



## **FRONTKEN CORPORATION BERHAD**

(Co No: 651020-T)

(Incorporated in Malaysia)

### **QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 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 Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements 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 during the financial year ended 31 December 2008 from the fire incidents at the Group's plants in Kulim and Singapore, no further insurance proceeds was received as the insurers are still in the final stages of quantifying the compensation due to the Group for consequential losses.

Up to 30 June 2009, the Group had written off total losses of RM11.12 million arising from the fire incidents whilst a total of RM1 1.94 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.



**FRONTKEN CORPORATION BERHAD**

(Co No: 651020-T)

(Incorporated 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**

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.

**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 June 2009 are set out below. Revenue and results by geographical sales were based on the location of the Group's subsidiaries.

	<b>Current Quarter 30 Jun 2009 RM'000</b>	<b>Current Year-to-date 30 Jun 2009 RM'000</b>
<u>Segment Revenue</u>		
Singapore	19,369	37,860
Malaysia	15,405	26,875
Philippines	1,990	2,619
	<u>36,764</u>	<u>67,354</u>
<u>Segment Results</u>		
Singapore	2,368	3,695
Malaysia	(145)	615
Philippines	(2)	65
Taiwan	(194)	(13)
Hong Kong	-	(3)
China	(256)	(705)
Indonesia	(48)	(170)
	<u>1,723</u>	<u>3,484</u>
Add: Share of results of associated companies:		
Thailand	(86)	(74)
Taiwan	(73)	(603)
Malaysia	-	(60)
Profit before taxation	<u>1,564</u>	<u>2,747</u>



## **FRONTKEN CORPORATION BERHAD**

(Co No: 651020-T)

(Incorporated in Malaysia)

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.

### **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 22 July 2009, a fourth and final tranche of 11,664,000 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 RM0.21 per Placement Share.
- (ii) On 28 July 2009, HwangDBS Investment Bank Berhad (“HwangDBS”) announced, on behalf of the Company, that the private placement exercise had been completed on the same date.

A total of 47,500,000 Placement Shares were placed out to identified investors in four (4) tranches, at issue prices of RM0.76 per share, RM0.50 per share, RM0.18 per share and RM0.21 per share for the first, second, third and fourth tranches respectively, raising a total of approximately RM22.0 million.

### **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 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 (“Capitalisation”). The Capitalisation was approved by the Foreign Investment Committee on 13 May 2009 and completed on 1 June 2009. Consequently, FM’s equity interest in the issued and paid-up share capital of FPSB increased from 45.8% to 60.1%.



## 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

	<b>As at 30 Jun 2009</b>
	<b>RM'000</b>
Cash at bank	7,550
Cash on hand	78
Fixed deposits	774
	<hr/>
	8,402
Bank overdrafts	(4,935)
	<hr/>
	<u>3,467</u>

### A14. Significant related party transactions

	<b>Current Quarter 30 Jun 2009</b>	<b>Current Year-to-date 30 Jun 2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Sales from FEM to AMT	4	9
Sales from FM to AMT	1	1
Sales from FEM to A&I	1	2
Sales from FS to Chinyee	167	349
Sales from MTI to Chinyee	132	239
Purchases from AMT by FEM	-	1
Purchases from Chinyee by FS	1,240	2,772

#### 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
FM	Frontken Malaysia Sdn Bhd



**FRONTKEN CORPORATION BERHAD**

(Co No: 651020-T)

(Incorporated in Malaysia)

<b>Name of Related Parties</b>	<b>Relationship</b>
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 substantial shareholders of Chinyee. Dr Tay Kiang Meng is a Director and shareholder of both FCB and 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:

	<b>As at 30 Jun 2009</b>
	<b>RM'000</b>
Factory improvement	1,145
Motor Vehicle	150
Acquisition of machinery and equipment	4,578
	<u>5,873</u>



## FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)

(Incorporated in Malaysia)

### ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

#### B1. Review of performance

The Group recorded unaudited revenue and profit before tax ("PBT") of approximately RM67.35 million and RM2.75 million respectively for the six (6) months ended 30 June 2009, compared to RM65.92 million and RM12.66 million respectively for the preceding corresponding period ended 30 June 2008. This represents an increase of approximately 2% in revenue and decrease in PBT of approximately 78% compared to that achieved in the preceding corresponding period.

The higher revenue recorded by the Group for the first 6 months ended 30 June 2009 was mainly due to higher demand for the Group's services in Malaysia and Philippines.

The Group's PBT for the first 6 months was lower compared to the previous corresponding period due to lower margin sales and operating losses of newly incorporated subsidiaries, Frontken (Johor) Sdn Bhd, Frontken-MIC (Wuxi) Co Ltd, PT Frontken Indonesia and share of losses of associates. In addition, a net gain of RM2.57 million as a result of recovery from insurers on the fire incidents was recorded in the preceding corresponding period, resulted in a comparative lower Group's PBT recorded in the current period.

#### B2. Comparison with immediate preceding quarter

	<b>2nd Quarter 30 Jun 2009</b>	<b>1st Quarter 31 Mar 2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	36,764	30,590
Profit before tax	1,564	1,183

The Group recorded a increase in revenue of 20.18% or approximately RM6.17 million during the current quarter compared to the preceding quarter. The increase in revenue during the current quarter was primarily due to higher demand for surface metamorphosis services from our existing operations in Singapore, Malaysia and Philippines.

The Group's unaudited PBT in the current quarter ended 31 March 2009 was approximately RM0.38 million higher than the preceding quarter, representing an increase of approximately 34%. The increase in the Group's PBT was the result of higher sales and lower operating expenses.



## FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)

(Incorporated in Malaysia)

### B3. Prospects for the year

While the global macro-economic outlook is showing initial signs of stability, 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 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. Barring unforeseen circumstances, the Group is cautiously optimistic that the prospects in the second half of the year would be better than the first half of the 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

	<b>Current 2nd Quarter 30 Jun 2009</b>	<b>Current Year-to-date 30 Jun 2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Income tax	275	406
Deferred tax	120	(90)
	<u>395</u>	<u>316</u>

The Group's effective tax rate for the period under review is 11.52% 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.



**FRONTKEN CORPORATION BERHAD**

(Co No: 651020-T)

(Incorporated in Malaysia)

**B8. Status of corporate proposals**

As at 20 August 2009, the status of corporate proposals announced but not completed is as follows:

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"). The Acquisition of Chinyee is pending completion.

**B9. Status of utilisation of proceeds**

The Company raised approximately RM22.0 million from its private placement exercise, which was completed on 28 July 2009.

As at 20 August 2009, the proceeds from the private placement exercise had been fully utilised as follows:

Purpose	Proposed	Actual	Actual	Intended	Deviation	
	Utilisation	Proceeds	Utilisation	Timeframe	RM'000	%
	RM'000	RM'000	RM'000	for		
				Utilisation		
Viable future Investments	26,000	17,956	18,491	Note (a)	535	<sup>(d)</sup> 3.0
Working capital	5,075	3,505	3,253	Note (a)	(252)	<sup>(d)</sup> 7.2
Estimated share issue and related expenses	750	518	235	Note (a)	(283)	<sup>(d)</sup> 54.6
	<sup>(b)</sup> 31,825	<sup>(c)</sup> 21,979	21,979			

(a) By 27 January 2011, being 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.

(c) On 28 July 2009, HwangDBS announced on behalf of the Company that the private placement exercise had been completed. A total of 47,500,000 Placement Shares were placed out to identified investors in four (4) tranches, at an issue price of RM0.76 per share, RM0.50 per share, RM0.18 per share and RM0.21 per share for the first, second, third and fourth tranches respectively, raising a total of approximately RM22.0 million. In view of a lower amount raised, allocation of proceeds for the proposed utilisation is proportionately reduced.

(d) Computed as a percentage of the actual proceeds raised.





**FRONTKEN CORPORATION BERHAD**

(Co No: 651020-T)

(Incorporated in Malaysia)

**B10. Group borrowings**

The Group's borrowings as at 30 June 2009 are as follows:

	<b>Short-term</b>	<b>Long-term</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Secured</u>			
Bank overdrafts	4,935	-	4,935
Hire purchase creditors	7,349	17,134	24,483
Term loans	19,257	29,925	49,182
	<u>31,541</u>	<u>47,059</u>	<u>78,600</u>

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

	<b>Short-term</b>	<b>Long-term</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Currency</u>			
Singapore Dollar	24,174	35,649	59,823
New Taiwan Dollar	1,555	1,501	3,056
	<u>25,729</u>	<u>37,150</u>	<u>62,879</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 20 August 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 outstanding sum, interest thereon at 8%, costs and other relief that the Court deems fit.



## FRONTKEN CORPORATION BERHAD

(Co No: 651020-T)

(Incorporated in Malaysia)

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.

On 19 June 2009, the Company announced that the Court had given directions to IFC and FM for the filing of written submission in relation to IFC's application for summary judgment. The matter is fixed for mention on 20 October 2009 to ensure that all the submissions have been filed and exchanged. The matter is also fixed for decision on 24 November 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 2nd Quarter	Preceding Corres- ponding 2nd Quarter	Current Year-to- date	Preceding Corres- ponding Year-to- date
Profit attributable to ordinary shareholders (RM'000)	1,266	3,201	2,758	10,437
The number/weighted average number of shares in issue ('000)	710,770	498,603	706,273	496,670
Basic EPS (sen)	0.2	0.6	0.4	2.1

#### (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 2009.

By order of the Board  
Frontken Corporation Berhad

Wong Hua Choon  
Executive Chairman / Managing Director  
Kuala Lumpur  
27 August 2009