

# 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 2010. 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 2010.

#### 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 financial year ended 31 December 2010 except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and IC Interpretations with effect from 1 January 2011:

- FRS 1 First-time Adoption of Financial Reporting Standards
- FRS 3 Business Combinations
- FRS 127 Consolidated and Separate Financial Statements
- Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Amendments to FRS 1 Additional Exemptions for First-time Adopters
- Amendments to FRS 2 Share-based Payment
- Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 7 Improving Disclosures about Financial Instruments
- Amendments to FRS 132 Financial Instruments: Presentation – Classification of Rights Issues
- Amendments to FRS 138 Intangible Assets
- Amendments to FRSs Improvements to FRSs (2010)
- IC Interpretation 4 Determining Whether an Arrangement contains a Lease
- IC Interpretation 12 Service Concession Arrangements
- IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17 Distributions of Non-Cash Assets to Owners
- IC Interpretation 18 Transfers of Assets from Customers
- Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives

The adoption of the above FRSs, Amendments and IC Interpretations do not have any significant financial impact on the Group's results for the current quarter and financial year-to-date.

#### 3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2010 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

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

##### RESULTS FOR PERIOD-TO-DATE ENDED 31 MARCH 2011

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	10,325,012	50,105,427	60,430,439
Less: Inter-segment revenue	(427,310)	(490,439)	(917,749)
External revenue	9,897,702	49,614,988	59,512,690
Results	760,209	25,370,833	26,131,042
Finance costs	(6,928)	(65,836)	(72,764)
Share of results of associates	(6,472)	90,041	83,569
Profit before tax	746,809	25,395,038	26,141,847
Income tax expense	(136,439)	(6,322,469)	(6,458,908)
Profit after tax	610,370	19,072,569	19,682,939

##### OTHER INFORMATION

Interest income	257,394	621,126	878,520
Depreciation	485,490	751,273	1,236,763

## 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	608,918	635,318	1,244,236

#### 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 and financial year-to-date.

#### 13. Contingent liabilities/Contingent assets as at 31 March 2011

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	
	31.03.2011 RM	31.03.2010 RM
Commitments in respect of capital expenditure:		
Approved and contracted for	9,692,728	7,010,895
Approved but not contracted for	-	8,596,741
	9,692,728	15,607,636

## **Additional information required pursuant to Appendix 9B of the Listing Requirements of BMSB**

### **15. Review of performance**

The Group's current quarter revenue of RM59.5 million (1Q10: RM67.6 million) was 12.0% lower as compared to the preceding year corresponding quarter. However, the Group's current quarter profit before taxation has been maintained at RM26.1 million as compared to RM26.8 million registered in the preceding year corresponding quarter.

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

The Group's revenue and profit before taxation of RM59.5 million (4Q10: RM69.6 million) and RM26.1 million (4Q10: RM28.4 million) were 14.5% and 8.1% respectively, lower compared with the preceding quarter. The reduced revenue was mainly due to lower sales recorded for its Steel Pipes and Civil Construction businesses, which in the previous quarter contributed a combined revenue of RM39.7 million as compared to current quarter's total of RM25.6 million, and resulted in a slightly lower profit.

### **17. Prospects**

Whilst escalating raw material steel prices continue to pose as a challenge to the Group's revenue and profitability, the Group will continue to be prudent in its activities, further improve its operating efficiency and managing costs exposure whilst focusing in improving sales and new markets for its products and services.

Barring any unforeseen circumstances, the Group anticipates that the operating environment for the current financial year will remain competitive and challenging. The Board remains cautiously optimistic of achieving a satisfactory set of results for year 2011.

### **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 31/03/2011 RM	Comparative Quarter Ended 31/03/2010 RM	Current Period Ended 31/03/2011 RM	Comparative Period Ended 31/03/2010 RM
Malaysian taxation				
- Current year	6,545,103	6,891,859	6,545,103	6,891,859
Deferred tax	(86,195)	(22,364)	(86,195)	(22,364)
	<u>6,458,908</u>	<u>6,869,495</u>	<u>6,458,908</u>	<u>6,869,495</u>

The Group's effective tax rate for the current quarter and financial year-to-date are marginally lower than the statutory tax rate principally due to certain income are exempted 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 loans and borrowings as at 31 March 2011 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,444,354	-
	-----	-----
<u>Non-Current</u>		
Lease payables	2,519,058	-
	-----	-----
Total borrowings	3,963,412	-
	=====	=====

**26. Derivative Financial instruments**

There were no outstanding derivative financial instruments as at 31 March 2011.

**27. Material Litigations**

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

## 28. Dividend

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 has been recommended by the Board of Directors on 23 February 2011, payable to shareholders of the Company whose names appear in the Record of Depositors on 13 May 2011.

The payment of this final dividend is subject to the shareholders' approval at the forthcoming Thirty-Fifth Annual General Meeting to be held on 5 May 2011, and if approved will be paid on 27 May 2011.

## 29. Earnings per share

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2011 RM	Comparative Quarter Ended 31/03/2010 RM	Current Period Ended 31/03/2011 RM	Comparative Period Ended 31/03/2010 RM
Net profit attributable to ordinary equity holders of the parent	19,677,889	19,044,708	19,677,889	19,044,708

### **Basic:**

	Shares	Shares	Shares	Shares
Number of ordinary shares in issue as of 1 January	257,792,000	80,560,000	257,792,000	80,560,000
Effects of the bonus issue and share split	-	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 7.63	Sen 7.39	Sen 7.63	Sen 7.39

Basic earnings per share for the comparative quarter and period ended 31 March 2010 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 31.03.2011 RM	As at 31.12.2010 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	125,314,313	105,736,864
- Unrealised	(2,562,449)	(2,647,905)
	-----	-----
	122,751,864	103,088,959
Total share of retained profits from associate:		
- Realised	1,045,303	1,021,736
- Unrealised	(19,187)	(19,187)
	-----	-----
	123,777,980	104,091,508
Less: Consolidation adjustments	(4,660,463)	(4,651,880)
	-----	-----
Total group retained profits as per consolidated accounts	=====	=====
	119,117,517	99,439,628