

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

On 5 June 2015, the Company paid 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.

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 2015

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	87,748,941	32,428,283	120,177,224
Less: Inter-segment revenue	(454,849)	(12,873,060)	(13,327,909)
External revenue	87,294,092	19,555,223	106,849,315
Results	35,784,829	9,037,748	44,822,577
Finance costs	(5,540)	(285,233)	(290,773)
Share of results of associates	(14,083)	293,682	279,599
Profit before tax	35,765,206	9,046,197	44,811,403
Income tax expense	(9,022,381)	379,318	(8,643,063)
Profit after tax	26,742,825	9,425,515	36,168,340

OTHER INFORMATION

Interest income	89,657	372,779	462,436
Depreciation	753,187	5,480,437	6,233,624

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
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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 2015

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

13. Capital Commitments

	As at 30/06/2015 RM	As At 30/06/2014 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	930,431	1,791,726
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14. Related Party Transactions

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2015 RM	Comparative Quarter Ended 30/06/2014 RM	Current Period Ended 30/06/2015 RM	Comparative Period Ended 30/06/2014 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Sale of fabricated and galvanized steel products	8,435	-	8,435	-
- Provision of miscellaneous services such as machineries, equipments and labour	12,873	949	31,646	5,460
- Interest income	-	-	-	3
- Rental income	6,000	-	12,000	-
- Purchase of miscellaneous services such as machineries, equipments and labour	12,019	11,837	27,473	32,268
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	85,400	12,000	170,300	24,000
- Provision of miscellaneous services such as machineries/equipment/facilities, labour/subContract works, project management services etc	2,796,938	-	7,313,076	-
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.	20,390,852	30,244,059	80,435,167	42,795,008
- Sales of fabricated/galvanised steel products and structural steel works to PPES Works (Sarawak) Sdn. Bhd.	27,500	-	115,500	-
- 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	17,400	34,800	34,800
- 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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	23,413,324	30,347,627	88,260,211	43,076,499
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These 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 RM30.1 million (2Q14: RM48.5 million) was 37.9% lower as compared to the preceding year corresponding quarter. Manufacturing Sector contributed 75% towards the Group's total revenue and the remaining 25% from the Engineering Sector.

Despite a reduction in revenue, Group's current quarter profit before taxation of RM10.4 million increased by 19.5% compared to the preceding year corresponding quarter of RM8.7 million. The improved bottom line is attributed to the contribution from the Group's Steel Pipes Manufacturing Division and the Steel Fabrication Division.

Engineering Sector

The sector's revenue saw a decline of 46.0% compared to the preceding year corresponding quarter. The absence of new construction projects and major fabrication works has pulled down the sector's overall performance.

In light of the softening global economies and challenging business environment, both the Civil Construction and Steel Fabrication Divisions experienced slower sales for the quarter which registered combined revenue of RM6.9 million compared to RM12.7 million in the preceding year corresponding quarter. Revenue for the quarter was derived from the on-going projects involving the fabrication of steel frame works for CMS Clinker Plant, subcontract works for the fabrication of platforms, the supply of Low/High Tension Steel Poles and other miscellaneous fabrication works.

Similarly, HDG Division quarter's sales of RM501K (2Q14: RM1.0 million) decreased by 50%, due to slower order for the supply of Hot Dip Galvanised Standard Low and High Tension Poles and also in tandem with lower sales registered by the Steel Fabrication Division.

Manufacturing Sector

Revenue for the current quarter of RM22.7 million recorded a decrease of 34.8% compared to the preceding year corresponding quarter of RM34.8 million, due to lower sales from the Group's Steel Pipes and LPG cylinders Manufacturing Divisions.

The Group's Steel Pipes manufacturing division recorded revenue of RM21.8 million, a decrease of 30.4%, compared to RM31.3 million in the preceding year 2nd quarter. The decline in revenue was mainly due to the fulfillment of its major contract for the supply of Polyurethane Lined Mild Steel Pipes and Pipes Specials for the Proposed Construction of Tanjung Manis Water Supply Project (Phase 1) under the State Government of Sarawak.

LPG Cylinders manufacturing division recorded a decrease in revenue due to a much lower offtake for LPG cylinders during the quarter as a result of capital expenditure cut back by Major Oil Companies.

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

The Group's revenue and profit before taxation of RM30.1 million (1Q15: RM76.7 million) and RM10.4 million (1Q15: RM34.4 million) were respectively lower by 60.8% and 69.8%, compared to the preceding quarter.

Comparatively, the overall lower revenue and earnings were mainly attributed to reduce revenue from the Group's Steel Pipes manufacturing division due to the fulfillment of its major contract for the supply of Polyurethane Lined Mild Steel Pipes and Pipes Specials.

17. Prospects

The Group expects to experience a weaker 2H15 underpinned by the continued slowdown in the global and local economy. The declining crude oil prices has caused Major Oil Companies in Malaysia to make substantial cuts in their capital expenditures on field developments, leading to several postponement or cancellation in the award of approved projects.

Depreciating Ringgit exchange rates are expected to result in higher import bills and result in further domestic cost-push factors and inflationary pressures, in addition to the implementation of the Goods and Services Tax in Malaysia.

Notwithstanding, the Group continues to exercise effort on prudent cost management, focused on its strategies to identify viable new business opportunities, including the Oil and Gas sector, to acquire technology and enhance competitive edge in the medium to long term.

With its robust and diversified activities and supported by its healthy financial position, the group is well placed to maintain sustained performance and continue to participate competitively when business opportunities arise.

Barring further unforeseen circumstances, the Group's performance in 2H15 is expected to be dampened amidst the current challenging business environment and continued uncertainty surrounding the global and local economy.

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 30/06/2015 RM	Comparative Quarter Ended 30/06/2014 RM	Current Period Ended 30/06/2015 RM	Comparative Period Ended 30/06/2014 RM
Malaysian taxation				
- Current year	2,860,732	954,262	9,053,889	2,776,287
- Prior year	(3,007)	(162,365)	(3,007)	(162,365)
Deferred tax	18,964	(164,441)	(407,819)	(554,408)
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	2,876,689	627,456	8,643,063	2,059,514
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The Group's effective tax rate for the current quarter is higher than the statutory tax rate primarily attributed to losses of the subsidiaries, and the disallowance of certain expenses 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 30 June 2015 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM
<u>Current</u>	
Lease payables	3,337,253

<u>Non-Current</u>	
Lease payables	7,864,892

Total borrowings	11,202,145
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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

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 30/06/2015	Comparative Quarter Ended 30/06/2014	Current Period Ended 30/06/2015	Comparative Period Ended 30/06/2014
Net profit attributable to owners of the parent (RM)	<u>6,667,691</u>	<u>7,598,047</u>	<u>33,338,401</u>	<u>11,395,498</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>2.59</u>	<u>2.95</u>	<u>12.93</u>	<u>4.42</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 30/06/2015 RM	As at 31/12/2014 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	187,861,274	164,246,897
- Unrealised	6,691,340	6,283,521
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	194,552,614	170,530,418
Total share of (accumulated losses)/retained profits from associates:		
- Realised	(2,312,993)	(2,612,464)
- Unrealised	(3,324)	(3,324)
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	192,236,297	167,914,630
Less: Consolidation adjustments	(12,473,084)	(11,178,138)
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Total group retained profits as per consolidated accounts	<u>179,763,213</u>	<u>156,736,492</u>
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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
	30/06/2015	30/06/2014	30/06/2015	30/06/2014
	RM	RM	RM	RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(218,989)	(126,696)	(462,436)	(303,888)
Realised foreign exchange gain	(203,434)	(128,479)	(206,567)	(37,453)
Unrealised foreign exchange gain	-	-	(4,846)	(23,218)
Rental income	(103,400)	(24,000)	(209,800)	(47,000)
Gain on disposal of property, plant and equipment	-	(4,867)	-	(4,867)
Depreciation of property, plant and equipment	3,112,424	2,918,548	6,233,624	5,821,441
Interest expense	141,646	217,750	290,773	570,931
Impairment loss on trade receivables	186,087	73,681	344,142	183,867
Property, plant and equipment written off	-	-	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 30 June 2015.