

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 24 November 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 cyclicity of operations

The business operations of the Group are not materially affected by any seasonal or cyclicity 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 we no share buy-back during the quarter

6. Changes in the composition of the Group

Zecon Berhad had on 26 July 2012, acquired 2 ordinary shares of RM1.00 each which represents 100% equity interest in Zecon Medicare Sdn Bhd.

7. Property, plant and equipment – acquisition and disposals

No property, plant and equipment were acquired by hire purchase financing in the quarter under review

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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 September 2012	30 September 2011	30 September 2012	30 September 2011	30 September 2012	30 September 2011	30 September 2012	30 September 2011	30 September 2012	30 September 2011	30 September 2012	30 September 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	97,109	68,960	2,465	5,413	9,710	8,721	36	2,387			109,320	85,481
Inter-segment sales	63,536	65,683			2,054				(65,590)	(65,683)		
Total Revenue	160,645	114,643	2,465	5,413	9,710	8,721	2,090	2,387	(65,590)	(65,683)	109,320	85,481
Segment Profit Note A	(5,606)	3,647	(537)	1,267	7,645	6,651	(198)	(1,966)			1,304	9,599

Note A

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

	30 September 2012	30 September 2011
	RM'000	RM'000
Segment Profit	1,304	9,599
Share of profit in associate	186	133
Finance Cost	(7,401)	(7,671)
(Loss)/Profit before tax	(5,911)	2,061

(i) Construction Sector

This sector continues to register gross revenue from the ongoing projects of the group that registered revenue of RM28.1 million against 26.3 million achieved in the same quarter in 2011.

This quarter results showed a slightly higher revenue compared to the immediate preceding quarter's revenue but registered a lower margin due to provisions made on potential claims from client.

(ii) Property Sector

The property sector achieved revenue of RM2.5 million cumulatively and a marginal revenue of R 129k for this 3rd quarter. There were no new sales and new progress billings recorded in the current quarter under review.

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

(iii) Toll Concession

The 3rd quarter of 2012 reflected an increase in revenue contributed by this sector from RM3.1 million in the corresponding quarter last year to RM3.4 million in this quarter.

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 loss before tax of RM3.3 million (30 September 2011 : Profit of RM1.8 million) .

The main factors which have affected the current quarter's profit before tax is mainly to the reduced gross profit margin from construction sector.

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

	Current Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30-September 2012	30-June 2012	30-September 2012	30-September 2011
	RM'000	RM'000	RM'000	RM'000
Amortization of prepaid land lease payment	1	2	2	
Depreciation of property, plant and equipment	1,400	1,495	4,337	1,631
Impairment loss on investment on joint venture				
Impairment loss on receivables written-off				
Interest expense	2,220	1,824	7,401	5,051
Interest income	(60)	(15)	(351)	(327)
(Gain)/loss on disposal of property, plant and equipment	(24)	(770)	(964)	
Gain on foreign exchange				
Impairment loss written back				

10. Income Tax Expense

	Current Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30-September 2012	30-September 2011	30-September 2012	30-September 2011
	RM'000	RM'000	RM'000	RM'000
Current tax :				
Malaysian income tax	194	153	662	153
Under/(over) provision in prior years	17		17	1,429
	211	153	679	1,582

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 9 months ended	
	30- September 2012 RM'000	30- September 2011 RM'000	30- September 2012 RM'000	30- September 2011 RM'000
Net profit attributable to equity holders of the Company (RM'000)	(2,907)	1,911	(5,104)	679
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)	(2.44)	1.60	(4.29)	0.57

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 September 2012 were as follows:

	Transaction Value 6 months ended	
	30- September 2012 RM'000	30- September 2011 RM'000
Aggregate gross value of RRPT	1,056	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 September 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 September 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 September 2012 (30 September 2011 : Nil)

20. Review of performance

During the quarter under review, the Group recorded total revenue of RM31.7 million as compared to RM36.8 million reported in the corresponding quarter of the preceding year. The group recorded lower revenue for the period under review and the detailed review of the performance is elaborated in Note 8.

The group recorded a loss before tax of RM3.35 million compared to a profit before tax of RM1.8 million in the corresponding quarter of the preceding year. The overall performance was substantially affected by the additional cost related to one of our on-going projects.

21. Material changes in the quarterly results

The Group recorded revenue of RM31.7 million and loss before tax of RM3.3 million as compared to revenue of RM44.6 million and profit before tax of RM0.49 million recorded in the immediate preceding quarter.

22. Commentary on prospects

The Group expect lower revenue for ongoing projects to be offset by the increase in revenue from the possible disposal of properties.

The Proposed Petra Jaya General Hospital with a contract value in excess of RM500.0 million is in the final stage of price negotiation.

The projection on our toll operation should be able to enhance its contribution to the Group's revenue targeting at least a 6% increase in 2013 arising from increased activities in the surrounding area. Specific target will be on the increase in the collections for commercial vehicles besides the sales of toll cards.

- 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-September 2012 RM'000	31-December 2011 RM'000	01-January 2011 RM'000
Short term borrowings			
Secured	32,237	37,258	61,010
Unsecured	2,494	37,183	36,568
	34,731	74,441	97,578
Long term borrowings			
Secured	110,584	58,087	70,596
Unsecured			
	110,584	58,087	70,596
TOTAL BORROWINGS	145,315	132,528	168,174

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 September 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 September 2012 RM '000	Previous Financial year ended 31 December 2011 RM'000
Total retained earnings of the Group		
- Unrealised	3,973	3,974
- Realised	2,746	10,692
	6,719	14,666
Total share of retained Earnings from Associate		
- Unrealised		
- Realised	186	550
	6,905	15,216
Add/(Less) : Consolidation adjustment	5,848	2,642
Retained earnings/(accumulated losses) as per financial statements	12,753	17,857

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 24 November 2012.