

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.

On 24 September 2010, the company paid an interim dividend of five (5) sen per ordinary share of RM0.50 each, taxable at 25%, in respect of the financial year ending 31 December 2010.

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 SEPTEMBER 2010

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	60,801,858	147,196,240	207,998,098
Less: Inter-segment revenue	(7,435,729)	(1,490,991)	(8,926,720)
External revenue	53,366,129	145,705,249	199,071,378
Results	18,275,318	58,071,592	76,346,910
Finance costs	(183,962)	(220,175)	(404,137)
Share of results of associates	(94,850)	99,122	4,272
Profit before tax	17,996,506	57,950,539	75,947,045
Income tax expense	(4,357,748)	(14,715,863)	(19,073,611)
Profit after tax	13,638,758	43,234,676	56,873,434
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OTHER INFORMATION

Interest income	529,107	658,291	1,187,398
Depreciation and amortisation	1,831,737	1,960,688	3,792,425
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RESULTS FOR PERIOD-TO-DATE ENDED 30 SEPTEMBER 2009

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	70,755,795	46,674,900	117,430,695
Less: Inter-segment revenue	(1,449,781)	(1,551,283)	(3,001,064)
External revenue	69,306,014	45,123,617	114,429,631
Results	24,720,326	10,558,785	35,279,111
Finance costs	(292,529)	(243,243)	(535,772)
Share of results of associates	21,257	15,485	36,742
Profit before tax	24,449,054	10,331,027	34,780,081
Income tax expense	(6,312,639)	(2,571,687)	(8,884,326)
Profit after tax	18,136,415	7,759,340	25,895,755
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OTHER INFORMATION

Interest income	71,684	99,023	170,707
Depreciation and amortisation	1,725,969	1,869,353	3,595,322
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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 ("KKBEP"), a wholly-owned subsidiary of KKB Engineering Berhad was incorporated in the Republic of Singapore on 19 May 2010. The intended principal activities of KKBEP 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 September 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	
	30.09.2010	30.09.2009
	RM	RM
Commitments in respect of capital expenditure:		
Approved and contracted for	3,960,407	3,651,379
Approved but not contracted for	6,809,568	-
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	10,769,975	3,651,379
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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 RM68.6 million (3Q09: RM48.9 million) was 40.3% higher over the preceding year corresponding quarter, made up of sales by the Engineering and Manufacturing sectors of RM60.2 million (3Q09: RM22.3 million) and RM8.5 million (3Q09: RM26.6 million) respectively.

The higher overall sales compared to 3Q09 was contributed by the RM28.2 million jump in sales registered by the Civil Construction, RM9.0 million from Steel Fabrication and RM2.1 million from LPG Division but partly offset by lower sales from the Steel Pipes Division.

In tandem with increased revenue, the Group's current quarter profit before taxation improved by 116.8% to reach RM31.0 million as compared to RM14.3 million achieved in 3Q09. The improved gross profit margin along side the higher revenue registered by the Engineering sector have contributed to the improved bottom line.

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

The Group's revenue and profit before taxation of RM68.6 million (2Q10: RM62.9 million) and RM31.0 million (2Q10: RM18.1 million) were 9.1% and 71.3% higher respectively compared to the preceding quarter.

The improvement in Group's profit before taxation for the current quarter was mainly due to higher profit recognized from Civil Construction and Steel Fabrication Divisions within the Engineering sector.

17. Prospects

The outlook for the Group's operations continues to look favourable for the 4th Quarter 2010 with an expected increase in the level of Engineering activities and supported by the Manufacturing sector. Barring any unforeseen circumstances, the Board is optimistic of achieving 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 9 Months Ended	
	Current Quarter Ended 30/09/2010 RM	Comparative Quarter Ended 30/09/2009 RM	Current Period Ended 30/09/2010 RM	Comparative Period Ended 30/09/2009 RM
Malaysian taxation				
- Current year	7,910,387	3,578,032	19,396,868	8,382,941
- Prior year	(156,898)	(134,319)	(156,898)	(134,319)
Deferred tax	(114,684)	(165,033)	(166,359)	635,704
	<u>7,638,805</u>	<u>3,278,680</u>	<u>19,073,611</u>	<u>8,884,326</u>

The Group's effective tax rate for the current quarter are lower than the statutory tax rate as a result of adjustment for over provision of tax in prior year.

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

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 September 2010 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Bankers' acceptances	-	-
Lease payable	902,088	-
Term loan	-	185,680
	<u>902,088</u>	<u>185,680</u>
<u>Non-Current</u>		
Lease payable	1,192,369	-
Total borrowings	<u>2,094,457</u>	<u>185,680</u>

26. Derivative Financial Instruments

There were no outstanding derivative financial instruments as at 30 September 2010.

27. Material Litigations

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

28. Dividend

No interim dividend has been recommended in the current quarter, apart from the 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 that has been paid on 24 September 2010.

29. Earnings per share

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2010 RM	Comparative Quarter Ended 30/09/2009 RM	Current Period Ended 30/09/2010 RM	Comparative Period Ended 30/09/2009 RM
Net profit attributable to ordinary equity holders of the parent	23,347,500	10,479,079	55,854,485	24,446,121

Basic:

Number of ordinary shares in issue as of 1 January

Effect of the bonus issue and share split

Weighted average number of ordinary shares in issue

Basic earnings per share for the period attributable to ordinary equity holders of the parent

	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
Basic earnings per share for the period attributable to ordinary equity holders of the parent	Sen 9.06	Sen 4.06	Sen 21.67	Sen 9.48

Basic earnings per share for the comparative quarter and period ended 30 September 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.