

## **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 2014. 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 2014.

#### **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 2014 except for the adoption of the following with effect from 1 January 2015:

##### Annual Improvements 2010-2012 Cycle

- Amendments to MFRS 3 Business Combinations
- Amendments to MFRS 8 Operating Segments
- Amendments to MFRS 116 Property, Plant and Equipment
- Amendments to MFRS 124 Related Party Disclosures
- Amendments to MFRS 138 Intangible Assets

##### Annual Improvements 2011-2013 Cycle

- Amendments to MFRS 3 Business Combinations
- Amendments to MFRS 13 Fair Value Measurement

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 2014 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 2015

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	64,831,027	21,612,072	86,443,099
Less: Inter-segment revenue	(264,227)	(9,452,179)	(9,716,406)
External revenue	64,566,800	12,159,893	76,726,693
Results	24,905,381	9,195,568	34,100,949
Finance costs	(62)	(149,065)	(149,127)
Share of results of associates	19,185	402,760	421,945
Profit before tax	24,924,504	9,449,263	34,373,767
Income tax expense	(6,159,245)	392,871	(5,766,374)
Profit after tax	18,765,259	9,842,134	28,607,393
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<b>OTHER INFORMATION</b>			
Interest income	43,944	199,503	243,447
Depreciation	381,765	2,739,435	3,121,200
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## RESULTS FOR PERIOD-TO-DATE ENDED 31 MARCH 2014

	Manufacturing RM	Engineering RM	Consolidated 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

#### **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 2015**

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

#### **13. Capital Commitments**

	As at 31/03/2015 RM	As At 31/03/2014 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	837,658	3,663,819

## 14. Related Party Transactions

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2015 RM	Comparative Quarter Ended 31/03/2014 RM	Current Period Ended 31/03/2015 RM	Comparative Period Ended 31/03/2014 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	30,000	-	30,000
- Provision of miscellaneous services such as machineries, equipments and labour	18,773	4,511	18,773	4,511
- Interest income	-	3	-	3
- Rental income	6,000	-	6,000	-
- Purchase of miscellaneous services such as machineries, equipments and labour	15,454	20,431	15,454	20,431
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	84,900	12,000	84,900	12,000
- Provision of miscellaneous services such as machineries/equipment/ facilities, labour/subContract works, project management services etc	4,516,138	-	4,516,138	-
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.	60,044,315	12,550,949	60,044,315	12,550,949
- Sales of fabricated/galvanised steel products and structural steel works to PPES Works (Sarawak) Sdn. Bhd.	88,000	-	88,000	-
- Purchase of steel and concrete products from CMS Concrete Products Sdn. Bhd.	-	55,713	-	55,713
- Purchase of premix from CMS Premix Sdn. Bhd.	-	11,958	-	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	17,850	17,850
- KKB Realty Sdn. Bhd.	17,400	17,400	17,400	17,400
- Sepang Kaya Sdn. Bhd.	30,857	30,857	30,857	30,857
Rental expense paid to a director, Dato Kho Kak Beng				
	7,200	7,200	7,200	7,200
	<u>64,846,887</u>	<u>12,758,872</u>	<u>64,846,887</u>	<u>12,758,872</u>

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 RM76.7 million (1Q14: RM42.6 million) comprising revenue from the Engineering and Manufacturing sectors of RM12.2 million (1Q14: RM21.2 million) and RM64.6 million (1Q14: RM21.4 million) respectively. Revenue rose by 80.0% compared to the preceding year corresponding first quarter mainly due to the growth in revenue from the Steel Pipes manufacturing division.

The Group's quarterly profit before taxation of RM34.4 million (1Q14: RM5.4 million) improved significantly, attributable to higher profit margin from both the Engineering and Manufacturing sectors, specifically Steel Fabrication and Steel Pipes manufacturing divisions.

#### Engineering Sector

The sector's revenue declined by 42.5%, however, its gross profit increased by 28.7% in comparison to preceding year corresponding quarter. The improved gross profit margin was attributable to projects undertaken by Steel Fabrication division, as a result of 'value engineering'.

Revenue from the Civil Construction Division decreased by 5.5% compared to the preceding year corresponding quarter. Revenue for the quarter of RM868K (1Q14: RM919K) was derived from progressive claims 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 RM10.4 million (1Q14: RM19.5 million) decreased by 46.7% compared to the preceding year corresponding quarter. Revenue for the quarter were derived from the additional, balance on-going projects involving the fabrication of structural steel works for Petronas LNG Train 9 Project, the fabrication of steel frame works for CMS Clinker Plant, the supply of Low/High Tension Steel Poles and subcontract works for the fabrication of platforms.

HDG Division's sales for the quarter of RM923K (1Q14: RM819K), was 12.7% higher as compared to the preceding year corresponding quarter mainly due to higher business volume for the supply of Hot Dip Galvanised Standard Low and High Tension Poles.

#### Manufacturing Sector

Revenue for the Manufacturing sector reached RM64.6 million (1Q14: RM21.4 million), a significant increase compared to the preceding year corresponding quarter, with substantial sales contributed from Steel Pipes manufacturing business and partly offset by lower sales from LPG Cylinders.

Revenue from Steel Pipes manufacturing business under the two subsidiary companies, tripled with aggregate revenue of RM62.3 million (1Q14: RM16.5 million). The significant increase in revenue is attributed from the on-going supply of Polyurethane Lined Mild Steel Pipes and other short notice pipe supplies.

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

During the quarter under review, revenue grew by 16.1% to register RM76.7 million (4Q14: RM66.1 million), and profit before taxation increased by 163.3% from RM13.1 million in 4Q14 to RM34.4 million in 1Q15. The overall improved revenue and operating results during the quarter under review was mainly driven by the Group's Steel Pipe manufacturing business and Steel Fabrication division.

## **17. Prospects**

2015 will be a challenging year for the Group. Depreciating ringgit exchange rates which are almost across-the-board will cause higher import bills and add sparks to domestic cost-push factors and inflationary pressures.

The Group continues to exercise its effort on prudent cost management, maintain product quality and operational efficiency to remain competitive and at the front line of the industry. It is focused on its effort to identify viable new strategic and business opportunities, especially in the Oil & Gas sector, to acquire technology and competitive edge in the medium to long term.

Globally, the recent slump in crude oil prices has inevitably affected Oil & Gas producing countries, including Malaysia. The capital expenditures cut and deferment of most field developments by Petronas has resulted in the somewhat slow down, both the Upstream and Downstream industry.

The Group's recent foray into the dynamic Oil & Gas sector, via associate OceanMight Sdn Bhd, will no doubt be required to persevere, stay resilient and overcome this period of slower activity and is no exception compared to the other more established fabrication yards in Malaysia.

The sound track records of the Group, its experienced and prudent Management, and the strong financial and cash position, its very low gearings will no doubt allow the Group to position itself well and continue to participate competitively when business opportunities arise.

The Board remained cautiously optimistic in light of the prevailing market environment and that the Group's performance for the remaining period of financial year ending 2015 shall remain more challenging but satisfactory.

## **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 Quarter Ended 31/03/2015 RM	Comparative Quarter Ended 31/03/2014 RM	Current Period Ended 31/03/2015 RM	Comparative Period Ended 31/03/2014 RM
Malaysian taxation - Current year	6,193,157	1,822,025	6,193,157	1,822,025
Deferred tax	(426,783)	(389,967)	(426,783)	(389,967)
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	5,766,374	1,432,058	5,766,374	1,432,058
	=====	=====	=====	=====

The Group's effective tax rate for the current quarter is lower than the statutory tax rate primarily due to the utilization of capital allowance arising from capital expenditure incurred for the expansion of its steel fabrication yard and certain income are exempted 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 2015 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM
<u>Current</u>	
Lease payables	3,593,477
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<u>Non-Current</u>	
Lease payables	8,633,122
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Total borrowings	12,226,599
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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

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 has been recommended by the Board of Directors on 17 February 2015, payable to shareholders of the Company whose names appear in the Record of Depositors on 14 May 2015.

The payment of this first and final dividend is subject to the shareholders' approval at the forthcoming Thirty-Ninth Annual General Meeting to be held on 28 April 2015, and if approved will be paid on 5 June 2015.

## 26. Earnings per share

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2015	Comparative Quarter Ended 31/03/2014	Current Period Ended 31/03/2015	Comparative Period Ended 31/03/2014
Net profit attributable to owners of the parent (RM)	<u>26,670,710</u>	<u>3,797,451</u>	<u>26,670,710</u>	<u>3,797,451</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>10.35</u>	<u>1.47</u>	<u>10.35</u>	<u>1.47</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 31/03/2015 RM	As at 31/12/2014 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	191,947,822	164,246,897
- Unrealised	6,710,304	6,283,521
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	198,658,126	170,530,418
Total share of (accumulated losses)/retained profits from associates:		
- Realised	(2,150,648)	(2,612,464)
- Unrealised	(3,324)	(3,324)
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	196,504,154	167,914,630
Less: Consolidation adjustments	(13,096,952)	(11,178,138)
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Total group retained profits as per consolidated accounts	<u>183,407,202</u>	<u>156,736,492</u>
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**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
	31/03/2015	31/03/2014	31/03/2015	31/03/2014
	RM	RM	RM	RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(243,447)	(177,192)	(243,447)	(177,192)
Realised foreign exchange (gain)/loss	(3,133)	91,026	(3,133)	91,026
Unrealised foreign exchange gain	(4,846)	(23,218)	(4,846)	(23,218)
Rental income	(106,000)	(23,000)	(106,400)	(23,000)
Depreciation of property, plant and equipment	3,121,200	2,902,893	3,121,200	2,902,893
Interest expense	149,127	353,181	149,127	353,181
Impairment loss on trade receivables	158,055	110,186	158,055	110,186
Property, plant and equipment written off	6,236	88	6,236	88

Other than the above items which have been included in the statement of profit or loss and other 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 31 March 2015.