



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)
(Incorporated in Malaysia)

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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") 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 year ended 31 December 2007 except for the adoption of the following revised FRS effective for the Company's financial year beginning 1 January 2008:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 126	Accounting and Reporting by Retirement Benefits Plans
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 1	Changes in Existing Decommissioning, Restoration And Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2 - Share-based Payment



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)

(Incorporated in Malaysia)

The effective date in respect of FRS 139 Financial Instruments: Recognition and Measurement will be January 1, 2010. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Company will apply this standard when it becomes effective.

The adoption of the abovementioned FRSs does not result in significant changes in accounting policies of the Group.

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 cyclicity 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:

A further interim insurance compensation of RM2.63 million was received and recognised as other income during this quarter from the fire incidents at the Group's plants in Kulim and Singapore in the last financial year.

Up to 31 December 2008, the Group had written off total losses of RM11.12 million arising from the fire incidents whilst a total of RM11.94 million had been received from the insurers for the claims. The total amount of insurance proceeds recorded had exceeded the total losses mainly because the compensation for fixed assets damaged in the fire was based on replacement cost instead of historical cost. The insurers are now in the final stage of quantifying the compensation due to the Group for consequential losses.

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 and equity securities, share buy-backs, share cancellations, shares held as treasury shares or resale of treasury shares during the current quarter.



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)
(Incorporated in Malaysia)

On 18 November 2008, the share capital of the Company was increased to RM69,977,040 by the bonus issue of 199,934,400 new ordinary shares of RM0.10 each on the basis of two (2) new ordinary shares for every five (5) existing shares held.

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 31 December 2008 are set out below. Revenue and results by geographical sales were based on the location of the Group's subsidiaries.

	Current Quarter 31-Dec-08 RM'000	Current Year-to-date 31-Dec-08 RM'000
<u>Segment Revenue</u>		
Singapore	18,231	79,431
Malaysia	12,225	48,260
Philippines	1,160	2,840
	31,616	130,531
<u>Segment Results</u>		
Singapore	(339)	9,298
Malaysia	605	7,477
Philippines	1,261	1,342
Taiwan	(465)	27
Hong Kong	1	3
China	(22)	(22)
	1,041	18,125
Add: Share of results of associated companies:		
Thailand	281	19
Taiwan	(604)	1,257
Malaysia	(9)	(24)
Profit before taxation	709	19,377

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

There was no revaluation of property, plant and equipment during the quarter under review.



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)
(Incorporated in Malaysia)

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:

On 2 February 2009, Frontken Malaysia Sdn Bhd (“FM”), a wholly-owned subsidiary of FCB, was served a Writ of Summons by IFC Engineering Sdn Bhd (“IFC”). The said Writ of Summons and Statement of Claim were presented to the High Court of Malaya at Alor Star on 7 January 2009.

Under the said Writ of Summons, IFC was alleging that it had successfully completed installation works for FM at its plant at Kulim Hi-Tech Park pursuant to its quotation furnished for the said installation, and that FM had partially satisfied the contract sum, leaving a balance of RM1,122,425. However, FM had denied any liability to IFC. IFC is therefore claiming against FM for the above outstanding sum, interest thereon at 8%, costs and other relief that the Court deems fit.

FM is disputing the legitimacy of the claim by IFC in view that FM had at all times contracted with the main contractor, and not IFC, for the performance of the installation works at its plant at Kulim Hi-Tech Park. Further, the installation works were either not performed or unsatisfactorily performed.

The claim had been referred to FM’s solicitors for preparation of the defence and the solicitors had entered an appearance with the High Court of Malaya at Alor Star.

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:

- (i) On 4 November 2008, the Company announced that Frontken-MIC (Wuxi) Co., Ltd (“FMIC-W”) had been incorporated in the People’s Republic of China on 31 October 2008. FMIC-W is a wholly-owned subsidiary of Frontken MIC Co. Limited, in which FCB holds approximately 50% equity interest. FMIC-W is principally involved in the cleaning of specialised equipment for semiconductor devices, integrated circuits and components, and research and development of semiconductor cleaning technology. The company has a registered capital of USD500,000 (equivalent to RM1,755,150 based on the exchange rate of USD1.00 : RM3.5103 on 13 October 2008).
- (ii) On 24 November 2008, the Company announced that it had obtained the approval for the incorporation of a subsidiary known as PT Frontken Indonesia (“FI”) in Jakarta, Indonesia on 19 November 2008. FI has an authorised and issued and paid-up share capital of USD300,000 (equivalent to RM1,088,550 based on the exchange rate of USD1.00 : RM3.6285 on 21 November 2008) comprising 300,000 ordinary shares of USD1 each, of which 95% is held by FCB, whilst the remaining 5% is held by an Indonesian individual. FI is principally be involved in surface metamorphosis and engineering works.



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)
(Incorporated in Malaysia)

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 31 Dec 2008 RM'000
Cash at bank	10,375
Cash on hand	45
Fixed deposits	758
	<hr/>
	11,178
Bank overdrafts	(5,618)
	<hr/>
	<u>5,560</u>

A14. Significant related party transactions

	Current Quarter 31 Dec 2008 RM'000	Current Year-to-date 31 Dec 2008 RM'000
Sales from FEM to AMT	-	26
Sales from FEM to A&I	-	1
Sales from FS to Chinyee	196	558
Purchases from AMT by FEM	-	42
Purchases from Chinyee by FS	1,244	3,946

Abbreviations:

AMT	AMT Engineering Sdn Bhd
A&I	A&I Engine Rebuilders Sdn Bhd
Chinyee	Chinyee Engineering & Machinery Pte Ltd
FEM	Frontken (East Malaysia) Sdn Bhd
FS	Frontken (Singapore) Pte Ltd

Name of Related Parties	Relationship
AMT	Sia Chiok Meng, a Director of FEM, is also a Director and major shareholder of AMT.
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.
A&I	Sia Chiok Meng, a director of FEM, is also a director and major shareholder of A&I.



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)
(Incorporated in Malaysia)

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 31 Dec 2008 RM'000
Factory improvement	85
Acquisition of machinery and equipment	12,546
	<u>12,631</u>

ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Review of performance

The Group recorded unaudited revenue and profit before tax ("PBT") of approximately RM130.53 million and RM19.38 million respectively for the financial year ended 31 December 2008, compared to RM105.35 million and RM6.87 million respectively for the preceding corresponding financial year ended 31 December 2007. This represents an increase of approximately 24% and 182% in revenue and PBT respectively compared to that achieved in the preceding corresponding period.

The higher revenue recorded by the Group for the financial year ended 31 December 2008 was mainly due to higher demand for the Group's services in Malaysia, Singapore and Philippines.

The Group's PBT for the financial year ended 31 December 2008 was RM12.51 million higher compared to the previous corresponding period. This was mainly due to the recognition of net gain of RM6.95 million during the current period arising from the fire incidents, compared to a net loss of RM6.13 million in the previous period.

Excluding the net gain, the Group's PBT for the financial year ended 31 December 2008 was RM12.43 million, compared to RM13.00 million for the corresponding period in 2007 had the net loss been excluded. This represents a decrease of approximately 4% over that achieved in the preceding corresponding period.

B2. Comparison with immediate preceding quarter

	4th Quarter 31 Dec 2008 RM'000	3rd Quarter 30 Sep 2008 RM'000
Revenue	31,616	32,992
Profit before tax	709	6,007



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The Group recorded a decrease in revenue of 4.17% or approximately RM1.38 million during the current quarter compared to the preceding quarter. The decrease in revenue was primarily due to marginally lower demand for surface metamorphosis services from our existing operations in Malaysia.

The Group's unaudited PBT in the current quarter ended 31 December 2008 was approximately RM5.30 million lower than the preceding quarter, representing a decrease of approximately 88%. This was mainly attributable to higher subcontractor costs, fixed factory overheads operating expenses, and operating loss of RM0.35 million for the newly incorporated subsidiary, Frontken (Johor) Sdn Bhd.

A further interim insurance compensation of RM2.63 million from the fire incident (Refer to Note A4 for details) was received in this quarter, without which the Group would have incurred a net loss of RM1.92 million before tax.

B3. Prospects for the next financial year

In an environment of slowing global growth and a worldwide financial and economic crisis, the Group anticipates the challenging business climate to persist into 2009. While the strength of the Group's diversified business model does not insulate the Group from the global broad based economic downturn, it should help to soften the impact of an overall slowdown in the broader economy, and position the Group to capture market growth opportunities when the macro economic environment improves.

The Group remains focused on reducing its operating expenses, improving operational efficiencies and protecting the Group's core assets, while investing in the areas of businesses which it believes will deliver long term growth and value. The Group believes its service offerings create value that increases its customers' competitiveness, which is increasingly important in this current economic state. Despite the current macro economic climate, the Board is cautiously optimistic in maintaining its performance for the next 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 4th Quarter 31 Dec 2008 RM'000	Current Year-to-date 31 Dec 2008 RM'000
Income tax	(802)	1,507
Deferred tax	(849)	(985)
	<u>(1,651)</u>	<u>522</u>



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(Co No: 651020-T)
(Incorporated in Malaysia)

The Group's effective tax rate for the period under review is 2.69% compared to the statutory tax rate of 26% in Malaysia primarily attributed to the utilisation of reinvestment allowance by a subsidiary, the reduction in income tax and deferred tax provisions adjusted in the current quarter, and a 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 period 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

As at 19 February 2009, the status of corporate proposal announced but not completed is as follows:

On 10 October 2008, HwangDBS announced, on behalf of the Company, that the SC had vide its letter dated 9 October 2008 approved FCB's application for an extension of time of six (6) months until 11 April 2009 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 RM17.5 million from its private placement exercise.

As at 19 February 2009, 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.



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(Co No: 651020-T)

(Incorporated in Malaysia)

- (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.

B10. Group borrowings

The Group's borrowings as at 31 December 2008 are as follows:

	Short-term RM'000	Long-term RM'000	Total RM'000
<u>Secured</u>			
Bank overdrafts	5,618	-	5,618
Hire purchase creditors	5,770	12,228	17,998
Term loans	18,471	33,200	51,671
	<hr/>	<hr/>	<hr/>
	29,859	45,428	75,287

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
<u>Currency</u>			
Singapore Dollar	21,900	32,616	54,516
New Taiwan Dollar	1,531	1,479	3,010
	<hr/>	<hr/>	<hr/>
	23,431	34,095	57,526

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

Save as disclosed below, the Group is not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings as at 19 February 2009:

On 2 February 2009, FM was served a Writ of Summons by IFC. The said Writ of Summons and Statement of Claim were presented to the High Court of Malaya at Alor Star on 7 January 2009.



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FM is disputing the legitimacy of the claim by IFC in view that FM had at all times contracted with the main contractor, and not IFC, for the performance of the installation works at its plant at Kulim Hi-Tech Park. Further, the installation works were either not performed or unsatisfactorily performed.

The claim had been referred to FM's solicitors for preparation of the defence and the solicitors had entered an appearance with the High Court of Malaya at Alor Star.

B13. Earnings per share ("EPS")

(a) Basic EPS

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

	Current 4th Quarter	Preceding Corres- ponding 4thQuarter	Current Year-to- date	Preceding Corres- ponding Year-to- date
Profit attributable to ordinary shareholders (RM'000)	2,370	33	18,791	4,006
The number/weighted average number of shares in issue ('000)	595,457	494,736	522,297	483,543
Basic EPS (sen)	0.4	-	3.6	0.8

(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 31 December 2008.



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By order of the Board
Frontken Corporation Berhad

Wong Hua Choon
Executive Chairman / Managing Director
Kuala Lumpur
26 February 2009