

# **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 2<sup>nd</sup> quarter ended 30 June 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 2<sup>nd</sup> quarter ended 30 June 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 2<sup>nd</sup> quarter ended 30 June 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 2<sup>nd</sup> quarter ended 30 June 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 2<sup>nd</sup> quarter ended 30 June 2009.

#### **7. Dividend paid**

On 29 May 2009, the company paid 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.

## 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>43,350</u>	<u>23,606</u>	(1,403)	<u>65,553</u>
Results	14,174	6,138		20,312
Other income				452
Finance costs				(366)
Share of results of associates				46
Income tax expense				(5,606)
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Profit for the period				14,838
				=====

## 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 30 June 2009

	As At	
	30.06.2009	30.06.2008
	RM'000	RM'000
<b>Unsecured:</b>		
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 30 June 2009.

## 13. Capital Commitments

	As At	
	30.06.2009	30.06.2008
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	4,367	2,259

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

### **14. Review of performance**

The Group recorded a 15.4% increase in its current quarter's revenue of RM35.3 million, as compared to RM30.6 million recorded in the preceding year corresponding quarter. The prime mover for the increased revenue in the current quarter comes from the Group's Manufacturing Divisions, and in particular, its steel water pipes manufacturing business recorded an increase in revenue of 239.0% to reach RM20.0 million compared to RM5.9 million recorded in the preceding year corresponding quarter.

Concurrently, for the six month's period ended 30 June 2009, the Group achieved significant improvement in profitability, with profit before taxation increased by 183.3% from RM7.2 million to RM20.4 million. This improvement in performance is mainly attributable to significant improved steel water pipes business coupled with overall lower operating costs arising from stringent cost control measures adopted, particularly on steel raw materials procurement.

### **15. 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 16.9% to reach RM35.3 million (1Q09: RM30.2 million), while profit before taxation also moved up 24.2% from RM9.1 million to RM11.3 million. The improved operating results and revenue activities are mainly driven by the Manufacturing Sector, the Group's steel water pipes manufacturing business in the quarter under review.

### **16. Prospects**

The Group will continue to be prudent in its activities, to further improve its efficiencies and enhance cost control in order to achieve a satisfactory level of profitability.

Accordingly, barring any unforeseen circumstances, the Group anticipates that the operating environment for the current financial year will remain competitive and challenging, and the Board is cautiously optimistic of achieving a respectable set of results for the second half of year 2009.

### **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 6 Months Ended	
	Current Quarter Ended 30/06/2009 RM	Comparative Quarter Ended 30/06/2008 RM	Current Period Ended 30/06/2009 RM	Comparative Period Ended 30/06/2008 RM
Malaysian taxation				
- Current tax	2,370,292	1,287,346	4,804,909	2,444,358
Deferred tax relating to origination and reversal of temporary differences	678,140	-	800,737	-
	<u>3,048,432</u>	<u>1,287,346</u>	<u>5,605,646</u>	<u>2,444,358</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 certain 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 30 June 2009 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	10,169,000
Hire Purchase Creditors	847,772	-
Term Loan	-	7,560,000
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<u>Long-term</u>		
Hire Purchase Creditors	1,450,795	-
Term Loan	-	575,680
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**25. Off balance sheet financial instruments**

There were no material financial instruments with off balance sheet risks as at 30 June 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**

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

**28. Earnings per share**

	3 Months Ended		Cumulative 6 Months Ended	
	Current	Comparative	Current	Comparative
	Quarter Ended	Quarter Ended	Period Ended	Period Ended
	30/06/2009	30/06/2008	30/06/2009	30/06/2008
	RM	RM	RM	RM
Net profit attributable to equity holders of the parent	7,795,448	2,261,768	13,967,042	4,689,481

**Basic:**

	Shares		Shares	
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	-	699,750	-	388,625
Effect of share issue for acquisition of land and buildings from CMS Steel Bhd	-	10,666,667	-	5,333,333
Weighted average number of ordinary shares in issue	80,560,000	74,519,167	80,560,000	68,874,708
Basic earnings per share for the period attributable to equity holders of the parent	Sen 9.68	Sen 3.04	Sen 17.34	Sen 6.81

**Diluted:**

Weighted average number of ordinary shares in issue	-	74,519,167	-	68,874,708
No. of unissued ordinary shares	-	677,250	-	677,250
No. of ordinary shares that would have been issued at fair value	-	(498,806)	-	(478,201)
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	-	74,697,611	-	69,073,757

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

Sen -	Sen 3.03	Sen -	Sen 6.79
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There were no diluted earnings per share for current quarter and period ended 30 June 2009 due to the expiration of Employees' Share Option Scheme on 13 October 2008.