

**PART A: Explanatory Notes Pursuant to FRS 134**

**1. Basis of Preparation**

The condensed consolidated interim financial statements of the Group for the period ended 31 March 2018 were prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The condensed consolidated interim financial statements should be read in conjunction with the annual report for the year ended 30 June 2017. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 30 June 2017.

These condensed consolidated interim financial statements were approved by the Board of Directors on 25th May 2018.

**2. 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)
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- IC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to FRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to FRS 4: Applying FRS 9 Financial Instruments with FRS 4 Insurance Contracts
- Amendments to FRS 10 and FRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to FRS 107: Disclosure Initiative
- Amendments to FRS 112: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to FRS 140 – Transfers of Investment Property
- Annual Improvements to FRS Standards 2014 – 2016 Cycles:
  - Amendments to FRS 12: Clarification of the Scope of Standard
- Annual Improvements to FRS Standards 2014 – 2016 Cycles:
  - Amendments to FRS 1: Deletion of Short-term Exemptions for First-time Adopters
  - Amendments to FRS 128: Measuring an Associate or Joint Venture at Fair Value

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.)**

**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. Seasonality or cyclicity of operations**

The business operations of the Group are not materially affected by any seasonal or cyclicity fluctuations during the quarter under review.

**4. Unusual items due to their nature, size and incidence**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the quarter ended 31 March 2018.

**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.

There is no impairment on the goodwill on consolidation during the current quarter's result.

**(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.

There is no material effect on the current quarter's result due to the changes in estimation of useful life.

**(d) 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. Dividends paid**

No interim ordinary dividend has been declared by Zecon Berhad for the financial period ended 31 March 2018.

## 8. 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		Service Concession		Others		Adjustment and eliminations		Total	
	1.7.2017 to 31.03.2018	1.7.2016 to 31.03.2017	1.7.2017 to 31.03.2018	1.7.2016 to 31.03.2017	1.7.2017 to 31.03.2018	1.7.2016 to 31.03.2017	1.7.2017 to 31.03.2018	1.7.2016 to 31.03.2017	1.7.2017 to 31.03.2018	1.7.2016 to 31.03.2017	1.7.2017 to 31.03.2018	1.7.2016 to 31.03.2017
	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	125,359	111,466	3,958	5,325	135,498	48,972	484	487	-	-	265,299	166,250
Inter-segment sales	12,595	46,404	(1,139)	(3,665)	(3,418)	-	864	828	(8,902)	(43,567)	-	-
<b>Total Revenue</b>	<b>137,954</b>	<b>157,870</b>	<b>2,819</b>	<b>1,660</b>	<b>132,080</b>	<b>48,972</b>	<b>1,348</b>	<b>1,315</b>	<b>(8,902)</b>	<b>(43,567)</b>	<b>265,299</b>	<b>166,250</b>
<b>Segment (loss)/profit - Note A</b>	<b>(12,081)</b>	<b>9,510</b>	<b>(123)</b>	<b>3,034</b>	<b>31,310</b>	<b>5,825</b>	<b>(2,242)</b>	<b>(1,842)</b>			<b>16,864</b>	<b>16,527</b>

**Note A**

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

	1.7.2017 to 31.03.2018 RM'000	1.7.2016 to 31.03.2017 RM'000
Segment profit	16,864	16,527
Share of profit in associate	115	88
Finance Cost	(24,580)	(12,007)
<b>(Loss)/profit before tax</b>	<b>(7,601)</b>	<b>4,608</b>

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

**(i) Construction Sector**

The sector continues to record construction revenue from Pan Borneo Highway - Phase 1 project and other existing projects. At the end of current quarter, Pan Borneo Highway - Phase 1 project has contributed 83.4% of the total revenue in this sector.

The sector losses is mainly due to additional costs recorded.

**(ii) Property Sector**

There is lesser activity on the property development sector. The revenue is mainly recognised from the Mydin Supermall development project and sales of existing shophouses at Vista Tunku.

**(iii) Service Concession**

At the end of current quarter, the sector contributed 51.1% to the total revenue of the Group.

The service concession are excuted based on concession agreement with the Government of Malaysia and Universiti Kebangsaan Malaysia ("UKM") for the Children's Specialist Hospital located at UKM Campus.

**(iii) Others**

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

**9. Event after the Reporting Period**

On 22 April 2018, the Group has strike off one of its subsidiary, Zecon Mideast Limited. The strike off will not have material impact to the financial statement.

There are no other material events subsequent to the reporting date that have any material effect on the quarter ended 31 March 2018.

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

The Company had, on 27 November 2017, entered into a conditional share purchase agreement with the State Financial Secretary of Sarawak for the disposal of 3,920,000 ordinary shares in Zecon Medicare Sdn Bhd , a wholly-owned subsidiary of Zecon, which represent 49% of the total number of issued shares of Zecon Medicare, for a cash consideration of RM155.0 million.

In addition, the Company, on 27 February 2018, has strike off one of its subsidiary, Zecon (Saudi Arabia) International Limited. The strike off does not have material impact on the financial statement of the company.

**11. Capital commitments**

There were no material capital commitments in respect of the Group that had arisen since 30 June 2017 till the date of this quarterly report.

**12. Change in contingent liabilities and contingent assets**

There were no material changes in the contingent liabilities or contingent assets since the last annual report date.

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 RM676,076,000, utilised or unutilised.

**13. Related Party Transactions ("RPT")**

The aggregate gross value of RPT for the period ended 31 March 2018 were as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Aggregate gross value of RRPT	33	500

The RPT 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.

**14. Fair value of instruments**

Other than those disclosed below, the fair value of the financial assets and financial liabilities maturing within the next 12 months approximated their carrying amount due to the relatively short-term maturity of the financial instruments.

	Carrying Amount RM'000	Fair value of financial instrument carried at fair value			
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total Fair Value RM'000
<b>31 March 2018</b>					
<b>Financial Asset</b>					
Other investments:					
- quoted shares	111	111	-	-	111
<b>31 March 2017</b>					
<b>Financial Asset</b>					
Other investments:					
- quoted shares	181	181	-	-	181



## PART B: Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

## 15. Review of performance

## (a) Financial review for current quarter and financial year to date

	Individual Period (3rd quarter)			Cumulative Period		
	CY quarter	PYC Quarter	changes	CY to-date	PYC period	changes
	31.03.2018	31.03.2017		31.03.2018	31.03.2017	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	119,621	62,527	91%	265,299	166,250	59.58%
Gross profit	8,714	5,347	63%	10,829	24,062	-55.00%
Profit before interest and tax	11,040	6,097	81%	16,864	16,527	2.04%
Profit before tax	1,883	1,889	0%	(7,601)	4,608	-264.95%
Profit after tax	(1,066)	1,749	-161%	(15,663)	4,110	-481.09%
Profit attributable to the ordinary equity holders of the parent	(7,446)	108	-6994%	(19,990)	2,953	-776.94%

The losses recorded under the cumulative period is mainly due to the recognition of potential Liquidated Ascertained Damages ("LAD") on one of our current project as reflected on our earlier announced result.

During the quarter, the Group register marginal losses contributed by depleted margin of our on-going projects.

However, the Group has achieve significant milestone on Universiti Kebangsaan Malaysia ("UKM") for the Children's Specialist Hospital located at UKM Campus where the project has contributed higher revenue to the Group as compared to the previous quarters.

## 15. Review of performance (cont'd)

## (b) Financial review for current quarter compare with immediate preceding quarter

	Current quarter 31.03.2018 RM'000	Immediate Preceding Quarter 31.12.2017 RM'000	changes %
Revenue	119,621	63,314	88.93%
Gross profit	8,714	(7,400)	-217.76%
Profit before interest and tax	11,040	(2,798)	-494.57%
Profit before tax	1,883	(13,156)	-114.31%
Profit after tax	(1,066)	(15,295)	-93.03%
profit attributable to the ordinary equity holders of the parent	(7,446)	(13,336)	-44.17%

During the quarter, the Group has achieve substantial progress on our Children's Specialist Hospital Project, which see significant increase of revenue recorded.

The current quarter's low profit before taxation was mainly due to the higher interest expenses incurred on additional drawdown of RM89million from project financing facility during the end of 2nd quarter.

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**16. Commentary on prospects**

Moving forward, our Pan Borneo Highway Phase 1 Project and the HPKK HUKM Project will continue to contribute significantly towards the overall revenue for the Group.

Zecon Berhad will take advantage of its existing landbank in order to ensure continuous income stream for the Group.

**17. Profit forecast or profit guarantee**

The Group has not announced any profit forecast or profit guarantee for the current financial year in any public document and hence this information is not applicable.

**18. Income Tax Expense**

	Current Quarter 3 months ended		Cumulative Quarter 9 months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
Current tax :				
Malaysian income tax	(9)	(30)	110	74
Under provision in prior years	(219)	1	(244)	1
	(228)	(29)	(134)	75
Deferred tax				
Relating to origination and reversal of temporary differences	3,177	169	8,196	423
Over provision in prior year	-	-	-	-
	2,949	140	8,062	498

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year. During the current financial year, the income tax rate applicable to the subsidiary in Australia is 27.5%.

**19. Status of corporate proposals**

**(a) Redeemable convertible unsecured loan stocks**

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, KAF Investment Bank Berhad ("KAF"), had on behalf of the Company submitted the draft circular and relevant applications in relation to the Proposals ("Submission") to Bursa Securities and the Securities Commission Malaysia ("SC").

SC had vide its letter dated 6 February 2017, approved our application for the issuance of the RCULS pursuant to the Proposed Rights Issue of RCULS under Section 214(1) of the Capital Markets & Services Act, 2007.

However, due to the 'no par value regime' in the new Companies Act, 2016 which came into effect on 31 January 2017, the Company has on 22 March 2017 submitted the amended Submission to Bursa Securities ("Bursa").

On 27 April 2017, the Company also submitted its revised principal terms and conditions of RCULS ("Revised PTC") to the SC for approval.

**19. Status of corporate proposals (contd)**

**(a) Redeemable convertible unsecured loan stocks (contd)**

Bursa had, vide its letter dated 14 June 2017, approved the following:-

- (i) listing of and quotation for up to 198,510,250 RCULS to be issued pursuant to the Proposed Rights Issue of RCULS, on the Main Market of Bursa Securities; and
- (ii) listing of and quotation for up to 198,510,250 new ordinary shares to be issued pursuant to the conversion of the RCULS arising from the Proposed Rights Issue of RCULS, on the Main Market of Bursa Securities.

The approval granted by Bursa Securities is subject to the following conditions:-

1. Zecon and KAF Investment must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Rights Issue of RCULS;
2. Zecon and KAF Investment to inform Bursa Securities upon the completion of the Proposed Rights Issue of RCULS;
3. Zecon and KAF Investment to furnish a certified true copy of the resolution passed by shareholders at the shareholders' meeting for the Proposed Rights Issue of RCULS; and
4. Zecon to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Rights Issue of RCULS is completed.

Bursa Securities had, vide its letter dated 4 August 2017, granted the Company an extension of time until 6 October 2017 to comply with Paragraph 9.33(1)(b) of the Listing Requirements.

On 4 December 2017, the Board of the Company has decided to abort the Proposed Right Issue of RCULS due to recent fund received from private placement and potential fund from disposal of 49% equity interest in Zecon Medicare Sdn Bhd.

**(b) Private Placement**

On 14 September 2017 and 25 September 2017, the Group has issued 3,818,000 shares at RM0.55 per share and 8,092,600 shares at RM0.53 per share, giving total gross consideration of RM6,388,978.

**20. Borrowings**

	Currency denomination	Unaudited 31 March 2018 RM'000	Audited 30 June 2017 RM'000	Unaudited 31 March 2017 RM'000
<b>Short term borrowings</b>				
Secured	RM	111,389	128,370	128,721
Unsecured	RM	-	-	-
		<b>111,389</b>	<b>128,370</b>	<b>128,721</b>
<b>Long term borrowings</b>				
Secured	RM	305,705	222,027	207,381
Unsecured	RM	-	-	-
		<b>305,705</b>	<b>222,027</b>	<b>207,381</b>
<b>TOTAL BORROWINGS</b>		<b>417,094</b>	<b>350,397</b>	<b>336,102</b>

**21. Off balance sheet financial instruments**

As at the date of this report, there are no financial instrument with off balance sheet risks entered into by the Group.

**22. Derivative financial instruments**

The Group does not have any outstanding financial derivatives as at 31 March 2018.

**23. 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 31 March 2018.

**24. 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, except for an arbitration in KLRCA (Kuala Lumpur Regional Centre of Arbitration) between POSCO Engineering Co. Limited and Zecon Engineering & Construction Sdn Bhd.

**25. Additional disclosure on profit for the year**

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

	Current Quarter 3 months ended		Cumulative Quarter 9 months ended	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	RM'000	RM'000	RM'000	RM'000
Amortization of prepaid land lease payment	-	-	2	2
Bad Debt written off	-	86	-	479
Bad Debt Recovered	-	-	(440)	
Depreciation of property, plant and equipment	681	505	1,892	1,520
Gain on disposal of property, plant and equipment	(17)	(85)	(3,897)	(85)
Fair value loss/(gain) on investment properties	-	-	-	(3,380)
Interest expense	9,157	4,222	24,580	12,007
Interest income	(325)	(135)	(475)	(1,143)
Impairment on receivables	146	3	146	9
Rental income	-	(40)	239	(189)
Reversal on impairment on receivables	20	(486)	(95)	(486)

**26. 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 2018.

**27. Earnings Per Share**

	Current Quarter 3 months ended		Cumulative Quarter 9 months ended	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	RM'000	RM'000	RM'000	RM'000
Net profit attributable to equity holders of the company	(7,446)	108	(19,990)	2,953
Weighted average number of ordinary shares in issue **	127,047	119,106	127,047	119,106
Basic earnings per ordinary share for profit for the year (sen)	(5.86)	0.09	(15.73)	2.48
Weighted average number of ordinary shares for diluted earning per share computation **	127,047	119,106	127,047	119,106
Diluted earnings per ordinary share for profit for the year (sen)	(5.86)	0.09	(15.73)	2.48

\*\* On 14 September 2017 and 25 September 2017, the Group has issued 3,818,000 shares at RM0.55 per share and 8,092,600 shares at RM0.53 per share, giving total gross consideration of RM6,388,978.

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

The auditors' report on the audited annual financial statements for the financial year ended 30 June 2017 was not qualified.



**29. 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 May 2018.

By order of the Board

Koh Fee Lee  
(MAICSA 7019845)  
Dated 25/05/2018