NOTES TO THE QUARTERLY REPORT – 31 MARCH 2013

Part A – Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

These condensed consolidated interim financial statements, for the period ended 31 March 2013 are unaudited and have been prepared in accordance with MFRS 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2012. The explanatory notes attached to these condensed consolidated 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 31 December 2012.

A2. Changes in accounting policies

The significant accounting policies adopted by the Group in these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2012, except with the adoption of the following Malaysian Financial Reporting Standards ("MFRS"), IC interpretations and Amendments to MFRSs and interpretations.

- Amendments to MFRS 101, Presentation of items of Other Comprehensive Income
- Amendments to MFRS 1, Government Loans
- Amendments to MFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
- MFRS 3, Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- Amendments to MFRS 10, MFRS 11 and MFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits
- MFRS 127, Separate Financial Statements
- MFRS 127, Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
- MFRS 128, Investments in Associates and Joint Ventures
- Amendments to MFRS 1, MFRS 101, MFRS 116, MFRS 132 and MFRS 134, Annual Improvements 2009-2011 Cycle
- Amendment to IC Interpretation 2, Annual Improvements 2009-2011 Cycle

The initial application of the above is not expected to have any material financial impact on the Group's results.

A3. Seasonal or cyclical factors

The business operations of the Group are generally non-cyclical or seasonal. Ordinarily, however, there is a lower level of activity, particularly for the Construction and Road Maintenance Division and Construction Material Division, during the 1st quarter of the year.

A4. Unusual items due to their nature, size and incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the period ended 31 March 2013.

A5. Changes in estimates

There were no changes in estimates that have had a material effect on the current quarter's results.

A6. Debt and equity securities

During the financial quarter ended 31 March 2013, the Company issued 481,000 ordinary shares of RM1.00 each for cash pursuant to the Company's Employee Share Option Scheme at an exercise price of RM2.20 per ordinary share.

During the current quarter ended 31 March 2013, the Company repurchased 3,234,500 of its issued ordinary shares from the open market at an average price of RM3.12 per share. The total consideration paid for the repurchase including transaction costs was RM10,091,720 and this was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965.

A7. Dividends paid

There was no dividend paid during the quarter ended 31 March 2013.

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A8. Segmental information

	3 months ended 31.3.2013 RM'000	3 months ended 31.3.2012 RM'000
Segment Revenue		
Cement	129,034	122,832
Construction materials & trading	92,574	50,039
Construction & road maintenance	66,315	40,377
Property development	8,826	4,650
Samalaju development #	27,027	16,969
Strategic investments *	2,403	2,147
HQ & dormant companies	6,335	6,687
Total revenue including inter-segment sales	332,514	243,701
Elimination of inter-segment sales	(22,155)	(13,359)
	310,359	230,342
Segment Results		
Operating profit/(loss):		
Cement	21,093	28,082
Construction materials & trading	11,101	3,398
Construction & road maintenance	17,485	12,762
Property development	(432)	(225)
Samalaju development #	11,757	7,923
Strategic investments *	(857)	(513)
Dormant companies	66	(18)
	60,213	51,409
Unallocated corporate expenses	(5,754)	(4,782)
Share of profit of associates	354	3,270
Profit before tax	54,813	49,897
Income tax expenses	(16,806)	(13,496)
Net profit for the period	38,007	36,401

 # Lodging and catering services.

** Financial services and education.*

A9. Changes in the composition of the Group

There have been no changes in the composition of the Group for the quarter ended 31 March 2013.

A10. Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices in active markets for identical assets or liabilities,

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at the reporting date, the Group held the following financial assets that are measured at fair value by level of fair value hierarchy:

	Level 1 RM'000	**Level 2** RM'000	**Level 3** RM'000	**Total** RM'000
31 March 2013				
Financial assets				
Fixed income debt securities	-	55,983	-	55,983
Equity instruments	29,681	-	530	30,210
Unit trust funds	28,577	-	-	28,577
Wholesale fund	-	698	-	699
	58,258	55,983	530	115,469
31 December 2012				
Financial assets				
Fixed income debt securities	-	55,537	-	55,537
Equity instruments	23,017	-	428	23,445
Unit trust funds	28,394	-	-	28,394
Wholesale fund	-	496	-	496
	51,411	56,033	428	107,872

There have been no transfers between any levels during the current interim period and the comparative period.

A11. Capital commitments

The amount of commitments not provided for in the interim financial statements as at 31 March 2013 was as follows:

	RM'000
Approved and contracted for:	
- Property, plant and equipment	26,775
- Others	63,854
	90,629
Approved and not contracted for:	
- Property, plant and equipment	125,597
- Others	6,667
	132,264
	222,893

A12. Changes in contingent liabilities and contingent assets

There were no changes in the contingent liabilities or contingent assets since the last annual reporting date except that at its Extraordinary General Meeting held on 21 March 2013, the Company obtained approval from its shareholders to provide a proportionate corporate guarantee in the amount of up to USD43 million and RM87.2 million and other financial assistance (including shareholders' support and other collateral) for the benefit of OM Materials (Sarawak) Sdn. Bhd. ("OM Sarawak"), a 20% owned associate of Samalaju Industries Sdn. Bhd. ("SISB"), which, in turn is a wholly owned subsidiary of the Company.

Following the shareholders' approval on 21 March 2013, OM Sarawak entered into the Facilities Agreement ("FA") dated 28 March 2013 with a consortium of banks for credit facilities of USD215 million and RM436 million to part finance the construction and operation of a ferro silicon alloy smelter ("Project"). As required under the FA, both the Company and SISB entered into the Project Support Agreement dated even date which provides for a proportionate corporate guarantee (guaranteeing all of OM Sarawak's payment obligations under the FA until 18 months after completion of the Project, including without limitation, the principal amount, the interest accrued thereon and related hedging payments, the completion of the Project, and all of SISB's obligations under the finance documents, which consist primarily of providing the shareholders' support described below); shareholders' support (which may be in the form of shareholders' advances or subscription to fully paid up ordinary shares in OM Sarawak); and other collateral from the shareholders of OM Sarawak, proportionate to their respective shareholdings, as security for the FA.

A13. Related party transactions

The following table provides information on the transactions which have been entered into with related parties during the three-month period ended 31 March 2013 and 31 March 2012 as well as the balances with the related parties as at 31 March 2013 and 31 March 2012:

		Interest/ fee income from/sales to related parties RM '000	Purchases from/payment for services to related parties RM '000	Amounts owed by related parties RM '000	Amounts owed to related parties RM '000
Associates:					
- Kenanga Investment Bank Bhd	2013	43	-	-	-
	2012	172	-	-	-
- COPE-KPF Opportunities 1 Sdn Bhd	2013	590	-	-	-
	2012	606	-	-	-
- COPE Opportunities 2 Sdn Bhd	2013	282	-	-	-
	2012	-	-	-	-
- KKB Engineering Bhd	2013	-	-	-	-
	2012	5	81	-	452
- Harum Bidang Sdn Bhd	2013	-	-	-	-
	2012	-	3,992	-	-
- Kenanga Investors Bhd	2013	2,796	90	-	-
	2012	3,558	12	-	-
Jointly controlled entity:					
- PPES Works Wibawa JV	2013	-	-	-	-
	2012	7	-	-	-
Key management personnel of the Group:					
- Directors' interest	2013	-	476	-	16
	2012	-	443	-	39

All outstanding balances with these related parties are unsecured and are to be settled in cash within the financial year.

A14. Subsequent event

There was no material event subsequent to the statement of financial position date that has not been reflected in the quarterly financial statements other than the disposal of the entire holding of the Company's treasury shares totalling 12,480,100 units representing 3.75% of the Company's share capital in the open market on 9 May 2013. The average resale price of the treasury shares was RM3.71 per share which gave rise to total proceeds amounting to some RM46.30 million.

Part B – Explanatory notes pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

B1. Review of performance (Year-to-date, 2013 vs Year-to-date, 2012)

The Group's revenue of RM310.36 million for the three-month period ended 31 March 2013 ("PE2013") was 35% higher compared to the three-month period ended 31 March 2012 ("PE2012") of RM230.34 million. All the Divisions recorded higher revenue for PE2013 compared to PE2012.

In tandem with the increase in revenue, the Group's profit before tax ("PBT") also increased by 10%, from RM49.90 million to RM54.81 million. The higher PBT was attributable to Construction Materials & Trading, Construction & Road Maintenance and Samalaju Development Divisions. Property Development and Strategic Investments (excluding the associates) Divisions registered marginal losses for both periods.

The Cement Division recorded a 25% lower PBT of RM21.09 million in PE2013 over PE2012's PBT of RM28.08 million despite a slightly higher cement sales volume. The main reasons for the reduction in PBT were higher clinker cost and lower production of cement and clinker in PE2013. About 10% of PE2013's (PE2012: Nil) cement sale volume was supported by imported cement which made lower profit margin. In PE2012, the clinker plant had not shut down for up-grading and was able to support the cement plant in Kuching. The reduction in PBT was however partially mitigated by the higher and profitable sales volume of ready-mix concrete. Nevertheless, the Cement Division has resumed being the Group's biggest PBT contributor in PE2013.

The Construction Materials & Trading Division's PBT increased by 227% to RM11.10 million in PE2013 from RM3.40 million in PE2012, on the back of higher revenue which arose from the spill-over works of 2012 under JKR and earlier implementation of JKR's fund program for 2013. In addition, the Division also secured a few major private projects.

The Construction & Road Maintenance registered a 37% jump in PBT to RM17.49 million in PE2013 from RM12.76 million in PE2012 mainly due to more works undertaken in PE2013 and the higher new contract rate for state road routine maintenance effective 1 January 2012 which was only approved and recognised in May 2012.

The Property Development Division recorded a higher loss in PE2013 than in PE2012 despite higher revenue, due mainly to higher manpower related costs but was partially offset by the profit recognised from the spill-over of revenue from the projects delayed in the last quarter of 2012 into the current quarter.

The Samalaju Development Division reported a commendable PBT of RM11.76 million in PE2013 compared to a PBT of RM7.92 million in PE2012, which was higher by 48% on the back of higher revenue from more blocks of lodges built and occupied.

The Group recorded lower shares of profit from its associates in PE2013 compared to PE2012 due to a loss recorded by K&N Kenanga Berhad in PE2013. This was however partially mitigated by a higher profit registered by KKB Engineering Berhad in PE2013. OM Materials (Sarawak) Sdn Bhd has not commenced operations and reported a marginal profit which arose from interest income.

B2. Material changes in profit before tax for the quarter (Quarter 1, 2013 vs Quarter 4, 2012)

The Group's PBT of RM54.82 million in the first quarter ended 31 March 2013 (1Q13) was 12% lower than the PBT of RM62.37 million reported in the fourth quarter ended 31 December 2012 (4Q12). The main reason for the lower PBT in 1Q13 was that performances for most Divisions in 4Q12 were exceptionally good, as explained below:

i) Construction & Road Maintenance Division – Preceding quarter saw more federal routine and periodic road maintenance works and state road rehabilitation carried out as well as profit recognised on account finalisation of completed projects.
ii) Construction Materials & Trading Division – JKR's 2012 fund program implemented only in second half of 2012 was mostly done in the last quarter of 2012.
iii) Property Development Division – Preceding quarter was much higher than the current quarter mainly because of the reversal of contingencies provided for a completed project.

However, the above was partially mitigated by:

iv) Cement Division – PBT increased from RM13.51 million in 4Q12 to RM21.09 million in 1Q13 despite a lower cement sales volume. This was mainly because its clinker operation has turned profitable in 1Q13. The upgraded clinker plant which resumed production since mid-November 2012 has become more stable from February 2013. The other contributing factors were the reduction in coal and power costs, and lower repair and maintenance expenses for its clinker plant in 1Q13. Apart from lower cement sales volume, the cement production costs were higher due to lower cement production volume and higher demurrage associated with imported clinker, higher repair and maintenance expenses and higher labour cost in 1Q13. CMS Concrete Products also registered a lower PBT in 1Q2013 on the back of lower sales of ready-mix concrete.
v) Samalaju Development Division – PBT increased from RM4.41 million in 4Q12 to RM11.76 million in 1Q13 on the back of new contracts finalised and signed. Preceding quarter's PBT was also affected by a higher amount of depreciation charge upon commencement of the accelerated depreciation on nine blocks of workers' lodges.

On the two listed associates' performances, KKB Engineering Bhd recorded stellar results but K&N Kenanga Holdings Bhd registered a loss in the current quarter compared to the preceding quarter.

B3. Prospects for the year ending 31 December 2013

Whilst the operating environment faced by the Group will remain challenging, the Board expects that the Group's financial performance to remain satisfactory for year ending 31 December 2013. The Group's strong financial position will enable the Group to invest in new business opportunities especially in the Samalaju Industrial Park, Bintulu, Sarawak.

B4. Profit forecast or profit guarantee

Not applicable as there was no profit forecast nor profit guarantee issued.

B5. Income tax expense

	3 months ended 31.3.2013 RM'000	3 months ended 31.3.2012 RM'000
Current income tax:		
- Malaysian income tax	16,806	13,438
- Overprovision in respect of previous years	0	58
Deferred tax	0	0
Total income tax expense	16,806	13,496

The effective tax rate for the current financial quarter and prior year's quarter ended 31 March 2012 were higher than the statutory tax rate principally due to the losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries and certain expenses which are not deductible for tax purposes.

B6. Corporate proposals

There were no other corporate proposals that have been announced but not completed as at the date of this announcement.

B7. Borrowings

	As at 31.3.2013 RM'000	**As at 31.12.2012 RM'000**
Secured		
Revolving credits	15,000	15,000
Hire purchase and finance lease liabilities	29	32
Unsecured		
Bankers' acceptances	12,840	3,722
Term loans	53,520	64,240
Loan from corporate shareholder	3,032	6,831
Total	84,421	89,825
Maturity		
Repayable within one year	49,849	40,729
One year to five years	34,572	49,096
	84,421	89,825

All borrowings were denominated in Ringgit Malaysia.

B8. Off balance sheet financial instruments

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

B9. Derivatives

There were no derivatives entered into by the Group as at the end of the quarter under review.

B10. Gains/losses arising from fair value changes of financial liabilities

There were no gains/losses arising from fair value changes of financial liabilities.

B11. Changes in material litigation

There were no changes in material litigation since the last annual statement of financial position date of 31 December 2012.

B12. Dividend payable

No interim ordinary dividend has been declared for the financial period ended 31 March 2013 (31 March 2012: Nil).

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B13. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period, net of tax, attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing profit for the period, net of tax, attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflect the profit and share data used in the computation of basic and diluted earnings per share:

	3 months ended	
	31.3.2013	31.3.2012
Profit net of tax attributable to owners of the Company used in the computation of earnings per share (RM'000)	28,727	31,345
Weighted average number of ordinary shares in issue ('000)	323,087	329,493
Basic earnings per share (sen)	8.89	9.51
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	324,171	329,767
Diluted earnings per share (sen)	8.86	9.50

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transactions during the period.

B14. Auditor’s report on preceding annual financial statements

The auditors’ report on the financial statements for the year ended 31 December 2012 was not subject to any qualification.

B15. Additional disclosure on profit for the period

	Quarter ended 31.3.2013 RM'000	Financial period ended 31.3.2013 RM'000
Profit for the period is arrived at after charging/(crediting):		
Amortisation of intangible assets	261	261
Amortisation of prepaid land lease payments	181	181
Bad debt written off	-	-
Property, plant and equipment written off	3	3
Depreciation of property, plant and equipment	14,536	14,536
Depreciation of investment properties	29	29
(Gain)/loss on foreign exchange	10	10
(Gain)/loss on disposal of property, plant and equipment	-	-
(Gain)/loss on disposal of investments	108	108
(Gain)/loss on fair value changes of derivatives	-	-
Impairment loss on trade receivables	237	237
Interest expense	1,037	1,037
Interest income	(2,075)	(2,075)
Inventory written off	18	18
Net fair value changes in investment securities	(627)	(627)
Reversal of allowance for impairment loss on trade receivables	(76)	(76)
Reversal of allowance for obsolete inventory	-	-
Write down of inventory	-	-

B16. Realised and unrealised profits/losses

	As at 31 March 2013 RM'000	As at 31 December 2012 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realised	688,333	657,079
- Unrealised	(14,188)	(13,816)
	674,145	643,263
Total retained earnings from associates:		
- Realised	4,223	7,245
- Unrealised	6,838	3,453
	11,061	10,698
Total retained earnings from jointly controlled entities:		
- Realised	3,948	3,948
	689,154	657,909
Add: consolidation adjustments	58,254	60,774
Total Group retained earnings as per consolidated accounts	747,408	718,683