PART A: Explanatory Notes Pursuant to MFRS 134

1. Basis of Preparation

The interim financial report is not audited and has been prepared in compliance with Malaysian Financial Reporting Standards ("MFRS") 134 - Interim Financial Reporting, requirements of the Companies Act 2016 ("CA 2016") and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities LR").

The condensed consolidated interim financial statements should be read in conjunction with the annual report for the year ended 30 June 2018. 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 2018.

These condensed consolidated interim financial statements were approved via Board of Directors' Resolution dated on 29th November 2018.

2. Changes in accounting policies

The financial statements of the Group for the quarter ended 30 September 2018 are the first set of interim financial report prepared in accordance with the MFRS Framework, hence MFRS 1 First-time Adoption of Malaysian Financial Standards has been applied. The MFRS Framework is effective for the Group from 1 July 2018.

The two newly effective standards which were adopted pursuant to the adoption of the MFRS Framework, namely MFRS 15 Revenue from Contracts with Customers and MFRS 9 Financial Instruments have resulted in the following key changes to the financial statements:

MFRS 9: Financial Instruments

MFRS 9 introduces new requirements for classification and measurements, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

2. Changes in accounting policies (contd.)

MFRS 9: Financial Instruments (contd.)

(i) Classification and measurements

There is no significant impact on the statements of financial position on applying the classification and measurement requirements of MFRS 9. All financial assets will continue to be held at fair value, quoted equity shares classified as available-for-sale ("AFS") will continue to record gains and losses in other comprehensive income ("OCI"). The equity shares in non-quoted companies are intended to be held for the foreseeable future and the Group will apply the option to present its fair value changes in OCI.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

(ii) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at Fair Value to Other Comprehensive Income and contract assets under MFRS 15 - Revenue from Contracts with Customers.

Upon application of ECL on receivables and contract assets as at 1 July 2018, the impairment increased by RM36.4 million. This has resulted in a reduction in the retained profits by RM36.4 million.

MFRS 15: Revenue from Contracts with Customers

MFRS 15 established a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 superseded previous revenue recognition guidance including MFRS 118: Revenue, MFRS 111: Construction Contracts and the related interpretations.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when control of the goods or services underlying the particular performance obligation is transferred to the customer.

2. Changes in accounting policies (contd.)

MFRS 15: Revenue from Contracts with Customers (contd.)

Upon adopting MFRS 15, our other receivables reduced by RM2.3 million because performance obligation is not satisfied. This adoption also resulted in reduction of both retainined earning and non-controlling interest of RM1.3 million and RM1 million respectively.

The Group had reassessed the total financial impact on the Group's financial statements upon adoption of MFRS 9 and MFRS 15 on 1 July 2018 which have been summarised in the table below:-

Financial impact

	As previously stated 30 June 2018 Audited RM'000	Effect of adoption of MFRS 9 RM'000	Effect of adoption MFRS 15 RM'000	As Restated 1 July 2018 Unaudited RM'000
Trade and other receivables	109,607	(21,977)	(2,300)	85,330
Amount due from customers for contract work	52,854	(14,376)	-	38,478
Retained earnings	(153,251)	36,353	1,265	(115,633)
Non controlling interest	(105,663)	-	1,035	(104,628)

3. 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.

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 30 September 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 30 September 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	
	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue												
External sales	46,618	39,095	1,478	3,262	35,626	39,908	151	99	-	-	83,873	82,364
Inter-segment sales	2,583	645	-	(486)	(1,082)	-	288	288	(1,789)	(447)	-	-
Total Revenue	**49,201**	**39,740**	**1,478**	**2,776**	**34,544**	**39,908**	**439**	**387**	**(1,789)**	**(447)**	**83,873**	**82,364**
Segment (loss)/profit - Note A	**(9,263)**	**(54)**	**757**	**651**	**14,368**	**8,844**	**(288)**	**(819)**			**5,574**	**8,622**

Note A

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

	1.7.2018 to 30.09.2018	1.7.2017 to 30.09.2017
	RM'000	RM'000
Segment profit	5,574	8,622
Share of profit in associate	(10)	48
Finance Cost	(10,004)	(4,998)
(Loss)/Profit before tax	**(4,440)**	**3,672**

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. The sector losses is mainly due to costs escalation on existing projects.

(ii) Property Sector

The sector records lower revenue as compared to the corresponding quarter of the preceding year due to completion of Mydin Supermall and Vista Tunku property development.

(iii) Service Concession

At the end of current quarter, the sector contributed 83.13% to the total revenue of the Group.

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

(iv) Others

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

9. Event after the Reporting Period

There are no other material events subsequent to the reporting date that have any material effect on the quarter ended 30 June 2018.

10. Changes in the composition of the Group

There is no change to the composition of the Group during the quarter under review.

11. Capital commitments

There were no material capital commitments in respect of the Group that had arisen since 30 June 2018 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 RM639,525,104 utilised or unutilised.

13. Related Party Transactions ("RPT")

The aggregate gross value of RPT for the period ended 30 September 2018 were as follows:

	30 September 2018 RM'000	30 September 2017 RM'000
Aggregate gross value of RRPT	1,660	33

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	Fair value of financial instrument carried at fair value			
		Level 1	Level 2	Level 3	Total Fair Value
	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2018					
Financial Asset					
Investment securities:					
- quoted shares	108	108	-	-	108
30 September 2017					
Financial Asset					
Investment securities:					
- quoted shares	146	146	-	-	146

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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 (1st quarter)			Cumulative Period		
	CY quarter 30.09.2018 RM'000	PYC Quarter 30.09.2017 RM'000	changes %	CY to-date 30.09.2018 RM'000	PYC period 30.09.2017 RM'000	changes %
Revenue	83,873	82,364	2%	83,873	82,364	2%
Gross profit	2,747	9,515	-71%	2,747	9,515	-71%
Profit before interest and tax	5,574	8,622	-35%	5,574	8,622	-35%
(Loss)/Profit before tax	(4,440)	3,672	-221%	(4,440)	3,672	-221%
(Loss)/Profit after tax	(6,628)	698	-1050%	(6,628)	698	-1050%
(Loss)/Profit attributable to the ordinary equity holders of the parent	(9,210)	792	-1263%	(9,210)	792	-1263%

The Group's revenue recorded is largely derived from the Universiti Kebangsaan Malaysia ("UKM") for the Children's Specialist Hospital Project and Pan-Borneo Highway Phase 1 - Project. The loss before taxation is mainly due to additional costs on completing projects.

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15. Review of performance (cont'd)

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

	Current Quarter 30.09.2018 RM'000	Immediate Preceding Quarter 30.06.2018 RM'000	changes %
Revenue	83,873	202,063	-58.49%
Gross (loss)/profit	2,747	(38,693)	-107.10%
Profit before interest and tax	5,574	86,823	-93.58%
Profit before tax	(4,440)	82,469	-105.38%
(Loss)/profit after tax	(6,628)	46,636	-114.21%
(Loss)/profit attributable to the ordinary equity holders of the parent	(9,210)	33,223	-127.72%

The Group recorded lower revenue as compared to immediate preceding quarter mainly because completion of existing projects. On current quarter, the Group records its revenue largely from Universiti Kebangsaan Malaysia ("UKM") for the Children's Specialist Hospital Project and Pan-Borneo Highway Phase 1 - Project.

On last quarter, the Group also recorded one-off fair value gain on its investment properties under profit before taxation.

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16. Commentary on prospects

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

Discussion with potential investors had been on-going and the success would see contribution towards the Group's planned monetisation of the assets.

We have been invited to participate in the pre-qualification exercises involving major potential infrastructure projects in Sarawak.

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 3 months ended	
	30 June 2018	**30 June 2017**	**30 June 2018**	**30 June 2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax :				
Malaysian income tax	1	184	1	184
Under provision in prior years	-	-	-	-
	1	184	1	184
Deferred tax				
Relating to origination and reversal of temporary differences	2,187	2,790	2,187	2,790
Over provision in prior year	-	-	-	-
	2,188	2,974	2,188	2,974

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

There were no new corporate proposals during the financial quarter.

20. Borrowings

	Currency denomination	Unaudited 30 September 2018 RM'000	Audited 30 June 2018 RM'000	Unaudited 30 September 2017 RM'000
Short term borrowings				
Secured	RM	466,339	466,805	131,619
Unsecured	RM	-	-	-
		466,339	**466,805**	**131,619**
Long term borrowings				
Secured	RM	2,508	2,852	176,892
Unsecured	RM	-	-	-
		2,508	**2,852**	**176,892**
TOTAL BORROWINGS		**468,847**	**469,657**	**308,511**

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 30 September 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 30 September 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 the following:-

a) Arbitration in KLRCA (Kuala Lumpur Regional Centre of Arbitration) between POSCO Engineering Co. Limited and Zecon Engineering & Construction Sdn Bhd. To date, hearing is still to be fixed.

b) Arbitration in Asian International Arbitration Centre between PT Wijaya Karya (PERSERO) TBK and Zecon Berhad. The Asian International Arbitration Centre has not provided any direction on the legal suit as at to date.

24. Material Litigation (cont'd)

c) The Company has received a notice dated 7 September 2018 from the Syndicated Lenders of the Hospital Petra Jaya Project, Kuching, Sarawak notifying that an event of default for payment of principal and interest of the financing facilities has occurred.

Referring to letter dated 26 September 2018, Messrs Battenberg & Talma acting for Affin demanded the repayment for the said amount from Zecon Berhad as well as Zecon Capital Ventures Sdn Bhd being a security party in respect of the facility.

By a writ of summons dated 29 October 2018, the lenders file an action in the High Court of Sabah and Sarawak at Kuching against Zecon Berhad for the repayment of the amount stated above. We have appointed a lawyer to enter appearance and handle the matter. The Mention date is fixed at 31 December 2018.

d) The Company had, following the letter of termination of the Hospital Petrajaya Project by Jabatan Kerja Raya, Malaysia ("JKR") dated 02 August 2018, had on 10 August 2018 obtained an injunction against the Government of Malaysia ("GOM") to restrain JKR from liquidating the Bank Guarantee (BG) for Performance Bond amounting to RM24.75 million

In relation to the application by the GOM to challenge the injunction against JKR liquidating the performance bond, the KL High Court at a hearing on 14 November 2018, has directed parties to explore a possible settlement. The Court has adjourned the hearing to 4 December 2018 to enable the parties to seek settlement.

In this regard the Company's solicitor has written to the Attorney General Chambers (AGC) to request JKR to settle and set a date to meet up and discuss with a view to settle.

In the meantime, the Company had on 21 August 2018 served on the GOM the Notice of Arbitration claiming an amount of RM155,990,920.51. On 1 October 2018, the GOM proposed that potential arbitrator should be well versed in both Bahasa Malaysia and English and that the person is not currently hearing arbitration matters involving the GOM. On 17 October 2018, the Company submitted the Commencement Request and agreed to the GOM's proposal as to the qualifications of the arbitrator and request Director of the Asian International Arbitration Centre ("AIAC") to appoint the arbitrator.

On 23 October 2018, the Company submitted all documentation accompanying the Commencement Request for the arbitration to start. By a letter dated 30 October 2018, the AIAC has appointed the arbitrator.

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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 3 months ended	
	30 September 2018 RM'000	**30 September 2017 RM'000**	**30 September 2018 RM'000**	**30 September 2017 RM'000**
Amortization of prepaid land lease payment	1	1	1	1
Depreciation of property, plant and equipment	530	652	530	652
Gain on disposal of property, plant and equipment	(315)	(520)	(315)	(520)
Interest expense	10,004	4,998	10,004	4,998
Interest income	(123)	(117)	(123)	(117)
Impairment on receivables	-	28	56	28
Impairment on contract costs	385	-	385	-
Rental income	(232)	(81)	(232)	(81)
Reversal on impairment on receivables	(150)	(2)	(150)	(2)
Loss/(Gain) on foreign exchange	1	-	1	-

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 30 September 2018.

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27. Earnings Per Share

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Net (loss)/profit attributable to equity holders of the company	(9,210)	792	(9,210)	792
Weighted average number of ordinary shares in issue **	131,017	119,106	131,017	119,106
Basic earnings per ordinary share for profit for the year (sen)	(7.03)	0.66	(7.03)	0.66
Weighted average number of ordinary shares for diluted earning per share computation **	131,017	119,106	131,017	119,106
Diluted earnings per ordinary share for profit for the year (sen)	(7.03)	0.66	(7.03)	0.66

28. Auditors' report in preceding annual financial statements

The auditor has express material uncertainty related to going concern on the audited financial statements for the financial year ended 30 June 2018.

29. Authorisation for Issue

The interim financial statements were authorized for issue via Board of Directors' Resolution dated on 29th November 2018.

By order of the Board

Koh Fee Lee
(MAICSA 7019845)
Dated 29/11/2018