

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 ₂₀₀₄ 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 2nd quarter ended 30 June 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 2nd quarter ended 30 June 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 2nd quarter ended 30 June 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 2nd quarter ended 30 June 2008.

(a) Issuance of Shares

During the 2nd quarter ended 30 June 2008, the issued and paid-up share capital was increased from 63,348,250 ordinary shares of RM1.00 each in KKB to 80,188,250 ordinary shares of RM1.00 each by the issuance of 16,000,000 new shares pursuant to acquisition of land and buildings from CMS Steel Bhd as well as issuance of 840,000 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>
1,500	1.01
5,750	1.06
6,250	1.11
7,000	1.12
24,000	2.10
795,500	1.23

8. Dividend paid

On 30 May 2008, the Company paid a first and final dividend of 8.0 sen, consisting of 3.8 sen (tax-exempt) and 4.2 sen (taxable at 26%) per ordinary share in respect of the financial year ended 31 December 2007.

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>19,125</u>	<u>38,553</u>	(2,680)	<u>54,998</u>
Results	155	6,383		6,538
Other income				1,014
Finance costs				(479)
Share of results of associates				115
Income Tax Expense				(2,444)
Profit for the period				----- 4,744 =====

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 other material subsequent events that have not been reflected in the financial statements for the current quarter under review.

12. Changes in composition of the Group

On 6 May 2008, KKB Engineering Berhad acquired 1,000,000 ordinary shares of RM1.00 each, representing 10% of the issued and paid-up share capital of its subsidiary, KKB Industries (Sabah) Sdn Bhd for a total cash consideration of RM1,140,304.40. Subsequent to the acquisition, KKB Industries (Sabah) Sdn Bhd became a 100% owned subsidiary of KKB Engineering Berhad.

13. Contingent liabilities/Contingent assets as at 30 June 2008

There were no changes in contingent liabilities or contingent assets as at the date of this announcement.

14. Capital Commitments

There are no material capital commitments as at the date of this announcement.

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

15. Review of performance

The Group's current quarter revenue of RM30.6 million declined by 22.3% as compared to RM39.4 million recorded in the preceding year corresponding quarter.

The Steel Fabrication as well as Steel Pipes division within the engineering and manufacturing sector were the main trigger for the lower revenue and hence the squeeze on the Group's current quarter profit before taxation of RM3.6 million from RM4.8 million recorded in the preceding year corresponding quarter.

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

During the quarter under review, revenue growth improved further to register an increase of 25.4% to reach RM30.6 million (1Q08: RM24.4 million), while profit before taxation of RM3.6 million remained fairly consistent with the preceding quarter. The improved revenue was mainly driven by the Group's Steel Water Pipes and Civil Construction businesses, which contributed combined revenue of RM10.4 million as compared to the preceding 1st quarter's total of RM4.8 million.

17. Prospects

Barring any unforeseen circumstances, the Board remains cautiously optimistic of achieving a satisfactory set of results for 2008 under the prevailing competitive business environment.

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 6 Months Ended	
	Current Quarter Ended 30/06/2008 RM	Comparative Quarter Ended 30/06/2007 RM	Current Period Ended 30/06/2008 RM	Comparative Period Ended 30/06/2007 RM
Malaysian taxation				
Current tax				
- continuing operations	1,287,346	1,321,384	2,444,358	2,384,552
- discontinued operation	-	(372)	-	174
Deferred tax relating to origination and reversal of temporary differences				
- continuing operations	-	-	-	22,000
	<u>1,287,346</u>	<u>1,321,012</u>	<u>2,444,358</u>	<u>2,406,726</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

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 30 June 2008 are as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	15,732,000
Hire Purchase Creditors	801,243	-
Term Loan	-	1,560,000
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<u>Long-term</u>		
Hire Purchase Creditors	1,982,953	-
Term Loan	-	2,135,680
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26. Off balance sheet financial instruments

There were no material financial instruments with off balance sheet risks as at 30 June 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 6 Months Ended	
	Current Quarter Ended 30/06/2008 RM	Comparative Quarter Ended 30/06/2007 RM	Current Period Ended 30/06/2008 RM	Comparative Period Ended 30/06/2007 RM
Net profit from continuing operations	2,261,768	3,197,743	4,689,481	5,645,911
Net profit from a discontinued operation	-	301,868	-	296,913

Basic:

	Shares		Shares	
	30/06/2008	30/06/2007	30/06/2008	30/06/2007
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	699,750	523,667	388,625	264,333
Effect of share issue for acquisition of land and buildings from CMS Steel Bhd	10,666,667	-	5,333,333	-
Effect of bonus issue	-	12,261,000	-	12,261,000
Weighted average number of ordinary shares in issue	74,519,167	61,064,667	68,874,708	60,805,333
Basic earnings per share from continuing operations	Sen 3.04	Sen 5.24	Sen 6.81	Sen 9.28
Basic earnings per share from a discontinued operation	Sen -	Sen 0.49	Sen -	Sen 0.49
Basic earnings per share for the period attributable to equity holders of the parent	Sen 3.04	Sen 5.73	Sen 6.81	Sen 9.77

Diluted:

Weighted average number of ordinary shares in issue	74,519,167	61,064,667	68,874,708	60,805,333
No. of unissued ordinary shares	677,250	3,045,250	677,250	3,045,250
No. of ordinary shares that would have been issued at fair value	(498,806)	(1,917,956)	(478,201)	(2,140,975)
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	74,697,611	62,191,961	69,073,757	61,709,608
Diluted earnings per share from continuing operations	Sen 3.03	Sen 5.14	Sen 6.79	Sen 9.15
Diluted earnings per share from a discontinued operation	Sen -	Sen 0.49	Sen -	Sen 0.48
Diluted earnings per share for the period attributable to equity holders of the parent.	Sen 3.03	Sen 5.63	Sen 6.79	Sen 9.63