FRONTKEN CORPORATION BERHAD
(Co No: 651020-T)
(Incorporated in Malaysia)

QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2008

A NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the reporting requirements outlined in the Financial Reporting Standards ("FRS") No.134 : Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market and should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2007.

The explanatory notes attached to the 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 Frontken Corporation Berhad ("FCB" or "the Company"), its subsidiaries and associated companies (collectively, "the Group") since the financial year ended 31 December 2007.

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2007.

A2. Audit qualification

The auditors' report in respect of the audited financial statements of FCB for the financial year ended 31 December 2007 was not subject to any qualification.

A3. Seasonality or cyclicality of interim operations

The Group's business operations were not materially affected by any seasonal or cyclical factors during the quarter under review.

A4. Unusual items affecting assets, liabilities, equity, net income or cash flows

Save as disclosed below, there were no items or events that arose, which affected the assets, liabilities, equity, net income or cash flows, of the Group that are unusual by reason of their nature, size or incidence during the current quarter:

Arising from the fire incidents which occurred at the Group's plants in Kulim and Singapore in the last financial year, further losses of RM0.39 million (being post –fire maintenance cost were recognised in the first half of 2008. Interim insurance compensation received and recognised as other income during this period amounted to RM2.96 million.

As at 30 June 2008, the Group had written off total losses of RM11.21 million arising from the fire incidents whilst a total of RM7.61 million had been received from the insurers as interim payments for the claims. The insurers are still in the process of finalising the quantum of insurance compensation to be paid to the Group with regard to the losses.

On 25 August 2008, a further interim payment of RM1.42 million was received from the insurer in Malaysia.

A5. Material changes in estimates

There were no changes in estimates that had a material effect on the current quarter's results.

A6. Issuance, cancellations, repurchases, resale and repayments of debt and equity securities

Save as disclosed below, there were no issuance and repayment of debt securities, share buy-backs, share cancellations, shares held as treasury shares or resale of treasury shares during the current quarter:

On 23 April 2008, a second tranche of 5,100,000 new ordinary shares of RM0.10 each in FCB ("Placement Shares") were issued pursuant to the private placement which was announced on 2 April 2007 at an issue price of RM0.50 per Placement Share.

A7. Dividends

No dividends were paid and/or declared during the quarter under review.

A8. Segmental information

The breakdown of the Group's revenue and results by geographical regions for the quarter ended 30 Jun 2008 are set out below. Revenue and results by geographical sales were based on the location of the Group's subsidiaries.

	Current Quarter 30-Jun-08 RM'000	Current Year-to-date 30-Jun-08 RM'000
Segment Revenue		
Singapore	21,728	42,630
Malaysia	12,105	22,170
Philippines	529	1,123
	34,362	65,923
Segment Results		
Singapore	3,679	8,169
Malaysia	(171)	2,364
Philippines	61	194
Taiwan	356	738
Hong Kong	10	2
	3,935	11,467
Add: Share of results of associated companies:		
Thailand	(66)	(111)

Taiwan	561	1,304
Profit before taxation	4,430	12,660

Disclosure of segmental information of the Group by business segment is not presented as the Group is primarily engaged in only one business segment which is the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.

A9. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward, without any amendment from the audited financial statements for the year ended 31 December 2007.

A10. Material events subsequent to the end of the quarter

Save as disclosed below, there were no material events subsequent to the end of the current quarter under review up to the date of this report:

(i) On 1 July 2008, Frontken Petroleum Sdn Bhd ("FPSB"), a 55.0% indirect subsidiary of the Company increased its issued and paid-up share capital from RM250,000 to RM300,000 by way of allotment of 50,000 new ordinary shares of RM1 each at par value to Encik Zulkifli Bin Ali, an existing major shareholder of FPSB. As a result of the allotment, the equity interest of FCB in FPSB was diluted from 55.0% to 45.8% and consequently, FPSB ceased to be a subsidiary of FCB.

(ii) On 21 August 2008, CIMB Investment Bank Berhad ("CIMB") announced that the Securities Commission ("SC") had, via its letter dated 19 August 2008, approved the proposed transfer of the listing of and quotation for the enlarged issued and paid-up share capital of FCB from the MESDAQ Market to the Main Board of Bursa Securities. Further details are set out in Note B8 below.

A11. Changes in the composition of the Group

Save as disclosed below, there were no changes in the composition of the Group for the current quarter under review:

On 14 April 2008, Frontken Malaysia Sdn Bhd ("FM"), a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement with AMT Engineering Sdn Bhd, Sim Geak Huat and Sim Geak Seng in relation to the acquisition by FM of 908,000 ordinary shares of RM1.00 each representing the remaining 41.88% equity interest in Frontken (East Malaysia) Sdn Bhd (formerly known as Frontken-AMT Engineering Sdn Bhd) ("FEM") for a cash consideration of RM2,550,000. The acquisition was completed on the same date.

A12. Contingent liabilities

The Directors are of the opinion that the Group has no contingent liabilities which, upon crystallisation would have a material impact on the financial position of the Group.

A13. Cash and cash equivalents

	As at 30 Jun 2008 RM'000
Cash at bank	9,257
Cash on hand	74
Fixed deposits	3,328
	12,659
Bank overdrafts	(6,396)
	6,263

A14. Significant related party transactions

	Current Quarter 30 Jun 2008 RM'000	Current Year-to-date 30 Jun 2008 RM'000
Sales from FEM to AMT	11	18
Sales from FS to Chinyee	88	171
Purchases from AMT by FEM	14	32
Purchases from Chinyee by FS	323	1,337

Name of Related Parties	Relationship
AMT Engineering Sdn Bhd ("AMT")	Sia Chiok Meng, a Director of FEM, is also a Director and major shareholder of AMT.
Chinyee Engineering & Machinery Pte Ltd ("Chinyee")	Wong Hua Choon, a Director and major shareholder of FCB, and Yeo Lay Poh, a substantial shareholder of FCB, are also Directors and major shareholders of Chinyee. Dr Tay Kiang Meng, a Director of FCB, is also a Director and shareholder of Chinyee.

The Directors are of the opinion that the above transactions entered into in the ordinary course of the business have been established on terms and conditions that are not materially different from those transactions with unrelated parties**.**

A15. Capital commitments

Capital expenditure of the Group approved by the Directors but not provided for in the condensed financial statements are as follows:

	As at 30 Jun 2008 RM'000
Factory improvement	113
Acquisition of machinery and equipment	12,125
	12,238

ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Review of performance

The Group recorded unaudited revenue and profit before tax ("PBT") of approximately RM65.92 million and RM12.66 million respectively for the first half of the year ended 30 June 2008, compared to RM52.20 million and RM8.71 million respectively for the preceding corresponding first half of the year ended 30 June 2007. This represents an increase of approximately 26% and 45% in revenue and PBT respectively compared to that achieved in the first half of the year ended 2007.

The higher revenue recorded by the Group for the first half of the year ended 30 June 2008 was mainly due to higher demand for the Group's services in Malaysia and Singapore.

The Group's PBT for the first half of the year ended 30 June 2008 was RM3.96 million higher compared to the previous corresponding first half of the year. The increase in the Group's PBT was primarily due to a net gain of RM2.57 million as a result of recovery from insurers on the fire incidents and the increase in the share of profit of associate, Ares Green Technology Corporation ("AGTC") recorded in the first half of the year 2008 compared to the preceding corresponding period. Excluding the net gain of RM2.57 million, the PBT of the Group for the first half year ended 30 June 2008 amounted to RM10.09 million, which represents an increase of approximately 16% over the previous corresponding period.

B2. Comparison with immediate preceding quarter

	2nd Quarter 30 Jun 2008 RM'000	1st Quarter 31 Mar 2008 RM'000
Revenue	34,362	31,561
Profit before tax	4,430	8,230

The Group recorded an increase in revenue of 8.88% or approximately RM2.80 million during the current quarter compared to the preceding quarter. The increase in revenue was primarily due to higher demand for surface metamorphosis services from our existing operations in Malaysia and Singapore.

However, the Group's unaudited PBT in the current quarter ended 30 June 2008 was approximately RM3.80 million lower than the preceding quarter, representing a decrease of approximately 46%. This was mainly attributed to higher direct material cost and increase in operating expenses such as finance expenses, and general and administration expenses, as well as a net gain of RM2.71 million as a result of recovery from insurers on the fire incidents recorded in the preceding quarter. However, no insurance claim was received in the current quarter.

B3. Prospects for the year

The Group believes that the Asia Pacific region offers good growth opportunities in its target market sectors. The Group will continue with its strategy of investing for the future by strengthening its R&D capabilities and expanding geographical reach, and at the same time, remains committed to maintaining its competitive advantage.

The increasing exploration and production activities in the region arising from capital spending in the oil and gas sector is expected to bode well for the Group, and the Group believes that it is well placed to exploit opportunities in the Southeast Asia market. Barring unforeseen circumstances, the Board is optimistic of a better performance for the current financial year.

B4. Variance in profit forecast

Not applicable as no profit forecast or profit guarantee has been announced or disclosed in a public document previously.

B5. Taxation

	Current 2nd Quarter 30 Jun 2008 RM'000	Current Year-to-date 30 Jun 2008 RM'000
Income tax	885	1,878
Deferred tax	307	270
	1,192	2,148

The Group's effective tax rate for the year under review is 16.96% compared to the statutory tax rate of 26% in Malaysia mainly due to the utilisation of reinvestment allowance by its subsidiary in Malaysia and relatively lower statutory tax rate of 18% in Singapore

B6. Unquoted investments and properties

There were no disposals of unquoted investment and properties during the current quarter and financial year under review.

B7. Quoted and marketable securities

There were no purchases and disposals of marketable securities during the current quarter.

B8. Status of corporate proposals

The status of corporate proposals announced but not completed as at the date of this report are as follows:

(a) On 26 September 2007, CIMB announced, on behalf of the Company, that the Company proposed to implement the following:

(i) Proposed amendments to the Articles of Association of FCB;

(ii) Proposed bonus issue of up to 209,000,000 new ordinary shares of RM0.10 each in FCB ("FCB Shares") to be credited as fully paid up on the basis of two new FCB Shares for every five FCB Shares held at a date to be determined later; and

(iii) Proposed transfer of the listing of and quotation for the enlarged issued and paid-up share capital of FCB from the MESDAQ Market to the Main Board of Bursa Securities ("Proposed Transfer").

On 21 August 2008, CIMB announced on behalf of the Company that the SC had, via its letter dated 19 August 2008, approved the Proposed Transfer and lifting of moratorium on the promoters of FCB and their ultimate shareholders subject to the following conditions:

(i) CIMB and FCB to fully comply with all the relevant requirements pertaining to the implementation of the proposal as stipulated in the Policies and Guidelines on Issue/Offer of Securities;

(ii) The upliftment of moratorium is effective on the date of official listing of FCB on the Main Board of Bursa Securities; and

(iii) CIMB/FCB to inform the SC upon completion of the Proposed Transfer.

The SC had also approved the Proposed Transfer under the Foreign Investment Committee's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests.

(b) On 4 April 2008, HwangDBS Investment Bank Berhad ("HwangDBS") announced, on behalf of the Company, that the SC had vide its letter dated 3 April 2008 approved FCB's application for an extension of time of six (6) months until 11 October 2008 to complete the implementation of the private placement, subject to FCB and HwangDBS fully complying with the earlier conditions as stipulated in the SC's letter dated 12 April 2007.

B9. Status of utilisation of proceeds

The Company raised approximately RM31.4 million from the Rights Issue and Public Issue (as defined in the Prospectus of FCB dated 22 June 2006) and approximately RM15.0 million from the private placement.

As at 10 July 2008, the gross listing proceeds received by the Company from the Rights Issue and Public Issue had been fully utilised as follows:

IPO Proceeds

	RM'000
Construction of plant	6,600
Purchase of machinery and equipment	9,757
R&D expenditure	2,300
Repayment of bank borrowings	3,000
Working capital	8,082
Estimated share issue and listing expenses	1,700
	31,439

As at 22 August 2008, the status of the utilisation of proceeds from the private placement exercise is as follows:

Private Placement Proceeds

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Deviation RM'000	%
Viable future Investments	26,000	17,409	Note (a)	8,591	33.0
Working capital	5,075	-	Note (a)	5,075	-
Estimated share issue and related expenses	750	140	Note (a)	610	81.3
	(b) 31,825	17,549		14,276	44.9

(a) *Within 18 months from the date of listing of the final tranche of placement shares.*

(b) *Computed based on 47,500,000 placement shares and an indicative issue price of RM0.67 per share representing a discount of approximately 9.5% to the 5-day weighted average market price up to 30 March 2007 of RM0.74, being a market day prior to the announcement of the private placement. To date, FCB has placed out a 1st tranche of 19,736,000 placement shares, at an issue price of RM0.76 per share, raising RM14,999,360 and a 2nd tranche of 5,100,000 placement shares at an issue price of RM0.50 per share, raising RM2,550,000.*

The Company expects that the remaining proceeds will be utilised within the stipulated timeframe.

B10. Group borrowings

The Group's borrowings as at 30 June 2008 are as follows:

	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Bank overdrafts	6,396	-	6,396
Hire purchase creditors	6,457	13,613	20,070
Term loans	18,383	38,268	56,651
	31,236	51,881	83,117

The Group's borrowings that are not denominated in functional currency are as follows:

	Short-term RM'000	Long-term RM'000	Total RM'000
Currency			
Singapore Dollar	23,106	35,862	58,968
New Taiwan Dollar	1,560	3,067	4,627
	24,666	38,929	63,595

B11. Off balance sheet financial instruments

The Group has not entered into any contract involving off balance sheet financial instruments as at the date of this report.

B12. Material litigation

The Group is not engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiary companies and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or its subsidiary companies as at the date of this report.

B13. Earnings per share ("EPS")

(a) Basic EPS

The calculation of the basic EPS is based on the net profit for the financial period under review divided by the number of ordinary shares of RM0.10 each in issue.

	Current 2nd Quarter	Preceding Corres-ponding 2nd Quarter	Current Year-to-date	Preceding Corres-ponding Year-to-date
Profit attributable to ordinary shareholders (RM'000)	3,201	4,089	10,437	7,312
The number/weighted average number of shares in issue ('000)	498,603	475,000	496,670	475,000
Basic EPS (sen)	0.6	0.9	2.1	1.5

(b) Diluted EPS

No diluted EPS has been presented as the Group does not have any dilutive potential ordinary shares in issue as at the Balance Sheet date.

B14. Dividends

No dividend has been declared for the current quarter ended 30 June 2008.

By order of the Board
Frontken Corporation Berhad

Wong Hua Choon
Executive Chairman / Managing Director
Kuala Lumpur
28 August 2008