

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

On 5 June 2014, the Company paid a final dividend of 5.0 sen per ordinary share of RM0.50 each, 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 30 JUNE 2014

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	57,790,081	44,833,736	102,623,817
Less: Inter-segment revenue	(1,603,450)	(9,929,806)	(11,533,256)
External revenue	56,186,631	34,903,930	91,090,561
Results	9,600,522	6,581,328	16,181,850
Finance costs	(252,661)	(318,270)	(570,931)
Share of results of associates	94,032	(1,589,845)	(1,495,813)
Profit before tax	9,441,893	4,673,213	14,115,106
Income tax expense	(2,018,234)	(41,280)	(2,059,514)
Profit after tax	7,423,659	4,631,933	12,055,592
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OTHER INFORMATION			
Interest income	106,297	197,591	303,888
Depreciation	782,559	5,038,882	5,821,441
Total assets	109,380,555	210,647,992	320,028,547
Total liabilities	8,387,211	27,888,301	36,275,512
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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)
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External revenue	35,360,323	89,010,457	124,370,780
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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
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Profit before tax	15,787,872	16,788,991	32,576,863
Income tax expense	(3,856,822)	(4,251,767)	(8,108,589)
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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
Total assets	105,977,790	213,922,105	319,899,895
Total liabilities	11,691,096	28,954,208	40,645,304
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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 June 2014

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

13. Capital Commitments

	As at 30/06/2014 RM	As At 30/06/2013 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	1,791,726	16,607,676
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14. Related Party Transactions

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2014 RM	Comparative Quarter Ended 30/06/2013 RM	Current Period Ended 30/06/2014 RM	Comparative Period Ended 30/06/2013 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	-	30,000	40,000
- Sale of fabricated and galvanized steel products	-	6,635	-	6,635
- Provision of miscellaneous services such as machineries, equipments and labour	949	27,979	5,460	58,757
- Interest income	-	98	3	168
- Purchase of miscellaneous services such as machineries, equipments and labour	11,837	12,516	32,268	23,286
- Interest expense	-	-	-	69
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	12,000	16,000	24,000	16,000
Transactions with an associate and subsidiaries of an associate investor, Cahya Mata Sarawak Bhd.				
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	30,244,059	11,263,410	42,795,008	20,766,995
- Provision of earthworks to OM Materials (Sarawak) Sdn. Bhd.	-	-	-	42,732
- Purchase of steel and concrete products from CMS Concrete Products Sdn. Bhd.	5,475	-	61,188	-
- Purchase of premix from CMS Premix Sdn. Bhd.	-	-	11,958	-
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.	17,400	13,400	34,800	24,800
- 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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	30,347,627	11,395,945	43,106,499	21,091,256
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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 RM48.5 million (2Q13: RM60.1 million) was 19.3% lower as compared to the preceding year corresponding quarter. This quarter shows a substantial shift in the proportion of revenue contribution on the overall group activities from the Engineering sector of 28% (2Q13: 66%) to the Manufacturing sector of 72% (2Q13: 34%).

Engineering Sector

The Sector registered revenue of RM13.7 million (2Q13: RM39.9 million). The quarter's results ended lower compared to the preceding year 2Q13 in the absence of sizeable jobs/projects undertaken during the quarter.

Construction Division recorded a revenue of RM2.3 million (2Q13: RM14.5 million), representing a reduction of RM12.2 million or 84.1% in the current quarter as a result of lower progress billings from on-going projects and completion of projects by the Civil Construction division.

Revenue from the Steel Fabrication Division reduced by 58.2% over the preceding year corresponding quarter to record RM10.4 million (2Q13: RM24.9 million). Revenue for the quarter were mainly contributed from the existing works involving the fabrication of structural steel works for Petronas LNG Train 9 Project, Structural steel works for SAMUR project, structural steel works for the proposed University College of Technology Sarawak in Sibul and supply of LT/HT Steel Poles.

HDG Division recorded an increase in revenue of 103.3% from RM492K registered in the preceding year corresponding quarter to RM1.0 million this quarter. The improved performance was mainly contributed from the supply of Hot Dip Galvanised Standard Low and High Tension 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 RM15.8 million (101.9%) with an aggregate revenue of RM31.3 million (2Q13: RM15.5 million). The increase in revenue is mainly attributed to the sales of Polyurethane Lined Mild Steel Pipes by HBSB.

LPG Cylinders manufacturing division recorded a decrease in revenue of approximately RM1.2 million, due to lower offtake of LPG cylinders from the Petroleum Companies. The entire 2Q14 revenue of RM3.4 million (2Q13: RM4.6 million) was for the supply of LPG cylinders to its major customer, Petronas Dagangan Berhad.

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

Group's revenue for the quarter of RM48.5 million improved by 13.8% as compared to RM42.6 million registered in the preceding quarter, while profit before taxation of RM8.7 million (1Q14: RM5.4 million) increased by 61.1%. The improved operating results and revenue during the current quarter were mainly driven by the Group's steel pipe manufacturing business.

17. Prospects

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.

The Group continues to explore all opportunities available in our specialized and growing structural steel engineering services with more focus given to the energy related projects. 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 move up the value chain in Fabrication Engineering and related disciplines, in collaboration with OceanMight Sdn Bhd and other strategic partner(s).

As a result of lower volumes and increasing costs, the Board remained cautious that the Group's outlook for the remaining second half of financial year ending 2014 will prove to be challenging.

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 30/06/2014 RM	Comparative Quarter Ended 30/06/2013 RM	Current Period Ended 30/06/2014 RM	Comparative Period Ended 30/06/2013 RM
Malaysian taxation				
- Current year	954,262	4,245,316	2,776,287	7,860,017
- Prior year	(162,365)	-	(162,365)	-
Deferred tax	(164,441)	(25,051)	(554,408)	248,572
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	627,456	4,220,265	2,059,514	8,108,589
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The Group's effective tax rate for the current quarter and year to date is lower than the statutory tax rate mainly due to the utilization of reinvestment allowance for the expansion of its Steel Fabrication activities. The decrease is also in line with the decreased of pre-tax profit for the Group corresponding with the decrease in revenue and profit recorded during the quarter and year-to-date.

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 2014 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	3,726,116	-
Bankers' acceptances	-	5,970,000
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<u>Non-Current</u>		
Lease payables	9,880,326	-
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Total borrowings	13,606,442	5,970,000
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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 hearing of arbitration has commenced and is on-going.

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 30/06/2014	Comparative Quarter Ended 30/06/2013	Current Period Ended 30/06/2014	Comparative Period Ended 30/06/2013
Net profit attributable to owners of the parent (RM)	<u>7,598,047</u>	<u>11,972,071</u>	<u>11,395,498</u>	<u>23,350,375</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>2.95</u>	<u>4.64</u>	<u>4.42</u>	<u>9.06</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 30/06/2014 RM	As at 31/12/2013 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	152,232,427	152,132,884
- Unrealised	5,101,558	4,547,151
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	157,333,985	156,680,035
Total share of (accumulated losses)/retained profits from associates:		
- Realised	(1,292,636)	293,432
- Unrealised	(3,324)	(3,324)
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	156,038,025	156,970,143
Less: Consolidation adjustments	(8,874,244)	(8,312,260)
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Total group retained profits as per consolidated accounts	147,163,781	148,657,883
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28. Additional Disclosures on Profit for the period

	3 Months Ended		Cumulative 6 Months Ended	
	Current	Comparative	Current	Comparative
	Quarter Ended	Quarter Ended	Period Ended	Period Ended
	30/06/2014	30/06/2013	30/06/2014	30/06/2013
	RM	RM	RM	RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(126,696)	(133,070)	(303,888)	(404,109)
Realised foreign exchange gain	(128,479)	(105,915)	(37,453)	(183,950)
Unrealised foreign exchange gain	-	-	(23,218)	-
Rental income	(24,000)	(12,000)	(47,000)	(16,500)
Gain on disposal of property, plant and equipment	(4,867)	-	(4,867)	-
Depreciation of property, plant and equipment	2,918,548	1,541,607	5,821,441	3,078,230
Interest expense	217,750	77,492	570,931	151,528
Impairment loss on trade receivables	73,681	83,571	183,867	106,075
Property, plant and equipment written off	-	1	88	619

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, gain or loss on derivatives and exceptional items for the current quarter and period ended 30 June 2014.