

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 4th quarter ended 31 December 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 4th quarter ended 31 December 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 4th quarter ended 31 December 2008.

7. Debt and equity securities

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 4th quarter ended 31 December 2008.

8. Dividend paid

No dividend has been paid in the current quarter.

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>39,873</u>	<u>86,290</u>	(4,756)	<u>121,407</u>
Results	2,837	12,016		14,853
Other income				2,052
Finance costs				(1,032)
Share of results of associates				248
Income tax expense				(5,093)
Profit for the period				----- 11,028 =====

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

There were no changes in composition of the Group for the current quarter under review.

13. Contingent liabilities/Contingent assets as at 31 December 2008

	As At	
	31.12.2008	31.12.2007
	RM'000	RM'000
Unsecured:		
Corporate Guarantee issued to a bank for credit		
Facilities granted to a subsidiary company	25,218	25,500

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

14. Capital Commitments

	As At	
	31.12.2008	31.12.2007
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	4,940	2,340

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

15. Review of performance

The Group's current quarter revenue of RM30.7 million was 8.9% higher as compared to RM28.2 million achieved in the preceding year corresponding quarter. The improvement in overall sales for the quarter was attributable to an increased share of business from its Engineering sector which accounted for 75.9% of the current quarter's revenue compared to 68.8% of the preceding year corresponding quarter.

Current quarter's gross profit, however, reduced by 6.0% to reach RM7.8 million as compared to RM8.3 million achieved in the preceding year corresponding quarter. The increase in raw material costs and competitive nature of the prevailing Engineering sector's businesses have contributed to the overall decline in the Group's profit.

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

The Group's revenue for the quarter recorded a slight decrease of 14% from the previous quarter to reach RM30.7 million (3Q08: RM35.7 million), while its gross profit improved 11.4% to RM7.8 million (3Q08: RM7.0 million). The increased profitability was attributable to higher sales generated by the Group's Steel Fabrication and Hot-Dip galvanizing business as well as improved margin from these sales as compared to the preceding quarter.

17. Prospects

The Board is cautious that the global financial crisis and slowdown in economy will impact the Group's performance for the year 2009. Notwithstanding, the Board is optimistic that our diverse portfolio of businesses coupled with our cost efficient operations and relatively low gearing will provide us with the resilience to mitigate the adverse effects of the anticipated slowdown and, barring any unforeseen circumstances, the Board remains cautiously optimistic of the Group achieving a favourable set of results for 2009 under the prevailing competitive and challenging 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 12 Months Ended	
	Current Quarter Ended 31/12/2008 RM	Comparative Quarter Ended 31/12/2007 RM	Current Period Ended 31/12/2008 RM	Comparative Period Ended 31/12/2007 RM
Malaysian taxation				
Current tax				
- continuing operations	1,490,553	1,813,720	4,676,187	6,129,850
- discontinued operation	-	(1,445)	-	3,240
Overprovision in prior years				
- continuing operations	(321,087)	(209,190)	(321,087)	(209,190)
Deferred tax relating to origination and reversal of temporary differences				
- continuing operations	607,410	(18,035)	737,881	3,965
	<u>1,776,876</u>	<u>1,936,089</u>	<u>5,092,981</u>	<u>5,927,865</u>

The Group's effective tax rate for the quarter and financial year-to-date is higher than the statutory tax rate principally due to tax incentives fully utilized 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 31 December 2008 are as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	20,427,000
Hire Purchase Creditors	839,248	-
Term Loan	-	1,560,000
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<u>Long-term</u>		
Hire Purchase Creditors	1,677,729	-
Term Loan	-	1,485,680
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26. Off balance sheet financial instruments

There were no material financial instruments with off balance sheet risks as at 31 December 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

The Board of Directors is pleased to recommend a first and final dividend of 5 sen per ordinary share, less 25% income tax, in respect of the financial year ended 31 December 2008 (2007: 8 sen per share, consisting of 3.8 sen tax-exempt and 4.2 sen less 26% income tax). The proposed first and final dividend is subject to the shareholders' approval in the forthcoming Annual General Meeting. The date of the Annual General Meeting and dates of first and final dividend entitlement and payment will be announced at a later date.

29. Earnings per share

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2008 RM	Comparative Quarter Ended 31/12/2007 RM	Current Period Ended 31/12/2008 RM	Comparative Period Ended 31/12/2007 RM
Net profit from continuing operations	2,784,051	4,001,116	10,877,024	14,305,109
Net profit/(loss) from a discontinued operation	-	(4,123)	-	301,386

Basic:

	Shares	Shares	Shares	Shares
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	1,407,250	2,355,250	823,458	1,110,479
Effect of share issue for acquisition of land and buildings from CMS Steel Bhd	16,000,000	-	10,666,667	-
Effect of bonus issue	-	12,261,000	-	12,261,000
Weighted average number of ordinary shares in issue	80,560,000	62,896,250	74,642,875	61,651,479
Basic earnings per share from continuing operations	Sen 3.46	Sen 6.36	Sen 14.57	Sen 23.20
Basic earnings/(loss) per share from a discontinued operation	Sen -	Sen (0.01)	Sen -	Sen 0.49
Basic earnings per share for the period attributable to equity holders of the parent	Sen 3.46	Sen 6.35	Sen 14.57	Sen 23.69

Diluted:

Weighted average number of ordinary shares in issue	-	62,896,250	-	61,651,479
No. of unissued ordinary shares	-	1,732,250	-	1,732,250
No. of ordinary shares that would have been issued at fair value	-	(1,152,824)	-	(1,221,223)
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	-	63,475,676	-	62,162,506
Diluted earnings per share from	Sen	Sen	Sen	Sen

continuing operations

-	6.30
Sen -	Sen (0.01)
Sen -	Sen 6.29

-	23.01
Sen -	Sen 0.48
Sen -	Sen 23.49

Diluted earnings/(loss) per share
from a discontinued operation

Diluted earnings per share for the
period attributable to equity holders
of the parent.

There is no diluted earnings per share for current quarter and period ended 31 December 2008 due to the expiration of Employees' Share Option Scheme on 13 October 2008.