

# 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.

On 21 December 2011, 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 ended 31 December 2011.

#### 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 DECEMBER 2011

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	76,940,509	168,487,864	245,428,373
Less: Inter-segment revenue	(7,363,747)	(3,580,564)	(10,944,311)
External revenue	69,576,762	164,907,300	234,484,062
Results	11,331,377	51,383,454	62,714,831
Finance costs	(255,980)	(191,611)	(447,591)
Share of results of associates	(12,835)	145,728	132,893
Profit before tax	11,062,562	51,337,571	62,400,133
Income tax expense	(2,639,315)	(12,644,262)	(15,283,577)
Profit after tax	8,423,247	38,693,309	47,116,556
<b>OTHER INFORMATION</b>			
Interest income	982,476	1,988,043	2,970,519
Depreciation	1,992,382	2,929,861	4,922,243

**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	19,562,495	85,232,269	104,794,764
Finance costs	(220,127)	(291,350)	(511,477)
Share of results of associates	(90,423)	161,545	71,122
Profit before tax	19,251,945	85,102,464	104,354,409
Income tax expense	(4,715,665)	(21,637,846)	(26,353,511)
Profit after tax	14,536,280	63,464,618	78,000,898

***OTHER INFORMATION***

Interest income	842,844	1,307,171	2,150,015
Depreciation	2,370,420	2,689,500	5,059,920

**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 December 2011**

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

**14. Capital Commitments**

	As At	
	31.12.2011 RM	31.12.2010 RM
Commitments in respect of capital expenditure:		
Approved and contracted for	8,657,599	1,188,279
Approved but not contracted for	-	1,913,349
	8,657,599	3,101,628

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

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

Group's revenue for the current year fourth quarter has declined marginally to reach RM69.4 million as compared to RM69.6 million recorded in the preceding year corresponding quarter. Year-on-year comparison, revenue was down by 12.7% to reach RM234.5 million from RM268.6 million recorded in the preceding year.

Group's current quarter revenue for the Manufacturing Sector improved by more than double to reach RM28.4 million (4Q2010: RM12.2 million), with the main contribution from steel water pipes sales but partly offset by lower revenue from the Engineering Sector.

Profit before taxation for the quarter was RM9.7 million, compared to RM28.4 million recorded in the preceding year fourth quarter, bringing the year-to-date profit before taxation to RM62.4 million (FYE 2010: RM104.4 million), a decreased by 40.2%.

The overall revenue and earnings for the Group has declined on the back of lower revenue recorded by the Civil Construction and Steel Fabrication divisions, coupled with lower margin contributions from both the Engineering and Manufacturing Sectors. The increase in raw material costs for the manufactured products and competitive nature of the Engineering division's businesses have contributed to the lower earnings of the Group.

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

The Group's current quarter revenue of RM69.4 million (3Q11: RM60.2 million) was 15.3% higher compared to the preceding quarter. The steel pipes division within the Manufacturing Sector, registered revenue of RM22.3 million (3Q11: RM16.1 million) contributed to the growth in current quarter's revenue.

Group's profit before taxation of RM7.2 million (3Q11: RM8.5 million) has declined by 15.3% on the back of lower margin contributions from the Engineering Sector.

### **17. Prospects**

Whilst the current economic uncertainty is likely to continue to put pressure on the Group's businesses, it is anticipated that the demand and outlook for infrastructure developments in Malaysia continues to be promising post 2011, particularly in the light of opportunities available from the Sarawak Corridor of Renewable Energy ("SCORE"), the Tenth Malaysia Plan ("10<sup>th</sup> MP") and many infrastructure projects that are planned to be implemented under the Economic Transformation Programme ("ETP").

With our sound financial position, the Group stands ready to capitalize on new investments and growth opportunities available in SCORE as well as other Foreign Direct Investments' projects throughout Sarawak.

Importantly, the growth of both our Engineering and Manufacturing Sectors for financial year ending 2012 will also hinge on the timely implementation of announced mega infrastructures projects that are planned to be implemented under the SCORE, 10<sup>th</sup> MP and ETP.

Whilst volatility of global raw material and steel prices will continue to impact on the group's profitability, and barring any unforeseen circumstances, the Group is focused to deliver a sustainable performance for the financial year ending 2012.

### **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 31/12/2011 RM	Comparative Quarter Ended 31/12/2010 RM	Current Period Ended 31/12/2011 RM	Comparative Period Ended 31/12/2010 RM
Malaysian taxation				
- Current year	2,479,218	7,146,142	15,800,924	26,543,010
- Prior year	(34,826)	1,428	(108,080)	(155,470)
Deferred tax	30,233	132,330	(409,267)	(34,029)
	<u>2,474,625</u>	<u>7,279,900</u>	<u>15,283,577</u>	<u>26,353,511</u>

The Group's effective tax rate for the current financial year-to-date are marginally lower than the statutory tax rate principally due to certain income are exempted for taxation purposes.

**22. Status of Corporate Proposals**

On 30 November 2011, KKB Engineering Berhad entered into a Memorandum of Understanding ("MOU") with Brooke Dockyard & Engineering Works Corporation.

To-date, discussion is on-going between both parties on the framework and areas of potential collaboration identified pertaining to the above MOU.

Save as disclosed above, there were no new or outstanding corporate proposals announced, which have not been completed as at the date of this announcement.

**23. Group's Borrowings and Debt Securities**

Total Group's loans and borrowings as at 31 December 2011 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,285,301	-
Bankers' acceptance	23,672,000	-
	<u>24,957,301</u>	<u>-</u>

<u>Non-Current</u>		
Lease payables	1,564,686	-
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Total borrowings	26,521,987	-
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## 24. Material Litigations

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

## 25. Dividend

The Board of Directors has recommended a final dividend of 5.0 sen per ordinary share of RM0.50 each, taxable at 25%, in respect of the financial year ended 31 December 2011. The payment of this final dividend is subject to shareholders' approval at the forthcoming Annual General Meeting.

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

With the final dividend, the total gross dividend payout for the financial year ended 31 December 2011 would amount to 10.0 sen per ordinary share of RM0.50 each (net 7.5 sen).

A total dividend of 17.5 sen per ordinary share of RM0.50 each, taxable at 25%, was declared in respect of the financial year ended 31 December 2010 (net 13.125 sen per ordinary share of RM0.50 each).

## 26. Earnings per share

	3 Months Ended		Cumulative 12 Months Ended	
	Current Quarter Ended 31/12/2011 RM	Comparative Quarter Ended 31/12/2010 RM	Current Period Ended 31/12/2011 RM	Comparative Period Ended 31/12/2010 RM
Net profit attributable to owners of the parent	6,700,863	21,042,076	46,607,221	76,896,561

### **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 owners of the parent	Sen 2.60	Sen 8.16	Sen 18.08	Sen 29.83

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.

**27. Realised and Unrealised Profits/Losses**

	As at 31.12.2011 RM	As at 31.12.2010 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	118,105,152	105,736,864
- Unrealised	(2,239,554)	(2,647,905)
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	115,865,598	103,088,959
Total share of retained profits from associate:		
- Realised	1,081,815	1,021,736
- Unrealised	(6,376)	(19,187)
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	116,941,037	104,091,508
Less: Consolidation adjustments	(4,729,387)	(4,651,880)
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Total group retained profits as per consolidated accounts	112,211,650	99,439,628
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**28. Additional Disclosures on Profit for the period**

	Current Quarter Ended 31/12/2011 RM	Current Period Ended 31/12/2011 RM
Profit for the period is arrived at after charging/(crediting):		
Interest income	(588,075)	(2,970,519)
Foreign exchange gain	(80,388)	(251,691)
Rental income	(2,100)	(28,015)
Gain on disposal of property, plant and equipment	(52,521)	(52,521)
Depreciation of property, plant and equipment	1,229,819	4,922,243
Interest expense	258,792	447,591
Impairment loss on trade receivables	188,718	188,718
Provision for doubtful debts	99,553	99,553
Property, plant and equipment written off	-	973
Inventory written off	1,134	1,134

Other than the above items which have been included in the statement of comprehensive income, there were no gain or loss on disposal of quoted or unquoted investments, gain or loss on derivatives and exceptional items for the current quarter and financial year ended 31 December 2011.