

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Selected explanatory notes pursuant to Malaysian Financial Reporting Standards (“MFRS”) 134 Interim Financial Reporting

1. Basis of Preparation

The condensed consolidated interim financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”), IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2012. The explanatory notes attached to the 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.

2. Significant Accounting Policies

The significant accounting policies and methods of computation applied in the interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2012 except for the adoption of the following with effect from 1 January 2013:

- Amendments to MFRS 101, Presentation of items of Other Comprehensive Income
- Amendments to MFRS 7, Financial Instruments: Disclosure – 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 (IAS 28 as amended by IASB in May 2011)
- 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.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2012 was not qualified.

4. Seasonal or cyclical factors

The business operations of the Group are not significantly affected by any seasonal or cyclical factors in the current quarter and financial year to date.

5. Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting the assets, liabilities, equities, net income or cash flows of the Group in the current quarter and financial year to date.

6. Changes in Estimates

There were no significant changes in estimates of amounts reported in prior financial years which have a material effect in the current quarter and financial year to date.

7. Debt and equity securities

There were no issuances and repayments of debt and equity securities, share buy backs, shares cancellation, shares held as treasury shares and resale of treasury shares in the current quarter and financial year to date.

8. Dividend paid

On 5 June 2013, the Company paid a first and final dividend of 5.0 sen per ordinary share of RM0.50 each, taxable at 25%, in respect of the financial year ended 31 December 2012.

9. Segmental Reporting

The information for business segments predominantly conducted in Malaysia for the current financial year to date was as follows:

RESULTS FOR PERIOD-TO-DATE ENDED 30 JUNE 2013

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	37,683,702	99,674,439	137,358,141
Less: Inter-segment revenue	(2,323,379)	(10,663,982)	(12,987,361)
External revenue	35,360,323	89,010,457	124,370,780
Results	15,666,249	17,040,683	32,706,932
Finance costs	(66,803)	(84,725)	(151,528)
Share of results of associates	188,426	(166,967)	21,459
Profit before tax	15,787,872	16,788,991	32,576,863
Income tax expense	(3,856,822)	(4,251,767)	(8,108,589)
Profit after tax	11,931,050	12,537,224	24,468,274
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OTHER INFORMATION

Interest income	64,498	339,611	404,109
Depreciation	859,152	2,219,078	3,078,230
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RESULTS FOR PERIOD-TO-DATE ENDED 30 JUNE 2012

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	57,480,671	38,427,291	95,907,962
Less: Inter-segment revenue	(9,166,236)	(356,149)	(9,522,385)
External revenue	48,314,435	38,071,142	86,385,577
Results	11,317,937	4,886,748	16,204,685
Finance costs	(54,941)	(70,564)	(125,505)
Share of results of associates	(57,613)	(3,631)	(61,244)
Profit before tax	11,205,383	4,812,553	16,017,936
Income tax expense	(2,802,188)	(1,121,632)	(3,923,820)
Profit after tax	8,403,195	3,690,921	12,094,116

OTHER INFORMATION

Interest income	117,994	306,642	424,636
Depreciation	1,062,948	1,296,301	2,359,249

10. Material subsequent events

There were no material subsequent events as at the date of this announcement.

11. Changes in composition of the Group

There were no changes in composition of the Group for the current quarter and financial year to date.

12. Contingent liabilities/Contingent assets as at 30 June 2013

There were no material contingent liabilities or contingent assets as at the date of this announcement.

13. Capital Commitments

	As at 30/06/2013 RM	As At 30/06/2012 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	16,607,676	6,583,848

14. Related Party Transactions

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2013 RM	Comparative Quarter Ended 30/06/2012 RM	Current Period Ended 30/06/2013 RM	Comparative Period Ended 30/06/2012 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	80,000	40,000	80,000
- Sale of fabricated and galvanized steel products	6,635	-	6,635	-
- Provision of miscellaneous services such as machineries, equipments and labour	27,979	9,709	58,757	10,297
- Interest income	98	87	168	6,210
- Purchase of miscellaneous services such as machineries, equipments and labour	12,516	10,293	23,286	27,302
- Interest expense	-	107	69	235
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	16,000	-	16,000	-
Transactions with an associate and subsidiaries of an associate investor, Cahya Mata Sarawak Bhd.				
- Sales of structural steel works and steel fabricated products to CMS Quarries Sdn. Bhd.	-	92,100	-	92,100
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	11,263,410	41,376	20,766,995	4,033,647
- Provision of earthworks to OM Materials (Sarawak) Sdn. Bhd.	-	1,767,132	42,732	13,066,503
Rental expense paid to companies in which certain directors of the Company have substantial financial interest and/or are also directors				
- KKB Development Sdn. Bhd.	17,850	17,850	35,700	35,700
- KKB Realty Sdn. Bhd.	13,400	11,400	24,800	22,800
- Sepang Kaya Sdn. Bhd.	30,857	30,857	61,714	61,714
Rental expense paid to a director, Dato Kho Kak Beng	7,200	7,200	14,400	14,400
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	11,395,945	2,068,111	21,091,256	17,450,908
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The transactions have been entered into with related parties on terms and conditions that are not more favourable to the related party than those generally available to the public.

Explanatory notes pursuant to Appendix 9B of Main Market Listing Requirements of Bursa Malaysia Securities Berhad

15. Detailed Review of performance

The Group's current quarter revenue of RM60.1 million (2Q12: RM33.9 million) registered a 77.3% growth as compared to the preceding year corresponding second quarter. This quarter shows a substantial shift in the proportion of revenue contribution on the overall group activities from the manufacturing sector of 34% (2Q12: 52%) to the engineering sector of 66% (2Q12: 48%).

Similarly, the Group's current year-to-date revenue of RM124.4 million was 44.0% higher as compared to RM86.4 million achieved in the preceding year corresponding period, mainly due to the growth in revenue from the Steel Fabrication and Construction divisions within the Engineering sector of RM40.6 million and RM12.2 million, respectively.

Group's profit before taxation for the current quarter and year-to-date of RM16.8 million (2Q12: RM5.4 million) and RM32.6 million (1H12: RM16.0 million) also recorded a significant improvement of 211.1% and 103.8%, respectively over the preceding year corresponding period.

The Group's overall performance for the current quarter and year-to-date was mainly driven by the vast improvement in revenue from its steel fabrication and civil construction divisions coupled with improved margin for both the Engineering and Manufacturing sectors.

Engineering Sector

Revenue for the Steel Fabrication and Construction divisions have improved over the preceding year corresponding quarter, which saw the Engineering sector's total revenue at Group level improved by 144.8% to reach RM39.9 million (2Q12: RM16.3 million). Similarly, Gross Profit has soared 395.2% to record RM10.4 million (2Q12: RM2.1 million), on the back of improved revenue and profit margin.

Construction Division contributed revenue of RM14.5 million (2Q12: RM4.3 million), an improvement of 237.2% over the preceding year corresponding quarter. Revenue for the current quarter were mainly from progressive claims made on pipeline projects and civil construction related works spilled over from the preceding year.

For Steel Fabrication Division, the current quarter's revenue of RM24.9 million (2Q12: RM10.4 million) has registered an increase of more than double over the preceding year corresponding quarter. Current quarter's revenue were contributed mainly from major structural steel work projects undertaken in Samalaju Industrial Park, Bintulu and Sibu Division, Sarawak, the supply of Steel Pipes piles for a bridge project in Samarahan Division, Sarawak and for the supply and fabrication of steel structures for the SAMUR Project in Sabah.

Hot Dip Galvanising division recorded a decrease in revenue due to lower business volume and continues to rely on ad-hoc orders from walk-in customers.

Manufacturing Sector

Revenue of RM20.2 million was 15.4% higher over the preceding year corresponding quarter of RM17.5 million, with approximately 77% of the current quarter's sales was contributed from the Group's Steel Pipes Manufacturing business.

The sector registered an impressive growth of 65% in its gross profit, to record gross profit of RM9.9 million in the current quarter as compared to RM6.0 million registered in the preceding year corresponding quarter.

The increased business volumes coupled with prudent costs management particularly on procurement of steel raw materials have contributed to the overall improved performance of the Manufacturing sector.

LPG Cylinders manufacturing division recorded a marginal decrease of 4.2% in revenue to reach RM4.6 million (2Q12: RM4.8 million) due to reduced offtake of LPG cylinders from the Company's customers, example Petronas Dagangan Berhad.

16. Material changes in the quarterly results compared to the results of the preceding quarter

Group's revenue for the current quarter of RM60.1 million (1Q13: RM64.3 million) is 6.5% lower than the preceding quarter ended 31 March 2013, mainly due to lower revenue recorded by the Steel Fabrication division within the Engineering sector.

Group's profit before taxation has however increased to RM16.8 million, improved by 6.3% as compared to RM15.8 million registered in the preceding quarter, on the back of improved margin.

17. Prospects

With its strategic facilities located at Lot 777, Block 5, Jalan Bako, Muara Tebas Land District, Kuching, fronting the Sarawak River ready and equipped with heavy load out jetty facilities, the Group is prepared to undertake larger and more complex Structural Steel Fabrication jobs, particularly Major Onshore Fabrication for Offshore Facilities Construction in the Oil and Gas sector, in collaboration with its associate company, OceanMight Sdn Bhd.

The Group had over the years seen continued reinvestments and expansion into its operating facilities. These reinvestments are essential to the group's expansion, the efficiency and planned production processes, which will ultimately benefit the group's bottom line in the long term.

The expanded capacity coming on stream is a timely measure as it allows the Group to tap into the increasing demand for fabricated structural steel products arising from the anticipated growth in the domestic construction sector, driven mainly by ongoing infrastructure projects and strong construction activity in the oil and gas and utilities sector.

Barring any unforeseen circumstances or adverse developments beyond our control, the Group's financial performance for the remaining second half of financial year ending 2013 is expected to remain favourable.

18. Variances from profit forecast and profit guarantee

Not applicable to the Group as no profit forecast and profit guarantee were published.

19. Commentary on the company's progress to achieve the revenue or profit estimate, forecast, projection or internal targets in the remaining period to the end of the financial year and the forecast period which was previously announced or disclosed in a public document and steps taken or proposed to be taken to achieve the revenue or profit estimate, forecast, projection or internal targets

Not applicable to the Group as no announcements or disclosures were published in a public document as to the revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

20. Statement of the Board of Directors' opinion as to whether the revenue or profit estimate, forecast, projection or internal targets in the remaining period to the end of the financial year and the forecast period which was previously announced or disclosed in a public document are likely to be achieved

Not applicable to the Group as no announcements or disclosures were published in a public document as to the revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

21. Taxation

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2013 RM	Comparative Quarter Ended 30/06/2012 RM	Current Period Ended 30/06/2013 RM	Comparative Period Ended 30/06/2012 RM
Malaysian taxation				
- Current year	4,245,316	1,474,568	7,860,017	4,253,909
- Prior year	-	6,508	-	6,508
Deferred tax	(25,051)	(174,264)	248,572	(336,597)
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	4,220,265	1,306,812	8,108,589	3,923,820
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The Group's effective tax rate for the current quarter is marginally higher than the statutory tax rate principally due to certain expenses are disallowed for taxation purposes.

22. Status of Corporate Proposals

There were no new or outstanding corporate proposals announced which have not been completed as at the date of this announcement.

23. Group's Borrowings and Debt Securities

Total Group's loans and borrowings as at 30 June 2013 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,309,808	-
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<u>Non-Current</u>		
Lease payables	1,568,397	-
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Total borrowings	2,878,205	-
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24. Material Litigations

Status update on the Writ of Summons dated 26 June 2012 served by Global Upline Sdn Bhd ("GUSB") to the Company's wholly owned subsidiary, KKB Builders Sdn Bhd ("KKBB"):-

Further to the announcement made on 24 September 2012 pertaining to the arbitration proceedings between KKBB as the Claimant and GUSB as the Respondent, the Arbitrator has given direction as set out in the Procedural Order No. 1, to both parties.

On 12 April 2013, KKBB, through its Advocates, Messrs Battenberg & Talma Advocates, served on the Respondent, Global Upline Sdn Bhd, through its Advocates, Messrs Suhaili & Bong Advocates, and submitted to the Arbitrator and the Kuala Lumpur Regional Centre for Arbitration ("KLRCA") its Statement of Claim, together with the bundle of documents.

On 2 May 2013, KKBB has been served a Defence and Counterclaim by the Respondent, GUSB.

On 22 May 2013, KKBB through its Advocates, Messrs Battenberg & Talma Advocate, filed a Reply and Defence to Counterclaim and submitted the same to the Arbitrator and KLRCA.

The legal opinion given by the Company's lawyers is that the Respondent's claim is without basis.

Save as disclosed above, there were no pending material litigations against the Group which might materially and adversely affect the Group's financial position.

25. Dividend

No interim dividend has been recommended for payment in the current quarter and financial year-to-date.

26. Earnings per share

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2013	Comparative Quarter Ended 30/06/2012	Current Period Ended 30/06/2013	Comparative Period Ended 30/06/2012
Net profit attributable to owners of the parent (RM)	<u>11,972,071</u>	<u>3,709,111</u>	<u>23,350,375</u>	<u>11,419,844</u>
Weighted average number of ordinary shares in issue	<u>257,792,000</u>	<u>257,792,000</u>	<u>257,792,000</u>	<u>257,792,000</u>
Basic earnings per share for the period attributable to owners of the parent (sen)	<u>4.64</u>	<u>1.44</u>	<u>9.06</u>	<u>4.43</u>

There is no dilution in its earnings per ordinary share in the current quarter and financial year to date as there are no dilutive potential ordinary shares outstanding at the end of the reporting period.

27. Realised and Unrealised Profits/Losses

	As at 30/06/2013 RM	As at 31/12/2012 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	143,931,938	129,498,215
- Unrealised	6,622,758	6,871,329
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	150,554,696	136,369,544
Total share of retained profits from associates:		
- Realised	1,071,578	1,070,152
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	151,626,274	137,439,696
Less: Consolidation adjustments	(7,919,953)	(7,416,550)
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Total group retained profits as per consolidated accounts	143,706,321	130,023,146
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28. Additional Disclosures on Profit for the period

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2013 RM	Comparative Quarter Ended 30/06/2012 RM	Current Period Ended 30/06/2013 RM	Comparative Period Ended 30/06/2012 RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(133,070)	(195,582)	(404,109)	(424,636)
Foreign exchange gain	(105,915)	(5,182)	(183,950)	(82,956)
Rental income	(12,000)	(1,500)	(16,500)	(3,400)
Depreciation of property, plant and equipment	1,541,607	1,176,473	3,078,230	2,359,249
Interest expense	77,492	44,320	151,528	125,505
Impairment loss on trade receivables	83,571	121,588	106,075	224,668
Property, plant and equipment written off	1	-	619	108
Loss on disposal of property, plant & equipment	-	2	-	2
Provision for doubtful debts	-	15,083	-	15,083
Reversal of provision for doubtful debts	-	(100,000)	-	(100,000)

Other than the above items which have been included in the statement of comprehensive income, there were no provision for and write off of receivables, provision for and write off of inventories, gain or loss on disposal of quoted or unquoted investments or properties, gain or loss on derivatives and exceptional items for the current quarter and period ended 30 June 2013.