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 are 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

A total of 48,336,000 new ordinary shares of RM1.00 each were issued pursuant to the Bonus Share Issue. The enlarged issued and paid-up share capital comprising 128,896,000 ordinary shares of RM1.00 each in KKB after the Bonus Issue was subdivided into 257,792,000 new ordinary shares of RM0.50 each in KKB.

Apart from the abovementioned share issuance, there were no other 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

On 25 May 2010, the company paid a first and final dividend of fifteen (15) sen per ordinary share of RM1.00 each, consisting of five (5) sen tax exempt and ten (10) sen taxable at 25%, in respect of the financial year ended 31 December 2009.

9. Segmental Reporting

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

RESULTS FOR PERIOD-TO-DATE ENDED 30 JUNE 2010

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	51,243,756	86,621,053	137,864,809
Less: Inter-segment revenue	(6,326,737)	(1,094,159)	(7,420,896)
External revenue	44,917,019	85,526,894	130,443,913
Results	16,722,284	28,539,060	45,261,344
Finance costs	(149,611)	(180,174)	(329,785)
Share of results of associates	(72,417)	69,356	(3,061)
Profit before tax	16,500,256	28,428,242	44,928,498
Income tax expense	(4,072,904)	(7,361,902)	(11,434,806)
Profit after tax	12,427,352	21,066,340	33,493,692

OTHER INFORMATION

	Manufacturing RM	Engineering RM	Consolidated RM
Interest income	320,996	359,798	680,794
Depreciation and amortisation	1,222,383	1,278,287	2,500,670

RESULTS FOR PERIOD-TO-DATE ENDED 30 JUNE 2009

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	43,350,223	23,606,026	66,956,249
Less: Inter-segment revenue	(665,008)	(737,852)	(1,402,860)
External revenue	42,685,215	22,868,174	65,553,389
Results	14,414,176	6,349,831	20,764,007
Finance costs	(230,003)	(135,912)	(365,915)
Share of results of associates	34,166	11,704	45,870
Profit before tax	14,218,339	6,225,623	20,443,962
Income tax expense	(3,743,342)	(1,862,304)	(5,605,646)
Profit after tax	10,474,997	4,363,319	14,838,316

OTHER INFORMATION

Interest income	45,622	68,369	113,991
Depreciation and amortisation	1,179,757	1,233,814	2,413,571
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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

KKB Energy Pte. Ltd ("KKBEPL"), a wholly-owned subsidiary of KKB Engineering Berhad was incorporated in the Republic of Singapore on 19 May 2010.
The intended principal activities of KKBEPL are general trading and marketing businesses in Singapore and ASEAN countries.

On 7 June 2010, KKB Engineering Berhad acquired 60,000 ordinary shares of RM1.00 each representing 60% of the issued and paid-up share capital of its associate company, KKB Builders Sdn Bhd for a total cash consideration of RM60,000.00. Subsequent to the acquisition, KKB Builders Sdn Bhd became a 100% wholly-owned subsidiary of KKB Engineering Berhad.

Save as disclosed above, there were no other changes affecting the composition of the Group for the current quarter and financial year-to-date.

13. Contingent liabilities/Contingent assets as at 30 June 2010

There are no contingent liabilities/contingent assets at the Group level. 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	
	30.06.2010	30.06.2009
	RM	RM
Commitments in respect of capital expenditure:		
Approved and contracted for	5,679,942	4,367,190
Approved but not contracted for	8,266,987	-
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	13,946,929	4,367,190
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Additional information required pursuant to Appendix 9B of the Listing Requirements of BMSB

15. Review of performance

The Group's 2Q2010 turnover of RM62.9 million was 78.2% higher as compared to RM35.3 million achieved in the preceding year corresponding quarter. The higher turnover is mainly attributable to an increased share of business from its Engineering sector which accounted for 82% of the current quarter's revenue compared to 29% of the previous year corresponding period.

The Group's profit before taxation improved by 60.2% to reach RM18.1 million as compared to RM11.3 million achieved in the preceding year corresponding quarter. The improvement in performance for the quarter under review was mainly attributable to an increased share of revenue from its engineering business, coupled with the continuous efforts by management to ensure sound execution of projects and to effectively manage its operating costs.

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

The Group's revenue and profit before taxation of RM62.9 million (1Q10: RM67.6 million) and RM18.1 million (1Q10: RM26.8 million) were 7.0% and 32.5% lower respectively compared to the preceding quarter.

The overall reduction in revenue and profit before taxation for the current quarter was largely due to the lower revenue recorded for its steel pipe manufacturing business, which experienced an impressive performance in 1Q10.

17. Prospects

The Group anticipates that the operating environment for the second half of the year continues to be competitive and challenging. Barring any unforeseen circumstances, the Board remains cautiously optimistic of achieving a good set of results for the year 2010.

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 6 Months Ended	
	Current Quarter Ended 30/06/2010 RM	Comparative Quarter Ended 30/06/2009 RM	Current Period Ended 30/06/2010 RM	Comparative Period Ended 30/06/2009 RM
Malaysian taxation				
- Current year	4,594,622	2,370,292	11,486,481	4,804,909
Deferred tax	(29,311)	678,140	(51,675)	800,737
	4,565,311	3,048,432	11,434,806	5,605,646

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

At the Company's Annual General Meeting held on 11 May 2010, the shareholders of the Company had approved the followings:-

(i) Bonus issue of 48,336,000 new ordinary shares of RM1.00 each in KKB on the basis of three (3) new KKB Shares for every five (5) existing KKB Shares held in KKB

(ii) Share split involving the subdivision of every one (1) existing ordinary share of RM1.00 each held in KKB into two (2) ordinary shares of RM0.50 each held in KKB

(iii) Increase in Authorised Share Capital of KKB from RM100,000,000.00 comprising 100,000,000 KKB Shares to RM250,000,000.00 comprising 500,000,000 subdivided KKB Shares in the share capital of the Company and

(iv) Amendments to the Memorandum and Articles of Association of the Company

The Bonus Shares and the Subdivided KKB Shares were listed and quoted on the Main Market of Bursa Securities on 27 May 2010.

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 30 June 2010 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
Current		
Bankers' acceptances	-	13,959,000
Lease payable	996,884	-
Term loan	-	575,680
	996,884	14,534,680
Non-Current		
Lease payable	1,377,241	-
Total borrowings	2,374,125	14,534,680

26. Derivative Financial instruments

Details of the outstanding derivative financial instrument designated as fair value hedge as at 30 June 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 3 months	1,520,100	1,461,600	(58,500)	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 compliance 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

The Board of Directors of KKB Engineering Berhad has on 5 August 2010 deliberated, approved to declare an interim dividend of five (5) sen per ordinary share of RM0.50 each less Malaysian income tax at 25%, in respect of the financial year ending 31 December 2010.

The entitlement to the interim dividend and the date of payment will be announced at a later date.

29. Earnings per share

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2010 RM	Comparative Quarter Ended 30/06/2009 RM	Current Period Ended 30/06/2010 RM	Comparative Period Ended 30/06/2009 RM
Net profit attributable to ordinary equity holders of the parent	13,462,277	7,795,448	32,506,985	13,967,042
Basic:	Shares	Shares	Shares	Shares
Number of ordinary shares in issue as of 1 January	80,560,000	80,560,000	80,560,000	80,560,000
Effect of the bonus issue and share split	177,232,000	177,232,000	177,232,000	177,232,000
Weighted average number of ordinary shares in issue	257,792,000	257,792,000	257,792,000	257,792,000
	Sen	Sen	Sen	Sen
Basic earnings per share for the period attributable to ordinary equity holders of the parent	5.22	3.02	12.61	5.42

Basic earnings per share for the comparative quarter and period ended 30 June 2009 has been adjusted to take into account the effect of 3 for 5 Bonus share issue and 1 for 1 share split resulting in the increase in the number of ordinary shares.

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.