

**ZECON BERHAD (134463-X)**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013**

**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 28 February 2014.

**2. Significant accounting policies**

The condensed consolidated interim financial statements of the group for the period ended 31 December 2013 were prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia.

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 30 June 2013.

**2.1 Changes in accounting policies**

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

On 1 January 2012, the Group adopted the following amended FRS standard mandatory for annual financial periods beginning on or after 1 January 2012:

- Amendments to FRS 101: Presentation of Items of Other Comprehensive Income

The adoption of the above amended FRS did not have any material impact on the accounting policies, financial performance and position of the Group, except as discussed below:

**Amendments to FRS101, Presentation of Items of Other Comprehensive Income**

The amendments to FRS 101 changed the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time has been presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position and performance.

**2.2 Amendments/standards issued but not yet effective**

The amendments/standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these amendments/standards, if applicable, when they become effective.

**2. Significant accounting policies (contd.)**

**2.2 Amendments/standards issued but not yet effective (contd.)**

**FRS effective for annual periods beginning on or after 1 January 2013**

- Amendments to FRS 1, First-Time Adoption of Financial Reporting Standards - Government Loans
- Amendments to FRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
- FRS 10, Consolidated Financial Statements
- FRS 11, Joint Arrangements
- FRS 12, Disclosure of Interests in Other Entities
- Amendments to FRS 10, FRS 11 and FRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- FRS 13, Fair Value Measurement
- FRS 119, Employee Benefits
- FRS 127, Separate Financial Statements
- FRS 128, Investments in Associates and Joint Ventures
- Amendments to FRS 1, FRS 101, FRS 116, FRS 132 and FRS 134, (Improvements to FRSs (2012))
- Amendment to IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments (Improvements to FRSs (2012))
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine

**FRS effective for annual periods beginning on or after 1 January 2014**

- Amendments to FRS 132, Offsetting Financial Assets and Financial Liabilities
- Amendments to FRS 10, FRS 12 and FRS 127, Investment Entities
- Amendments to FRS 136, Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to FRS 139, Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies

**FRS effective for annual periods beginning on or after 1 January 2015**

- FRS 9, Financial Instruments (IFRS 9 issued by IASB in November 2009)
- FRS 9, Financial Instruments (IFRS 9 issued by IASB in October 2010)

The directors expect that the adoption of the amendments/standards above will have no material impact on the financial statements of the Group in the period of initial application. The nature of the impending changes in accounting policies on adoption of applicable amendments/standards are described below:

**2. Significant accounting policies (contd.)**

**2.2 Amendments/standards issued but not yet effective (contd.)**

**Annual periods beginning on or after 1 January 2013**

- **FRS 10, Consolidated Financial Statements**

FRS 10 replaces part of FRS 127, Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation - Special Purpose Entities.

Under FRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under FRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

- **FRS 10, Consolidated Financial Statements (contd.)**

FRS 10 includes detailed guidance to explain when an investor has control over the investee. FRS 10 requires the investor to take into account all relevant facts and circumstances.

The application of this new standard is expected to have no impact on the financial statements of the Group.

- **FRS 11, Joint Arrangements**

FRS 11 replaces FRS 131 Interests in Joint Ventures and IC Interpretation 113 Jointly-Controlled Entities - Non-monetary Contributions by Venturers.

The classification of joint arrangements under FRS 11 is determined based on the rights and obligations of the parties to the joint arrangements by considering the structure, the legal form, the contractual terms agreed by the parties to the arrangement and when relevant, other facts and circumstances. Under FRS 11, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

FRS 11 removes the option to account for jointly controlled entities ("JCE") using proportionate consolidation. Instead, JCE that meet the definition of a joint venture must be accounted for using the equity method.

The adoption of this standard is expected to have no impact on the financial statements of the Group.

**2. Significant accounting policies (contd.)**

**2.2 Amendments/standards issued but not yet effective (contd.)**

- **FRS 12, Disclosures of Interests in Other Entities**

FRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

- **FRS 13, Fair Value Measurement**

FRS 13 establishes a single source of guidance under FRS for all fair value measurements. FRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under FRS when fair value is required or permitted.

The adoption of FRS 13 will affect some of the fair value of certain assets and liabilities and thus affecting the profit and equity of the Group.

- **FRS 127, Separate Financial Statements**

As a consequence of the new FRS 10 and FRS 12, FRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

- **FRS 128, Investments in Associates and Joint Ventures**

As a consequence of the new FRS 11 and FRS 12, FRS 128 is renamed as FRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

- **Amendments to FRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities**

The amendments require additional information to be disclosed to enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

- **Amendments to FRS 132, Offsetting Financial Assets and Financial Liabilities**

The amendments to FRS 132 clarified that a legally enforceable right to set off is a right of set of that must not be contingent on a future event; and must be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments further clarified that an entity will meet the net settlement criterion as provided in FRS 132 if the entity can settle amounts in a manner that the outcome is, in effect, equivalent to net settlement.

**2. Significant accounting policies (contd.)**

**2.2 Amendments/standards issued but not yet effective (contd.)**

- **Amendments to FRS 136, Recoverable Amount Disclosures for Non-Financial Assets**

The amendments to FRS 136 clarifies that recoverable amount (determined based on fair value less costs of disposal) is required to be disclosed only when an impairment loss is recognised or reversed. In addition, there are new disclosure requirements about fair value measurement when impairment or reversal of impairment is recognised.

The amendments to FRS 136 are to be applied retrospectively for annual periods beginning on or after 1 January 2014.

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- **IC Interpretation 21, Levies**

The Interpretation clarifies that an entity should recognise a liability to pay a levy when it is within the scope of FRS 137 Provisions, Contingent Liabilities and Contingent Assets. It also explains that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in the previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

The Interpretation also clarifies that the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If an obligation to pay a levy is triggered when a minimum threshold is reached, the liability to pay a levy is recognised when that minimum activity threshold is reached.

The Interpretation is to be applied retrospectively for annual periods beginning on or after 1 January 2014.

The Group is currently assessing the impact that this standard will have on the financial position and performance of the Group.

**2. Significant accounting policies (contd.)**

**2.2 Amendments/standards issued but not yet effective (contd.)**

**Annual periods beginning on or after 1 January 2015**

• **FRS 9, Financial Instruments: Classification and Measurement**

FRS 9 reflects the first phase of the work on the replacement of FRS 139 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in FRS 139 Financial Instruments: Recognition and Measurement. The adoption of the first phase of FRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

**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 three years. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2015.

The Group falls within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 30 June 2016. 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.

At the date of these financial statements, the Group has not completed its quantification of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework due to the ongoing assessment by the project team. Accordingly, the financial performance and financial position as disclosed in these financial statements for the year ended 30 June 2013 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 30 June 2016.

**3. Audit Report of Preceding Annual Financial Statements**

The audit report of the Group's annual financial statements for the period ended 30 June 2013 was not subject to any qualification

**4. 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.

**5. Changes in accounting estimate and judgement**

The preparation of the Group's condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the condensed consolidated interim financial statements

**(a) Impairment of goodwill on consolidation**

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value in use of the cash-generating units to which goodwill and brands are allocated.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**(b) Constructions contracts and property development**

The Group recognises construction contracts and property development revenue and expenses in the statement of comprehensive income by using the stage of completion method. The stage of completion is determined by the proportion that construction contracts costs and property development costs incurred for work performed to date bear to the estimated total construction costs and property development costs.

Significant judgement is required in determining the stage of completion, the extent of the construction costs and property development costs incurred, the estimated total construction and property development revenue and costs, as well as the recoverability of the construction and property development costs. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists.

**5. Changes in accounting estimate and judgement (contd.)**

**(c) Useful life of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of the property, plant and equipment to be within 3 to 50 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be within 7 to 10 years. These are common life expectancies applied in the construction industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**(d) Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that future taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statements of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

**(e) Impairment of loans and receivables**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

In the current quarter under review, the group has not recorded significant impairment on the receivables.



**6. 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

**7. Changes in the composition of the Group**

There were no changes to the composition of the Group except for the following:-

**a. Acquisition of Zecon Engineering & Construction Sdn Bhd**

On 20 August 2013, Zecon Berhad has acquired 3 ordinary shares of RM1.00 each of Zecon Engineering & Construction Sdn Bhd, representing 100% of equity interest, for a total consideration of RM3.00.

**b. Acquisition of Permata Facilities Management Sdn Bhd**

On 30 December 2013, Zecon Berhad has acquired 2 ordinary shares of RM1.00 each of Permata Facilities Management Sdn Bhd, representing 100% of equity interest, for a total consideration of RM2.00.

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

During the current quarter, the group has acquired and disposed its property plant and equipment at aggregate costs of RM3.38million and RM0.7million respectively.

**ZECON BERHAD (134463-X)  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013**

**9. 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	
	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012
	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	45,564	65,081	14,071	229	7,764	6,898	41	13	-	-	67,440	72,771
Inter-segment sales	38,960	56,157	-	-	-	-	224	6,248	(39,184)	(62,405)	-	-
<b>Total Revenue</b>	<b>84,524</b>	<b>121,238</b>	<b>14,071</b>	<b>229</b>	<b>7,764</b>	<b>6,898</b>	<b>265</b>	<b>6,261</b>	<b>(39,184)</b>	<b>(62,405)</b>	<b>67,440</b>	<b>72,771</b>
<b>Segment (Loss)/profit Note A</b>	<b>(19,434)</b>	<b>285</b>	<b>7,278</b>	<b>(995)</b>	<b>6,334</b>	<b>5,676</b>	<b>(467)</b>	<b>(574)</b>			<b>(6,289)</b>	<b>4,392</b>

**Note A**

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

	1.7.2013 to 31.12.2013	1.7.2012 to 31.12.2012
	RM'000	RM'000
Segment (Loss)/Profit	(6,289)	4,392
Share of profit in associate	174	120
Finance Cost	(4,307)	(4,406)
<b>(Loss)/Profit before tax</b>	<b>(10,422)</b>	<b>106</b>

**9. Segmental Reporting (cont'd)**

**(i) Construction Sector**

There is a significant decrease on the segment revenue compared to revenue in the corresponding quarter of the preceding year.

The lower revenue and high segment losses are mainly due to additional project costs incurred on the existing projects. Newly commenced project registered a lower revenue recognition commensurate with the lower percentage of completion registered at cut-off date.

**(ii) Property Sector**

The property sector has achieved higher segment revenue compared to revenue in the corresponding quarter of the preceding year. The higher revenue was mainly derived from the effect of property development project particularly the Mydin Supermall.

**(iii) Toll Concession**

On the third quarter of financial year 2014, the segment recorded a revenue of RM7.76 million as compared to revenue of RM6.90 million in the corresponding quarter of the preceding year.

The increase was contributed by the increase in traffic volume arising from the commencement of new projects near the concession area.

**(iv) Others**

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

There are lesser activities from this segment during the reporting period.

**Consolidated loss before tax**

The group's current quarter loss before tax stands at RM10.42million (31 December 2012: Profit of RM0.11 million).

The high current quarter's loss before tax is mainly due to additional project costs on construction segment. Refer Note 9 (ii) and 9 (iii) above.

**ZECON BERHAD (134463-X)****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013****10. Loss before taxation**

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

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Amortization of prepaid land lease payment	1	-	2	1
Depreciation of property, plant and equipment	772	1,358	1,515	2,758
Interest expense	2,121	2,186	4,307	4,406
Interest income	(59)	(231)	(122)	(291)
Gain on disposal of property, plant and equipment	(843)	(1,745)	(874)	(1,769)
(Gain)/loss on foreign exchange	2	-	-	-

**11. Income Tax Expense**

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31- December 2013 RM'000	31- December 2012 RM'000	31- December 2013 RM'000	31- December 2012 RM'000
Current tax :				
Malaysian income tax	324	556	524	750
Under provision in prior years	-	-	-	17
	<b>324</b>	<b>556</b>	<b>524</b>	<b>767</b>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the year. During the current financial period, the income tax rate applicable to the subsidiary in Australia is 30% (2011: 30%).

**ZECON BERHAD (134463-X)****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013****12. Earnings Per Share**

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31- December 2013 RM'000	31- December 2012 RM'000	31- December 2013 RM'000	31- December 2012 RM'000
Net (loss)/profit attributable to equity holders of the Company	<u>(8,666)</u>	<u>3,156</u>	<u>(8,879)</u>	<u>249</u>
Weighted average number of ordinary shares in issue	<u>119,106</u>	<u>119,106</u>	<u>119,106</u>	<u>119,106</u>
Basic earnings per ordinary share for profit for the year (sen)	<u>(7.28)</u>	<u>2.65</u>	<u>(7.45)</u>	<u>0.21</u>

**13. Carrying amount of revalued assets**

The Group has not adopted revaluation model on its property, plant and equipment. All property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

**14. Contingencies**

There were no contingent liabilities in respect of the Group that had arisen since 30 June 2013 till the date of this quarterly report.

**15. Capital commitments**

There were no material capital commitments in respect of the Group that had arisen since 30 June 2013 till the date of this quarterly report.

**ZECON BERHAD (134463-X)****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013****16. Recurrent Related Party Transactions (RRPT)**

The aggregate gross value of RRPT for the period ended 31 December 2013 were as follows:

	Transaction Value 6 months ended	
	31 December 2013 RM'000	31 December 2012 RM'000
Aggregate gross value of RRPT	1,613	1,929

The RRPT comprise transactions controlled by or connected to certain substantial shareholders and/or Directors of the Company, namely 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.

**17. Derivative financial instruments**

The Group does not have any outstanding financial derivatives as at 31 December 2013.

**18. 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 December 2013.

**19. Material subsequent event**

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

**20. Dividends paid**

No interim ordinary dividend has been declared for the financial period ended 31 December 2013 (31 December 2012 : Nil)

**21. Cash and cash equivalent**

	Unaudited 31.12.2013 RM'000	Unaudited 31.12.2012 RM'000
Cash on hand and at banks	8,301	13,882
Bank overdrafts	(755)	(1,378)
	<u>7,546</u>	<u>12,504</u>

**22. Review of performance**

The group recorded lower revenue for the period under review and the detailed review of the performance is elaborated in Note 9.

The group recorded a loss before tax of RM10.42million compared to a profit before tax of RM0.11million in the corresponding cumulative quarter of the preceding year. The loss is mainly due to additional costs and lower revenue recognition on the existing projects.

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

There are material changes in the quarterly result as compared to the corresponding quarter of the preceding year due to reasons as explained in Note 22 above.

**24. Commentary on prospects**

The Group is going through some restructuring exercises which among others involves business model in terms of implementation of the various new projects undertaken by the Group. We expect that it will improve the overall performance of the Group, particularly under the construction division.

In hand, the Group secured approximately RM1.2billion of contract works, which include Hospital Petra Jaya project (RM495.0million), Sime Darby Melawati Development project (RM83.0million), and Hospital Universiti Kebangsaan Malaysia project (RM606.0million), for our Construction Division. This excludes the sum of RM147.0million on the development of Mydin Supermall under property division and is expected to contribute positively to the profit of the Group.

The increase in toll operation revenue for year 2014 is due to the growth in traffic volume arising from the rapid development within the toll vicinity.

Based on the above and despite the uncertainties in the construction industry, the Group is expected to achieve good progress.

- 25. 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.

- 26. 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.

- 27. 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.

- 28. Profit Guarantee**

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



**29. Status of corporate proposals**

On 15 July 2013, the Company has received a letter ("**Offer Letter**") from Dawla Capital Sdn Bhd and Datuk Haji Zainal Abidin bin Haji Ahmad, being the major shareholders of Zecon, together with Tan Sri Datuk Amar (Dr) Tommy Bin Bugo @ Hamid Bin Bugo and Haji Zainurin bin Haji Ahmad, proposing the privatization of the Company by way of a selective capital reduction and repayment exercise pursuant to Section 64 of the Companies Act, 1965 ("**Proposed SCR**") and an acceleration of the maturity of all outstanding 2007/2017 warrants in the Company and cancellation thereof ("**Proposed WAC**") (Collectively referred to as "**Proposals**").

On 5 August 2013, the Board of Directors of Zecon has deliberated on the Offer Letter in the presence of the independent advisor and has resolved to table the Proposals to the shareholders and warrant holders of the Company for their consideration. The application in relation to the Proposals has been submitted to Securities Commission Malaysia ("**SC**") and Bursa Malaysia Securities Berhad on 11 October 2013.

On 14 November 2013, the SC has approved the proposed exemption under Paragraph 1.1 of Practice Note ("**PN**") 44 of the Malaysian Code on Take Overs and Mergers 2010 ("**Code**") pursuant to the privatisation of the Company via the Proposed SCR and the Proposed WAC ("**Proposed Exemption**") to be undertaken by the Company.

The approval on the Proposed Exemption is subject to the following conditions:

- (i) The SC's consent must be obtained for the following:
  - (a) Circular to be despatched to the shareholders of Zecon;
  - (b) Explanatory statement containing all information and statements specified under Section 12 and the First Schedule of the Code; and
  - (c) Independent advice circular containing all information and statements specified under Section 15 and the Second Schedule of the Code.
- (ii) The Proposed SCR must comply with the provisions of the Code and PN44; and
- (iii) All interested parties must abstain from voting on the Proposed SCR.

On 30 January 2014, the Independent Advice Letter ("**IAL**") has been submitted to SC.

**ZECON BERHAD (134463-X)****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013****30. Borrowings**

	Unaudited 31 December 2013 RM'000	Audited 30 June 2013 RM'000	Audited 1 January 2012 RM'000
<b>Short term borrowings</b>			
Secured	46,358	35,706	37,258
Unsecured	-	100	37,183
	<b>46,358</b>	<b>35,806</b>	<b>74,441</b>
<b>Long term borrowings</b>			
Secured	110,993	111,524	58,087
Unsecured	-	-	-
	<b>110,993</b>	<b>111,524</b>	<b>58,087</b>
<b>TOTAL BORROWINGS</b>	<b>157,351</b>	<b>147,330</b>	<b>132,528</b>

**31. 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.

**32. Dividend payable**

The Board has not declared any interim dividend in the current quarter in respect of the financial period ending 31 December 2013.

**33. 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.

**ZECON BERHAD (134463-X)****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013****33. Breakdown of realised and unrealised profit or loss (contd.)**

	Current quarter ended 31 December 2013 RM '000	Audited 30 June 2013 RM'000
Total retained earnings of the Group		
- Unrealised	4,317	4,317
- Realised	(28,717)	(17,466)
	<hr/>	<hr/>
	(24,400)	(13,149)
Total share of retained earnings from Associate		
- Unrealised	-	-
- Realised	1,094	332
	<hr/>	<hr/>
	(23,306)	(12,817)
(Less)/add : Consolidation adjustment	(6,010)	5,972
Less: Transaction with NCI	-	(13,592)
<b>Retained earnings as per financial statements</b>	<hr/> <b>(29,316)</b>	<hr/> <b>(20,437)</b>

**34. Auditors' report in preceding annual financial statements**

The auditors' report on the audited annual financial statements for the financial year ended 30 June 2013 was not qualified.

**35. 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 28 February 2014.

By order of the Board

Koh Fee Lee  
(MAICSA 7019845)  
Dated 28/02/2014