

## **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 31 DECEMBER 2014

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	165,415,224	71,719,522	237,134,746
Less: Inter-segment revenue	(5,080,399)	(30,045,827)	(35,126,226)
External revenue	160,334,825	41,673,695	202,008,520
Results	36,802,749	(927,915)	35,874,834
Finance costs	(455,936)	(678,767)	(1,134,703)
Share of results of associates	61,853	(2,877,494)	(2,815,641)
Profit before tax	36,408,666	(4,484,176)	31,924,490
Income tax expense	(9,278,775)	1,296,629	(7,982,146)
Profit after tax	27,129,891	(3,187,547)	23,942,344
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### OTHER INFORMATION

Interest income	182,328	357,709	540,037
Depreciation	1,592,924	10,190,070	11,782,994
Total assets	150,335,949	190,414,814	340,750,763
Total liabilities	18,280,018	26,830,958	45,110,976
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**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
Total assets	107,500,891	224,536,981	332,037,872
Total liabilities	9,213,807	38,237,022	47,450,829
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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 2014**

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

**13. Capital Commitments**

	As at 31/12/2014 RM	As At 31/12/2013 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	473,000	2,240,619
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## 14. Related Party Transactions

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2014 RM	Comparative Quarter Ended 31/12/2013 RM	Current Period Ended 31/12/2014 RM	Comparative Period Ended 31/12/2013 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	-	30,000	40,000
- Sale of fabricated and galvanized steel products	-	-	-	24,954
- Provision of miscellaneous services such as machineries, equipments and labour	16,256	9,545	26,622	70,300
- Interest income	16	-	19	202
- Purchase of miscellaneous services such as machineries, equipments and labour	13,020	14,914	66,855	54,165
- Interest expense	-	2	-	82
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	12,000	12,000	48,000	40,000
- Provision of miscellaneous services such as machineries/equipment/ facilities, labour/subContract works, project management services etc	2,687,181	-	2,687,181	-
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.	54,804,710	18,058,554	140,928,628	38,825,549
- 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.	2,098	-	14,056	-
- 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	17,400	69,600	59,600
- 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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	57,608,587	18,179,071	144,155,775	40,107,705
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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 RM66.1 million rose by 38.9% as compared to RM47.6 million in the preceding year corresponding quarter due to the growth in revenue of the Manufacturing Sector.

Group's current quarter profit before taxation improved by 178.7% to record RM13.1 million as compared to RM4.7 million achieved in the fourth quarter of 2013. The improved gross profit margin along side the higher revenue registered by the Group's steel water pipes business have been the major factors contributing to the improved bottom line.

#### Engineering Sector

Construction Division's activities have slowed down with fewer new projects. Revenue for the quarter of RM2.2 million (4Q13: RM3.1 million) was solely from progressive claims made on existing pipeline project works and sales contributions from the tail end of these projects are lower as they are at the advance stage of completion.

For Steel Fabrication Division, quarter's revenue of RM5.9 million decreased by 69.3% compared to the preceding year quarter's revenue of RM19.2 million. 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, fabrication of frame steel works for CMS Clinker Plant, the supply of Low/High Tension Steel Poles and subcontract works for the fabrication of platforms.

HDG Division recorded an increase in revenue of 30.6% from RM842K registered in the preceding year corresponding quarter to RM1.1 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 of RM57.0 million (4Q13: RM24.5 million) surpassed the preceding year corresponding quarter's revenue by more than double (132.7%), due to the strong performance of the Group's Steel Pipes manufacturing division.

Revenue from Steel Pipes business under the two subsidiary companies has improved with aggregate revenue of RM55.6 million as compared to RM23.4 million recorded in the preceding year corresponding quarter. The positive growth in revenue is attributed from the on-going supply of Polyurethane Lined Mild Steel Pipes.

LPG Cylinders manufacturing division recorded an increase in revenue of approximately 32.5% for the supply of LPG cylinders to Petronas Dagangan Berhad and Petron Malaysia Refining & Marketing Bhd (formerly known as Esso Malaysia Bhd).

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

The Group's revenue and profit before taxation of RM66.1 million (3Q14: RM44.8 million) and RM13.1 million (3Q14: RM4.8 million), were 47.5% and 172.9% respectively, higher compared with the preceding quarter.

The overall improved performance as compared to the preceding quarter was attributed by the improved performance from both the Steel Pipes and Steel Fabrication divisions, contributing RM61.5 million (93%) of current quarter's revenue as compared to RM38.3 million (85%) registered in the preceding quarter.

**17. Prospects**

2015 will be another challenging year for the Group amidst the uncertainties in the global economy. With the fall in worldwide crude oil prices, it is anticipated that the Group will continue to experience a challenging and tough operating business environment. 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's diversified portfolio however provides a resilient platform to mitigate adverse market conditions and uncertainties. We remain focus and continue our efforts to strengthen and grow our core business in both the engineering and manufacturing activities based on strong fundamentals to optimise our operations towards a sustainable growth for the financial year ending 2015, 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 31/12/2014 RM	Comparative Quarter Ended 31/12/2013 RM	Current Period Ended 31/12/2014 RM	Comparative Period Ended 31/12/2013 RM
Malaysian taxation				
- Current year	4,396,044	189,603	9,651,263	9,368,900
- Prior year	(1)	18	67,254	462,763
Deferred tax	(1,083,331)	1,142,712	(1,736,371)	2,324,179
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	3,312,712	1,332,333	7,982,146	12,155,842
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The Group's effective tax rate for the current quarter is slightly 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 31 December 2014 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	3,860,746	-
Bankers' acceptances	-	11,200,000
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<u>Non-Current</u>		
Lease payables	9,392,302	-
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Total borrowings	13,253,048	11,200,000
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**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 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**

The Board of Directors has recommended a first and final single tier dividend of 4.0 sen per ordinary share of RM0.50 each, in respect of the financial year ended 31 December 2014 (FYE 2013: 7.5 sen).

The payment of this 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 31/12/2014	Comparative Quarter Ended 31/12/2013	Current Period Ended 31/12/2014	Comparative Period Ended 31/12/2013
Net profit attributable to owners of the parent (RM)	8,346,618	2,971,167	20,968,209	33,457,777
Weighted average number of ordinary shares in issue	257,792,000	257,792,000	257,792,000	257,792,000
Basic earnings per share for the period attributable to owners of the parent (sen)	3.24	1.15	8.13	12.98

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 31/12/2014 RM	As at 31/12/2013 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	164,246,897	152,132,884
- Unrealised	6,283,521	4,547,151
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	170,530,418	156,680,035
Total share of (accumulated losses)/retained profits from associates:		
- Realised	(2,612,464)	293,432
- Unrealised	(3,324)	(3,324)
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	167,914,630	156,970,143
Less: Consolidation adjustments	(11,178,138)	(8,312,260)
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Total group retained profits as per consolidated accounts	156,736,492	148,657,883
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**28. Additional Disclosures on Profit for the period**

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2014 RM	Comparative Quarter Ended 31/12/2013 RM	Current Period Ended 31/12/2014 RM	Comparative Period Ended 31/12/2013 RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(130,821)	(147,132)	(540,037)	(665,474)
Realised foreign exchange loss/(gain)	94,153	(790,560)	42,249	(211,407)
Unrealised foreign exchange loss/(gain)	4,846	23,218	(18,372)	23,218
Rental income	(27,000)	(19,700)	(98,000)	(48,200)
Loss/(gain) on disposal of property, plant and equipment	18,676	-	(29,313)	-
Depreciation of property, plant and equipment	3,029,579	2,421,110	11,782,994	7,498,276
Interest expense	211,615	179,931	1,134,703	354,602
Impairment loss on trade receivables	151,475	137,246	412,114	317,498
Property, plant and equipment written off	6,694	109	9,755	728
Inventories written off	19,708	-	19,708	-
Bad debts written off	527,493	-	527,493	-

Other than the above items which have been included in the statement of comprehensive income, there were no 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 31 December 2014.