

# **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 3<sup>rd</sup> quarter ended 30 September 2009 have been prepared on a historical basis. The significant accounting policies and methods of computation applied in the interim financial statements is 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 3<sup>rd</sup> quarter ended 30 September 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 3<sup>rd</sup> quarter ended 30 September 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 3<sup>rd</sup> quarter ended 30 September 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 3<sup>rd</sup> quarter ended 30 September 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>70,756</u>	<u>46,675</u>	(3,001)	<u>114,430</u>
Results	24,268	10,201		34,469
Other income				810
Finance costs				(536)
Share of results of associates				37
Income tax expense				(8,884)
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Profit for the period				25,896
				=====

## 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 September 2009

	As At	
	30.09.2009	30.09.2008
	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 September 2009.

## 13. Capital Commitments

	As At	
	30.09.2009	30.09.2008
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	3,651	55

## **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 37.0% to reach RM48.9 million as compared to RM35.7 million recorded in the preceding year corresponding quarter, with 54% of the sales contributed by the Manufacturing sector and the remaining 46% by the Engineering Sector.

Concurrently, profit before taxation for the quarter of RM14.3 million rose by 225.0% as compared to RM4.4 million achieved in the preceding year corresponding quarter. The improved revenue and operating results were mainly driven by the Group's Steel Pipes manufacturing business, Civil Construction and Steel Fabrication Divisions.

They contributed combined revenue of RM44.3 million as compared to RM28.5 million registered in the preceding year corresponding quarter, coupled with the continuous efforts by management to effectively manage its operating costs, 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 38.5% to reach RM48.9 million (2Q09: RM35.3 million), while profit before taxation also moved up by 26.5% to reach RM14.3 million as compared to RM11.3 million recorded in the preceding 2<sup>nd</sup> quarter of 2009.

Higher contribution from Engineering activities inclusive Civil Construction and the realization of contracted new works coupled with the Manufacturing activities have shown a higher than expected performance following an increase in demand for Steel Pipes and is a major factor contributing to the better results.

### **16. Prospects**

The Group is continuously exploring new business opportunities in both the domestic and international markets to widen its future revenue base, as well as continuing financial prudence to remain focused and competitive.

Barring any unforeseen circumstances, the Board remains optimistic of achieving a satisfactory set of results for 2009 under the prevailing competitive 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 9 Months Ended	
	Current Quarter Ended 30/09/2009 RM	Comparative Quarter Ended 30/09/2008 RM	Current Period Ended 30/09/2009 RM	Comparative Period Ended 30/09/2008 RM
Malaysian taxation				
- Current year	3,578,032	1,061,694	8,382,941	3,506,721
- Prior year	(134,319)	(320,418)	(134,319)	(321,087)
Deferred tax	(165,033)	130,471	635,704	130,471
	<u>3,278,680</u>	<u>871,747</u>	<u>8,884,326</u>	<u>3,316,105</u>

The Group's effective tax rate for the 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 September 2009 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	3,825,000
Hire Purchase Creditors	851,762	-
Term Loan	-	7,560,000
		<u>7,560,000</u>

Long-term

Hire Purchase Creditors	1,360,253	-
Term Loan	-	185,680
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**25. Off balance sheet financial instruments**

There were no material financial instruments with off balance sheet risks as at 30 September 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 9 Months Ended	
	Current Quarter Ended 30/09/2009 RM	Comparative Quarter Ended 30/09/2008 RM	Current Period Ended 30/09/2009 RM	Comparative Period Ended 30/09/2008 RM
Net profit attributable to equity holders of the parent	10,479,079	3,403,492	24,446,121	8,092,973

**Basic:**

	Shares	Shares	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	-	1,109,333	-	628,861
Effect of share issue for acquisition of land and buildings from CMS Steel Bhd	-	16,000,000	-	8,888,889
Weighted average number of ordinary shares in issue	80,560,000	80,262,083	80,560,000	72,675,500
Basic earnings per share for the period attributable to equity holders of the parent	Sen 13.01	Sen 4.24	Sen 30.35	Sen 11.14

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