

**KKB ENGINEERING BERHAD**

(Company No : 26495 - D)

(Incorporated in Malaysia)

**INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018****Unaudited Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income**

	3 MONTHS ENDED		CUMULATIVE 6 MONTHS ENDED	
	CURRENT QUARTER ENDED 30/06/2018 RM	COMPARATIVE QUARTER ENDED 30/06/2017 RM	CURRENT PERIOD ENDED 30/06/2018 RM	COMPARATIVE PERIOD ENDED 30/06/2017 RM
Revenue	93,193,810	46,873,122	157,751,480	89,797,024
Cost of sales	(84,671,800)	(53,557,615)	(144,226,623)	(97,154,730)
<b>Gross profit/(loss)</b>	<u>8,522,010</u>	<u>(6,684,493)</u>	<u>13,524,857</u>	<u>(7,357,706)</u>
Other income	1,466,229	1,407,368	4,942,952	5,141,731
Distribution costs	(254,530)	(69,896)	(400,285)	(120,384)
Administrative expenses	(5,737,019)	(3,801,028)	(10,983,944)	(7,690,348)
Other expenses	(610,904)	(263,486)	(967,941)	(547,474)
Finance costs	(98,829)	(219,862)	(181,011)	(378,696)
Share of results of associates	7,540	390,999	(218,425)	223,201
<b>Profit/(loss) before tax</b>	<u>3,294,497</u>	<u>(9,240,398)</u>	<u>5,716,203</u>	<u>(10,729,676)</u>
Income tax (expense)/credit	(697,610)	2,351,142	(1,748,338)	2,612,375
<b>Profit/(loss) for the period</b>	<u>2,596,887</u>	<u>(6,889,256)</u>	<u>3,967,865</u>	<u>(8,117,301)</u>
<b>Other Comprehensive Income</b>	-	-	-	-
<b>Total Comprehensive Income for the period</b>	<u>2,596,887</u>	<u>(6,889,256)</u>	<u>3,967,865</u>	<u>(8,117,301)</u>
Profit/(loss) for the period attributable to:				
Owners of the parent	1,759,523	(7,202,011)	3,104,677	(8,677,303)
Non-controlling interests	837,364	312,755	863,188	560,002
	<u>2,596,887</u>	<u>(6,889,256)</u>	<u>3,967,865</u>	<u>(8,117,301)</u>
Total Comprehensive Income for the period attributable to:				
Owners of the parent	1,759,523	(7,202,011)	3,104,677	(8,677,303)
Non-controlling interests	837,364	312,755	863,188	560,002
	<u>2,596,887</u>	<u>(6,889,256)</u>	<u>3,967,865</u>	<u>(8,117,301)</u>
<b>Earnings/(loss) per share attributable to owners of the parent:</b>				
Basic, for profit/(loss) for the period (sen)	<u>0.68</u>	<u>(2.79)</u>	<u>1.20</u>	<u>(3.37)</u>
Diluted, for profit/(loss) for the period (sen) - Not Applicable				

(These Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.)

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**INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018****Unaudited Condensed Consolidated Statements of Financial Position**

	AS AT 30/06/2018 RM	AS AT 31/12/2017 RM
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant & equipment	134,663,029	135,177,030
Investment in associates	1,491,902	4,508,141
Goodwill	1,632,667	-
Deferred tax assets	<u>2,027,666</u>	<u>2,027,666</u>
	<u>139,815,264</u>	<u>141,712,837</u>
<b>Current assets</b>		
Inventories	29,279,709	35,015,005
Amount due from customers for contract work	50,252,664	19,986,965
Trade and other receivables	79,391,899	56,936,107
Other current assets	4,516,897	3,979,872
Short term funds	91,100,844	83,281,906
Cash and bank balances	<u>9,599,137</u>	<u>17,579,773</u>
	<u>264,141,150</u>	<u>216,779,628</u>
<b>TOTAL ASSETS</b>	<b><u>403,956,414</u></b>	<b><u>358,492,465</u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Loans and borrowings	1,942,869	3,289,817
Trade and other payables	96,179,590	53,481,734
Income tax payable	<u>999,866</u>	<u>642,933</u>
	<u>99,122,325</u>	<u>57,414,484</u>
<b>Net Current assets</b>	<u>165,018,825</u>	<u>159,365,144</u>
<b>Non-current liabilities</b>		
Trade payables	1,127,672	274,544
Loans and borrowings	842,232	1,415,677
Deferred tax liabilities	<u>1,294,962</u>	<u>744,099</u>
	<u>3,264,866</u>	<u>2,434,320</u>
<b>Total liabilities</b>	<u>102,387,191</u>	<u>59,848,804</u>
<b>Net assets</b>	<u>301,569,223</u>	<u>298,643,661</u>
<b>Equity attributable to owners of the parent</b>		
Share capital	128,896,000	128,896,000
Retained earnings	<u>155,921,332</u>	<u>157,972,495</u>
	284,817,332	286,868,495
<b>Non-controlling interests</b>	<u>16,751,891</u>	<u>11,775,166</u>
<b>Total equity</b>	<u>301,569,223</u>	<u>298,643,661</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>403,956,414</u></b>	<b><u>358,492,465</u></b>

(These Condensed Consolidated Statements of Financial Position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.)

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**INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018****Unaudited Condensed Consolidated Statements of Changes in Equity**

	<----- Attributable to owners of the parent ----->			Non-controlling Interests	Total Equity
	Non-Distributable Share Capital RM	Distributable Retained Earnings RM	Total RM		
<b>At 1 January 2017</b>	128,896,000	156,364,449	285,260,449	11,617,984	296,878,433
(Loss)/profit for the period	-	(8,677,303)	(8,677,303)	560,002	(8,117,301)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	(8,677,303)	(8,677,303)	560,002	(8,117,301)
Dividend paid to non-controlling interests	-	-	-	(250,000)	(250,000)
<b>At 30 June 2017</b>	<u>128,896,000</u>	<u>147,687,146</u>	<u>276,583,146</u>	<u>11,927,986</u>	<u>288,511,132</u>
<b>At 1 January 2018</b>	128,896,000	157,972,495	286,868,495	11,775,166	298,643,661
Profit for the period	-	3,104,677	3,104,677	863,188	3,967,865
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	3,104,677	3,104,677	863,188	3,967,865
First and final dividend for FYE 31 December 2017	-	(5,155,840)	(5,155,840)	-	(5,155,840)
Non-controlling interests arising from acquisition of a subsidiary	-	-	-	4,113,537	4,113,537
<b>At 30 June 2018</b>	<u>128,896,000</u>	<u>155,921,332</u>	<u>284,817,332</u>	<u>16,751,891</u>	<u>301,569,223</u>

(These Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.)

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**INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018****Unaudited Condensed Consolidated Statements of Cash Flows**

	CUMULATIVE 6 MONTHS ENDED 30/06/2018 RM	CUMULATIVE 6 MONTHS ENDED 30/06/2017 RM
Profit/(loss) before taxation	5,716,203	(10,729,676)
Adjustments for:		
Depreciation of property, plant & equipment	6,281,533	6,242,939
Interest expense	181,011	378,696
Property, plant & equipment written off	428	4,058
Gain on disposal of property, plant & equipment	(1,000)	(47)
Gain on remeasurement of investment in former associate	(1,932,186)	-
Impairment loss on trade receivables	4,551	5,381
Dividend income	(880,588)	(835,451)
Fair value changes in short term funds	(733,420)	(1,025,911)
Unrealised foreign exchange gain	(2,576)	(7,772)
Interest income	(298,391)	(2,508,129)
Share of results of associates	218,425	(223,201)
Total adjustments	<u>2,837,787</u>	<u>2,030,563</u>
Operating cash flows before changes in working capital	8,553,990	(8,699,113)
Changes in working capital		
Decrease/(increase) in inventories	5,735,296	(1,277,562)
Increase in amount due from customers for contract work	(20,934,872)	-
Increase in amount due to customers for contract work	-	7,755,532
Increase in receivables	(9,092,886)	(39,183,036)
Increase in payables	17,844,679	20,734,798
Increase in other current assets	(3,231)	(6,087)
Cash flows from/(used in) operations	<u>2,102,976</u>	<u>(20,675,468)</u>
Interest paid	(181,011)	(378,696)
Taxation paid, net of refund	(1,826,890)	(585,300)
Net cash flows from/(used in) operating activities	<u>95,075</u>	<u>(21,639,464)</u>
Investing activities		
Proceeds from disposal of property, plant & equipment	1,000	515
Acquisition of property, plant & equipment	(2,174,175)	(941,416)
Net cash inflow from acquisition of a subsidiary	7,276,314	-
Net (acquisition of)/proceeds from short term funds	(6,204,930)	2,800,786
Interest received	150,159	2,469,620
Net cash flows (used in)/from investing activities	<u>(951,632)</u>	<u>4,329,505</u>
Financing activities		
Dividend paid to shareholders of the Company	(5,155,840)	-
Dividend paid to non-controlling interests	-	(250,000)
Net repayment of bankers' acceptances	-	(3,400,000)
Repayment of lease instalments	(1,968,239)	(1,865,003)
Net cash flows used in financing activities	<u>(7,124,079)</u>	<u>(5,515,003)</u>
Net decrease in cash and cash equivalents	(7,980,636)	(22,824,962)
Cash and cash equivalents at the beginning of the period	17,579,773	34,794,573
Cash and cash equivalents at the end of the period	<u>9,599,137</u>	<u>11,969,611</u>

(These Condensed Consolidated Statements of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.)

## **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 2017. 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 2017.

#### **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 2017 except for the adoption of the following with effect from 1 January 2018:

- ❖ Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions
- ❖ MFRS 9: Financial Instruments
- ❖ MFRS 15: Revenue from Contracts with Customers
- ❖ Amendments to MFRS 140: Transfers of Investment Property
- ❖ Annual Improvements to MFRS Standards 2014-2016 Cycle:
  - Amendments to MFRS 1: First-time Adoption of Financial Reporting Standards
  - Amendments to MFRS 128: Investments in Associates and Joint Ventures
- ❖ IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The initial application of the above is not expected to have any material financial impact on the Group's results.

#### **3. 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.

#### **4. 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, save as disclosed in note 10 and Gain on remeasurement of investment in former associate as disclosed in note 31.

#### **5. 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.

## 6. 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.

## 7. Dividend paid

On 12 June 2018, the Company paid a first and final single tier dividend of 2.0 sen per ordinary share, in respect of the financial year ended 31 December 2017.

## 8. 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 2018

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	31,154,971	140,728,751	171,883,722
Less: Inter-segment revenue	(7,885,466)	(6,246,776)	(14,132,242)
External revenue	23,269,505	134,481,975	157,751,480
Results	2,404,686	3,710,953	6,115,639
Finance costs	(5,794)	(175,217)	(181,011)
Share of results of associates	30,896	(249,321)	(218,425)
Profit before tax	2,429,788	3,286,415	5,716,203
Income tax expense	(844,443)	(903,895)	(1,748,338)
Profit after tax	1,585,345	2,382,520	3,967,865
	=====	=====	=====

### OTHER INFORMATION

Interest income	36,872	261,519	298,391
Depreciation	546,292	5,735,241	6,281,533
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**RESULTS FOR PERIOD-TO-DATE ENDED 30 JUNE 2017**

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	10,347,150	84,590,711	94,937,861
Less: Inter-segment revenue	(4,233,036)	(907,801)	(5,140,837)
External revenue	6,114,114	83,682,910	89,797,024
Results	134,918	(10,709,099)	(10,574,181)
Finance costs	(96,978)	(281,718)	(378,696)
Share of results of associates	33,046	190,155	223,201
Profit/(loss) before tax	70,986	(10,800,662)	(10,729,676)
Income tax expense	94,454	2,517,921	2,612,375
Profit/(loss) after tax	165,440	(8,282,741)	(8,117,301)
	=====	=====	=====

**OTHER INFORMATION**

Interest income	41,742	2,466,387	2,508,129
Depreciation	489,195	5,753,744	6,242,939
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**9. Material subsequent events**

There were no material subsequent events as at the date of this announcement.

**10. Changes in composition of the Group**

On 24 January 2018, KKB Engineering Berhad ("KKB") increased its shareholding in OceanMight Sdn Bhd ("OMSB") to 60.81% from 43.0%, resulted in OMSB becoming a subsidiary of KKB.

The fair value of the identifiable assets and liabilities of OMSB as at the date of acquisition were:

	Fair value RM
Property, plant and equipment	3,593,785
Amount due from customers for contract work	9,330,827
Trade and other receivables	13,362,839
Other current assets	7,980
Cash and bank balances	7,276,314
Trade and other payables	(20,852,495)
Loans and borrowings	(47,846)
Deferred tax liabilities	(460,534)
Total identifiable net assets at fair value	12,210,870
Non-controlling interest (39.1875% of net assets)	(4,785,135)
Goodwill arising on acquisition	2,304,265
Purchase consideration transferred	9,730,000
Less: Carrying amount of investment in the associate	(4,730,000)
Consideration transferred through capitalisation of amount due from OMSB to KKB	5,000,000
	=====

	Cash flow RM
Net cash acquired with the subsidiary	7,276,314 =====

Save as disclosed above, there were no other changes affecting the composition of the Group for the current quarter and financial year-to-date.

## 11. Fair Value of Financial Instruments

### (a) Determination of Fair Value

Set out below is a comparison by class of the carrying amount and the fair value of the Group's financial instruments, other than those whose carrying amount are reasonable approximation of fair value.

	30/06/2018		31/12/2017	
	Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
<b>Financial liabilities:</b>				
Loans and borrowings				
- Obligations under finance leases	842,232	840,423	1,415,677	1,413,164
	=====	=====	=====	=====

The carrying amounts of current trade and other receivables, current trade and other payables, cash and bank balances, current loans and borrowings are reasonable approximation of fair values, due to their short term nature. In addition to that, trade receivables and trade payables are subject to normal trade credit terms while the current portion of loans and borrowings has an insignificant impact of discounting.

### Loans and borrowings

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

### Short term funds

Fair value is determined directly by reference to their published market bid price at reporting date.

### (b) Fair Value Hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs)



Quantitative disclosures of the fair value measurement hierarchy were as follows:

	Date of Valuation	Level 1 RM	Level 2 RM	Level 3 RM
Assets measured at fair value:				
Short term funds	30/06/2018	91,100,844	-	-
	31/12/2017	83,281,906	-	-
		=====	=====	=====
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings				
- Obligations under finance lease	30/06/2018	-	840,423	-
	31/12/2017	-	1,413,164	-
		=====	=====	=====

There has been no transfer between Level 1 and Level 2 during the period.

## 12. Contingent liabilities/Contingent assets as at 30 June 2018

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

## 13. Capital Commitments

	As at 30/06/2018 RM	As At 30/06/2017 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	5,877,079	99,870
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## 14. Related Party Transactions

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2018 RM	Comparative Quarter Ended 30/06/2017 RM	Current Period Ended 30/06/2018 RM	Comparative Period Ended 30/06/2017 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Sale of fabricated and galvanized steel products	483	557	1,081	11,202
- Provision of miscellaneous services such as machineries, equipments and labour	8,401	22,339	16,354	41,958
- Rental income	6,000	6,000	12,000	12,000
- Purchase of miscellaneous services such as machineries, equipments and labour	16,114	7,244	16,114	15,734

Transactions with an associate, OceanMight Sdn. Bhd. (from 1 January 2018 to 23 January 2018)				
- Rental income	-	84,900	16,857	169,800
- Sales of fabricated/galvanised steel products, structural steel works and other related products	-	12,093,257	36,603	25,759,498
- Provision of miscellaneous services such as machineries/equipment/facilities, labour/subcontract works etc	-	-	-	5,974
- Purchase of miscellaneous services such as machineries/equipment, labour etc	-	-	297	-
Transactions with subsidiaries of an investor, Cahya Mata Sarawak Bhd.				
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	5,232,098	651,796	14,844,974	651,796
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.	2,200	17,400	19,600	34,800
- Sepang Kaya Sdn. Bhd.	30,857	30,857	61,714	61,714
Rental expense paid to a director, Dato Kho Kak Beng	19,200	7,200	35,432	14,400
Rental expense paid to a person connected with certain directors of the Company				
- Kho Siew Lan	4,800	4,800	9,600	9,600
	5,338,003	12,944,200	15,106,326	26,824,176

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. Review Of Performance**

Financial review for current quarter and financial year to date

	Quarter		Changes (%)	Cumulative 6 months		Changes (%)	Year Ended
	Current Quarter	Preceding Year Corresponding Quarter		Current Period	Preceding Year Corresponding Period		
	30/06/18	30/06/17		30/06/18	30/06/17		
	RM'000	RM'000		RM'000	RM'000		31/12/17
							RM'000
Revenue	93,194	46,873	98.8%	157,751	89,797	75.7%	209,298
Earnings/(Loss) Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	6,540	(5,940)	210.1%	12,179	(4,108)	396.5%	19,438
Profit/(loss) before interest and tax	3,393	(9,021)	137.6%	5,897	(10,351)	157.0%	6,894
Profit/(loss) before tax	3,294	(9,240)	135.6%	5,716	(10,730)	153.3%	6,374
Profit/(loss) after tax	2,597	(6,889)	137.7%	3,968	(8,117)	148.9%	3,265
Profit/(loss) attributable to ordinary equity holders of the parent	1,760	(7,202)	124.4%	3,105	(8,677)	135.8%	1,608

The Group's current quarter revenue of RM93.2 million (2Q17: RM46.9 million) comprises revenue from the Engineering and Manufacturing sectors of RM83.3 million (2Q17: RM42.2 million) and RM9.9 million (2Q17: RM4.6 million) respectively. Comparatively, consolidated revenue for the quarter and year-to-date is higher than the preceding year comparative period mainly attributed to higher revenue recognition from both the Engineering and Manufacturing sectors, in particular from the Civil Construction, Steel Fabrication and Steel Pipes Manufacturing divisions.

Similarly, the Group recorded a pre-tax profit of RM3.3 million against pre-tax loss of RM9.2 million reported in the preceding year corresponding quarter, bringing its year-to-date pre-tax profit to RM5.7 million against a pre-tax loss of RM10.7 million in 1H17. Improved performance of the Group's Civil Construction and Steel Pipes Manufacturing divisions have contributed to the overall much improved results of the Group on the back of higher revenue.

Engineering Sector

The sector's revenue of RM83.3 million (2Q17: RM42.2 million) increase significantly compared to the preceding year corresponding quarter, as a result of higher progress billings from on-going project. Under the Construction's Division, revenue for the quarter of RM48.6 million (2Q17: RM26.7 million) was solely derived from the development and upgrading of the Proposed Pan Borneo Highway in the State of Sarawak (Phase 1 Works Package Contract – WPC-09) undertaken by the subsidiary Company i.e KKBWCT Joint Venture Sdn Bhd which commenced from the 4<sup>th</sup> Quarter 2016 onwards.

The Group's Steel Fabrication division recorded revenue of RM33.8 million (2Q17: RM14.7 million), improved by more than double or 129.9% as compared to the preceding year corresponding quarter. The newly awarded contract in March 2018 from Petronas Carigali Sdn Bhd for the Provision of Engineering, Procurement, Construction, Installation and Commissioning ("EPCIC") of Wellhead Platforms for D28 Phase 1 project has started to contribute to the Group's earnings.

Revenue for the quarter were derived from the EPCIC of Wellhead Platforms for D28 Phase 1 project, additional work order for the Kinabalu Redevelopment Project (HHP Flowlines), structural steel works for The Proposed Balingian Coal Stockyard in Mukah, Sarawak, fabrication of Mild Steel Casing and other miscellaneous fabrication works.

HDG Division's revenue of RM971K (2Q17: RM850K) was slightly higher as compared to the preceding year corresponding quarter, in line with increased activities of the steel fabrication division.

#### Manufacturing Sector

The Sector's revenue of RM9.9 million (2Q17: RM4.6 million) was higher by 115.2% compared to the preceding year corresponding quarter.

LPG Cylinders manufacturing division recorded an increase in revenue of approximately RM432K (representing an increase of 12.3%), resulting from higher offtake of LPG cylinders from Petronas Dagangan Berhad as compared to the preceding year 2<sup>nd</sup> quarter. 2Q18 revenue of RM3.9 million (2Q17: RM3.5 million) was mostly for the supply of LPG cylinders to Petronas Dagangan Berhad, Petron Malaysia Refining & Marketing Sdn Bhd (formerly known as Esso Malaysia Bhd) and Mygaz Sdn Bhd.

Revenue from Steel Pipes manufacturing business under subsidiary companies, Harum Bidang Sdn Bhd and KKB Industries (Sabah) Sdn Bhd, registered an aggregate revenue of RM5.9 million (2Q17: RM1.1 million), an increase of 436.4% over the preceding year corresponding quarter. Revenue for the quarter was mainly for the supply of MSCL pipes to Jabatan Bekalan Air Luar Bandar and other ad-hoc customers in Kota Kinabalu, Sabah.

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

Financial review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes (%)
	30/06/18	31/03/18	
	RM'000	RM'000	
Revenue	93,194	64,558	44.4%
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	6,540	5,639	16.0%
Profit before interest and tax	3,393	2,504	35.5%
Profit before tax	3,294	2,422	36.0%
Profit after tax	2,597	1,371	89.4%
Profit attributable to ordinary equity holders of the parent	1,760	1,345	30.9%

Current quarter shows an increase in the Group's revenue to RM93.2 million, from RM64.6 million recorded in the preceding quarter. Similarly, the Group's pre-tax profit of RM3.3 million recorded an increase of about 36% compared to RM2.4 million in the preceding quarter, on the back of higher revenue registered by the Engineering sector, in particular from the Steel Fabrication and Civil Construction divisions.

## **17. Prospects**

In March and May 2018 respectively, OceanMight Sdn Bhd (KKB's subsidiary) was awarded a contract from Petronas Carigali Sdn Bhd for the Provision of Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) of Wellhead Platforms for D28 Phase 1 Project and the award from Sapura Fabrication Sdn Bhd for the Provision of Procurement and Construction for Wellhead Deck, Pipes and Conductors for the Pegaga Development Project (Mubadala Petroleum) in Block SK320, offshore waters of Sarawak.

With its diversified activities and supported by healthy financial position, the group is well placed to maintain sustained performance and continues to focus on its core businesses and exercise its continuous effort on prudent cost management and operational efficiency to stay competitive.

Riding on the current improved crude oil prices coupled with the existing contracts in hand and the on-going construction works for the development and upgrading of the Proposed Pan Borneo Highway in the State of Sarawak (Phase 1 Works Package Contract – WPC-09), the Board anticipates that the Group's performance for 3Q18 will remain satisfactory, barring any unforeseen circumstances.

The Board however 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.

## **18. Variances from financial estimate, forecast or projection, or profit guarantee**

Not applicable to the Group as no financial estimate, forecast or projection, or profit guarantee were published.

## **19. Commentary on the company's progress to achieve the financial 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 financial 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 financial 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 financial 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 financial estimate, forecast, projection or internal targets as at the date of this announcement.

**21. Income Tax Expense/(Credit)**

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2018 RM	Comparative Quarter Ended 30/06/2017 RM	Current Period Ended 30/06/2018 RM	Comparative Period Ended 30/06/2017 RM
Malaysian taxation - Current year	736,421	279,252	1,658,009	518,701
Deferred tax	(38,811)	(2,630,394)	90,329	(3,131,076)
	-----	-----	-----	-----
	697,610	(2,351,142)	1,748,338	(2,612,375)
	=====	=====	=====	=====

The lower effective tax expense for the current quarter was primarily due to utilization of losses at subsidiaries level while higher effective tax expense for financial year to date were primarily due to non-recognition of certain deferred tax assets, losses at subsidiaries level and non-deductible expenses.

**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 2018 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM
<u>Current</u>	
Lease payables	1,942,869
	-----
<u>Non-Current</u>	
Lease payables	842,232
	-----
Total borrowings	2,785,101
	=====

Total Group's loans and borrowings as at 30 June 2017 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM
<u>Current</u>	
Lease payables	3,863,828
	-----
<u>Non-Current</u>	
Lease payables	2,751,883
	-----
Total borrowings	6,615,711
	=====

#### 24. Off Balance Sheet Financial Instruments

There are no financial instruments with off balance sheet risks entered into by the Group as at the date of this announcement.

#### 25. Derivative Financial Instruments

There were no derivative financial instruments entered into by the Group as at 30 June 2018.

#### 26. Gains/Losses Arising from Fair Value Changes of Financial Liabilities

There were no gains/losses arising from fair value changes of financial liabilities for the current quarter and financial year to date.

#### 27. 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 was completed in October 2017. The hearing of the closing submissions was completed in March 2018 and pending the award by the Tribunal.

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.

#### 28. Dividend

No interim dividend has been recommended for payment in the current quarter and financial year-to-date.

#### 29. Earnings per share

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2018	Comparative Quarter Ended 30/06/2017	Current Period Ended 30/06/2018	Comparative Period Ended 30/06/2017
Net profit/(loss) attributable to owners of the parent (RM)	<u>1,759,523</u>	<u>(7,202,011)</u>	<u>3,104,677</u>	<u>(8,677,303)</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>0.68</u>	<u>(2.79)</u>	<u>1.20</u>	<u>(3.37)</u>

There is no dilution in its earnings/(loss) 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.

#### 30. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 was not qualified.

**31. 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
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RM	RM	RM	RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(170,537)	(244,848)	(298,391)	(2,508,129)
Realised foreign exchange loss/(gain)	5,335	(202)	(124,480)	20,808
Unrealised foreign exchange gain	-	-	(2,576)	(7,772)
Rental income	(10,500)	(102,900)	(37,857)	(196,300)
Gain on disposal of property, plant and equipment	(1,000)	-	(1,000)	(47)
Gain on remeasurement of investment in former associate	-	-	(1,932,186)	-
Depreciation of property, plant and equipment	3,146,213	3,121,184	6,281,533	6,242,939
Interest expense	98,829	219,862	181,011	378,696
Impairment loss on trade receivables	2,275	2,690	4,551	5,381
Property, plant and equipment written off	4	-	428	4,058

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 2018.