

## **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.

Saved for the above, no dividend has been paid in the current quarter.

#### 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 SEPTEMBER 2013

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	45,364,922	152,719,036	198,083,958
Less: Inter-segment revenue	(2,610,908)	(14,210,102)	(16,821,010)
External revenue	42,754,014	138,508,934	181,262,948
Results	14,935,305	27,934,699	42,870,004
Finance costs	(7,993)	(166,678)	(174,671)
Share of results of associates	254,090	(552,757)	(298,667)
Profit before tax	15,181,402	27,215,264	42,396,666
Income tax expense	(3,816,087)	(7,007,422)	(10,823,509)
Profit after tax	11,365,315	20,207,842	31,573,157
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#### OTHER INFORMATION

Interest income	83,956	434,386	518,342
Depreciation	1,253,287	3,823,879	5,077,166
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**RESULTS FOR PERIOD-TO-DATE ENDED 30 SEPTEMBER 2012**

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	73,311,406	65,516,182	138,827,588
Less: Inter-segment revenue	(10,073,256)	(512,733)	(10,585,989)
External revenue	63,238,150	65,003,449	128,241,599
Results	14,675,667	4,284,560	18,960,227
Finance costs	(60,529)	(106,794)	(167,323)
Share of results of associates	(28,444)	(4,359)	(32,803)
Profit before tax	14,586,694	4,173,407	18,760,101
Income tax expense	(3,622,925)	(1,051,883)	(4,674,808)
Profit after tax	10,963,769	3,121,524	14,085,293
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**OTHER INFORMATION**

Interest income	127,637	375,937	503,574
Depreciation	1,577,978	2,037,484	3,615,462
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**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 September 2013**

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

**13. Capital Commitments**

	As at 30/09/2013 RM	As At 30/09/2012 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	10,990,918	10,800,026
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## 14. Related Party Transactions

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2013 RM	Comparative Quarter Ended 30/09/2012 RM	Current Period Ended 30/09/2013 RM	Comparative Period Ended 30/09/2012 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	-	40,000	80,000
- Sale of fabricated and galvanized steel products	18,319	-	24,954	-
- Provision of miscellaneous services such as machineries, equipments and labour	1,998	14,541	60,755	24,838
- Interest income	34	-	202	6,210
- Purchase of miscellaneous services such as machineries, equipments and labour	15,965	16,801	39,251	44,103
- Interest expense	11	132	80	367
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	12,000	-	28,000	-
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
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	-	-	20,766,995	4,033,647
- Provision of earthworks to OM Materials (Sarawak) Sdn. Bhd.	-	9,911,374	42,732	22,977,877
- Purchase of steel and concrete products from CMS Concrete Products Sdn. Bhd.	-	1,335	-	1,335
- Purchase of graded aggregates, etc. from CMS Quarries Sdn. Bhd.	715,745	-	715,745	-
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	53,550	53,550
- KKB Realty Sdn. Bhd.	17,400	11,400	42,200	34,200
- Sepang Kaya Sdn. Bhd.	30,856	30,856	92,570	92,570
Rental expense paid to a director, Dato Kho Kak Beng				
	7,200	7,200	21,600	21,600
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	837,378	10,011,489	21,928,634	27,462,397
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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**

Group's revenue for the quarter of RM56.9 million (3Q12: RM41.9 million) was 35.8% higher as compared to the preceding year corresponding quarter. Group's revenue for the nine months period ended 30 September 2013 of RM181.3 million (9 months 2012: RM128.2 million) recorded an increase of 41.4% over the preceding year corresponding period and has already surpassed the preceding year twelve months revenue of RM166.7 million by RM14.6 million (8.8%).

Accordingly, the Group has recorded a PBT of RM9.8 million (3Q12: RM2.7 million), representing an increase of 263.0% over the preceding year corresponding quarter. For the nine months period ended 30 September 2013, the Group's PBT increased by more than two fold to RM42.4 million (9 months 2012: RM18.8 million) and has already surpassed the preceding year twelve months PBT of RM26.9 million by RM15.5 million (57.6%).

The overall revenue and earnings of the Group for the current quarter and year-to-date has improved on the back of higher revenue recorded by the Engineering sector, coupled with improved margin contribution.

#### Engineering Sector

The engineering sector has grown significantly, contributed RM49.5 million or 87% (3Q12: RM26.9 million) to the Group's total revenue.

The Group's Steel Fabrication and Construction division were the main contributor to the improved performance of the Engineering sector. Steel Fabrication division contributed 64% to the Group's total revenue, an increase of 167.4% over the preceding year corresponding quarter's revenue of RM13.5 million.

Construction division contributed revenue of RM12.7 million (3Q12: RM12.8 million), remained fairly consistent with the preceding year corresponding quarter. Revenue for the current quarter was mainly derived from the on-going water pipeline project and other civil construction related works spilled over from the preceding year.

HDG Division's sales increased 22.0% to RM705K (3Q12: RM578K), as increased sales from Steel Fabrication Division also benefited the Division through higher volume of "inter-division" works received for the galvanized of Steel Poles.

#### Manufacturing Sector

Sales contribution from the Group's steel pipes manufacturing business of RM3.5 million was significantly down as compared to RM11.3 million achieved in 3Q12, mainly due to lower business volume and resulting in the overall lower revenue for the manufacturing sector.

The LPG Division's sales of RM3.9 million were marginally higher by 8.3% as compared to the preceding year corresponding quarter's sales of RM3.6 million. Apart from the supply of LPG cylinders to its existing customers, Petronas Dagangan Berhad, the current quarter revenue was also derived from sales to Petron Malaysia Berhad with billing worth RM1.7 million.

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

Group's revenue for the current quarter of RM56.9 million (2Q13: RM60.1 million) was marginally lower by 5.3% over the preceding quarter ended 30 June 2013. Lower contribution from the group's steel pipe manufacturing business was the main trigger to the overall lower revenue and profit before taxation as compared to the preceding quarter ended 30 June 2013.

## 17. Prospects

The Group will continue to focus its effort on the expansion of its operating facilities and is now actively looking into new opportunities to extend its operations particularly into steel structural fabrication activities for the Oil & Gas sector.

The expansion and modernization of KKB's fabrication yard at Jalan Bako, Muara Tebas Land District, Kuching, fronting the Sarawak River and equipped with five workshops and heavy load out jetty facilities will enable the Group to undertake a full range of heavy structural fabrication works.

Going forward, the Group is continuously exploring viable strategic collaborations and new business opportunities to enhance its existing portfolio. The "Offshore Facilities Construction-Major Onshore Fabrication" license granted by Petronas to its associate company, OceanMight Sdn Bhd, will also allow the Group to participate directly in the upstream fabrication works for the Oil and Gas sector.

Meanwhile, the Group anticipates that activities for both its Engineering and Manufacturing sectors is picking up steam and the Board is cautiously optimistic of achieving a respectable set of results for the fourth quarter of year 2013, barring any unforeseen circumstances.

## 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 9 Months Ended	
	Current Quarter Ended 30/09/2013 RM	Comparative Quarter Ended 30/09/2012 RM	Current Period Ended 30/09/2013 RM	Comparative Period Ended 30/09/2012 RM
Malaysian taxation				
- Current year	1,319,280	1,820,173	9,179,297	6,074,082
- Prior year	462,745	(83,249)	462,745	(76,741)
Deferred tax	932,895	(985,936)	1,181,467	(1,322,533)
	2,714,920	750,988	10,823,509	4,674,808
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The Group's effective tax rate for the current quarter and year to date 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 September 2013 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	2,412,668	-
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<u>Non-Current</u>		
Lease payables	6,150,366	-
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Total borrowings	8,563,034	-
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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

The Board of Directors has on 31 October 2013 approved to declare an interim dividend of 5% per ordinary share of RM0.50 each, comprising 1% (tax-exempt) and 4% taxable at 25%, in respect of the financial year ending 31 December 2013

The entitlement to the interim dividend and the date of payment will be announced at a later date.

**26. Earnings per share**

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2013	Comparative Quarter Ended 30/09/2012	Current Period Ended 30/09/2013	Comparative Period Ended 30/09/2012
Net profit attributable to owners of the parent (RM)	<u>7,136,235</u>	<u>1,755,864</u>	<u>30,486,610</u>	<u>13,175,708</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>2.77</u>	<u>0.68</u>	<u>11.83</u>	<u>5.11</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 30/09/2013 RM	As at 31/12/2012 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	152,270,355	129,498,215
- Unrealised	5,689,862	6,871,329
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	157,960,217	136,369,544
Total share of retained profits from associates:		
- Realised	774,128	1,070,152
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	158,734,345	137,439,696
Less: Consolidation adjustments	(7,891,789)	(7,416,550)
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Total group retained profits as per consolidated accounts	150,842,556	130,023,146
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**28. Additional Disclosures on Profit for the period**

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2013 RM	Comparative Quarter Ended 30/09/2012 RM	Current Period Ended 30/09/2013 RM	Comparative Period Ended 30/09/2012 RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(114,233)	(78,938)	(518,342)	(503,574)
Foreign exchange loss/(gain)	763,103	7,221	579,153	(75,735)
Rental income	(12,000)	(1,500)	(28,500)	(4,900)
Depreciation of property, plant and equipment	1,998,936	1,256,213	5,077,166	3,615,462
Interest expense	23,143	41,818	174,671	167,323
Impairment loss on trade receivables	74,177	49,066	180,252	273,734
Property, plant and equipment written off	-	-	619	108
Loss on disposal of property, plant & equipment	-	-	-	2
Provision for doubtful debts	-	-	-	15,083
Reversal of provision for doubtful debts	-	-	-	(100,000)

Other than the above items which have been included in the statement of comprehensive income, there were no 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 September 2013.