



FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)

(Incorporated in Malaysia)

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2009

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 2008.

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 2008.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2008.

A2. Audit qualification

The auditors' report in respect of the audited financial statements of FCB for the financial year ended 31 December 2008 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:

Further to the interim insurance compensation of RM2.63 million which was received and recognised in the preceding quarter from the fire incidents at the Group's plants in Kulim and Singapore in financial year 2008, no further insurance proceeds was received in the current quarter as the insurers are still in the final stage of quantifying the compensation due to the Group for consequential losses.

Up to 31 March 2009, 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.



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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.

On 16 March 2009, a third tranche of 11,000,000 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 RM0.18 per Placement Share.

A7. Dividends

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



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A8. Segmental information

The breakdown of the Group's revenue and results by geographical regions for the quarter ended 31 March 2009 are set out below. Revenue and results by geographical sales were based on the location of the Group's subsidiaries.

	Current Quarter 31-Mar-09 RM'000	Current Year-to-date 31-Mar-09 RM'000
<u>Segment Revenue</u>		
Singapore	18,491	18,491
Malaysia	11,470	11,470
Philippines	629	629
	30,590	30,590
<u>Segment Results</u>		
Singapore	1,327	1,327
Malaysia	760	760
Philippines	67	67
Taiwan	181	181
Hong Kong	(3)	(3)
China	(449)	(449)
Indonesia	(122)	(122)
	1,761	1,761
Add: Share of results of associated companies:		
Thailand	12	12
Taiwan	(530)	(530)
Malaysia	(60)	(60)
Profit before taxation	1,183	1,183

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.



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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 3 April 2009, the Company announced that its wholly-owned subsidiary, Frontken Malaysia Sdn Bhd ("FM"), had resolved to convert part of the debts due from Frontken Petroleum Sdn Bhd ("FPSB") amounting to RM107,000 into 107,000 new ordinary shares of RM1.00 each in FPSB at par ("Proposed Capitalisation").

As a result of the Proposed Capitalisation, FM's equity interest in the issued and paid-up share capital of FPSB would increase from 45.8% to 60.1% and consequently, FPSB would become a subsidiary of FM. The Proposed Capitalisation was approved by the Foreign Investment Committee on 13 May 2009.

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 27 February 2009, the Company announced that its wholly-owned subsidiary, Frontken (Singapore) Pte Ltd, had agreed to the terms and entered into a conditional Share Purchase Agreement with Wong Hua Choon for the acquisition of 1,397,400 ordinary shares representing 20% of the issued and paid-up share capital of Chinyee Engineering and Machinery Pte Ltd for a cash consideration of SGD820,000 (equivalent to approximately RM1,963,000 based on the exchange rate of SGD1.00 : RM2.3937 as at 26 February 2009) ("Acquisition of Chinyee").

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 Mar 2009 RM'000
Cash at bank	10,678
Cash on hand	47
Fixed deposits	758
	<hr/>
	11,483
Bank overdrafts	(5,566)
	<hr/>
	<u>5,917</u>



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A14. Significant related party transactions

	Current Quarter 31 Mar 2009 RM'000	Current Year-to-date 31 Mar 2009 RM'000
Sales from FEM to AMT	5	5
Sales from FEM to A&I	1	1
Sales from FS to Chinyee	182	182
Sales from MTI to Chinyee	107	107
Purchases from AMT by FEM	1	1
Purchases from Chinyee by FS	1,532	1,532

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
MTI	Metall-Treat Industries 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.

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 Mar 2009 RM'000
Factory improvement	113
Acquisition of machinery and equipment	8,566
	<u>8,679</u>



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ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Review of performance

The Group recorded unaudited revenue and profit before tax ("PBT") of approximately RM30.59 million and RM1.18 million respectively for the first quarter ended 31 March 2009, compared to RM31.56 million and RM8.23 million respectively for the preceding corresponding quarter ended 31 March 2008. This represents a decrease of approximately 3% and 86% in revenue and PBT respectively compared to that achieved in the preceding corresponding period.

The lower revenue recorded by the Group for the first 3 months ended 31 March 2009 was mainly due to lower demand for the Group's services in Singapore.

The Group's PBT for the current quarter was lower mainly due to higher subcontractor costs and operating losses of newly incorporated subsidiaries, Frontken (Johor) Sdn Bhd, Frontken MIC – Wuxi and PT Frontken Indonesia.

B2. Comparison with immediate preceding quarter

	1st Quarter 31 Mar 2009 RM'000	4th Quarter 31 Dec 2008 RM'000
Revenue	30,590	31,638
Profit before tax	1,183	744

The Group recorded a decrease in revenue of 3.31% or approximately RM1.05 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 and Philippines.

The Group's unaudited PBT in the current quarter ended 31 March 2009 was approximately RM0.44 million higher than the preceding quarter, representing an increase of approximately 59% although its preceding PBT had included a further interim insurance compensation of RM2.63 million received from the insurers on the fire incident. The increase in the Group's PBT was the result of lower overheads and operating expenses, and the jobs credit grant as well as rebates in property tax and land rent received by its Singapore subsidiaries from its government.

B3. Prospects for the year

Although encouraging indications began to show late in the first quarter 2009, it remains to be seen whether these signs will prove to be sustainable. The Group will continue to focus its resources on growing its core markets while adopting a prudent approach to managing the cost structures and cash expenditures. This is in line with



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its business strategy to enhance its ability to meet the expectations and needs of its customers and strengthen its market position for the next upturn.

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 1st Quarter 31 Mar 2009 RM'000	Current Year-to-date 31 Mar 2009 RM'000
Income tax	132	132
Deferred tax	<u>(210)</u>	<u>(210)</u>
	<u><u>(78)</u></u>	<u><u>(78)</u></u>

The Group's effective tax rate for the period under review is -6.59% compared to the statutory tax rate of 25% in Malaysia primarily attributed to deferred tax adjustment arising from reduction in corporation tax rate from 18% to 17% enjoyed by its subsidiaries in Singapore and jobs credit grant received from the Singapore government not subjecting to tax, as well as a relatively lower statutory tax rate of 17% 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 21 May 2009, the status of corporate proposals announced but not completed is as follows:

- (a) On 27 February 2009, the Company announced the Acquisition of Chinyee, details of which are set out in Note A11 above. The said acquisition is pending completion.



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- (b) On 3 April 2009, the Company announced the Proposed Capitalisation, details of which are set out in Note A10 above. The Proposed Capitalisation is pending completion.
- (c) On 17 April 2009, HwangDBS Investment Bank Berhad (“HwangDBS”) announced, on behalf of the Company, that the SC had vide its letter dated 17 April 2009 approved FCB’s application for an extension of time of six (6) months until 11 October 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 RM19.5 million from its private placement exercise.

As at 21 May 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	18,491	Note (a)	7,509	28.9
Working capital	5,075	-	Note (a)	5,075	-
Estimated share issue and related expenses	750	200	Note (a)	550	73.3
	^(b) 31,825	18,691		13,134	41.3

(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. As at 21 May 2009, FCB has placed out a total of 35,836,000 placement shares, at an issue prices of RM0.76, RM0.50 and RM0.18 per share, raising gross proceeds of RM19,529,360.



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B10. Group borrowings

The Group's borrowings as at 31 March 2009 are as follows:

	Short-term RM'000	Long-term RM'000	Total RM'000
<u>Secured</u>			
Bank overdrafts	5,566	-	5,566
Hire purchase creditors	7,118	14,965	22,083
Term loans	19,702	31,401	51,103
	<u>32,386</u>	<u>46,366</u>	<u>78,752</u>

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	25,044	34,344	59,388
New Taiwan Dollar	1,557	1,504	3,061
	<u>26,601</u>	<u>35,848</u>	<u>62,449</u>

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 21 May 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.

Under the said Writ of Summons, IFC was alleging that it had successfully completed installation works for Frontken Malaysia Sdn Bhd ("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



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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 case is now fixed for mention on 18 June 2009.

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 1st Quarter	Preceding Corre- sponding 1st Quarter	Current Year-to- date	Preceding Corre- sponding Year-to- date
Profit attributable to ordinary shareholders (RM'000)	1,492	7,236	1,492	7,236
The number/weighted average number of shares in issue ('000)	701,726	494,736	701,726	494,736
Basic EPS (sen)	0.2	1.5	0.2	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 31 March 2009.

By order of the Board
Frontken Corporation Berhad

Wong Hua Choon
Executive Chairman / Managing Director
Kuala Lumpur
28 May 2009