

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 25th Feb 2016.

2. Significant accounting policies

The condensed consolidated interim financial statements of the group for the period ended 31 December 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 2015.

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 10 and FRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to FRS 11 : Accounting for Acquisitions of Interests in Joint Operations
- Amendments to FRS 10, FRS 12 and FRS 128 (2011): Investment Entities – Applying the Consolidation Exception
- Amendments to FRS 101: Presentation of Financial Statements – Disclosure Initiative
- Amendments to FRS 116 and FRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to FRS 127 (2011): Equity Method in Separate Financial Statements
- Annual Improvements to FRSs 2012 – 2014 Cycle

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 Malaysian Financial Reporting Standards (MFRS Framework)

MASB has issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRSs"), that are to be applied by all entities other than private entities; with the exception of entities that are within the scope of MFRS 141 (Agriculture) and IC Interpretation 15 (Agreements for Construction of Real Estate), including its parent, significant investor and venture (herein called "transitioning entities").

As announced by MASB on 8 September 2015, the transitioning entities are allowed to defer the adoption of MFRSs to annual periods beginning on or after 1 January 2018.

Accordingly, as a transitioning entity as defined above, the Group has chosen to defer the adoption of MFRSs and will only prepare its first set of MFRS financial statements for the financial year ending 30 June 2019. The Group currently assessing the possible financial impacts that may arise from the adoption of MFRSs and the process is still ongoing.

3. Audit Report of Preceding Annual Financial Statements

The audit report of the Group's annual financial statements for the year ended 30 June 2015 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 its property plant and equipment at aggregate costs of RM458,588 only. The Group did not dispose its property plant and equipment during the quarter.

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	
	1.7.2015 to 31.12.2015	1.7.2014 to 31.12.2014	1.7.2015 to 31.12.2015	1.7.2014 to 31.12.2014	1.7.2015 to 31.12.2015	1.7.2014 to 31.12.2014	1.7.2015 to 31.12.2015	1.7.2014 to 31.12.2014	1.7.2015 to 31.12.2015	1.7.2014 to 31.12.2014	1.7.2015 to 31.12.2015	1.7.2014 to 31.12.2014
	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	49,816	39,408	28,107	24,974	7,603	7,921	30	26	-	-	85,556	72,329
Inter-segment sales	53,424	51,125	(1,097)	(2,214)	-	-	-	-	(52,327)	(48,911)	-	-
Total Revenue	103,240	90,533	27,010	22,760	7,603	7,921	30	26	(52,327)	(48,911)	85,556	72,329
Segment (loss)/profit - Note A	(3,038)	(11,518)	(471)	1,675	(4,965)	6,007	(810)	(484)			(9,284)	(4,320)

Note A

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

	1.7.2015 to 31.12.2015 RM'000	1.7.2014 to 31.12.2014 RM'000
Segment profit	(9,284)	(4,320)
Share of profit in associate	#REF!	91
Finance Cost	#REF!	(4,290)
Loss before tax	#REF!	(8,519)

9. Segmental Reporting (cont'd)

(i) Construction Sector

This sector recorded losses is mainly due to additional project costs incurred on current project prior to completion and lower profit margin on current projects.

(ii) Property Sector

During the current quarter, the revenue was mainly derived from Mydin Supermall project. The losses was mainly due to additional costs incurred to on-going project.

(iii) Toll Concession

The decrease on accumulated toll revenue of RM7.6 million as compared to revenue of RM7.9 million in the corresponding quarter of the preceding year is mainly due to increase on the deferred revenue of reload sales.

The significant losses on current quarter is mainly due to written off expenses of RM11.1 million on toll concession.

(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.

10. Loss before taxation

The following amounts have been included in arriving at loss before taxation:

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31 December 2015 RM'000	31 December 2014 RM'000	31 December 2015 RM'000	31 December 2014 RM'000
Amortization of prepaid land lease payment	1	1	2	2
Amortization of toll concessionaire	132	132	264	264
Depreciation of property, plant and equipment	519	249	1,017	1,593
Interest expense	3,708	1,973	6,211	4,274
Interest income	(354)	(64)	(498)	(81)

11. Income Tax Expense

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31 December 2015 RM'000	31 December 2014 RM'000	31 December 2015 RM'000	31 December 2014 RM'000
Current tax :				
Malaysian income tax	937	692	1,539	1,210
Under provision in prior years		-		-
	937	692	1,539	1,210

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 28.5% (2015: 30%). The income tax rate in Australia has reduced to 28.5% on or after 1 July 2015.

12. Earnings Per Share

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31 December 2015 RM'000	31 December 2014 RM'000	31 December 2015 RM'000	31 December 2014 RM'000
Net profit/(loss) attributable to equity holders of the company	(13,838)	(2,062)	(16,132)	(5,131)
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)	(11.62)	(1.73)	(13.54)	(4.31)

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 period ended 31 December 2015 were as follows:

	31 December 2015 RM'000	31 December 2014 RM'000
Aggregate gross value of RRPT	1,793	3,218

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 2015

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

There were no material gains or losses arising from fair value changes of the financial liabilities for the current quarter and financial year ended 31 December 2015

19. Material subsequent event

The Group has, on 31 December 2015, entered into a Deed of Variation of Concession Agreement ("Deed of Variation") with the Government of Sarawak to set out the mutual termination of the Concession Agreement dated 17 July 1998 ("Termination of Toll Concession"). The salient terms of the Deed of Variation includes the obligations of the Concession Company to cease collecting toll from midnight of 31 December 2015 and to handover to the Pengarah Jabatan Kerja Raya, Sarawak ("JKR") possession and control of the Bridge and Associated works. The Concession Company shall also terminate or rescind any contract entered into with any other parties pertaining to the maintenance and management of the Bridge and ancillaries and contracts of all its employees, servants or agents engaged by the Concession Company in connection with its performance of the Concession Agreement.

The effect of the above event required RM11.1million toll concession to be written off in the current quarter.

20. Dividends paid

No interim ordinary dividend has been declared by Zecon Berhad for the financial period ended 31 December 2015

21. Cash and cash equivalent

	Unaudited 31 December 2015 RM'000	Unaudited 31 December 2014 RM'000
Cash on hand and at banks	15,838	8,798
Fixed deposits at banks	27	26
Bank overdrafts	(8,202)	(4,559)
	<u>7,663</u>	<u>4,265</u>

22. Review of performance

The Group recorded a higher revenue in this quarter compared to the corresponding quarter of the preceeding year mainly due to sale of land of RM13.5million.

The Group's losses before tax of RM15.5 million for the current quarter was largely due to the writing off of toll concession of RM11.1million and additional costs on existing projects.

23. Material changes in the quarterly results

Referring to Note 19, the Group has ceased its toll operation on 1 January 2016, which resulted in RM11.1million expenses for toll concession to be written off.

There are no other material changes, except as above, in the quarterly result as compared to the corresponding quarter of the preceding year.

24. Commentary on prospects

Despite the cessation of toll concession operation, the Group is optimistic over its future prospect with recent receipt of letter of agreement from Unit Perumahan Penjawat Awam 1Malaysia, Prime Minister office, agreeing on the proposed construction and completion of 2,117 units of double-storey terrace houses with a gross development cost of RM760.8 million.

The Group is also anticipating the construction of the PR1MA Homes to start during the second half of 2016 with a Gross Development Value of RM1.1billion.

The Group is anticipating potential new projects with recent signing of two Memorandum of Understanding ("MOU"). The first MOU is between Zecon Berhad and Unimas Holdings Sdn Bhd, and the latter is between Zecon Berhad and UTMSPACE.

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 December 2015 RM'000	Audited 30 June 2015 RM'000	Unaudited 31 December 2014 RM'000
Short term borrowings			
Secured	110,139	92,233	58,599
	110,139	92,233	58,599
Long term borrowings			
Secured	167,040	100,996	100,967
	167,040	100,996	100,967
TOTAL BORROWINGS	277,179	193,229	159,566

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 December 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 December 2015 RM'000	30 June 2015 RM'000
Total retained earnings of the Group		
- Unrealised	-	-
- Realised	(72,761)	(56,040)
	<u>(72,761)</u>	<u>(56,040)</u>
Total share of retained earnings from Associate		
- Unrealised	-	-
- Realised	1,756	1,791
	<u>(71,005)</u>	<u>(54,249)</u>
(Less)/add : Consolidation adjustment	(8,351)	(8,975)
Retained earnings as per financial statements	<u>(79,356)</u>	<u>(63,224)</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 2015 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 25th February 2016.

By order of the Board

Koh Fee Lee

(MAICSA 7019845)

Dated 25/02/2016