

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.

The following are effects arising from the adoption of FRS 139:

	Increase / (decrease)	
	As at 31 December 2010 RM	As at 1 January 2010 RM
Statement of financial position		
Investment in associates	(8,988)	(10,948)
Trade receivables	(373,129)	(317,838)
Retained earnings	(382,117)	(328,786)
		Current Period Ended 31.12.2010 RM
Increase / (decrease) in:		
Statement of comprehensive income		
Other income		323,896
Other expenses		379,187
Share of results of associates		1,960
Profit before tax		(53,331)
Income tax expense		(13,823)
Profit for the period		(39,508)
Total comprehensive income for the period		(39,508)
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(d) Amendment to FRS 117: Leases

Prior to 1 January 2010, for all leases of land and buildings, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership. Hence, all leasehold land held for own use was classified by the Group as operating lease and where necessary, the minimum lease payments

or the up-front payments made were allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represented prepaid lease payments and were amortised on a straight-line basis over the lease term.

The amendments to FRS 117 Leases clarify that leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. They also clarify that the present value of the residual value of the property in a lease with a term of several decades would be negligible and accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessee. Hence, the adoption of the amendments to FRS 117 has resulted in certain unexpired land leases to be reclassified as finance leases. The Group has applied this change in accounting policy retrospectively and certain comparatives have been restated. The following are effects to the consolidated statement of financial positions as at 31 December 2010 arising from the above change in accounting policy:

	As at 31.12.2010 RM
Increase / (decrease) in:	
Property, plant & equipment	42,223,888
Land use rights	(42,223,888)
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The following comparatives have been restated:

Consolidated statement of financial position	Previously stated	Effect of amendment to FRS 117	Restated
31 December 2009	RM	RM	RM
Property, plant & equipment	42,990,962	43,163,218	86,154,180
Land use rights	43,163,218	(43,163,218)	-
Consolidated statement of cash flows			
Depreciation of property, plant & equipment	3,868,076	939,327	4,807,403
Land use rights	939,327	(939,327)	-
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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 15.0 sen per ordinary share of RM1.00 each, consisting of 5.0 sen tax exempt and 10.0 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 5.0 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 31 DECEMBER 2010

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	76,206,228	206,706,481	282,912,709
Less: Inter-segment revenue	(10,630,874)	(3,644,512)	(14,275,386)
External revenue	65,575,354	203,061,969	268,637,323
Results	19,562,767	85,232,273	104,795,040
Finance costs	(220,400)	(291,353)	(511,753)
Share of results of associates	(90,159)	161,545	71,386
Profit before tax	19,252,208	85,102,465	104,354,673
Income tax expense	(4,715,665)	(21,637,847)	(26,353,512)
Profit after tax	14,536,543	63,464,618	78,001,161
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OTHER INFORMATION

Interest income	842,842	1,307,174	2,150,016
Depreciation	2,370,420	2,689,501	5,059,921
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RESULTS FOR PERIOD-TO-DATE ENDED 31 DECEMBER 2009

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	91,393,587	90,280,437	181,674,024
Less: Inter-segment revenue	(3,070,705)	(2,086,940)	(5,157,645)
External revenue	88,322,882	88,193,497	176,516,379
Results	31,711,182	20,788,161	52,499,343
Finance costs	(379,186)	(328,721)	(707,907)
Share of results of associates	17,773	14,351	32,124
Profit before tax	31,349,769	20,473,791	51,823,560
Income tax expense	(7,966,410)	(5,609,964)	(13,576,374)
Profit after tax	23,383,359	14,863,827	38,247,186
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OTHER INFORMATION

Interest income	159,543	150,231	309,774
Depreciation	2,283,967	2,523,436	4,807,403
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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.

On 1 November 2010, Edisi Optima Sdn Bhd ("EOSB"), an associate of KKB Engineering Berhad, acquired 100,000 ordinary shares of RM1.00 each representing 40% of the issued and paid-up share capital of Kiara Teknologi Sdn Bhd ("KTSB") for a total cash consideration of RM60,000. Subsequent to the acquisition, KTSB became an associate company of EOSB.

The principal activity of KTSB is Requalification and Reconditioning of LPG cylinders.

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 31 December 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	
	31.12.2010	31.12.2009
	RM	RM
Commitments in respect of capital expenditure:		
Approved and contracted for	1,188,279	9,009,221
Approved but not contracted for	1,913,349	8,728,964
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	3,101,628	17,738,185
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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 RM69.6 million rose by 12.1% compared to RM62.1 million achieved in the preceding year corresponding quarter. The improved revenue 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 69% in the preceding year corresponding quarter.

Correspondingly, Group's Gross Profit for the quarter improved by 56.4% to reach RM34.1 million compared to RM21.8 million recorded in the preceding year corresponding quarter.

The overall improvement were mainly driven by the Civil Construction and Steel Fabrication Divisions, which contributed combined revenue of RM55.2 million as compared to RM42.0 million registered in the preceding year corresponding quarter, coupled with the continuous efforts by management 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 for the quarter recorded a marginal increase from the previous quarter to reach RM69.6 million (3Q10: RM68.6 million) due to higher sales generated by the Group's steel pipes manufacturing business, which achieved RM6.5 million in consolidated revenue for the quarter as compared to RM2.7 million registered in the preceding 3rd quarter.

17. Prospects

The Group is continuing with its focus on increasing its customer base and revenue, for both its Engineering and Manufacturing businesses, by actively scouting for windows of opportunity both within and outside its domestic base.

Amid the threat of adverse effect from the volatility of raw material prices on its performance, the risk of which is constantly being managed, the Group maintains its effort on cost management, product quality and operational efficiency to further improve its operating results. Barring any unforeseen circumstances, the Board is cautiously optimistic of achieving positive results in the year 2011 under the prevailing competitive business and global 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 12 Months Ended	
	Current Quarter Ended 31/12/2010 RM	Comparative Quarter Ended 31/12/2009 RM	Current Period Ended 31/12/2010 RM	Comparative Period Ended 31/12/2009 RM
Malaysian taxation				
- Current year	7,146,143	4,755,561	26,543,011	13,138,502
- Prior year	1,427	28,649	(155,471)	(105,670)
Deferred tax	132,331	(92,162)	(34,028)	543,542
	<u>7,279,901</u>	<u>4,692,048</u>	<u>26,353,512</u>	<u>13,576,374</u>

The Group's effective tax rate for the current quarter and financial year-to-date are marginally 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

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 December 2010 were as follows: -

Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,480,144	-
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<u>Non-Current</u>		
Lease payables	2,868,064	-
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Total borrowings	4,348,208	-
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26. Derivative Financial Instruments

There were no outstanding derivative financial instruments as at 31 December 2010.

27. Material Litigations

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

28. Dividend

The Board of Directors has recommended a final dividend of 12.5 sen per ordinary share of RM0.50 each, taxable at 25%, in respect of the financial year ended 31 December 2010, subject to approval by the shareholders at the forthcoming Thirty-Fifth Annual General Meeting. This will bring the total gross dividend to 17.5 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2010 (2009: 15.0 sen per ordinary share of RM1.00 each, consisting of 5.0 sen tax exempt and 10.0 sen taxable at 25%).

The date of the Thirty-Fifth Annual General Meeting and the dates of the final dividend entitlement and payment will be announced at a later date.

29. Earnings per share

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2010 RM	Comparative Quarter Ended 31/12/2009 RM	Current Period Ended 31/12/2010 RM	Comparative Period Ended 31/12/2009 RM
Net profit attributable to ordinary equity holders of the parent	21,042,339	11,988,073	76,896,824	36,434,194

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

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

Sen 8.16	Sen 4.65	Sen 29.83	Sen 14.13
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Basic earnings per share for the comparative quarter and period ended 31 December 2009 has been adjusted to take into account the effect of 3 for 5 Bonus share issue and share split involving subdivision of every one existing shares of RM1.00 each into two ordinary shares of RM0.50 each 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.

30. Realised and Unrealised Profits/Losses

	As at 31.12.2010	As at 30.09.2010
Total retained profits of the Company and its subsidiaries:		
- Realised	105,736,864	84,887,686
- Unrealised	(2,647,905)	(2,516,160)
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	103,088,959	82,371,526
Total share of retained profits from associated company:		
- Realised	1,021,998	1,013,234
- Unrealised	(19,187)	(29,992)
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	104,091,770	83,354,768
Less: Consolidation adjustments	(4,651,880)	(4,628,431)
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Total group retained profits as per consolidated accounts	99,439,890	78,726,337
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