

# KKB ENGINEERING BERHAD

(Company no: 26495-D)  
(Incorporated in Malaysia)

## NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

### Selected explanatory notes pursuant to Financial Reporting Standards (FRS) 134 Interim Financial Reporting

#### 1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standards (FRS) 134 Interim Financial Reporting, and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB). The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007 and the explanatory notes attached to the interim financial statements as they provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2007.

#### 2. Changes in Accounting Policies

The significant accounting policies adopted in these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2007 except for the adoption of the following Financial Reporting Standards (FRS), Amendment to FRS and IC Interpretations issued by MASB that is effective for the Group's annual financial period commencing 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 Benefit Plans
FRS 129	Accounting Reporting in Hyperinflationary Economics
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
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 Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in Specific Market – Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach to FRS 129 <sub>2004</sub> Financial Accounting in Hyperinflationary Economics
IC Interpretation 8	Scope of FRS 2 Share-based payments

The adoption of the above FRSs, Amendments to FRS and IC Interpretation does not have any significant financial impact on the Group.

**3. Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the audited financial statements for the financial year ended 31 December 2007 was not qualified.

**4. Seasonal or cyclical factors**

The business operations of the Group were not significantly affected by any seasonal or cyclical factors in the 1<sup>st</sup> quarter ended 31 March 2008.

**5. 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 1<sup>st</sup> quarter ended 31 March 2008.

**6. Changes in Estimates**

There were no significant changes in estimates of amounts reported in prior financial years which have a material effect in the 1<sup>st</sup> quarter ended 31 March 2008.

**7. Debt and equity securities**

Save as disclosed below, 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 1<sup>st</sup> quarter ended 31 March 2008.

**(a) Issuance of Shares**

During the 1<sup>st</sup> quarter ended 31 March 2008, the issued and paid-up share capital was increased from 63,152,750 ordinary shares of RM1.00 each in KKB to 63,348,250 ordinary shares of RM1.00 each by the issuance of 195,500 new shares pursuant to the exercise of options granted under the Employees' Share Option Scheme at the following option prices:

<u>Number of Shares issued</u>	<u>Option price per share (RM)</u>
1,250	1.06
8,000	1.11
9,750	1.01
18,750	1.12
157,750	1.23

**8. Dividend paid**

No dividend has been paid in the 1<sup>st</sup> quarter ended 31 March 2008.

## 9. Segmental Reporting

The segment revenue and segment results for business segments predominantly conducted in Malaysia for the current financial year-to-date were as follows:

	Manufacturing RM '000	Engineering RM '000	Elimination RM '000	Consolidated RM '000
Revenue	<u>7,227</u>	<u>18,222</u>	(1,046)	<u>24,403</u>
Results	(326)	3,602		3,276
Other income				434
Finance costs				(194)
Share of results of associates				37
Income Tax Expense				(1,157)
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Profit for the period				2,396
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## 10. Valuations of property, plant and equipment

The valuations of property have been brought forward, without amendment from the previous audited financial statements except for the net book values of the property, plant and equipment where depreciation has been provided for in the current quarter and financial year-to-date. Any additions to the property, plant and equipment are carried at costs less depreciation charges for the current quarter and financial year-to-date.

## 11. Material subsequent events

There were no material subsequent events that have not been reflected in the financial statements for the current quarter under review except as disclosed in Note 24.

## 12. Changes in composition of the Group

There were no significant changes in the composition of the Group during the 1<sup>st</sup> quarter ended 31 March 2008.

## 13. Contingent liabilities/Contingent assets as at 31 March 2008

<b>Unsecured:</b>	RM'000
Corporate Guarantee issued to a bank for credit facilities granted to a subsidiary company	25,218

There were no material contingent assets to be disclosed as at 31 March 2008.

## 14. Capital Commitments

There are no material capital commitments except as disclosed below:-

	RM'000
Approved and contracted for ***	34,259

\*\*\* RM32.0 million is in respect of the Proposed Acquisition as disclosed in Note 24.

**Additional information required pursuant to Appendix 9B of the Listing Requirements of BMSB**

**15. Review of performance**

The Group's current quarter revenue of RM24.4 million was 34.9% lower as compared to RM37.5 million recorded in the preceding year corresponding quarter due to lower revenue generated from the Steel Pipes Manufacturing division. This quarter shows a substantial shift in the proportion of revenue contribution on the overall group activities from the manufacturing sector of 26% (1Q07: 44%) to the engineering sector of 74% (1Q07: 56%) with steel fabrication division leading the pack.

However, the Group's current quarter gross profit of RM7.2 million (1Q07: RM7.3 million) remained fairly consistent with the preceding year corresponding quarter but with better margin of 29.5% (1Q07: 19.5%), representing an increase in the gross profit margin by 10%.

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

The Group's revenue and profit before taxation of RM24.4 million (4Q07: RM28.2 million) and RM3.5 million (4Q07: RM5.5 million) were 13.5% and 36.4% respectively, lower compared with the preceding quarter. The reduced revenue was mainly due to lower sales recorded for its Steel Pipes and Civil Construction businesses, which in the previous quarter contributed combined revenue of RM8.0 million as compared to this quarter's total of RM4.8 million, resulted in the overall decline in current quarter's profit.

**17. Prospects**

The outlook for the Group's operations remains challenging but positive for the current year and, barring any unforeseen circumstances, the Board is confident that the Group's performance for 2008 will remain favourable.

**18. Variances from profit forecast and profit guarantee**

Not applicable to the Group as no profit forecast and profit guarantee were published.

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

## 21. Taxation

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2008 RM	Comparative Quarter Ended 31/03/2007 RM	Current Period Ended 31/03/2008 RM	Comparative Period Ended 31/03/2007 RM
Malaysian taxation				
Current tax				
- continuing operations	1,157,012	1,063,168	1,157,012	1,063,168
- discontinued operation	-	546	-	546
Deferred tax relating to origination and reversal of temporary differences				
- continuing operations	-	22,000	-	22,000
	<u>1,157,012</u>	<u>1,085,714</u>	<u>1,157,012</u>	<u>1,085,714</u>

The Group's effective tax rate for the current quarter is higher than the statutory tax rate principally due to losses incurred by certain subsidiary companies and unqualified expenses being disallowed for taxation purposes.

## 22. Sales of unquoted investments and/or properties

There were no sales of unquoted investments and/or properties for the current quarter and financial year-to-date.

## 23. Purchase or disposal of quoted securities

There were no purchases or disposals of quoted securities for the current quarter and financial year-to-date.

## 24. Status of Corporate proposals

The shareholders of KKB Engineering Berhad ("KKB") at the Extraordinary General Meeting held on 24 March 2008, had passed the resolution pertaining to the Proposed Acquisition by KKB of a parcel of provisional leasehold land of approximately 27.6 hectares together with buildings thereon from CMS Steel Berhad, a subsidiary of Cahya Mata Sarawak Berhad ("CMSB") for a total purchase consideration of RM32,000,000 to be satisfied by the issuance of 16,000,000 new ordinary shares of RM1.00 each in KKB at an issue price of RM2.00 per share.

On 16 April 2008, announcement was made to Bursa Malaysia Securities Berhad that KKB's additional 16,000,000 new ordinary shares of RM1.00 each issued pursuant to the Acquisition will be granted listing and quotation with effect from 9.00 a.m., Thursday, 17 April 2008. As the said new ordinary shares arising from the Acquisition will not be entitled to receive dividends declared, made or paid in relation to the profits for the financial year ended 31 December 2007, the 16,000,000 new ordinary shares will be quoted as "KKB-OA". The stock number and ISIN Code of the "KKB-OA" shares are "9466OA" and "MYL9466OA002" respectively. The "KKB-OA" shares which are not entitled for that dividend will cease to be quoted with effect from 9.00 a.m., Wednesday, 14 May 2008 and will merge with the "KKB" shares as from that date.

Save as disclosed above, there were no new or outstanding corporate proposals announced, which have not been completed as at the date of this announcement.

## 25. Group's borrowings and debt securities

Total Group's borrowings as at 31 March 2008 are as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	1,537,000
Hire Purchase Creditors	508,173	-
Term Loan	-	1,560,000
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<u>Long-term</u>		
Hire Purchase Creditors	769,875	-
Term Loan	-	2,525,680
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## 26. Off balance sheet financial instruments

There were no material financial instruments with off balance sheet risks as at 31 March 2008 and as at the date of this announcement.

## 27. Material litigations

There were no pending material litigations as at the date of this announcement.

## 28. Dividend

No interim dividend has been recommended for payment for the financial year-to-date.

## 29. Earnings per share

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2008 RM	Comparative Quarter Ended 31/03/2007 RM	Current Period Ended 31/03/2008 RM	Comparative Period Ended 31/03/2007 RM
Net profit from continuing operations	<u>2,427,713</u>	<u>2,448,168</u>	<u>2,427,713</u>	<u>2,448,168</u>
Net Loss from a discontinued operation	<u>-</u>	<u>(4,955)</u>	<u>-</u>	<u>(4,955)</u>
<b>Basic:</b>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>

Number of ordinary shares in issue as of 1 January	63,152,750	48,280,000	63,152,750	48,280,000
Effect of the exercise of ESOS	77,500	5,000	77,500	5,000
Effect of bonus issue	-	12,071,250	-	12,071,250
Weighted average number of ordinary shares in issue	63,230,250	60,356,250	63,230,250	60,356,250
Basic earnings per share from continuing operations	Sen 3.84	Sen 4.06	Sen 3.84	Sen 4.06
Basic earnings per share from a discontinued operation	Sen -	Sen (0.01)	Sen -	Sen (0.01)
Basic earnings per share for the period attributable to equity holders of the parent	Sen 3.84	Sen 4.05	Sen 3.84	Sen 4.05
<b><i>Diluted:</i></b>				
Weighted average number of ordinary shares in issue	63,230,250	60,356,250	63,230,250	60,356,250
No. of unissued ordinary shares	1,525,250	4,227,500	1,525,250	4,227,500
No. of ordinary shares that would have been issued at fair value	(1,030,015)	(4,144,892)	(1,030,015)	(4,144,892)
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	63,725,485	60,438,858	63,725,485	60,438,858
Diluted earnings per share from continuing operations	Sen 3.81	Sen 4.05	Sen 3.81	Sen 4.05
Diluted earnings per share from a discontinued operation	Sen -	Sen (0.01)	Sen -	Sen (0.01)
Diluted earnings per share for the period attributable to equity holders of the parent.	Sen 3.81	Sen 4.04	Sen 3.81	Sen 4.04

Basic and diluted earnings per share for the comparative quarter and period ended 31 March 2007 has been adjusted to take into account the effect of 1 for 4 Bonus share issue resulting in the increase in the ordinary share base.