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 23rd November 2016.

2. Significant accounting policies

The condensed consolidated interim financial statements of the group for the period ended 30 September 2016 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 2016 except for the following:-

2.1 Changes in accounting policies

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the current financial year:

- FRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)
- Amendments to FRS 107: Disclosure Initiative
- Amendments to FRS 112: Recognition of Deferred Tax Assets for Unrealised Losses

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 Fianncial 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 2016 was not subject to any qualification

4. Seasonality or cyclicality of operations

The business operations of the Group are not materially affected by any seasonal or cyclicality 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 is no change to the composition of the Group during the quarter under review

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 RM986,322. The Group has not disposed its property plant and equipment.

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	
	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015
	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	38,100	17,449	991	9,972	-	3,798	252	14	-	-	39,343	31,233
Inter-segment sales	24,025	24,751	(949)	(6,609)	-	-	-	-	(23,076)	(18,142)	-	-
Total Revenue	**62,125**	**42,200**	**42**	**3,363**	**-**	**3,798**	**252**	**14**	**(23,076)**	**(18,142)**	**39,343**	**31,233**
Segment profit/(loss) - Note A	**6,434**	**(2,350)**	**(248)**	**(37)**	**30**	**3,024**	**(251)**	**(412)**			**5,965**	**225**

Note A

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

	1.7.2016 to 30.09.2016	1.7.2015 to 30.09.2015
	RM'000	RM'000
Segment profit	5,965	225
Share of profit in associate	74	72
Finance Cost	(3,760)	(2,503)
Profit/(loss) before tax	**2,279**	**(2,206)**

9. Segmental Reporting (cont'd)

(i) Construction Sector

The profit recorded by construction sector is mainly due to effect of recently started projects such as Pan Borneo Highway - Phase 1 project and Hospital Pakar Kanak-Kanak, Universiti Kebangsaan Malaysia ("HPKK-UKM") project.

(ii) Property Sector

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

(iii) Toll Concession

No revenue was recorded on current quarter as compared to revenue of RM3.8 million in the corresponding quarter of the preceding year due to cessation of toll concession on 1st January 2016.

(iv) Others

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

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 3 months ended	
	30 September 2016 RM'000	30 September 2015 RM'000	30 September 2016 RM'000	30 September 2015 RM'000
Amortization of prepaid land lease payment	1	1	1	1
Amortization of toll concessionaire	-	132	-	132
Depreciation of property, plant and equipment	521	498	521	498
Interest expense	3,760	2,503	3,760	2,503
Interest income	(467)	(144)	(467)	(144)
Rental income	-	(34)	-	(34)

11. Income Tax Expense

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	30 September 2016 RM'000	**30 September 2015 RM'000**	**30 September 2016 RM'000**	**30 September 2015 RM'000**
Current tax :				
Malaysian income tax	67	602	67	602
Under provision in prior years	-	-	-	-
	67	602	67	602
Deferred tax				
Relating to origination and reversal of temporary differences	57	-	57	-
Over provision in prior year	-	-	-	-
	124	602	124	602

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/(Loss) Per Share

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	30 September 2016 RM'000	30 September 2015 RM'000	30 September 2016 RM'000	30 September 2015 RM'000
Net profit/(loss) attributable to equity holders of the company	2,432	(2,294)	2,432	(2,294)
Weighted average number of ordinary shares in issue	119,106	119,106	119,106	119,106
Basic earnings/(loss) per ordinary share for profit/(loss) for the year (sen)	2.04	(1.93)	2.04	(1.93)
Weighted average number of ordinary shares for diluted earning/(loss) per share computation	119,106	119,106	119,106	119,106
Diluted earnings/(loss) per ordinary share for profit/(loss) for the year (sen)	2.04	(1.93)	2.04	(1.93)

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.

However, the Group has adopted fair model for its investment properties.

14. Contingencies

The Group acknowledge the contingent liabilities in respect of the corporate guarantees given to licensed banks by the holding company for the credit facilities granted to subsidiaries amounting to RM690,090,000, utilised or unutilised.

15. Capital commitments

There were no material capital commitments in respect of the Group that had arisen since 30 June 2016 till the date of this quarterly report.

16. Recurrent Related Party Transactions (RRPT)

The aggregate gross value of RRPT for the period ended 30 September 2016 were as follows:

	30 September 2016 RM'000	30 September 2015 RM'000
Aggregate gross value of RRPT	10	259

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 30 September 2016.

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 period ended 30 September 2016.

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 30 September 2016

21. Cash and cash equivalent

	Unaudited 30 September 2016 RM'000	Unaudited 30 September 2015 RM'000
Cash on hand and at banks	32,687	7,507
Fixed deposits at banks	28	27
Bank overdrafts	(8,050)	(6,273)
	24,665	1,261

22. Review of performance

The Group recorded a profit after taxation mainly due to profit recorded by recently commenced projects such as Pan Borneo Highway - Phase 1 project and Hospital Pakar Kanak-Kanak, Universiti Kebangsaan Malaysia ("HPKK-UKM") project.

23. Material changes in the quarterly results (Q4 2016 vs Q1 2017)

During last quarter, the Group has adopted the fair value model on its investment properties, which significantly contributed to the Group's performance.

24. Commentary on prospects

This quarter, Zecon recorded profit from its recently commenced projects, namely Pan Borneo Highway - Phase 1 project and Hospital Pakar Kanak-Kanak, Universiti Kebangsaan Malaysia ("HPKK-UKM") project.

The profit generated has contributed to the improved result in the current quarter as compared to the result in the corresponding quarter of the preceding year.

With the recent receipt of letter of agreement from Unit Perumahan Penjawat Awam 1Malaysia and head of agreements with PR1MA Development Sdn Bhd, the management is confident that the above mentioned projects will further contribute to the profitability of the Group.

Going forward, the Group will be focusing primarily on speeding the completion of all projects in hand.

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

On 4th July 2016, KAF Investment Bank Berhad, on behalf of the board of directors of Zecon Berhad has announced that the Group proposes to undertake the following:-

(i) proposed reduction of the issued and paid-up share capital of Zecon via the cancellation of RM0.90 of the par value of the ordinary shares of RM1.00 each in Zecon to RM0.10 each in Zecon (“Zecon Share(s)” or “Share(s)”) pursuant to Section 64 of the Companies Act, 1965 (“Act”) (“Proposed Par Value Reduction”);

(ii) proposed amendments to the Memorandum and Articles of Association of Zecon to facilitate the implementation of the Proposed Par Value Reduction (“Proposed Amendments”);

(iii) proposed bonus issue of up to 163,274,690 new Zecon Shares (“Bonus Share(s)”) on the basis of one (1)) Bonus Share for every one (1) existing Zecon Share held on an entitlement date to be determined after the Proposed Par Value Reduction (“Proposed Bonus Issue of Shares”);

(iv) proposed renounceable rights issue of up to RM136,062,242 nominal value of five (5)- year, 5%, redeemable convertible unsecured loan stocks (“RCULS”) at 100% of its nominal value of RM0.10 each on the basis of twenty-five (25) RM0.10 nominal value of RCULS together with three (3) new Zecon Shares (“Free Shares”) for every six (6) existing Zecon Shares held at an entitlement date to be determined after the Proposed Par Value Reduction and the Proposed Bonus Issue of Shares ("Proposed Rights Issue of RCULS with Free Shares"); and

(v) proposed establishment of a long term incentive plan of up to 15% for the eligible directors and employees of Zecon and its subsidiary companies (excluding dormant subsidiary companies) (“Proposed LTIP”).

Collectively referred to as "Proposals".

On 30 September 2016, our advisor KAF Investment Bank Berhad ("KAF Investment") had, on behalf of the Board, submitted the draft circular of the Proposals and an application for the issuance of RCULS pursuant to the Proposed Rights Issue of RCULS with Free Share to Bursa Malaysia Securities Berhad ("Bursa Securities") and the Securities Commission Malaysia, respectively ("Submissions").

KAF Investment had a meeting with Bursa Securities on 02 November 2016, in relation to our Submission. Subsequently KAF Investment has drafted a revised proposal for Board’s deliberation.

The Board had deliberated the revised proposal and will be submitting the revised proposal via KAF Investment to Bursa Securities for approval once finalized.

30. Borrowings

	Unaudited 30 September 2016 RM'000	Audited 30 June 2016 RM'000
Short term borrowings		
Secured	129,047	129,274
Unsecured	-	-
	129,047	**129,274**
Long term borrowings		
Secured	176,892	173,617
Unsecured	-	-
	176,892	**173,617**
TOTAL BORROWINGS	**305,939**	**302,891**

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 30 September 2016

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.

	30 September 2016 RM'000	**Audited 30 June 2016 RM'000**
Total retained earnings of the Group		
- Unrealised	-	-
- Realised	(41,585)	(36,478)
	(41,585)	(36,478)
Total share of retained earnings from Associate		
- Unrealised	-	-
- Realised	1,949	1,756
	(39,636)	(34,722)
(Less)/add : Consolidation adjustment	10,152	2,806
Retained earnings as per financial statements	**(29,484)**	**(31,916)**

34. Auditors' report in preceding annual financial statements

The auditors' report on the audited annual financial statements for the financial year ended 30 June 2016 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 23rd November 2016.

By order of the Board

Koh Fee Lee
(MAICSA 7019845)
Dated 23/11/2016