

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.

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 2014

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	107,510,611	52,310,483	159,821,094
Less: Inter-segment revenue	(4,167,516)	(19,734,875)	(23,902,391)
External revenue	103,343,095	32,575,608	135,918,703
Results	20,931,635	1,287,997	22,219,632
Finance costs	(406,178)	(516,910)	(923,088)
Share of results of associates	104,186	(2,530,153)	(2,425,967)
Profit before tax	20,629,643	(1,759,066)	18,870,577
Income tax expense	(4,924,350)	254,916	(4,669,434)
Profit after tax	15,705,293	(1,504,150)	14,201,143
	=====	=====	=====

OTHER INFORMATION

Interest income	143,060	266,156	409,216
Depreciation	1,185,651	7,567,764	8,753,415
Total assets	132,605,561	198,691,039	331,296,600
Total liabilities	18,502,621	26,895,393	45,398,014
	-----	-----	-----

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
	=====	=====	=====

OTHER INFORMATION

Interest income	83,956	434,386	518,342
Depreciation	1,253,287	3,823,879	5,077,166
Total assets	97,268,100	230,429,215	327,697,315
Total liabilities	2,324,940	39,012,901	41,337,841
	-----	-----	-----

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 2014

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

13. Capital Commitments

	As at 30/09/2014 RM	As At 30/09/2013 RM
Commitments in respect of capital expenditure: Approved and contracted for:		
Property, plant and equipment	1,283,549	10,990,918
	-----	-----

14. Related Party Transactions

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2014 RM	Comparative Quarter Ended 30/09/2013 RM	Current Period Ended 30/09/2014 RM	Comparative Period Ended 30/09/2013 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	-	30,000	40,000
- Sale of fabricated and galvanized steel products	-	18,319	-	24,954
- Provision of miscellaneous services such as machineries, equipments and labour	4,906	1,998	10,366	60,755
- Interest income	-	34	3	202
- Purchase of miscellaneous services such as machineries, equipments and labour	21,567	15,965	53,835	39,251
- Interest expense	-	11	-	80
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	12,000	12,000	36,000	28,000
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.	43,328,910	-	86,123,918	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.	-	-	61,188	-
- Purchase of premix from CMS Premix Sdn. Bhd.	-	-	11,958	-
- 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	17,400	52,200	42,200
- 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
	-----	-----	-----	-----
	43,440,689	837,378	86,547,188	21,928,634
	-----	-----	-----	-----

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 RM44.8 million (3Q13: RM56.9 million) declined by 21.3% compared to the preceding year third quarter mainly due to reduced activities of the Engineering sector.

The Steel Fabrication division within the Engineering sector recorded lower revenue and hence the squeeze on the group's current quarter profit before taxation to RM4.8 million from RM9.8 million registered in the preceding year corresponding quarter.

Engineering Sector

Steel Fabrication division recorded an overall lower revenue and operating results, due to an adjustment made in its revenue of RM15.5 million upon the completion and finalization of its major Structural Steel and Cladding Works/Project in Bintulu, Sarawak. Activities for both the Construction and Steel Fabrication division have slowed down and hence the dip in profit margin for the current on-going jobs/projects undertaken.

Revenue for the quarter were mainly contributed from the remaining on-going projects 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, the supply of Low/High Tension Steel Poles and the Infrastructural works at Samalaju Industrial Park, Bintulu.

HDG Division recorded an increase in revenue of 70.2% from RM705K registered in the preceding year corresponding quarter to RM1.2 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 for the Group's Manufacturing sector recorded an increase of 537.8% over the preceding year corresponding quarter to register RM47.2 million (3Q13: RM7.4 million). The increase is mainly triggered by the strong performance of the Group's Steel Pipes manufacturing division and partly offset by lower sales of LPG Cylinders.

The Group's Steel Pipes Manufacturing division under the two subsidiaries has posted a steady growth of RM41.5 million, with aggregate revenue of RM45.0 million as compared to RM3.5 million achieved in the preceding year corresponding quarter. The increase is principally attributed to the on-going urgent supply of Polyurethane Lined Mild Steel Pipes.

LPG Cylinders manufacturing division recorded reduced revenue of approximately 46.2%, due to lower offtake of LPG cylinders from the Company's major customer, Petronas Dagangan Berhad.

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

The Group's revenue and profit before taxation of RM44.8 million (2Q14: RM48.5 million) and RM4.8 million (2Q14: RM8.7 million), were 7.6% and 44.8% respectively, lower compared with the preceding quarter.

Revenue contribution from the Steel Pipes Manufacturing division was higher as compared to 2Q14, and the increase was offset by the reduction in revenue registered by the Steel Fabrication Division, resulting in overall lower revenue and operating results as compared to the preceding quarter.

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 focus given to energy related projects. With the gradual Group's expansion and modernization of its fabrication yard at Lot 777 Muara Tebas, Kuching, the Group is actively participating in potential business opportunities in the Major Onshore Fabrication to move up the value chain in Oil and Gas and related industries, in collaboration with OceanMight Sdn Bhd and strategic partner(s).

OceanMight Sdn Bhd has on 5th September 2014 secured its first Oil and Gas contract for the fabrication, hook-up and commissioning services for Tanjong Baram Wellhead Platform.

As a result of lower volumes and increasing costs, the Board remained cautious that the Group's financial performance for the remaining period of financial year ending 2014 will prove to be challenging under the prevailing competitive business and global environment.

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 30/09/2014 RM	Comparative Quarter Ended 30/09/2013 RM	Current Period Ended 30/09/2014 RM	Comparative Period Ended 30/09/2013 RM
Malaysian taxation				
- Current year	2,478,932	1,319,280	5,255,219	9,179,297
- Prior year	229,620	462,745	67,255	462,745
Deferred tax	(98,632)	932,895	(653,040)	1,181,467
	-----	-----	-----	-----
	2,609,920	2,714,920	4,669,434	10,823,509
	=====	=====	=====	=====

The Group's effective tax rate for the current quarter is higher than the statutory tax rate primarily due to losses of the Company and some subsidiaries, and the disallowance of certain expenses for tax 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 2014 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	4,076,767	-
Bankers' acceptances	-	13,710,000
	-----	-----
<u>Non-Current</u>		
Lease payables	10,219,289	-
	-----	-----
Total borrowings	14,296,056	13,710,000
	=====	=====

24. Material Litigations

The hearing of the arbitration proceedings between KKB Builders Sdn Bhd (a wholly owned subsidiary of the Company) as the Claimant and Global Upline Sdn Bhd as the Respondent is still 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 9 Months Ended	
	Current Quarter Ended 30/09/2014	Comparative Quarter Ended 30/09/2013	Current Period Ended 30/09/2014	Comparative Period Ended 30/09/2013
Net profit attributable to owners of the parent (RM)	<u>1,226,092</u>	<u>7,136,235</u>	<u>12,621,591</u>	<u>30,486,610</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>0.48</u>	<u>2.77</u>	<u>4.90</u>	<u>11.83</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 30/09/2014 RM	As at 31/12/2013 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	155,257,126	152,132,884
- Unrealised	5,200,191	4,547,151
	-----	-----
	160,457,317	156,680,035
Total share of (accumulated losses)/retained profits from associates:		
- Realised	(2,222,791)	293,432
- Unrealised	(3,324)	(3,324)
	-----	-----
	158,231,202	156,970,143
Less: Consolidation adjustments	(9,841,328)	(8,312,260)
	-----	-----
Total group retained profits as per consolidated accounts	148,389,874	148,657,883
	=====	=====

28. Additional Disclosures on Profit for the period

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2014 RM	Comparative Quarter Ended 30/09/2013 RM	Current Period Ended 30/09/2014 RM	Comparative Period Ended 30/09/2013 RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(105,328)	(114,233)	(409,216)	(518,342)
Realised foreign exchange (gain)/loss	(14,451)	763,103	(51,904)	579,153
Unrealised foreign exchange gain	-	-	(23,218)	-
Rental income	(24,000)	(12,000)	(71,000)	(28,500)
Gain on disposal of property, plant and equipment	(43,122)	-	(47,989)	-
Depreciation of property, plant and equipment	2,931,974	1,998,936	8,753,415	5,077,166
Interest expense	352,157	23,143	923,088	174,671
Impairment loss on trade receivables	76,772	74,177	260,639	180,252
Property, plant and equipment written off	2,973	-	3,061	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 September 2014.