

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 issued by the Malaysian Accounting Standards Board ("MASB"), 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 annual financial statements of the Group 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 the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2008.

The unaudited interim financial statements of the Group for the 1st quarter ended 31 March 2009 have been prepared on a historical basis. The significant accounting policies and methods of computation applied in the interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2008.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2008 was not qualified.

3. Seasonal or cyclical factors

The business operations of the Group were not significantly affected by any seasonal or cyclical factors in the 1st quarter ended 31 March 2009.

4. 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 1st quarter ended 31 March 2009.

5. Changes in Estimates

There were no significant changes in estimates of amounts reported in prior financial years which have a material effect in the 1st quarter ended 31 March 2009.

6. 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 1st quarter ended 31 March 2009.

7. Dividend paid

No dividend has been paid in the current quarter.

8. 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>18,183</u>	<u>13,198</u>	(1,143)	<u>30,238</u>
Results	5,616	3,548		9,164
Other income				129
Finance costs				(187)
Share of results of associates				27
Income tax expense				(2,557)
Profit for the period				----- 6,576 =====

9. 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.

10. 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.

11. Changes in composition of the Group

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

12. Contingent liabilities/Contingent assets as at 31 March 2009

	As At	
	31.03.2009	31.03.2008
	RM'000	RM'000
Unsecured:		
Corporate Guarantee issued to a bank for credit facilities granted to a subsidiary company	25,218	25,218

There were no material contingent assets to be disclosed as at 31 March 2009.

13. Capital Commitments

	As At	
	31.03.2009	31.03.2008
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	4,390	34,259

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

14. Review of performance

The Group's current quarter revenue increased by 23.8% to reach RM30.2 million as compared to RM24.4 million recorded in the preceding year corresponding quarter.

Accordingly, the Group's current quarter gross profit of RM12.0 million rose by 66.7% as compared to RM7.2 million achieved in the preceding year corresponding quarter. The significant improvement in performance for the quarter under review was attributed to the steep increase in business volume for its steel pipes manufacturing business, which achieved RM16.0 million in consolidated revenue for the quarter as compared to RM1.4 million registered in the preceding year corresponding quarter, coupled with the continuous efforts by management to effectively manage its procurement of raw materials and operating costs.

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

The Group's revenue and profit before taxation of RM30.2 million (4Q08: RM30.7 million) and RM9.1 million (4Q08: RM4.5 million) respectively reflects a better profit margin for this quarter as compared to the preceding quarter. The overall significant increase in profit before taxation for the current quarter was attributable to higher sales generated by the Group's Steel Pipes Manufacturing business with improved margins, particularly in Steel Pipes, Hot-Dip Galvanising and Steel Fabrication divisions.

16. Prospects

Despite a challenging year amidst a global economic slow down, and barring any unforeseen circumstances, the Board is cautiously optimistic that the Group's performance will remain favourable for 2009 under the current challenging and uncertain business environment.

17. Variances from profit forecast and profit guarantee

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

18. 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.

19. 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.

20. Taxation

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2009 RM	Comparative Quarter Ended 31/03/2008 RM	Current Period Ended 31/03/2009 RM	Comparative Period Ended 31/03/2008 RM
Malaysian taxation - Current tax	2,434,617	1,157,012	2,434,617	1,157,012
Deferred tax relating to origination and reversal of temporary differences	122,597	-	122,597	-
	<u>2,557,214</u>	<u>1,157,012</u>	<u>2,557,214</u>	<u>1,157,012</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.

21. 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.

22. Purchase or disposal of quoted securities

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

23. 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.

24. Group's borrowings and debt securities

Total Group's borrowings as at 31 March 2009 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	17,473,000
Hire Purchase Creditors	756,915	-
Term Loan	-	7,560,000
	<u>756,915</u>	<u>17,473,000</u>
<u>Long-term</u>		
Hire Purchase Creditors	1,668,257	-
Term Loan	-	965,680
	<u>1,668,257</u>	<u>965,680</u>

25. Off balance sheet financial instruments

There were no material financial instruments with off balance sheet risks as at 31 March 2009 and as at the date of this announcement.

26. Material litigations

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

27. Dividend

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 has been recommended by the Board of Directors on 24 February 2009 for payment on 29 May 2009. The payment of this first and final dividend is subject to the shareholders' approval at the forthcoming Thirty-Third Annual General Meeting to be held on 7 May 2009.

28. Earnings per share

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2009 RM	Comparative Quarter Ended 31/03/2008 RM	Current Period Ended 31/03/2009 RM	Comparative Period Ended 31/03/2008 RM
Net profit attributable to equity holders of the parent	6,171,594	2,427,713	6,171,594	2,427,713

Basic:

	Shares		Shares	
	Current Period Ended 31/03/2009	Comparative Period Ended 31/03/2008	Current Period Ended 31/03/2009	Comparative Period Ended 31/03/2008
Number of ordinary shares in issue as of 1 January	80,560,000	63,152,750	80,560,000	63,152,750
Effect of the exercise of ESOS	-	77,500	-	77,500
Weighted average number of ordinary shares in issue	80,560,000	63,230,250	80,560,000	63,230,250
Basic earnings per share for the period attributable to equity holders of the parent	Sen 7.66	Sen 3.84	Sen 7.66	Sen 3.84

Diluted:

Weighted average number of ordinary shares in issue	-	63,230,250	-	63,230,250
No. of unissued ordinary shares	-	1,525,250	-	1,525,250
No. of ordinary shares that would have been issued at fair value	-	(1,030,015)	-	(1,030,015)

Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share

-	63,725,485
Sen -	Sen 3.81

-	63,725,485
Sen -	Sen 3.81

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

There was no diluted earnings per share for current quarter and period ended 31 March 2009 due to the expiration of Employees' Share Option Scheme on 13 October 2008.