

## **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 2013. 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 2013.

#### **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 2013 except for the adoption of the following with effect from 1 January 2014:

- Amendments to MFRS 10 Consolidated Financial Statements: Investment
- Amendments to MFRS 12 Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127 Separate Financial Statements: Investment Entities
- Amendments to MFRS 132 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139 Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21 Levies

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 2013 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

No dividend was paid in the current quarter and financial year to date.

## 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 MARCH 2014

|                                | Manufacturing<br>RM | Engineering<br>RM | Consolidated<br>RM |
|--------------------------------|---------------------|-------------------|--------------------|
| Total revenue                  | 21,596,639          | 24,540,641        | 46,137,280         |
| Less: Inter-segment revenue    | (175,013)           | (3,344,516)       | (3,519,529)        |
| External revenue               | 21,421,626          | 21,196,125        | 42,617,751         |
| Results                        | 2,261,470           | 4,091,776         | 6,353,246          |
| Finance costs                  | (195,703)           | (157,478)         | (353,181)          |
| Share of results of associates | 70,371              | (690,564)         | (620,193)          |
| Profit before tax              | 2,136,138           | 3,243,734         | 5,379,872          |
| Income tax expense             | (418,559)           | (1,013,499)       | (1,432,058)        |
| Profit after tax               | 1,717,579           | 2,230,235         | 3,947,814          |
|                                | =====               | =====             | =====              |

### OTHER INFORMATION

|                   |             |             |             |
|-------------------|-------------|-------------|-------------|
| Interest income   | 57,503      | 119,689     | 177,192     |
| Depreciation      | 392,822     | 2,510,071   | 2,902,893   |
| Total assets      | 133,430,600 | 215,068,667 | 348,499,267 |
| Total liabilities | 30,790,346  | 29,174,064  | 59,964,410  |
|                   | -----       | -----       | -----       |

**RESULTS FOR PERIOD-TO-DATE ENDED 31 MARCH 2013**

|                                | Manufacturing<br>RM | Engineering<br>RM | Consolidated<br>RM |
|--------------------------------|---------------------|-------------------|--------------------|
| Total revenue                  | 15,724,968          | 54,745,911        | 70,470,879         |
| Less: Inter-segment revenue    | (545,701)           | (5,643,519)       | (6,189,220)        |
|                                | -----               | -----             | -----              |
| External revenue               | 15,179,267          | 49,102,392        | 64,281,659         |
|                                | -----               | -----             | -----              |
| Results                        | 6,914,991           | 8,856,119         | 15,771,110         |
| Finance costs                  | (27,883)            | (46,153)          | (74,036)           |
| Share of results of associates | 140,845             | (33,896)          | 106,949            |
|                                | -----               | -----             | -----              |
| Profit before tax              | 7,027,953           | 8,776,070         | 15,804,023         |
| Income tax expense             | (1,717,589)         | (2,170,735)       | (3,888,324)        |
|                                | -----               | -----             | -----              |
| Profit after tax               | 5,310,364           | 6,605,335         | 11,915,699         |
|                                | =====               | =====             | =====              |

**OTHER INFORMATION**

|                   |            |             |             |
|-------------------|------------|-------------|-------------|
| Interest income   | 25,539     | 245,500     | 271,039     |
| Depreciation      | 415,319    | 1,121,304   | 1,536,623   |
| Total assets      | 92,966,024 | 209,779,921 | 302,745,945 |
| Total liabilities | 3,004,419  | 22,772,310  | 25,776,729  |
|                   | -----      | -----       | -----       |

**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 March 2014**

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

**13. Capital Commitments**

|                                                | As at<br>31/03/2014<br>RM | As At<br>31/03/2013<br>RM |
|------------------------------------------------|---------------------------|---------------------------|
| Commitments in respect of capital expenditure: |                           |                           |
| Approved and contracted for:                   |                           |                           |
| Property, plant and equipment                  | 3,663,819                 | 2,718,205                 |
|                                                | -----                     | -----                     |

#### 14. Related Party Transactions

|                                                                                                                                                      | 3 Months Ended                               |                                                  | Cumulative 3 Months Ended                   |                                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------------------|---------------------------------------------|-------------------------------------------------|
|                                                                                                                                                      | Current<br>Quarter Ended<br>31/03/2014<br>RM | Comparative<br>Quarter Ended<br>31/03/2013<br>RM | Current<br>Period Ended<br>31/03/2014<br>RM | Comparative<br>Period Ended<br>31/03/2013<br>RM |
| Transactions with an associate,<br>Edisi Optima Sdn. Bhd.                                                                                            |                                              |                                                  |                                             |                                                 |
| - Dividend income                                                                                                                                    | -                                            | 40,000                                           | -                                           | 40,000                                          |
| - Provision of miscellaneous services<br>such as machineries, equipments<br>and labour                                                               | 4,511                                        | 30,778                                           | 4,511                                       | 30,778                                          |
| - Interest income                                                                                                                                    | 3                                            | 70                                               | 3                                           | 70                                              |
| - Purchase of miscellaneous services<br>such as machineries, equipments<br>and labour                                                                | 20,431                                       | 10,770                                           | 20,431                                      | 10,770                                          |
| - Interest expense                                                                                                                                   | -                                            | 69                                               | -                                           | 69                                              |
| Transactions with an associate,<br>OceanMight Sdn. Bhd.                                                                                              |                                              |                                                  |                                             |                                                 |
| - Rental income                                                                                                                                      | 12,000                                       | -                                                | 12,000                                      | -                                               |
| Transactions with an associate and<br>subsidiaries of an associate<br>investor, Cahya Mata Sarawak Bhd.                                              |                                              |                                                  |                                             |                                                 |
| - Sales of steel pipes and pipe<br>fittings to CMS Infra Trading<br>Sdn. Bhd.                                                                        | 12,550,949                                   | 9,503,585                                        | 12,550,949                                  | 9,503,585                                       |
| - Provision of earthworks to<br>OM Materials (Sarawak) Sdn. Bhd.                                                                                     | -                                            | 42,732                                           | -                                           | 42,732                                          |
| - Purchase of steel and concrete<br>products from<br>CMS Concrete Products Sdn. Bhd.                                                                 | 55,713                                       | -                                                | 55,713                                      | -                                               |
| - Purchase of premix from<br>CMS Premix Sdn. Bhd.                                                                                                    | 11,958                                       | -                                                | 11,958                                      | -                                               |
| Rental expense paid to companies<br>in which certain directors of<br>the Company have substantial<br>financial interest and/or are<br>also directors |                                              |                                                  |                                             |                                                 |
| - KKB Development Sdn. Bhd.                                                                                                                          | 17,850                                       | 17,850                                           | 17,850                                      | 17,850                                          |
| - KKB Realty Sdn. Bhd.                                                                                                                               | 17,400                                       | 11,400                                           | 17,400                                      | 11,400                                          |
| - Sepang Kaya Sdn. Bhd.                                                                                                                              | 30,857                                       | 30,857                                           | 30,857                                      | 30,857                                          |
| Rental expense paid to a director,<br>Dato Kho Kak Beng                                                                                              | 7,200                                        | 7,200                                            | 7,200                                       | 7,200                                           |
|                                                                                                                                                      | -----                                        | -----                                            | -----                                       | -----                                           |
|                                                                                                                                                      | 12,728,872                                   | 9,695,311                                        | 12,728,872                                  | 9,695,311                                       |
|                                                                                                                                                      | -----                                        | -----                                            | -----                                       | -----                                           |

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 recorded revenue of RM42.6 million (1Q13: RM64.3 million), lower by 33.7% compared to the preceding year corresponding quarter.

The lower sales compared with the preceding year corresponding quarter was mainly attributed by the RM27.9 million reduction in revenue contribution from the Engineering Sector and hence lower the Group's pre-tax profit to RM5.4 million (1Q13: RM15.8 million).

#### Engineering Sector

The Engineering sector's revenue of RM21.2 million (1Q13: RM49.1 million) was 56.8% lower, as a result of lower progress billings from on-going projects and completion of projects by the Civil Construction division.

Steel Fabrication Division experienced lower revenue and recorded a decrease of about 44.6% to register RM19.5 million (1Q13: RM35.2 million). Current quarter's revenue was mainly contributed from the 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 Sibul, structural steel works for Petronas LNG Train 9 Project and Structural steel works for SAMUR project.

Hot-Dip Galvanising division recorded an increase in revenue of 32.3% from RM619K registered in the preceding year corresponding quarter to RM819K this quarter. The improved performance was mainly contributed from the supply of Hot Dip Galvanised Steel Poles.

#### Manufacturing Sector

Revenue from Steel Pipes manufacturing business under subsidiary companies, Harum Bidang Sdn Bhd ("HBSB") and KKB Industries (Sabah) Sdn Bhd, increased by RM4.5 million (37.5%) with an aggregate revenue of RM16.5 million (1Q13: RM12.0 million). The increase in revenue is mainly attributed to the sales of Polyurethane Lined Mild Steel Pipes by HBSB.

The LPG Cylinders manufacturing Division sales rebounded strongly to register quarter's revenue of RM4.9 million (1Q13: RM3.1 million), as demand from the petroleum companies picked up. The improved revenue also included supply to Mygaz Sdn Bhd (formerly Shell Timur Sdn Bhd).

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

Group's revenue for the quarter of RM42.6 million recorded a slight decrease of 10% from the previous quarter of RM47.6 million), while its pre-tax profit of RM5.4 million (4Q13: RM4.7 million) improved by 14%. The improved bottom line was mainly attributable to higher sales generated by the Group's Steel Fabrication and LPG cylinders manufacturing businesses as well as improved margin from these sales as compared to the preceding quarter.

### **17. Prospects**

With the completion of the Group's expansion and modernization of its fabrication yard at Lot 777, the Group is actively participating in potential business opportunities in the Major Onshore Fabrication to increase its revenue base and earnings in collaboration with OceanMight Sdn Bhd and other strategic partner(s).

The Board is cautious that the continued uncertainties in the global economic environment, escalation of costs due to inflationary pressure, volatility of global raw material steel prices and fluctuation of exchange rates are amongst factors that may impact the Group's performance.

Barring any unforeseen circumstances, the Group expects to achieve a favourable performance in year 2014.

**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 3 Months Ended                   |                                                 |
|--------------------------------------|----------------------------------------------|--------------------------------------------------|---------------------------------------------|-------------------------------------------------|
|                                      | Current<br>Quarter Ended<br>31/03/2014<br>RM | Comparative<br>Quarter Ended<br>31/03/2013<br>RM | Current<br>Period Ended<br>31/03/2014<br>RM | Comparative<br>Period Ended<br>31/03/2013<br>RM |
| Malaysian taxation<br>- Current year | 1,822,025                                    | 3,614,701                                        | 1,822,025                                   | 3,614,701                                       |
| Deferred tax                         | (389,967)                                    | 273,623                                          | (389,967)                                   | 273,623                                         |
|                                      | -----<br>1,432,058<br>=====                  | -----<br>3,888,324<br>=====                      | -----<br>1,432,058<br>=====                 | -----<br>3,888,324<br>=====                     |

The Group's effective tax rate for the current quarter is higher than the statutory tax rate principally due to the share of losses incurred by its associate and 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 March 2014 were as follows: -

| Loans and Borrowings (denominated in Ringgit Malaysia) | Secured<br>RM | Unsecured<br>RM |
|--------------------------------------------------------|---------------|-----------------|
| <u>Current</u>                                         |               |                 |
| Lease payables                                         | 3,637,148     | -               |
| Bankers' acceptances                                   | -             | 20,892,000      |
|                                                        | -----         | -----           |
| <u>Non-Current</u>                                     |               |                 |
| Lease payables                                         | 9,902,589     | -               |
|                                                        | -----         | -----           |
| Total borrowings                                       | 13,539,737    | 20,892,000      |
|                                                        | =====         | =====           |

## 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

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 has been recommended by the Board of Directors on 24 February 2014, payable to shareholders of the Company whose names appear in the Record of Depositors on 15 May 2014.

The payment of this final dividend is subject to the shareholders' approval at the forthcoming Thirty-Eighth Annual General Meeting to be held on 8 May 2014, and if approved will be paid on 5 June 2014.

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.

**26. Earnings per share**

|                                                                                    | 3 Months Ended                            |                                               | Cumulative 3 Months Ended                |                                              |
|------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------|------------------------------------------|----------------------------------------------|
|                                                                                    | Current<br>Quarter<br>Ended<br>31/03/2014 | Comparative<br>Quarter<br>Ended<br>31/03/2013 | Current<br>Period<br>Ended<br>31/03/2014 | Comparative<br>Period<br>Ended<br>31/03/2013 |
| Net profit attributable to owners of the parent (RM)                               | <u>3,797,451</u>                          | <u>11,378,304</u>                             | <u>3,797,451</u>                         | <u>11,378,304</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>1.47</u>                               | <u>4.41</u>                                   | <u>1.47</u>                              | <u>4.41</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<br>31/03/2014<br>RM | As at<br>31/12/2013<br>RM |
|-----------------------------------------------------------------------|---------------------------|---------------------------|
| Total retained profits of the Company and its subsidiaries:           |                           |                           |
| - Realised                                                            | 156,321,997               | 152,132,884               |
| - Unrealised                                                          | 4,937,118                 | 4,547,151                 |
|                                                                       | -----                     | -----                     |
|                                                                       | 161,259,115               | 156,680,035               |
| Total share of (accumulated losses)/retained profits from associates: |                           |                           |
| - Realised                                                            | (316,166)                 | 293,432                   |
| - Unrealised                                                          | (3,324)                   | (3,324)                   |
|                                                                       | -----                     | -----                     |
|                                                                       | 160,939,625               | 156,970,143               |
| Less: Consolidation adjustments                                       | (8,484,291)               | (8,312,260)               |
|                                                                       | -----                     | -----                     |
| Total group retained profits as per consolidated accounts             | 152,455,334               | 148,657,883               |
|                                                                       | =====                     | =====                     |



**28. Additional Disclosures on Profit for the period**

|                                                                 | 3 Months Ended |               | Cumulative 3 Months Ended |              |
|-----------------------------------------------------------------|----------------|---------------|---------------------------|--------------|
|                                                                 | Current        | Comparative   | Current                   | Comparative  |
|                                                                 | Quarter Ended  | Quarter Ended | Period Ended              | Period Ended |
|                                                                 | 31/03/2014     | 31/03/2013    | 31/03/2014                | 31/03/2013   |
|                                                                 | RM             | RM            | RM                        | RM           |
| Profit for the period is arrived at after charging/(crediting): |                |               |                           |              |
| Interest income                                                 | (177,192)      | (271,039)     | (177,192)                 | (271,039)    |
| Realised foreign exchange loss/(gain)                           | 91,026         | (78,035)      | 91,026                    | (78,035)     |
| Unrealised foreign exchange gain                                | (23,218)       | -             | (23,218)                  | -            |
| Rental income                                                   | (23,000)       | (4,500)       | (23,000)                  | (4,500)      |
| Depreciation of property, plant and equipment                   | 2,902,893      | 1,536,623     | 2,902,893                 | 1,536,623    |
| Interest expense                                                | 353,181        | 74,036        | 353,181                   | 74,036       |
| Impairment loss on trade receivables                            | 110,186        | 22,504        | 110,186                   | 22,504       |
| Property, plant and equipment written off                       | 88             | 618           | 88                        | 618          |

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 31 March 2014.