

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 Standard 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board, and Paragraph 9.22 of the Main Market 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 2009. 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 2009.

2. Significant Accounting Policies

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 2009 except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010:

- FRS 4 Insurance Contracts
- FRS 7 Financial Instruments: Disclosures
- FRS 8 Operating Segments
- FRS 101 Presentation of Financial Statements
- FRS 123 Borrowing Costs
- FRS 139 Financial Instruments: Recognition and Measurement
- Amendment to FRS 1 First-time Adoption of Financial Reporting Standards
- Amendment to FRS 2 Share-based Payment - Vesting Conditions and Cancellations
- Amendment to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- Amendment to FRS 7 Financial Instruments: Disclosures
- Amendment to FRS 8 Operating Segments
- Amendment to FRS 107 Statement of Cash Flows
- Amendment to FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendment to FRS 110 Events after the Reporting Period
- Amendment to FRS 116 Property, Plant and Equipment
- Amendment to FRS 117 Leases
- Amendment to FRS 118 Revenue
- Amendment to FRS 119 Employee Benefits
- Amendment to FRS 120 Accounting for Government Grants and Disclosure of Government Assistance
- Amendment to FRS 123 Borrowing Costs
- Amendment to FRS 127 Consolidated and Separate Financial Statements
- Amendment to FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendment to FRS 128 Investments in Associates
- Amendment to FRS 129 Financial Reporting in Hyperinflationary Economies
- Amendment to FRS 131 Interests in Joint Ventures
- Amendment to FRS 132 Financial Instruments: Presentation
- Amendment to FRS 134 Interim Financial Reporting

- Amendment to FRS 136 Impairment of Assets
- Amendment to FRS 138 Intangible Assets
- Amendment to FRS 139 Financial Instruments: Recognition and Measurement
- Amendment to FRS 140 Investment Property
- IC Interpretation 9 Reassessment of Embedded Derivatives
- IC Interpretation 10 Interim Financial Reporting and Impairment
- IC Interpretation 11 FRS 2 - Group and Treasury Share Transactions
- IC Interpretation 13 Customer Loyalty Programmes
- IC Interpretation 14 FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

- Amendment to
IC Interpretation 9 Reassessment of Embedded Derivatives

Other than the principal effects as discussed below, the adoption of the above FRSs, Amendments and Interpretations do not have any significant financial impact on the Group's results.

(a) FRS 8: Operating Segments

FRS 8 requires segment information to be presented on a similar basis as that used for internal reporting purposes. As a result, the Group's segmental reporting had been presented based on that used for internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments.

(b) FRS 101: Presentation of Financial Statements

FRS 101 (revised in 2009) has introduced changes in terminology used, format and contents of financial statements. Amongst others, components of interim financial statements presented now consist of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements. The statement of comprehensive income consists of profit or loss for the period and other comprehensive income. All non-owner changes in equity are required to be presented in statement of comprehensive income and components of comprehensive income are not permitted to be presented in the statement of changes in equity.

(c) FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 establishes principles for recognition and measurement of financial instruments. A financial asset or a financial liability shall be recognised in its statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is recorded at fair value upon initial recognition plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial Assets

Subsequent to initial recognition, financial assets are classified as 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables', 'available for sale financial assets' or derivatives designated as hedging instruments, as appropriate.

The group financial assets include trade and other receivables (exclude prepayments), cash and short-term deposits, which are categorised as 'loans and receivables'.

'Loans and Receivables' – Prior to adoption of FRS 139, loans and receivables were stated at cost less allowance for doubtful debts. Under FRS 139, financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest methods. Gains or losses arising from amortisation process, impairment, or derecognition of loans and receivables are recognised in profit or loss.

Financial Liabilities

After initial recognition, financial liabilities are classified as 'fair value through profit or loss', 'amortised cost' or 'derivatives designated as hedging instruments', as appropriate.

The group financial liabilities include borrowings, trade and other payables, amount due to related companies and derivative instruments. Accordingly, the group assessed its derivatives and designated its derivative arising from forward exchange contract as fair value hedge.

To qualify for the hedge accounting, the group is required to document prospectively the hedging relationship of the hedge instrument, the hedged item and nature of the risk being hedged. Besides, it also required to demonstrate the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value on an ongoing basis to ensure that the hedge has been highly effective throughout the financial reporting periods for which the hedge was designated.

Transitional Provisions

In accordance to the transitional provisions for first-time adoption of FRS 139, retrospective application is not permitted and any adjustment of the previous carrying amount, arising from remeasurement of the financial instruments as at 1 January 2010, shall be recognised as an adjustment of the opening balance of retained earnings or other appropriate category of reserves. Hence, comparative figures are not restated.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2009 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 current quarter and financial year-to-date.

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 current quarter and financial year-to-date.

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 current quarter and financial year-to-date.

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 current quarter and financial year-to-date.

8. Dividend paid

No dividend has been paid in the current quarter and financial year-to-date.

9. Segmental Reporting

The segment information for business segments predominantly conducted in Malaysia for the current financial year-to-date were as follows:

RESULTS FOR PERIOD-TO-DATE ENDED 31 MARCH 2010

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	34,260,313	34,352,962	68,613,275
Less: Inter-segment revenue	(371,356)	(691,407)	(1,062,763)
External revenue	33,888,957	33,661,555	67,550,512
Results	14,510,354	12,472,981	26,983,335
Finance costs	(62,342)	(83,529)	(145,871)
Share of results of associates	(49,301)	37,124	(12,177)
Profit before tax	14,398,711	12,426,576	26,825,287
Income tax expense	(3,624,966)	(3,244,529)	(6,869,495)
Profit after tax	10,773,745	9,182,047	19,955,792

OTHER INFORMATION

Interest income	136,659	126,958	263,617
Depreciation and amortisation	618,918	635,318	1,244,236

RESULTS FOR PERIOD-TO-DATE ENDED 31 MARCH 2009

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	18,183,113	13,197,417	31,380,530
Less: Inter-segment revenue	(400,111)	(742,879)	(1,142,990)
External revenue	17,783,002	12,454,538	30,237,540
Results	5,723,291	3,569,385	9,292,676
Finance costs	(122,180)	(64,847)	(187,027)
Share of results of associates	15,514	11,643	27,157
Profit before tax	5,616,625	3,516,181	9,132,806
Income tax expense	(1,565,326)	(991,888)	(2,557,214)
Profit after tax	4,051,299	2,524,293	6,575,592

OTHER INFORMATION

Interest income	15,804	46,095	61,899
Depreciation and amortisation	564,238	641,604	1,205,842

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 March 2010

There are no contingent liabilities/contingent assets at the Group level. However, the company has given a corporate guarantee to a bank for credit facilities granted to a subsidiary amounting to RM25.2 million.

14. Capital Commitments

	As At	
	31.03.2010	31.03.2009
	RM	RM
Commitments in respect of capital expenditure:		
Approved and contracted for	7,010,895	4,390,190
Approved but not contracted for	8,596,741	-
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	15,607,636	4,390,190
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Additional information required pursuant to Appendix 9B of the Listing Requirements of BMSB

15. Review of performance

The Group's current quarter revenue of RM67.6 million rose by 123.8% as compared to RM30.2 million in the preceding year corresponding quarter due to the growth in revenue from both the Engineering and Manufacturing Sectors.

In tandem with increased revenue, the Group's current quarter gross profit improved by 145.0% to reach RM29.4 million as compared to RM12.0 million achieved in the first quarter of 2009. The improved gross profit margin along side the higher revenue registered by the Group's steel water pipe business, Civil Construction, Steel Fabrication and LPG cylinders have been the major factors contributing to the improved bottom line.

16. 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 8.9% to reach RM67.6 million (4Q09: RM62.1 million), while profit before taxation also improved by 57.6% from RM17.0 million to RM26.8 million. The improved operating results and revenue during the quarter under review were mainly driven by the Group's steel water pipe manufacturing business and its Civil Construction activities.

17. Prospects

The outlook for the Group's operations remain challenging but positive for the current year and, barring any unforeseen circumstances, the Group is expected to achieve a satisfactory set of results for 2010 under the prevailing competitive 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 3 Months Ended	
	Current Quarter Ended 31/03/2010 RM	Comparative Quarter Ended 31/03/2009 RM	Current Period Ended 31/03/2010 RM	Comparative Period Ended 31/03/2009 RM
Malaysian taxation				
- Current year	6,891,859	2,434,617	6,891,859	2,434,617
Deferred tax	(22,364)	122,597	(22,364)	122,597
	<u>6,869,495</u>	<u>2,557,214</u>	<u>6,869,495</u>	<u>2,557,214</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.

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

On 18 March 2010, announcement was made to Bursa Malaysia Securities Berhad ("Bursa Securities") that Bursa Securities has, vide its letter dated 17 March 2010, granted its approval for:-

- (i) the listing and quotation of 48,336,000 new ordinary shares of RM1.00 each held in KKB Engineering Berhad ("KKB") to be issued pursuant to the Proposed Bonus Issue; and
- (ii) the Proposed Share Split.

The Proposed Increase in Authorised Share Capital and Proposed Amendments to the Memorandum and Articles of Association of KKB are not subject to the approval of Bursa Securities.

The approval granted by Bursa Securities in relation to the Proposed Bonus Issue is subject to the following conditions: -

- a) KKB and its adviser must fully comply with the relevant provisions under the Main Market Listing Requirements ("Main LR") pertaining to the implementation of the Proposed Bonus Issue;
- b) KKB and its adviser to inform Bursa Securities upon the completion of the Proposed Bonus Issue;
- c) KKB to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Bonus Issue is completed; and
- d) KKB and its adviser are required to make the relevant announcements pursuant to Paragraph 6.35(2)(a) and (b) and 6.35(4) of the Main LR.

In relation to the Proposed Share Split, KKB or its adviser is required to make the relevant announcement pursuant to Paragraph 13.10(2) of the Main LR.

The Bonus Shares and the Subdivided KKB Shares will be listed and quoted on the Main Market of Bursa Securities on the next market day after the Entitlement Date simultaneously.

The Proposed Bonus Issue, Proposed Share Split, Proposed Increase in Authorised Share Capital and Proposed Amendments to the Memorandum and Articles of Association of KKB are now pending the approval of shareholders of KKB at an annual general meeting.

Save as disclosed above, 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 March 2010 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Bankers' acceptances	-	7,450,000
Lease payable	1,063,983	-
Term loan	-	965,680
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	1,063,983	8,415,680
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Non-Current

Lease payable	1,605,884	-
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Total borrowings	2,669,867	8,415,680
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26. Derivative Financial Instruments

Details of the outstanding derivative financial instrument designated as fair value hedge as at 31 March 2010 was as follow:

Type of Derivatives	Contract / Notional Value (RM)	Fair Value (RM)	Gain/(Loss) on Fair Value Changes (RM)	Reason for Gains/Losses
Forward Foreign Exchange Contract in US Dollar - Maturing within 6 months	1,520,100	1,487,700	(32,400)	Strengthening of Malaysian Ringgit against US Dollar

Forward foreign exchange contract is used purely as a hedging tool to minimise the group's exposure to changes in fair value of its firm commitment, conducted in the ordinary course of business, as a result of fluctuation in exchange rate.

The fair value of forward exchange contract is determined using forward market rates at the end of reporting period and changes in the fair value is recognised in profit or loss. The subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with the corresponding gain or loss recognised in profit or loss.

The above financial instrument is subject to credit risk arising from the possibility of default of the counter party in meeting its contractual obligations in which the group has a gain in the contract. This, however, is minimised as the financial instrument is executed with creditworthy financial institution in Malaysia.

The group has set aside the cash required in meeting the above liabilities when it falls due or in tandem with the settlement of the underlying hedged item.

27. Material Litigations

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

28. Dividend

A first and final dividend of fifteen (15) sen per ordinary share, consisting of five (5) sen tax exempt and ten (10) sen taxable at 25% in respect of the financial year ended 31 December 2009 has been recommended by the Board of Directors on 23 February 2010, payable to shareholders of the Company whose names appear in the Record of Depositors on 14 May 2010.

The payment of this first and final dividend is subject to the shareholders' approval at the forthcoming Thirty-Fourth Annual General Meeting to be held on 11 May 2010, and if approved will be paid on 25 May 2010.

29. Earnings per share

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2010 RM	Comparative Quarter Ended 31/03/2009 RM	Current Period Ended 31/03/2010 RM	Comparative Period Ended 31/03/2009 RM
Net profit attributable to ordinary equity holders of the parent	<u>19,044,708</u>	<u>6,171,594</u>	<u>19,044,708</u>	<u>6,171,594</u>
Weighted average number of ordinary shares in issue	<u>80,560,000</u>	<u>80,560,000</u>	<u>80,560,000</u>	<u>80,560,000</u>
Basic earnings per share for the period attributable to ordinary equity holders of the parent	Sen <u>23.64</u>	Sen <u>7.66</u>	Sen <u>23.64</u>	Sen <u>7.66</u>

There is no dilution in its earnings per ordinary share in the current quarter and preceding year corresponding quarter as there are no dilutive potential ordinary shares outstanding at the end of the reporting period.