

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.

On 9 December 2013, the Company paid an interim dividend of 2.5 sen per ordinary share of RM0.50 each, comprising 0.5 sen (tax-exempt) and 2.0 sen taxable at 25%, in respect of the financial year ended 31 December 2013.

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 31 DECEMBER 2013

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	70,170,640	182,420,239	252,590,879
Less: Inter-segment revenue	(2,958,477)	(20,752,511)	(23,710,988)
External revenue	67,212,163	161,667,728	228,879,891
Results	19,964,785	28,312,254	48,277,039
Finance costs	(73,608)	(280,994)	(354,602)
Share of results of associates	214,165	(1,024,194)	(810,029)
Profit before tax	20,105,342	27,007,066	47,112,408
Income tax expense	(5,143,729)	(7,012,113)	(12,155,842)
Profit after tax	14,961,613	19,994,953	34,956,566
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OTHER INFORMATION			
Interest income	118,603	546,871	665,474
Depreciation	1,626,225	5,872,051	7,498,276
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RESULTS FOR PERIOD-TO-DATE ENDED 31 DECEMBER 2012

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	91,250,526	92,094,041	183,344,567
Less: Inter-segment revenue	(10,465,529)	(6,169,914)	(16,635,443)
External revenue	80,784,997	85,924,127	166,709,124
Results	20,491,799	6,663,784	27,155,583
Finance costs	(74,485)	(219,175)	(293,660)
Share of results of associates	62,434	(7,721)	54,713
Profit before tax	20,479,748	6,436,888	26,916,636
Income tax expense	(5,262,177)	214,927	(5,047,250)
Profit after tax	15,217,571	6,651,815	21,869,386
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OTHER INFORMATION

Interest income	151,735	538,125	689,860
Depreciation	2,012,416	2,900,408	4,912,824
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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 31 December 2013

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

13. Capital Commitments

	As at 31/12/2013 RM	As At 31/12/2012 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	2,240,619	5,138,836
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14. Related Party Transactions

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2013 RM	Comparative Quarter Ended 31/12/2012 RM	Current Period Ended 31/12/2013 RM	Comparative Period Ended 31/12/2012 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	-	40,000	80,000
- Sale of fabricated and galvanized steel products	-	-	24,954	-
- Provision of miscellaneous services such as machineries, equipments and labour	9,545	22,110	70,300	46,948
- Interest income	-	44	202	6,254
- Purchase of miscellaneous services such as machineries, equipments and labour	14,914	15,035	54,165	59,138
- Interest expense	2	73	82	440
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	12,000	-	40,000	-
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 Clinker Sdn. Bhd.	-	156,400	-	156,400
CMS Quarries Sdn. Bhd.	-	7,800	-	99,900
CMS Wires Sdn. Bhd.	-	200	-	200
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	18,058,554	11,346,190	38,825,549	15,379,837
- Provision of earthworks to OM Materials (Sarawak) Sdn. Bhd.	-	-	42,732	22,977,877
- Purchase of steel and concrete products from CMS Concrete Products Sdn. Bhd.	-	-	-	1,335
- Purchase of graded aggregates, etc. from CMS Quarries Sdn. Bhd.	-	-	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	71,400	71,400
- KKB Realty Sdn. Bhd.	17,400	11,400	59,600	45,600
- Sepang Kaya Sdn. Bhd.	30,856	30,856	123,426	123,426
Professional services provided by Michael Chai & Co. in which Mr Chai Woon Chew is a partner				
	10,750	-	10,750	-
Rental expense paid to a director, Dato Kho Kak Beng				
	7,200	7,200	28,800	28,800
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	18,179,071	11,615,158	40,107,705	39,077,555
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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 4th Quarter 2013 of RM47.6 million (4Q12: RM38.5 million) was RM23.6% higher as compared to the preceding year corresponding quarter, mainly due to the growth in revenue from the Steel Pipes manufacturing business and Steel Fabrication division within the Manufacturing and Engineering sectors.

Group revenue for the current year-to-date reached RM228.9 (FYE 2012: RM166.7 million), an increase of 37.3% over the preceding year. Accordingly, the group also posted a steady growth in its profit before taxation to record a high of RM47.1 million in the current year-to-date (FYE 2012: RM26.9 million), representing an increase of 75.1% compared to the preceding year.

The overall revenue and earnings of the Group for the current year-to-date has improved on the back of higher revenue generated from the Steel Fabrication and Civil Construction division, coupled with improved margin contribution from both the Engineering and Manufacturing sectors.

Engineering Sector

Group revenue for the Engineering sector improved by 11.0%, from RM20.9 million recorded in the preceding year fourth quarter to RM23.2 million in the current quarter. Sales contribution from Civil Construction division in 4Q13 was significantly down as compared to 4Q12, but the reduction was offset by increased sales registered by the Steel Fabrication division.

The Construction Division's revenue for the quarter of RM3.1 million (4Q12: RM10.2 million) was mostly from progressive claims made on pipeline projects and other civil construction related works. Sales contributions from these projects are significantly lower as they are at the advance stages of completion.

The Steel Fabrication Division's revenue for the quarter of RM19.3 million (4Q12: RM10.2 million) was 89.2% higher as compared to the preceding year corresponding quarter. Current quarter's revenue was mainly contributed from on-going structural steel works and cladding for the Proposed Pertama Ferro Alloy Complex in Bintulu, structural steel works for the proposed University College of Technology Sarawak in Sibu, structural steel works for Petronas LNG Train 9 Project and the supply of steel poles to Sarawak Energy Berhad.

Hot-Dip Galvanising division recorded an increase in revenue of 42.7% from RM590K registered in the preceding year fourth quarter to RM842K this quarter. Increased sales from Steel Fabrication Division have also benefited the Division through higher volume of "inter-division" works received for galvanizing.

Manufacturing Sector

Current quarter's group revenue of RM24.5 million (4Q12: RM17.5 million) was impressive and surpassed the preceding year fourth quarter's revenue by 40.0%, showed Steel Pipes manufacturing division leading the pack with RM9.2 million increase in revenue. The improved revenue was mainly attributed to the commencement of supply of Polyurethane Lined Mild Steel Pipes to CMS Infra Trading Sdn Bhd under the newly awarded contract, with a total contract sum of approximately RM228 million.

LPG Cylinders manufacturing division experienced a drop in revenue due to lower offtake of LPG cylinders from the Petroleum Companies.

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

The Group's revenue and profit before taxation of RM47.6 million (3Q13: RM56.9 million) and RM4.7 million (3Q13: RM9.8 million) were lower by 16.3% and 52.0% respectively, compared to the preceding quarter.

The overall lower revenue and earnings were mainly due to lower progress claims from Steel Fabrication and Civil Construction Divisions within the Engineering sector coupled with higher costs and partly offset by improved sales from the Steel Pipes Manufacturing business.

17. Prospects

The Group is positioned to progress further as planned into the oil and gas fabrication activities through its commissioned and installed modern production systems at its strategic fabrication yard located at Lot 777, Block 5, Jalan Bako, Muara Tebas Land District, Kuching, Sarawak, equipped with five (5) sizeable covered workshops for all weather conditions and load-out jetties fronting the Sarawak River.

KKB Group continue to explore all opportunities available in our specialized and growing structural steel engineering services with increased focus given to Energy related projects and a long-term objective to participate directly in the Oil and Gas industry via OceanMight Sdn Bhd and other strategic partner(s).

Management continues to participate in new projects planned in Sarawak, in particular infrastructures or construction and steel related works within the Sarawak Corridor of Renewable Energy ("SCORE") developments.

Year 2014 will be challenging amidst the tough operating environment and stiff competition within the industry. However, with the continued importance the Federal and State Government place on Sarawak and Sabah, the on-going social and economic developments planned, KKB Group remained optimistic that both its Engineering and Manufacturing sectors will perform favourably towards a sustainable growth for the financial year ending 2014, 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 12 Months Ended	
	Current Quarter Ended 31/12/2013 RM	Comparative Quarter Ended 31/12/2012 RM	Current Period Ended 31/12/2013 RM	Comparative Period Ended 31/12/2012 RM
Malaysian taxation				
- Current year	189,603	(77,195)	9,368,900	5,996,887
- Prior year	18	-	462,763	(76,741)
Deferred tax	1,142,712	449,637	2,324,179	(872,896)
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	1,332,333	372,442	12,155,842	5,047,250
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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 31 December 2013 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	3,232,551	-
Bankers' acceptances	-	5,289,000
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<u>Non-Current</u>		
Lease payables	9,015,733	-
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Total borrowings	12,248,284	5,289,000
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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 recommended a final single tier dividend of 5.0 sen per ordinary share of RM0.50 each, in respect of the financial year ended 31 December 2013. With the final dividend, the total gross dividend payout for the financial year ended 31 December 2013 would amount to 7.5 sen (FYE 2012: 5.0 sen) per ordinary share of RM0.50 each.

The payment of this final dividend is subject to shareholders' approval at the forthcoming Annual General Meeting.

The date of the Annual General Meeting and the dates of the dividend entitlement and payment will be announced at a later date.

26. Earnings per share

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2013	Comparative Quarter Ended 31/12/2012	Current Period Ended 31/12/2013	Comparative Period Ended 31/12/2012
Net profit attributable to owners of the parent (RM)	<u>2,971,167</u>	<u>7,317,879</u>	<u>33,457,777</u>	<u>20,493,587</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>1.15</u>	<u>2.84</u>	<u>12.98</u>	<u>7.95</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 31/12/2013 RM	As at 31/12/2012 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	152,132,884	129,498,215
- Unrealised	4,547,151	6,871,329
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	156,680,035	136,369,544
Total share of retained profits from associates:		
- Realised	293,432	1,070,152
- Unrealised	(3,324)	-
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	156,970,143	137,439,696
Less: Consolidation adjustments	(8,312,260)	(7,416,550)
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Total group retained profits as per consolidated accounts	148,657,883	130,023,146
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28. Additional Disclosures on Profit for the period

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2013 RM	Comparative Quarter Ended 31/12/2012 RM	Current Period Ended 31/12/2013 RM	Comparative Period Ended 31/12/2012 RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(147,132)	(186,286)	(665,474)	(689,860)
Realised foreign exchange loss/(gain)	(790,560)	(393,879)	(211,407)	(469,614)
Unrealised foreign exchange loss	23,218	-	23,218	-
Rental income	(19,700)	(1,800)	(48,200)	(6,700)
Depreciation of property, plant and equipment	2,421,110	1,297,362	7,498,276	4,912,824
Interest expense	179,931	126,337	354,602	293,660
Impairment loss on trade receivables	137,246	344,818	317,498	618,552
Property, plant and equipment written off	109	1,397	728	1,505
Bad debts written off	-	-	-	15,083
Reversal of provision for doubtful debts	-	(29,780)	-	(129,780)

Other than the above items which have been included in the statement of comprehensive income, there were no 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 31 December 2013.