

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

On 27 May 2011, the Company paid 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, hence brought the total dividend paid to 17.5 sen per ordinary share of RM0.50 each, in respect of the financial year ended 31 December 2010.

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 30 JUNE 2011

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	20,441,602	86,626,207	107,067,809
Less: Inter-segment revenue	(997,116)	(1,174,313)	(2,171,429)
External revenue	19,444,486	85,451,894	104,896,380
Results	1,485,030	39,872,524	41,357,554
Finance costs	(10,959)	(113,860)	(124,819)
Share of results of associates	(25,879)	202,139	176,260
Profit before tax	1,448,192	39,960,803	41,408,995
Income tax expense	(366,659)	(9,635,656)	(10,002,315)
Profit after tax	1,081,533	30,325,147	31,406,680

OTHER INFORMATION

Interest income	514,792	1,216,047	1,730,839
Depreciation	979,145	1,490,400	2,469,545

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

Interest income	320,996	359,798	680,794
Depreciation	1,222,383	1,278,287	2,500,670

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 30 June 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 RM1.72 million.

14. Capital Commitments

	As At	
	30.06.2011 RM	30.06.2010 RM
Commitments in respect of capital expenditure:		
Approved and contracted for	9,797,167	5,679,942
Approved but not contracted for	-	8,266,987
	9,797,167	13,946,929

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

15. Review of performance

Group's revenue for the current quarter under review of RM45.4 million (2Q10: RM62.9 million) was 27.8% lower compared to the preceding year corresponding quarter. The overall lower revenue was mainly due to lower sales contribution from its Civil Construction and Steel Fabrication businesses, which in the preceding year quarter contributed a combined revenue of RM50.2 million as compared to this quarter's total of RM33.6 million.

Although a decline in the quarter's revenue, the Group maintained its commendable result with profit before taxation of RM15.3 million as compared to RM18.1 million recorded in the preceding year corresponding quarter, with an improved margin of 33.6% (2Q10: 28.8%).

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

The 2nd Quarter 2011 has seen a reduction in revenue and lower profit before taxation resulting from lower sales recorded from the Engineering sector as existing projects are at an advanced stage of completion. In addition, initial start-up of new projects secured during the quarter have yet to make any significant contribution to the overall earnings.

17. Prospects

With existing major contracts mostly at an advanced stage of completion, the recent award of a RM70.0 million Earthworks Package from OM Materials (Sarawak) Sdn Bhd secured by wholly-owned subsidiary, KKB Builders Sdn Bhd, coupled with the on-going Steel Fabrication works and jobs in hand secured for the supply of Steel Water Pipes, the Group's operation is anticipated to perform satisfactorily in 3rd Quarter of 2011.

The Manufacturing and Engineering Sectors will remain comparatively stable and barring any unforeseen circumstances, the Group's financial performance continues to remain positive and favourable for 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 6 Months Ended	
	Current Quarter Ended 30/06/2011 RM	Comparative Quarter Ended 30/06/2010 RM	Current Period Ended 30/06/2011 RM	Comparative Period Ended 30/06/2010 RM
Malaysian taxation				
- Current year	3,842,057	4,594,622	10,387,160	11,486,481
Deferred tax	(298,650)	(29,311)	(384,845)	(51,675)
	<u>3,543,407</u>	<u>4,565,311</u>	<u>10,002,315</u>	<u>11,434,806</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 30 June 2011 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,405,299	-
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<u>Non-Current</u>		
Lease payables	2,182,855	-
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Total borrowings	3,588,154	-
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26. Derivative Financial instruments

There were no outstanding derivative financial instruments as at 30 June 2011.

27. Material Litigations

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

28. Dividend

No interim dividend has been recommended for payment in the current quarter and financial year-to-date.

29. Earnings per share

	3 Months Ended		Cumulative 6 Months Ended	
	Current Quarter Ended 30/06/2011 RM	Comparative Quarter Ended 30/06/2010 RM	Current Period Ended 30/06/2011 RM	Comparative Period Ended 30/06/2010 RM
Net profit attributable to ordinary equity holders of the parent	11,712,326	13,462,277	31,390,215	32,506,985

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 4.54	Sen 5.22	Sen 12.18	Sen 12.61

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 30.06.2011 RM	As at 31.12.2010 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	112,061,289	105,736,864
- Unrealised	(2,262,838)	(2,647,905)
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	109,798,451	103,088,959
Total share of retained profits from associate:		
- Realised	1,137,994	1,021,736
- Unrealised	(19,187)	(19,187)
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	110,917,258	104,091,508
Less: Consolidation adjustments	(4,255,414)	(4,651,880)
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Total group retained profits as per consolidated accounts	106,661,844	99,439,628
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