

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.

Saved for the above, no dividend has been paid in the current quarter.

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 SEPTEMBER 2011

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	43,481,502	125,137,610	168,619,112
Less: Inter-segment revenue	(2,312,915)	(1,205,874)	(3,518,789)
External revenue	41,168,587	123,931,736	165,100,323
Results	3,285,966	49,513,628	52,799,594
Finance costs	(29,538)	(159,261)	(188,799)
Share of results of associates	(63,263)	184,085	120,822
Profit before tax	3,193,165	49,538,452	52,731,617
Income tax expense	(658,490)	(12,150,462)	(12,808,952)
Profit after tax	2,534,675	37,387,990	39,922,665

OTHER INFORMATION

Interest income	771,944	1,610,500	2,382,444
Depreciation	1,480,170	2,212,254	3,692,424

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

OTHER INFORMATION

Interest income	529,107	658,291	1,187,398
Depreciation	1,831,737	1,960,688	3,792,425

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 September 2011

There were no material contingent liabilities or contingent assets as at the date of this announcement.

14. Capital Commitments

	As At	
	30.09.2011 RM	30.09.2010 RM
Commitments in respect of capital expenditure:		
Approved and contracted for	8,443,880	3,960,407
Approved but not contracted for	-	6,809,568
	8,443,880	10,769,975

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

15. Review of performance

Group's revenue for the current year third quarter was RM60.2 million against profit before taxation of RM11.3 million. Both the revenue and profit before taxation showed a reduction of 12.2% and 63.5% respectively, compared to the preceding year 3rd Quarter 2010 revenue and profit before taxation of RM68.6 million and RM31.0 million respectively.

The 3rd Quarter 2011 saw the Engineering Sector continuing to dominate in terms of overall contribution to the financial performance of the Group against that from the manufacturing Sector. The Engineering Sector accounted for 64% and 79% of the Group's revenue and gross profit respectively, while the Manufacturing Sector made up the remaining 36% and 21% of the Group's revenue and gross profit respectively.

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

The Group's current quarter revenue of RM60.2 million (2Q11: RM45.4 million) comprising revenue from the Engineering and Manufacturing sectors of RM38.5 million (2Q11: RM35.8 million) and RM21.7 million (2Q11: RM9.5 million) respectively, rose by 32.6% compared to the preceding quarter. The increase was due to the growth in revenue from the steel water pipes and civil construction divisions and partly offset by lower revenue from the steel fabrication division.

Group's profit before taxation has however declined by 26.1% to reach RM11.3 million from RM15.3 million registered in the preceding quarter, on the back of lower margin contributions from the Engineering sector as sales contributions from the end of the projects are lower.

17. Prospects

Our Manufacturing and Engineering activities are expected to contribute positively to the Group's performance in view of the vast opportunities in the Sarawak Corridor of Renewable Energy (SCORE), especially in energy intensive industries and East Malaysia as a whole.

Whilst volatility of global raw material and steel prices will continue to impact on the group's profitability, the Group's financial performance for the remaining period of financial year ending 2011 continues to remain positive and favourable, barring any unforeseen circumstances.

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 30/09/2011 RM	Comparative Quarter Ended 30/09/2010 RM	Current Period Ended 30/09/2011 RM	Comparative Period Ended 30/09/2010 RM
Malaysian taxation				
- Current year	2,934,546	7,910,387	13,321,706	19,396,868
- Prior year	(73,254)	(156,898)	(73,254)	(156,898)
Deferred tax	(54,655)	(114,684)	(439,500)	(166,359)
	<u>2,806,637</u>	<u>7,638,805</u>	<u>12,808,952</u>	<u>19,073,611</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 September 2011 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,368,144	-
Bankers' acceptance	2,500,000	-
	<u>3,868,144</u>	<u>-</u>
<u>Non-Current</u>		
Lease payables	1,842,395	-
	<u>5,710,539</u>	<u>-</u>
Total borrowings	<u>5,710,539</u>	<u>-</u>

26. Derivative Financial instruments

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

27. Material Litigations

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

28. Dividend

The Board of Directors has on 24 November 2011 declared 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 2011. This interim dividend shall be payable on 21 December 2011 to the depositors whose names appear in the Record of Depositors on 12 December 2011.

An interim dividend of five (5) sen per ordinary share of RM0.50 each, less Malaysian income tax at 25%, was declared in the previous year corresponding period.

29. Earnings per share

	3 Months Ended		Cumulative 9 Months Ended	
	Current Quarter Ended 30/09/2011 RM	Comparative Quarter Ended 30/09/2010 RM	Current Period Ended 30/09/2011 RM	Comparative Period Ended 30/09/2010 RM
Net profit attributable to ordinary equity holders of the parent	8,516,143	23,347,500	39,906,358	55,854,485

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 3.30	Sen 9.06	Sen 15.48	Sen 21.67

There is no dilution in its earnings per ordinary share in the current quarter and financial year-to-date as there are no dilutive potential ordinary shares outstanding at the end of the reporting period.

30. Realised and Unrealised Profits/Losses

	As at 30.09.2011 RM	As at 31.12.2010 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	120,561,591	105,736,864
- Unrealised	(2,208,182)	(2,647,905)
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	118,353,409	103,088,959
Total share of retained profits from associate:		
- Realised	1,082,556	1,021,736
- Unrealised	(19,187)	(19,187)
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	119,416,778	104,091,508
Less: Consolidation adjustments	(4,238,791)	(4,651,880)
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Total group retained profits as per consolidated accounts	115,177,987	99,439,628
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