

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 20th May 2015.

2. Significant accounting policies

The condensed consolidated interim financial statements of the group for the year ended 31 March 2015 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 2014.

2.1 Changes in accounting policies

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

On 1 July 2014, the Group adopted the following amended FRS standard for annual financial periods beginning on or after 1 July 2014:

- Amendments to FRS 2, FRS 3, FRS 8, FRS 116, FRS 124 and FRS 138 (Annual Improvements to FRSs 2010-2012 Cycle)
- Amendments to FRS 3, FRS 13 and FRS 140 (Annual Improvements to FRSs 2011-2013 Cycle)
- Amendments to FRS 119, Defined Benefits Plans : Employee contributions

The adoption of the above amended FRS did not have any material impact on the accounting policies, financial performance and position of the Group.

2. Significant accounting policies (contd.)

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.

FRS effective for annual periods beginning on or after 1 January 2016

- Amendments to FRS 116, Property, Plant and Equipment and FRS 138, Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to FRS 11, Joint Arrangements Benefits: Accounting for Acquisitions of Interest in Joint Operations
- FRS 14, Regulatory Deferral Accounts

FRS effective date to be announced

- FRS 9, Financial Instruments (IFRS 9 issued by IASB in November 2009)
- FRS 9, Financial Instruments (IFRS 9 issued by IASB in October 2010)
- FRS 9, Financial Instruments: Hedge Accounting and amendments to FRS 9, FRS 7 and FRS 139

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:

Annual periods beginning on or after 1 January 2016

- **Amendments to FRS 116, Property, Plant and Equipment and FRS 138, Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation**

FRS 116 and FRS 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

The amendments to FRS 116 prohibit revenue-based depreciation because revenue does not, as a matter of principle, reflect the way in which an item of property, plant and equipment is used or consumed. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

2. Significant accounting policies (contd.)

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

Annual periods beginning on or after 1 January 2016 (contd.)

- **Amendments to FRS 116, Property, Plant and Equipment and FRS 138, Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation (contd.)**

The amendments to FRS 138 introduce a rebuttable presumption that an amortisation method that is based on the revalue generated by an activity that includes the use of an intangible asset is inappropriate (for the same reasons as the amendments to FRS 116). This presumption can be overcome only in the limited circumstances:

- (a) in which the intangible asset is expressed as a measure of revenue, i.e. in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold; or
- (b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively and are effective for annual periods beginning on or after 1 January 2016.

FRS effective date to be announced

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

FRS 9 reflects the first phase of work on the replacement of FRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in FRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to FRS 9: Mandatory Effective Date of FRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of FRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurement of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2. Significant accounting policies (contd.)

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 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. Subsequently, on 2 September 2014, MASB has issued the following standards:

- (i) MFRS 15, Revenue from Contracts with Customers
- (ii) Agriculture: Bearer Plants (Amendments to MFRS 116, Property, Plant and Equipment and MFRS 141, Agriculture).

With the issuance of MFRS 14 and the Bearer Plants Amendment, all Transitioning Entities would be required to adopt the MFRS Framework latest by 1 January 2017.

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 2018. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amount 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 period ended 30 June 2014 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 2018.

3. Audit Report of Preceding Annual Financial Statements

The audit report of the Group's annual financial statements for the year 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 since last audited financial report.

8. Property, plant and equipment – acquisition and disposals

As at the end of current quarter, the Group has acquired and disposed its property plant and equipment at aggregate costs of RM469,015 and RM2,026 respectively.

9. Segmental Reporting

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

| | Construction | | Property Development | | Toll Concession | | Others | | Adjustment and eliminations | | Total | |
|---------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 1.7.2014 to 31.03.2015 | 1.7.2013 to 31.03.2014 | 1.7.2014 to 31.03.2015 | 1.7.2013 to 31.03.2014 | 1.7.2014 to 31.03.2015 | 1.7.2013 to 31.03.2014 | 1.7.2014 to 31.03.2015 | 1.7.2013 to 31.03.2014 | 1.7.2014 to 31.03.2015 | 1.7.2013 to 31.03.2014 | 1.7.2014 to 31.03.2015 | 1.7.2013 to 31.03.2014 |
| | 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 | 68,453 | 56,543 | 37,258 | 64,364 | 11,720 | 11,438 | 36 | 52 | - | - | 117,467 | 132,397 |
| Inter-segment sales | 89,701 | 38,874 | 996 | (2,656) | - | - | | 224 | (90,697) | (36,218) | | |
| Total Revenue | 158,154 | 95,417 | 38,254 | 61,708 | 11,720 | 11,438 | 36 | 276 | (90,697) | (36,218) | 117,467 | 132,397 |
| Segment (loss)/profit - Note A | (11,808) | (23,734) | 2,242 | 26,708 | 8,951 | 9,175 | (751) | (708) | | | (1,366) | 11,441 |

Note A

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

| | 1.7.2014 to 31.03.2015 RM'000 | 1.7.2013 to 31.03.2014 RM'000 |
|---------------------------------|--|--|
| Segment profit | (1,366) | 11,441 |
| Share of profit in associate | 164 | 174 |
| Finance Cost | (6,525) | (6,367) |
| (Loss)/profit before tax | (7,727) | 5,248 |

9. Segmental Reporting (cont'd)

(i) Construction Sector

This sector recorded losses mainly due to additional project costs incurred on the existing projects.

Newly commenced project is registering a lower revenue recognition due to lower percentage of completion at cut-off date.

(ii) Property Sector

The property sector recorded a lower revenue mainly due to sale of land during the corresponding quarter of the preceding year.

During the current quarter, the revenue was mainly derived from Mydin Supermall project.

(iii) Toll Concession

There is slight increase on toll revenue of RM11.7 million as compared to revenue of RM11.4 million in the corresponding quarter of the preceding year. The increase is mainly due to higher traffic volume during the quarter.

(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.

Overall, the Group's current quarter loss before tax of RM7.7 million compared to the corresponding quarter of the preceding year was due to the effect of additional project costs by the construction sector and lower profit margin recognised on both property development sector and construction sector.

10. Profit/(loss) before taxation

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

| | Current Quarter 3 months ended | | Cumulative Quarter 9 months ended | |
|---|-----------------------------------|----------------------------|--------------------------------------|----------------------------|
| | 31 March 2015 RM'000 | 31 March 2014 RM'000 | 31 March 2015 RM'000 | 31 March 2014 RM'000 |
| Amortization of prepaid land lease payment | - | - | 2 | 2 |
| Amortization of toll concessionaire | 132 | - | 396 | - |
| Depreciation of property, plant and equipment | 338 | 1,155 | 1,931 | 2,670 |
| Interest expense | 2,251 | 2,060 | 6,525 | 6,367 |
| Interest income | (6) | (32) | (87) | (154) |
| Gain on disposal of property, plant and equipment | - | (383) | (82) | (1,257) |

11. Income Tax Expense

| | Current Quarter 3 months ended | | Cumulative Quarter 9 months ended | |
|--------------------------------|-----------------------------------|----------------------------|--------------------------------------|----------------------------|
| | 31 March 2015 RM'000 | 31 March 2014 RM'000 | 31 March 2015 RM'000 | 31 March 2014 RM'000 |
| Current tax : | | | | |
| Malaysian income tax | 1,565 | 6,726 | 2,775 | 7,250 |
| Under provision in prior years | (6) | (1,403) | (6) | (1,403) |
| | 1,559 | 5,323 | 2,769 | 5,847 |

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 year, the income tax rate applicable to the subsidiary in Australia is 30% (2013: 30%). The income tax rate in Australia will be reduced to 28.5% with effect from income years beginning on or after 1 July 2015.

12. Earnings Per Share

| | Current Quarter 3 months ended | | Cumulative Quarter 9 months ended | |
|--|-----------------------------------|----------------------------|--------------------------------------|----------------------------|
| | 31 March 2015 RM'000 | 31 March 2014 RM'000 | 31 March 2015 RM'000 | 31 March 2014 RM'000 |
| Net loss attributable to equity holders of the Company | 1,207 | 2,341 | (3,924) | (6,538) |
| Weighted average number of ordinary shares in issue | 119,106 | 119,106 | 119,106 | 119,106 |
| Basic earnings per ordinary share for loss for the year (sen) | 1.01 | 1.97 | (3.29) | (5.49) |

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 2014 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 2014 till the date of this quarterly report.

16. Recurrent Related Party Transactions (RRPT)

The aggregate gross value of RRPT for the year ended 31 March 2015 were as follows:

| | 31 March 2015 RM'000 | 31 March 2014 RM'000 |
|-------------------------------|-------------------------------------|-------------------------------------|
| Aggregate gross value of RRPT | 3,760 | 3,328 |

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 March 2015.

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 year ended 31 March 2015.

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 by Zecon Berhad for the financial period ended 31 March 2015.

21. Cash and cash equivalent

| | Unaudited 31 March 2015 RM'000 | Unaudited 31 March 2014 RM'000 |
|---------------------------|---|---|
| Cash on hand and at banks | 15,534 | 6,588 |
| Fixed deposits at banks | 27 | - |
| Bank overdrafts | (4,017) | (1,332) |
| | <u>11,544</u> | <u>5,256</u> |

22. Review of performance

The Group recorded a lower revenue in this quarter compared to the corresponding quarter of the preceding year. The latter benefited from the sale of land.

The Group's loss before tax of RM7.7 million for the current quarter was largely due to the additional costs on existing project, and lower profit margin recognised on both property development sector and construction sector.

23. Material changes in the quarterly results

There is no material changes in the quarterly result as compared to the corresponding quarter of the preceding year.

24. Commentary on prospects

Zecon Bhd's Group will still be maintaining its core engineering business focusing on the existing projects which are anticipated to contribute towards the group's gross revenue. Progress on the MYDIN Hypermarket, Petra Jaya Hospital, and the 10-Storey Commercial Building at Taman Melawati in Kuala Lumpur are having material influence on the overall revenue. Toll's operation still maintains its targeted volume and remains as the consistent revenue contributor.

Zecon Berhad's Group has signed a Joint Development Agreement with PR1MA Corporation Malaysia in relation to the development of 1,888 units of PR1MA Homes, PR1MA Premier Homes and Retail Units. Zecon Behad's Group is still in the process of finalising the overall layout plan with PR1MA on the area.

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 if 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.

- 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 announced 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**

There were no new corporate proposals during the financial quarter.

- 30. Borrowings**

| | Unaudited 31 March 2015 RM'000 | Audited 30 June 2014 RM'000 | Unaudited 31 March 2014 RM'000 |
|------------------------------|---|--|---|
| Short term borrowings | | | |
| Secured | 86,995 | 35,490 | 34,175 |
| Unsecured | - | - | - |
| | 86,995 | 35,490 | 34,175 |
| Long term borrowings | | | |
| Secured | 99,400 | 104,303 | 111,292 |
| Unsecured | - | - | - |
| | 99,400 | 104,303 | 111,292 |
| TOTAL BORROWINGS | 186,395 | 139,793 | 145,467 |

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 of Zecon Berhad has not declared any interim dividend in the current quarter in respect of the financial period ending 31 March 2015.

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.

| | 31 March 2015 RM'000 | 31 March 2014 RM'000 |
|--|-------------------------------------|-------------------------------------|
| Total retained earnings of the Group | | |
| - Unrealised | 1,816 | 4,317 |
| - Realised | (49,411) | (20,275) |
| | <u>(47,595)</u> | <u>(15,958)</u> |
| Total share of retained earnings from Associate | | |
| - Unrealised | - | - |
| - Realised | 1,384 | 1,094 |
| | <u>(46,211)</u> | <u>(14,864)</u> |
| (Less)/add : Consolidation adjustment | (8,113) | (12,111) |
| Retained earnings as per financial statements | <u>(54,324)</u> | <u>(26,975)</u> |

34. Auditors' report in preceding annual financial statements

The auditors' report on the audited annual financial statements for the financial year ended 30 June 2014 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 20th May 2015.

By order of the Board

Koh Fee Lee
(MAICSA 7019845)
Dated 20/05/2015