KKB ENGINEERING BERHAD
(Company no: 26495-D)
(Incorporated in Malaysia)

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Selected explanatory notes pursuant to Malaysian Financial Reporting Standards ("MFRS") 134 Interim Financial Reporting

1. First-time adoption of Malaysian Financial Reporting Standards

These condensed consolidated interim financial statements, for the period ended 31 March 2012, have been prepared in accordance with MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRS").

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the year ending 31 December 2012. MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial performance, financial position and cash flows is set out in Note 2 below. These notes include reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statement of comprehensive income and the statement of cash flows.

2. Significant Accounting Policies and Application of MFRS 1

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

(a) Business combination

MFRS 1 provides the option to apply MFRS 3 *Business Combinations*, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

Acquisition before date of transition
The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition,

(i) The classification of former business combinations under FRS is maintained;
(ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
(iii) The carrying amount of goodwill recognized under FRS is not adjusted.

(b) Property, Plant and equipment

The Group has previously adopted the transitional provisions available on the first application of the MASB Approved Accounting Standard IAS 16 (Revised) Property, Plant and Equipment which was effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, the Group had recorded leasehold land and certain buildings at revalued amounts but had not adopted a policy of revaluation and continued to carry those land and buildings on the basis of their previous revaluations subject to continuity in its depreciation policy and requirement to write down the assets to their recoverable amounts for impairment adjustments.

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116 *Property, Plant and Equipment*. At the date of transition to MFRS, the Group elected to regard the revalued amounts of land and buildings during the year 1999 as deemed cost at the date of the revaluation as these amounts were broadly comparable to fair value at that date. The revaluation surplus of RM6,985,109 (31 March 2011: RM6,985,109; 31 December 2011: RM6,985,109) was transferred to retained earnings on date of transition to MFRS.

(c) Estimates

The estimates at 1 January 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the date of transition to MFRS and as of 31 December 2011.

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided in the following pages:

(i) Reconciliation of equity as at 1 January 2011

	FRS as at 1 January 2011 RM	Note 2(b) Property, plant and equipment RM	MFRS as at 1 January 2011 RM
ASSETS			
Non-current assets			
Property, plant & equipment	94,895,160		94,895,160
Investment in associates	1,139,144		1,139,144
	96,034,304		96,034,304
Current assets			
Inventories	38,674,288		38,674,288
Trade and other receivables	44,971,301		44,971,301
Other current assets	27,880		27,880
Cash and bank balances	103,508,813		103,508,813
	187,182,282		187,182,282
TOTAL ASSETS	283,216,586		283,216,586
EQUITY AND LIABILITIES			
Current liabilities			
Amount due to customers for contract work	4,273,555		4,273,555
Loans and borrowings	1,480,144		1,480,144
Trade and other payables	27,058,836		27,058,836
Income tax payable	4,916,662		4,916,662
	37,729,197		37,729,197
Net current assets	149,453,085		149,453,085
Non-current liabilities			
Loans and borrowings	2,868,064		2,868,064
Deferred tax liabilities	2,648,628		2,648,628
	5,516,692		5,516,692
Total liabilities	43,245,889		43,245,889
Net assets	239,970,697		239,970,697
Equity attributable to owners of the parent			
Share capital	128,896,000		128,896,000
Other reserves	6,985,832	(6,985,109)	723
Retained earnings	99,439,628	6,985,109	106,424,737
	235,321,460		235,321,460
Non-controlling interests	4,649,237		4,649,237
Total equity	239,970,697		239,970,697
TOTAL EQUITY AND LIABILITIES	283,216,586		283,216,586

(ii) Reconciliation of equity as at 31 March 2011

	FRS as at 31 March 2011 RM	Note 2(b) Property, plant and equipment RM	MFRS as at 31 March 2011 RM
ASSETS			
Non-current assets			
Property, plant & equipment	95,783,524		95,783,524
Investment in associates	1,162,713		1,162,713
	96,946,237		96,946,237
Current assets			
Inventories	38,822,748		38,822,748
Trade and other receivables	52,784,853		52,784,853
Other current assets	2,426,477		2,426,477
Cash and bank balances	110,747,646		110,747,646
	204,781,724		204,781,724
TOTAL ASSETS	301,727,961		301,727,961
EQUITY AND LIABILITIES			
Current liabilities			
Amount due to customers for contract work	5,239,609		5,239,609
Loans and borrowings	1,444,354		1,444,354
Trade and other payables	26,870,988		26,870,988
Income tax payable	3,437,897		3,437,897
	36,992,848		36,992,848
Net current assets	167,788,876		167,788,876
Non-current liabilities			
Loans and borrowings	2,519,058		2,519,058
Deferred tax liabilities	2,562,434		2,562,434
	5,081,492		5,081,492
Total liabilities	42,074,340		42,074,340
Net assets	259,653,621		259,653,621
Equity attributable to owners of the parent			
Share capital	128,896,000		128,896,000
Other reserves	6,985,817	(6,985,109)	708
Retained earnings	119,117,517	6,985,109	126,102,626
	254,999,334		254,999,334
Non-controlling interests	4,654,287		4,654,287
Total equity	259,653,621		259,653,621
TOTAL EQUITY AND LIABILITIES	301,727,961		301,727,961

(iii) Reconciliation of equity as at 31 December 2011

	FRS as at 31 December 2011 RM	Note 2(b) Property, plant and equipment RM	MFRS as at 31 December 2011 RM
ASSETS			
Non-current assets			
Property, plant & equipment	99,360,590		99,360,590
Investment in associates	1,212,037		1,212,037
	100,572,627		100,572,627
Current assets			
Inventories	67,706,552		67,706,552
Trade and other receivables	64,128,896		64,128,896
Other current assets	788,857		788,857
Cash and bank balances	75,332,557		75,332,557
	207,956,862		207,956,862
TOTAL ASSETS	308,529,489		308,529,489
EQUITY AND LIABILITIES			
Current liabilities			
Amount due to customers for contract work	1,587,460		1,587,460
Loans and borrowings	24,957,301		24,957,301
Trade and other payables	24,156,210		24,156,210
Income tax payable	1,173,333		1,173,333
	51,874,304		51,874,304
Net current assets	156,082,558		156,082,558
Non-current liabilities			
Loans and borrowings	1,564,686		1,564,686
Deferred tax liabilities	2,239,361		2,239,361
	3,804,047		3,804,047
Total liabilities	55,678,351		55,678,351
Net assets	252,851,138		252,851,138
Equity attributable to owners of the parent			
Share capital	128,896,000		128,896,000
Other reserves	6,984,916	(6,985,109)	(193)
Retained earnings	112,211,650	6,985,109	119,196,759
	248,092,566		248,092,566
Non-controlling interests	4,758,572		4,758,572
Total equity	252,851,138		252,851,138
TOTAL EQUITY AND LIABILITIES	308,529,489		308,529,489

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2011 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 was 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 2012

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	34,077,748	21,908,041	55,985,789
Less: Inter-segment revenue	(3,279,512)	(170,087)	(3,449,599)
External revenue	30,798,236	21,737,954	52,536,190
Results	6,595,189	4,126,547	10,721,736
Finance costs	(45,246)	(35,939)	(81,185)
Share of results of associates	12,637	(818)	11,819
Profit before tax	6,562,580	4,089,790	10,652,370
Income tax expense	(1,620,563)	(996,445)	(2,617,008)
Profit after tax	4,942,017	3,093,345	8,035,362

OTHER INFORMATION

Interest income	243,125	476,156	719,281
Depreciation	534,751	648,025	1,182,776

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

10. Material subsequent events

There were no material subsequent events as at the date of this announcement.

11. Changes in composition of the Group

There were no changes in composition of the Group for the current quarter and financial year to date.

12. Contingent liabilities/Contingent assets as at 31 March 2012

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

13. Capital Commitments

	As at 31/03/2012 RM	As At 31/03/2011 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	7,647,022	9,692,728

14. Related Party Transactions

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2012 RM	Comparative Quarter Ended 31/03/2011 RM	Current Period Ended 31/03/2012 RM	Comparative Period Ended 31/03/2011 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	-	80,000	-	80,000
- Project management fee income	-	250,528	-	250,528
- Sale of fabricated and galvanized steel products	-	11,995,513	-	11,995,513
- Provision of miscellaneous services such as machineries, equipments and labour	588	-	588	-
- Interest income	6,123	42,283	6,123	42,283
- Purchase of miscellaneous services such as machineries, equipments and labour	17,009	28,136	17,009	28,136
- Interest expense	128	4	128	4
Transactions with an associate and subsidiaries of an associate investor, Cahya Mata Sarawak Bhd.				
- Sales of structural steel works and steel fabricated products to CMS Clinker Sdn. Bhd., and	-	69,593	-	69,593
CMS Quarries Sdn. Bhd.	-	809,200	-	809,200
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	3,992,271	-	3,992,271	-
- Provision of earthworks to OM Materials (Sarawak) Sdn. Bhd.	11,299,371	-	11,299,371	-
Rental expense paid to companies in which certain directors of the Company have substantial financial interest and/or are also directors				
- KKB Development Sdn. Bhd.	17,850	17,850	17,850	17,850
- KKB Realty Sdn. Bhd.	11,400	-	11,400	-
- Sepang Kaya Sdn. Bhd.	30,857	30,857	30,857	30,857
Rental expense paid to a director, Dato Kho Kak Beng	7,200	7,200	7,200	7,200
	15,382,797	13,331,164	15,382,797	13,331,164

The above transactions have been entered into with related parties on terms and conditions that are not more favourable to the related party than those generally available to the public.

Explanatory notes pursuant to Appendix 9B of Main Market Listing Requirements of Bursa Malaysia Securities Berhad

15. Detailed Review of performance

The Group's current quarter revenue of RM52.5 million (1Q2011: RM59.5 million) was made up of sales from the Engineering and Manufacturing sectors of RM21.7 million (1Q2011: RM49.6 million) and RM30.8 million (1Q2011: RM9.9 million), respectively. Comparatively, the Group's revenue for the current quarter was 11.8% lower as compared to the preceding year corresponding quarter of RM59.5 million. This quarter demonstrates a shift in the proportion of revenue contribution on the overall group's activities from the Engineering sector of 41% (1Q2011: 83%) to the Manufacturing sector of 59% (1Q2011: 17%).

The decrease in revenue for the Engineering sector is mainly due to the completion of major projects in year 2011 and activities for both the Construction and Steel Fabrication Division have slowed down with the absence of new projects during the quarter. Revenue for the quarter was from progressive claims made on the existing Earthworks Package undertaken by a subsidiary.

The decline in revenue for the Construction and Steel Fabrication divisions within the Engineering sector has affected the gross profit for this sector, which recorded a decline of 80.9% from RM26.8 million in the corresponding quarter of year 2011 to RM5.1 million in the current quarter.

Revenue for the Group's Manufacturing sector has however recorded an impressive increase of 211.1% over the preceding year corresponding quarter to reach RM30.8 million (1Q2011: RM9.9 million). The increase is mainly attributed to strong sales registered by the Steel Pipes manufacturing business and partly offset by lower sales of LPG Cylinders.

The Group's Steel Pipes business under the two subsidiaries, has posted a steady growth of RM22.9 million, representing an increase of 558.5% during the current quarter with an aggregate revenue of RM27.0 million as compared to RM4.1 million in the preceding year corresponding quarter. The increase is mainly due to an increase in demand for the supply of Mild Steel Cement-Lined Pipes and Pipes Specials for the Bekalan Air Luar Bandar project in the States of Sabah and Sarawak.

Similarly, gross profit for the quarter rebounded strongly to reach RM8.2 million as compared to RM1.4 million achieved in the preceding year corresponding quarter.

The Group's current quarter profit before taxation of RM10.7 million (1Q2011: RM26.1 million) has declined by 59%. The Group has registered a lower profit margin of 20.4% as compared to 43.9% in the preceding year corresponding quarter. The increased competitive nature of the Engineering sector's businesses coupled with the increasing cost of sales resulting from higher raw material costs have contributed to the lower earnings of the Group.

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

Group's revenue for the current quarter is 24.4% lower than the preceding quarter ended 31 December 2011 due to lower revenue recorded by the Construction division within the Engineering sector. The decrease in revenue for the Engineering sector is mainly due to the completion of its major projects in year 2011.

Group's profit before taxation of RM10.7 million (4Q11: RM9.7 million) is 10.3% higher than the preceding quarter due to higher general and administrative ("G & A") expenses. Higher G & A expenses recorded in the last quarter ended 31 December 2011 was mainly due to accruals taken up on bonuses in respect of financial year ended 31 December 2011 paid in the current quarter.

17. Prospects

Year 2012 will be challenging for the Group. However, the Board remained optimistic that both our Engineering and Manufacturing sectors are well positioned to participate and contribute further in nation building, in particular the Sarawak Corridor of Renewable Energy ("SCORE") and other basic social-infrastructure works for water and other related infrastructure projects that are planned to be implemented under the Economic Transformation Programme ("ETP").

Long-term initiatives and strategies are explored by the Group and sound technical cum capacity of the Group will be the key to future growth, to identify and collaborate with strategic partner(s) are stepped up to increase our capabilities to take on future opportunities and new challenges that will present themselves, in particular the on-going investment in Lot 777, Muara Tebas Land District, Kuching, Sarawak.

With more roll-outs of Bekalan Air Luar Bandar projects in the States of Sabah and Sarawak, demand for the supply of Mild Steel Cement-Lined Pipes has picked up from fourth quarter of year 2011 onwards. The Group had invested additional Finishing Lines for the pipe manufacturing business in Sabah to meet the anticipated demand and part of the on-going effort to increase our market share throughout Sabah and Sarawak, and beyond.

Whilst volatility of global raw material and steel prices will continue to pose a challenge to the Group's revenue and profitability, the Group will continue to be prudent in its activities, further improve its efficiency and managing costs exposure.

Barring any unforeseen circumstances, the Group is focused to deliver a healthy 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 3 Months Ended	
	Current Quarter Ended 31/03/2012	Comparative Quarter Ended 31/03/2011	Current Period Ended 31/03/2012	Comparative Period Ended 31/03/2011
	RM	RM	RM	RM
Malaysian taxation				
- Current year	2,779,341	6,545,103	2,779,341	6,545,103
Deferred tax	(162,333)	(86,195)	(162,333)	(86,195)
	2,617,008	6,458,908	2,617,008	6,458,908

The Group's effective tax rate for the current financial year to date is 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.

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 March 2012 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
Current		
Lease payables	1,355,614	-
Bankers' acceptance	4,276,000	-
	5,631,614	-
Non-Current		
Lease payables	1,619,176	-
Total borrowings	7,250,790	-

24. Material Litigations

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

25. Dividend

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 has been recommended by the Board of Directors on 20 February 2012, payable to shareholders of the Company whose names appear in the Record of Depositors on 16 May 2012.

The payment of this final dividend is subject to the shareholders' approval at the forthcoming Thirty-Sixth Annual General Meeting to be held on 10 May 2012, and if approved will be paid on 5 June 2012.

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 3 Months Ended	
	Current Quarter Ended 31/03/2012	Comparative Quarter Ended 31/03/2011	Current Period Ended 31/03/2012	Comparative Period Ended 31/03/2011
Net profit attributable to owners of the parent (RM)	7,710,733	19,677,889	7,710,733	19,677,889
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)	2.99	7.63	2.99	7.63

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 31/03/2012 RM	(Restated) As at 31/12/2011 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	142,411,258	134,580,740
- Unrealised	(10,314,822)	(10,477,348)
	132,096,436	124,103,392
Total share of retained profits from an associate:		
- Realised	1,091,971	1,081,815
- Unrealised	(4,713)	(6,376)
	133,183,694	125,178,831
Less: Consolidation adjustments	(6,276,202)	(5,982,072)
Total group retained profits as per consolidated accounts	126,907,492	119,196,759

28. Additional Disclosures on Profit for the period

	Current Quarter Ended 31/03/2012 RM	Current Period Ended 31/03/2012 RM
Profit for the period is arrived at after charging/(crediting):		
Interest income	(719,281)	(719,281)
Foreign exchange gain	(77,774)	(77,774)
Rental income	(1,900)	(1,900)
Depreciation of property, plant and equipment	1,182,776	1,182,776
Interest expense	81,185	81,185
Impairment loss on trade receivables	103,080	103,080
Property, plant and equipment written off	108	108

Other than the above items which have been included in the statement of comprehensive income, there were no provision for and write off of receivables, provision for and write off of inventories, gain or loss on disposal of quoted or unquoted investments or properties, gain or loss on derivatives and exceptional items for the current quarter and period ended 31 March 2012.