NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2019

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 and paragraph 9.22 of the Main Market 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 2019. 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 2019.

2. Changes in accounting policies

The significant accounting policies applied are consistent with those adopted for the audited financial statements for the year ended 30 June 2019 except for the adoption of the following new standards, amendments to published standards and interpretation that are effective for the Group's financial year beginning on or after 1 July 2019 and applicable to the Group as follows:

- MFRS 16 “Leases”
- Amendments to MFRS 9 “Prepayment Features with Negative Compensation”
- Amendments to MFRS 119 “Plan Amendment, Curtailment or Settlement”
- Amendments to MFRS 128 “Long term Interests in Associates and Joint Ventures”
- Annual improvements to MFRSs 2015 – 2017 Cycle, which include:
    - Amendments to MFRS 3 “Business Combinations”
    - Amendments to MFRS 11 “Joint Arrangement”
    - Amendments to MFRS 112 “Income Taxes”
    - Amendments to MFRS 123 “Borrowing Costs”
- IC Interpretation 23 “Uncertainty over Income Tax Treatments”

Other than MFRS 16, the adoption of these amendments and interpretation does not result in any significant change to the accounting policies and do not have material financial impacts to the current and prior period financial statements of the Group.

MFRS 16 “Leases” (“MFRS 16”)

MFRS 16 supersedes MFRS 117 “Leases” and the related interpretations. MFRS 16 eliminates the classification of leases either by finance or operating leases.

2. Changes in accounting policies (continued)

MFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-to-use ("ROU") assets representing its right to use the underlying asset and lease liability representing its obligations to make lease payments. ROU asset is depreciated throughout the lease period in straight line method, whereas lease liability is accreted to reflect interest and is reduced to reflect payments made.

There is no significant changes to lessor accounting under MFRS 16. Lessors continue to classify all leases either operating or finance lease and account them differently.

The Group has adopted MFRS 16 retrospectively from 1 July 2019 using the simplified transition approach and has not restated comparatives for the 2019 reporting period. The Group has not applied the principles of MFRS 16 to short term leases (leases with terms of 12 months or lesser) and assets with low value, as permitted by the exemptions under the standard.

The impact of adoption of MFRS 16 are as follows:

	As previously stated 30 June 2019 Audited RM'000	Effect of adoption MFRS 16 RM'000	As Restated 1 July 2019 Unaudited RM'000
Non-current assets			
Property, plant & equipment	7,063	(2,573)	4,490
Rights-of-use assets	-	2,573	2,573
Non-current liabilities			
Borrowings	1,165	(1,165)	-
Lease liabilities	-	1,165	1,165
Current liabilities			
Borrowings	613,534	(884)	612,650
Lease liabilities	-	884	884

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 31 December 2019 except for the adoption of MFRS as mentioned above.

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) Construction 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.

(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 considered and account for impairment on the receivables.

6. Debt and equity securities

On 17 July 2019, the Group successfully places out 13,101,675 Placement Shares at an issue price of RM 0.25 per Placement Shares.

There were no share buybacks, cancellations, repurchases, re-sales and repayments of debt and equity securities for the current quarter under review.

7. Dividends

The Board of Zecon Berhad has not declared any interim dividend in the current quarter in respect of the financial period ending 31 December 2019.

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	
	1.7.19 to 31.12.19	1.7.18 to 31.12.18	1.7.19 to 31.12.19	1.7.18 to 31.12.18	1.7.19 to 31.12.19	1.7.18 to 31.12.18	1.7.19 to 31.12.19	1.7.18 to 31.12.18	1.7.19 to 31.12.19	1.7.18 to 31.12.18	1.7.19 to 31.12.19	1.7.18 to 31.12.18
	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	232,594	87,484	1,429	1,478	89,584	90,227	152	193	-	-	323,759	179,382
Inter-segment sales	(208)	2,583	-	-	256	(9)	-	384	(48)	(2,958)	-	-
Total Revenue	**232,386**	**90,067**	**1,429**	**1,478**	**89,840**	**90,218**	**152**	**577**	**(48)**	**(2,958)**	**323,759**	**179,382**
Segment profit/(loss) - Note A	**38,890**	**(13,581)**	**1,724**	**597**	**30,429**	**31,020**	**(5,579)**	**(937)**			**65,464**	**17,099**

Note A

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

	1.7.19 to 31.12.19	1.7.18 to 31.12.18
	RM'000	RM'000
Segment profit	65,464	17,099
Share of profit in associate	167	(123)
Finance Cost	(25,887)	(20,429)
Profit/(Loss) before tax	**39,744**	**(3,453)**

8. Segmental Reporting (continued)

(a) Construction Sector

The sector continues to record construction revenue from Pan Borneo Highway - Phase 1 project and other existing projects.

(b) Property Sector

Revenue generated from sales of Vista Tunku shophouses.

(c) Service Concession

At the end of current quarter, the sector contributed 27.8% 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.

(d) 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 31 December 2019.

10. Changes in the composition of the Group

There is no change to the composition of the Group during the quarter under review except for deregistration of a subsidiary company namely Zecon Australia Pty Ltd on on 28 August 2019.

11. Capital commitments

There were no material capital commitments in respect of the Group that had arisen since 30 June 2019 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 RM633,966,869 utilised or unutilised.

13. Recurrent Related Party Transactions ("RRPT")

The aggregate gross value of RRPT for the period ended 31 December 2019 were as follows:

	31 December 2019	31 December 2018
	RM'000	RM'000
Aggregate gross value of RRPT	468	1,885

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, Haji Zainurin 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
31 December 2019					
Financial Asset					
Investment securities:					
- quoted shares	102	102	-	-	102
31 December 2018					
Financial Asset					
Investment securities:					
- quoted shares	84	84	-	-	84

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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 (2nd quarter)			Cumulative Period		
	CY quarter 31.12.19 RM'000	PYC Quarter 31.12.18 RM'000	Changes %	CY to-date 31.12.19 RM'000	PYC period 31.12.18 RM'000	Changes %
Revenue	153,864	95,509	61.1%	323,759	179,382	80.5%
Gross profit	13,541	4,745	>100%	52,970	7,492	>100%
Profit before interest and tax	21,191	11,525	83.9%	65,464	17,099	>100%
Profit/(Loss) before tax	8,457	987	>100%	39,744	(3,453)	>-100%
Profit/(Loss) after tax	6,131	(1,866)	>-100%	35,779	(8,494)	>-100%
Profit/(Loss) attributable to the ordinary equity holders of the parent	5,062	(5,277)	>-100%	34,033	(14,487)	>-100%

The Group achieved better result in this quarter compared to the corresponding quarter in the preceding year.

The gross profit recorded by the Group during the quarter was mainly contributed by the Hospital Pakar Kanak-Kanak (“HPKK”) and Pan Borneo project. HPKK project also contributed towards the significant amount under the Other Income of the Group.

15. Review of performance (continued)

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

	Current Quarter 31.12.19 RM'000	Immediate Preceding Quarter 30.09.19 RM'000	Changes %
Revenue	153,864	169,895	-9.4%
Gross profit	13,541	61,502	-78.0%
Profit before interest and tax	21,191	44,273	-52.1%
Profit before tax	8,457	31,287	-73.0%
Profit after tax	6,131	29,648	-79.3%
Profit attributable to the ordinary equity holders of the parent	5,062	28,971	-82.5%

Gross profit reported in both quarters mainly due to contribution from HPKK, Pan Borneo and Hospital Petra Jaya project.

16. Commentary on prospects

The Group will still be registering revenue from the current projects particularly from Pan Borneo and HPKK project.

Besides actively doing our business development activities, the Group is embarking on a corporate exercise for fund raising to facilitate the expansion plan and reducing borrowing.

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 6 months ended	
	31 December 2019 RM'000	**31 December 2018 RM'000**	**31 December 2019 RM'000**	**31 December 2018 RM'000**
Current tax :				
Malaysian income tax	478	59	547	60
Deferred tax				
Relating to origination and reversal of temporary differences	1,848	2,794	3,418	4,981
	2,326	2,853	3,965	5,041

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year.

19. Status of corporate proposal

There were no new corporate proposals during the financial quarter.

20. Borrowings

	Unaudited 31 December 2019 RM'000	**Audited 31 December 2018 RM'000**
Short term borrowings		
Secured	658,419	464,838
Long term borrowings		
Secured	684	2,410
TOTAL BORROWINGS	**659,103**	**467,248**

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 December 2019.

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 financial period ended 31 December 2019.

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 between POSCO Engineering Co. Limited and Zecon Engineering & Construction Sdn Bhd ("ZEC");
To date, ZEC has submitted Datuk Anantham's name , a retired judge to be the arbitrator. POSCO has yet to submit their choice of arbitrator. There has been no development since.

(b) Arbitration between PT Wijaya Karya (Persero) Tbk ("WIKA") and Zecon Berhad ("ZB");
Hearing has commenced on 10 to 14 February 2020 and will continue on 24 to 28 February 2020, key witnesses are on standby to be called to give statements at the hearing.

(c) Kuching High Court Suits between:
   (i) Affin Hwang Investment Bank Bhd & 2 Others vs. Zecon Berhad; and
   (ii) Affin Hwang Investment Bank Bhd vs. Zecon Capital Ventures Sdn Bhd (now "Huang Hong")
   Following the order for sale of the charged land granted by the Court in favour of Affin, Huang Hong had instructed its solicitors to prepare and file the memorandum of appeal and other required documents within 90 days as required. Meantime, solicitors for Huang Hong had filed at the High Court the Application For Stay of Execution And Proceedings against the order of sale on 11 October 2019. The Court has adjourned the application for stay to 9 December 2019. On 9 December 2019, the Court fixed case management on 14 January 2020 whereon the Court gave directive to file and exchange written submission on 10 February 2020 and submission in reply on 24 February 2020. The Court also fixed hearing on 3 March 2020.

24. Material litigation (continued)

(d) Arbitration between Zecon Berhad and JKR/Government of Malaysia (“GOM”);
On 14 June 2019, the AIAC has appointed Mdm Chu Ai Li as new arbitrator. The new arbitrator has given a schedule to the parties, inter alia, to submit the Company’s statement of claim (scheduled on 26 August 2019) and thereafter a statement of defence by JKR/GOM represented by the AG’s Chambers (“AGC”). Parties are to identify and name their expert witnesses and hearing is scheduled to commence on 15 June 2020.

On 3 September 2019, the Company had, via its solicitors, filed the Statement of Claim amounting to RM207,217,199.93.

The AGC had filed its Statement of Defense on 24 October 2019 and the Company had replied to the Statement of Defense on 9 December 2019.

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25. Additional disclosure on profit for the year

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

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31 December 2019 RM'000	31 December 2018 RM'000	31 December 2019 RM'000	31 December 2018 RM'000
Amortization of prepaid land lease payment	1	1	2	2
Bad Debt written off	5	39	96	39
Depreciation of property, plant and equipment	189	510	390	1,040
Depreciation of rights-of-use assets	200	-	400	-
Gain on disposal of property, plant and equipment	(1,150)	34	(1,202)	(281)
Interest expense	12,863	10,425	25,887	20,429
Interest income	(4)	(121)	(13)	(244)
Impairment on receivables	-	127	250	183
Impairment on contract costs	-	-	22,073	385
Loss on foreign exchange	1	-	1	1
Rental income	(107)	(46)	(107)	(278)
Reversal on impairment of receivables	(115)	-	(132)	(150)
Waiver by Payables	(190)	-	(95)	-
Share of result of associate	(129)	113	(167)	123

26. Earnings per Share

	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Net profit /(loss) attributable to equity holders of the company (RM'000)	5,062	(5,277)	34,033	(14,487)
Weighted average number of ordinary shares in issue**	144,118	131,017	144,118	131,017
Basic earnings per ordinary share for profit/(loss) for the year (sen)	3.51	(4.03)	23.61	(11.06)
Weighted average number of ordinary shares for diluted earnings per share computation**	144,118	131,017	144,118	131,017
Diluted earnings per ordinary share for profit/(loss) for the year (sen)	3.51	(4.03)	23.61	(11.06)

27. Auditors' report in preceding annual financial statements

The Auditors opined that the financial statements of Zecon Berhad and its subsidiaries give a true and fair view of the financial position, performance and cash flows of the Group as at 30 June 2019 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

28. Authorisation for Issue

The interim financial statements were authorized for issue via Board of Directors' Resolution dated on 26 February 2020.

By order of the Board

Koh Fee Lee
(MAICSA 7019845)
Dated : 26/02/2020