax of RM0.49 million (30 June 2011 : RM0.12 million)

The main factors which have affected the current quarter's profit before tax have been discussed above.

**ZECON BERHAD (134463-X)**

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 June 2012**

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

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	30-June 2012	31-Mar 2012	30-June 2012	30-June 2011
	RM'000	RM'000	RM'000	RM'000
Amortization of prepaid land lease payment	2		2	
Depreciation of property, plant and equipment	1,495	1,442	2,937	1,631
Impairment loss on investment on joint venture				
Impairment loss on receivables written-off				
Interest expense	1,824	3,357	5,181	5,051
Interest income	(15)	(276)	(291)	(327)
(Gain)/loss on disposal of property, plant and equipment	(770)	(15)	(785)	
Gain on foreign exchange				
Impairment loss written back				

**10. Income Tax Expense**

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	30- Jun 2012	30-Jun 2011	30- Jun 2012	30-Jun 2011
	RM'000	RM'000	RM'000	RM'000
Current tax :				
Malaysian income tax	468		468	
Under/(over) provision in prior years		1,429		1,429
	<b>468</b>	<b>1,429</b>	<b>468</b>	<b>1,429</b>

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

**11. Earnings Per Share**

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	30- Jun 2012 RM'000	30-Jun 2011 RM'000	30- Jun 2012 RM'000	30-Jun 2011 RM'000
Net profit attributable to equity holders of the Company (RM'000)	822	(1,315)	(2,197)	(1,232 )
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)	0.69	(1.10)	(1.84)	(1.03)

**12. 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.

**13. 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

**14. 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

**15. Recurrent Related Party Transactions (RRPT)**

The aggregate gross value of RRPT for the period ended 30 June 2012 were as follows:

	Transaction Value 6 months ended	
	30- Jun 2012 RM'000	30-Jun 2011 RM'000
Aggregate gross value of RRPT	641	4,225

The RRPT 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, Haji Zainurin 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.

**16. Derivative financial instruments**

The Group does not have any outstanding financial derivatives as at 30 June 2012.

**17. 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 30 June 2012.

**18. Material subsequent event**

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

**19. Dividends paid**

No interim ordinary dividend has been declared for the financial period ended 30 June 2012 (30 June 2011 : Nil)

**20. Review of performance**

During the quarter under review, the Group recorded total revenue of RM44.6 million as compared to RM24.2 million reported in the corresponding quarter of the preceding year. The group recorded higher revenue for the period under review and the detailed review of the performance are discussed in Note 8.

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 profit before tax of RM0.49 million compared to a profit before tax of RM0.12 million in the corresponding quarter of the preceding year. The overall performance for the quarter under review is slightly better than the previous corresponding quarter. Discussion with client is still on-going for reduction in additional cost related to one of our on-going projects.

**21. Material changes in the quarterly results**

The Group recorded revenue of RM44.6 million and profit before tax of RM0.49 million as compared to revenue of RM33.1 million and loss before tax of RM3.0 million recorded in the immediate preceding quarter.

**22. Commentary on prospects**

Zecon is expected to finalise one hospital project under the Public Private Partnership/Private Funding Initiative (PPP/PFI) within this year. This project with the construction cost of approximately RM606.0 million is expected to start in the last quarter of 2012.

The Group's project teams are also having active discussions with the end-users of the Proposed Petra Jaya General Hospital in finalizing the Letter of award. This project should be able to start by the end of this year and the contribution towards the group's revenue expected to be the following year.

The construction of the Supermall at our Vista Tunku project site has achieved another milestone with the signing of the Sales and Purchase Agreement between our wholly-owned subsidiary, Zecon Land Sdn Bhd and Lembaga Tabung Haji on 19 July, 2012. The construction is expected to commence anytime within the third quarter of this year.

One of the land in our land bank has been earmarked to be jointly developed for a mix housing and commercial development on our Petra Indah site with a gross development value of more than RM1 billion. Another proposed utilization would be the further reduction in the group's liabilities aiming to enhance the overall rating.

The traffic volume at our toll operation continues to register an encouraging trend and is expected to contribute towards the group's overall earnings.

- 23. 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 or 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.

- 24. 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.

- 25. 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

- 26. Profit Guarantee**

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

- 27. Status of corporate proposals**

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



**28. Interest-bearing loans and borrowings**

	30-Jun 2012 RM'000	31-Dec 2011 RM'000	01-Jan 2011 RM'000
<b>Short term borrowings</b>			
Secured	31,596	37,258	61,010
Unsecured	3,273	37,183	36,568
	<b>34,869</b>	<b>74,441</b>	<b>97,578</b>
<b>Long term borrowings</b>			
Secured	111,042	58,087	70,596
Unsecured			
	<b>111,042</b>	<b>58,087</b>	<b>70,596</b>
<b>TOTAL BORROWINGS</b>	<b>145,911</b>	<b>132,528</b>	<b>168,174</b>

**29. 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.

**30. Dividend payable**

The Board has not declared any interim dividend in the current quarter in respect of the financial period ending 30 June 2012

**31. 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 30 June 2012 RM '000	Previous Financial year ended 31 Dec 2011 RM'000
Total retained earnings of the Group		
- Unrealised	3,973	3,974
- Realised	5,339	10,692
	<b>9,312</b>	<b>14,666</b>
Total share of retained Earnings from Associate		
- Unrealised		
- Realised	83	550
	<b>9,395</b>	<b>15,216</b>
Add/(Less) : Consolidation adjustment	6,265	2,642
<b>Retained earnings/(accumulated losses) as per financial statements</b>	<b>15,660</b>	<b>17,857</b>

**32. 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.

**33. 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 August 2012.