

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 SEPTEMBER 2015

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	90,555,931	38,204,842	128,760,773
Less: Inter-segment revenue	(754,360)	(12,878,313)	(13,632,673)
External revenue	89,801,571	25,326,529	115,128,100
Results	34,925,451	6,209,948	41,135,399
Finance costs	(5,542)	(408,682)	(414,224)
Share of results of associates	(8,630)	(729,438)	(738,068)
Profit before tax	34,911,279	5,071,828	39,983,107
Income tax expense	(8,344,695)	1,262,609	(7,082,086)
Profit after tax	26,566,584	6,334,437	32,901,021

OTHER INFORMATION

Interest income	125,102	474,000	599,102
Depreciation	1,131,286	8,181,827	9,313,113

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
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OTHER INFORMATION			
Interest income	143,060	266,156	409,216
Depreciation	----- 1,185,651	----- 7,567,764	----- 8,753,415

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 2015

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

13. Capital Commitments

	As at 30/09/2015 RM	As At 30/09/2014 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	----- 1,717,933	----- 1,283,549

14. Related Party Transactions

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2015 RM	Comparative Quarter Ended 30/09/2014 RM	Current Period Ended 30/09/2015 RM	Comparative Period Ended 30/09/2014 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Sale of fabricated and galvanized steel products	12,215	-	20,650	-
- Provision of miscellaneous services such as machineries, equipments and labour	8,528	4,906	40,174	10,366
- Interest income	-	-	-	3
- Rental income	6,000	-	18,000	-
- Purchase of miscellaneous services such as machineries, equipments and labour	12,127	21,567	39,600	53,835
Transactions with an associate, OceanMight Sdn. Bhd.				
- Rental income	87,900	12,000	258,200	36,000
- Provision of miscellaneous services such as machineries/equipment/facilities, labour/subContract works, project management services etc	830,750	-	8,143,826	-
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	80,435,167	86,123,918
- Sales of fabricated/galvanised steel products and structural steel works to PPES Works (Sarawak) Sdn. Bhd.	-	-	115,500	-
- Purchase of steel and concrete products from CMS Concrete Products Sdn. Bhd.	37,141	-	37,141	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	53,550	53,550
- KKB Realty Sdn. Bhd.	17,400	17,400	52,200	52,200
- 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
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	1,067,967	43,440,689	89,328,178	86,517,188
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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 recorded a total revenue of RM8.3 million (3Q14: RM44.8 million) and pre-tax loss of RM4.8 million (3Q14: Pre-Tax Profit of RM4.8 million) for the current quarter.

However, the Group's Pre-Tax Profit for the nine months period ended 30 September 2015 increased by more than two fold to RM40.0 million (9 months 2014: RM18.9 million) and surpassed the financial year ended 31 December 2014 Pre-Tax Profit of RM31.9 million by RM8.1 million (25.4%) despite having recorded a lower revenue.

The continued slow-down in the global and domestic economy coupled with the late timing of projects award and commencement of new projects/works has somewhat contributed to the weak performance of the Group in the current quarter, affecting both the Engineering and Manufacturing Sectors.

Engineering Sector

Activities for both the Steel Fabrication and Civil Construction Divisions have slowed significantly in the absence of new construction projects and major fabrication works undertaken during the quarter, hence resulting in a lower revenue.

Revenue for the quarter was derived from the remaining on-going projects involving the fabrication of steel frame works for a Clinker Plant, subcontract works for the fabrication of Helideck Steel Support, the supply of Low/High Tension Steel Poles and other miscellaneous fabrication works.

Similarly, the Hot-Dip Galvanizing Division quarter's revenue of RM931K (3Q14: RM1.2 million) was lower as compared to the preceding year corresponding quarter, due to slower order for the supply of Hot-Dip Galvanised Standard Low and High Tension Poles and also in line with slower activities of the Steel Fabrication Division.

Manufacturing Sector

Revenue from Steel Pipes manufacturing business reduced significantly with an aggregate revenue of RM972K (3Q14: RM45.0 million). 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 quarter revenue of RM8.3 million was lower as compared to RM30.1 million achieved in the preceding quarter. Comparatively, the Group recorded an overall lower revenue and earnings attributed to slower 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 4Q15 underpinned by the continued slowdown in the global and domestic 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 the review, postponements or cancellation in the award of approved projects.

The continued uncertainties in the global and domestic economy, escalation of costs due to inflationary pressure, volatility of global raw material steel prices and the sharp fluctuation of exchange rates are amongst factors that may impact the Group's performance.

The Group continues to exercise effort on prudent cost management, to stay focused on its long term strategies to identify viable new business opportunities.

The outlook for KKB Group remained challenging but it will continue to adopt strategies to mitigate the competitions. The Group has commenced its Design and Engineering phase for a newly secured contract under OceanMight Sdn Bhd awarded by Talisman Malaysia Limited for the Engineering, Procurement and Construction of Wellhead Platform for Kinabalu Redevelopment Project. Additionally, KKB will commence work in the Fourth Quarter 2015 on its recently awarded Purchase Order by JGC (Malaysia) Sdn Bhd, for the supply of fabricated steel structures for Tank 7 New Jetty-PAF Project under Petronas LNG Train 9 Project.

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	Comparative	Current	Comparative
	Quarter Ended	Quarter Ended	Period Ended	Period Ended
	30/09/2015	30/09/2014	30/09/2015	30/09/2014
	RM	RM	RM	RM
Malaysian taxation				
- Current year	(90,250)	2,478,932	8,963,639	5,255,219
- Prior year	(453,097)	229,620	(456,104)	67,255
Deferred tax	(1,017,630)	(98,632)	(1,425,449)	(653,040)
	-----	-----	-----	-----
	(1,560,977)	2,609,920	7,082,086	4,669,434
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The disproportionate tax charge for the current quarter was primarily attributed to losses of the Company as well as the reversal of over-provision of tax in prior year.

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 2015 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM
<u>Current</u>	
Lease payables	3,131,673

<u>Non-Current</u>	
Lease payables	7,087,613

Total borrowings	10,219,286
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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 ongoing.

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 30/09/2015	Comparative Quarter Ended 30/09/2014	Current Period Ended 30/09/2015	Comparative Period Ended 30/09/2014
Net profit/(loss) attributable to owners of the parent (RM)	<u>(3,355,906)</u>	<u>1,226,093</u>	<u>29,982,495</u>	<u>12,621,591</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/(loss) per share for the period attributable to owners of the parent (sen)	<u>(1.30)</u>	<u>0.48</u>	<u>11.63</u>	<u>4.90</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 30/09/2015 RM	As at 31/12/2014 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	183,076,868	164,246,897
- Unrealised	7,708,970	6,283,521
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	190,785,838	170,530,418
Total share of (accumulated losses)/retained profits from associates:		
- Realised	(3,330,660)	(2,612,464)
- Unrealised	(3,324)	(3,324)
	-----	-----
	187,451,854	167,914,630
Less: Consolidation adjustments	(11,044,547)	(11,178,138)
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Total group retained profits as per consolidated accounts	176,407,307	156,736,492
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28. Additional Disclosures on Profit for the period

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2015 RM	Comparative Quarter Ended 30/09/2014 RM	Current Period Ended 30/09/2015 RM	Comparative Period Ended 30/09/2014 RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(136,666)	(105,328)	(599,102)	(409,216)
Realised foreign exchange loss/(gain)	4,514	(14,451)	(202,053)	(51,904)
Unrealised foreign exchange gain	-	-	(4,846)	(23,218)
Rental income	(105,900)	(24,000)	(315,700)	(71,000)
Gain on disposal of property, plant and equipment	(69,999)	(43,122)	(69,999)	(47,989)
Reversal of bad debts written off	(10,000)	-	(10,000)	-
Depreciation of property, plant and equipment	3,079,489	2,931,974	9,313,113	8,753,415
Interest expense	123,451	352,157	414,224	923,088
Impairment loss on trade receivables	105,052	76,772	449,194	260,639
Property, plant and equipment written off	-	2,973	6,236	3,061

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 September 2015.