

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 4th quarter ended 31 December 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 4th quarter ended 31 December 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 4th quarter ended 31 December 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 4th quarter ended 31 December 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 4th quarter ended 31 December 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>91,394</u>	<u>90,280</u>	(5,158)	<u>176,516</u>
Results	31,088	20,183		51,271
Other income				1,228
Finance costs				(708)
Share of results of associates				32
Income tax expense				(13,576)

Profit for the period				38,247
				=====

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

Save for the Proposed Bonus Issue, Proposed Share Split, Proposed Increase in Authorised Share Capital of the Company and Proposed Amendments to the Memorandum and Articles of Association of the Company ("The Proposals") which are announced together with the announcement on the Group's financial results for the fourth quarter ended 31 December 2009, there are 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 December 2009

	As At	
	31.12.2009	31.12.2008
	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 December 2009.

13. Capital Commitments

	As At	
	31.12.2009	31.12.2008
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	9,009	4,940
Approved but not contracted for	8,729	-

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 102.3% to reach RM62.1 million as compared to RM30.7 million recorded in the preceding year corresponding quarter. The improvement in revenue was attributed to the increase in revenue recognition for its Civil Construction division, which achieved RM29.9 million in consolidated revenue for the quarter as compared to RM8.7 million registered in the preceding year corresponding quarter. In addition, the Group's turnover was further boosted by a 180.8% increase in revenue generated by its steel water pipes manufacturing business, which contributed RM14.6 million as compared to RM5.2 million reported in the preceding year corresponding quarter.

Accordingly, the Group's current quarter gross profit of RM21.8 million rose by 179.5% as compared to RM7.8 million achieved in the preceding year corresponding quarter. The significant improvement in performance for the quarter under review was attributed to increased business activities with improved margins, particularly in Civil Construction and steel water pipes manufacturing businesses 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 27.0% to reach RM62.1 million (3Q09: RM48.9 million), while profit before taxation also moved up by 18.9% to reach RM17.0 million as compared to RM14.3 million recorded in the preceding 3rd quarter of 2009. The prime mover for the increased revenue comes from the Group's Engineering Divisions, and in particular, its Civil Construction division which recorded an increase in revenue of 190.3% to reach RM29.9 million compared to RM10.3 million recorded in the preceding 3rd quarter of 2009.

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.

The outlook for the year 2010 is challenging but positive and, barring any unforeseen circumstances, the Group is expected to continue to record satisfactory performance in 2010.

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 12 Months Ended	
	Current Quarter Ended 31/12/2009 RM	Comparative Quarter Ended 31/12/2008 RM	Current Period Ended 31/12/2009 RM	Comparative Period Ended 31/12/2008 RM
Malaysian taxation				
- Current year	4,755,560	1,098,489	13,138,501	4,605,210
- Prior year	28,650	(12,373)	(105,669)	(333,460)
Deferred tax	(92,163)	637,984	543,541	768,455
	<u>4,692,047</u>	<u>1,724,100</u>	<u>13,576,373</u>	<u>5,040,205</u>

The Group's effective tax rate for the current quarter and financial year-to-date are higher than the statutory tax rate principally due to certain 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, other than the Proposals which are announced together with the announcement on the Group's financial results for the fourth quarter ended 31 December 2009.

24. Group's borrowings and debt securities

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

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Short-term</u>		
Bankers' acceptances	-	5,248,000
Hire Purchase Creditors	1,032,258	-
Term Loan	-	7,355,680
	<u>-</u>	<u>12,603,680</u>

Long-term

Hire Purchase Creditors	1,611,242	-
Term Loan	-	-
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25. Off balance sheet financial instruments

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

The Board of Directors is pleased to recommend a first and final dividend of 15 sen, consisting of 5 sen (tax-exempt) and 10 sen (taxable at 25%) per ordinary share in respect of the financial year ended 31 December 2009 (2008: 5 sen per ordinary share less 25% income tax). The proposed first and final dividend is subject to the shareholders' approval at 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.

28. Earnings per share

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2009 RM	Comparative Quarter Ended 31/12/2008 RM	Current Period Ended 31/12/2009 RM	Comparative Period Ended 31/12/2008 RM
Net profit attributable to equity holders of the parent	11,988,073	2,796,085	36,434,194	10,889,058

Basic:

	Shares		Shares	
	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	-	1,407,250	-	823,458
Effect of share issue for acquisition of land and buildings from CMS Steel Bhd	-	16,000,000	-	10,666,667
Weighted average number of ordinary shares in issue	80,560,000	80,560,000	80,560,000	74,642,875
Basic earnings per share for the period attributable to equity holders of the parent	Sen 14.88	Sen 3.47	Sen 45.23	Sen 14.59

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