

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. Basis of Preparation

The condensed consolidated interim financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”), IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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 2012. The explanatory notes attached to the 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 2012.

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 2012 except for the adoption of the following with effect from 1 January 2013:

- Amendments to MFRS 101, Presentation of items of Other Comprehensive Income
- Amendments to MFRS 7, Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities
- MFRS 3, Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- Amendments to MFRS 10, MFRS 11 and MFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits
- MFRS 127, Separate Financial Statements
- MFRS 127, Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
- MFRS 128, Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
- Annual Improvements 2009-2011 Cycle

The initial application of the above is not expected to have any material financial impact on the Group’s results.

3. Auditors’ Report on Preceding Annual Financial Statements

The auditors’ report on the audited financial statements for the financial year ended 31 December 2012 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 2013

	Manufacturing RM	Engineering RM	Consolidated RM
Total revenue	15,724,968	54,745,911	70,470,879
Less: Inter-segment revenue	(545,701)	(5,643,519)	(6,189,220)
External revenue	15,179,267	49,102,392	64,281,659
Results	6,914,991	8,856,119	15,771,110
Finance costs	(27,883)	(46,153)	(74,036)
Share of results of associates	140,845	(33,896)	106,949
Profit before tax	7,027,953	8,776,070	15,804,023
Income tax expense	(1,717,589)	(2,170,735)	(3,888,324)
Profit after tax	5,310,364	6,605,335	11,915,699
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OTHER INFORMATION

Interest income	25,539	245,500	271,039
Depreciation	415,319	1,121,304	1,536,623
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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
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OTHER INFORMATION

Interest income	64,081	164,973	229,054
Depreciation	534,751	648,025	1,182,776
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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 2013

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

13. Capital Commitments

	As at 31/03/2013 RM	As At 31/03/2012 RM
Commitments in respect of capital expenditure:		
Approved and contracted for:		
Property, plant and equipment	2,718,205	7,647,022
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14. Related Party Transactions

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2013 RM	Comparative Quarter Ended 31/03/2012 RM	Current Period Ended 31/03/2013 RM	Comparative Period Ended 31/03/2012 RM
Transactions with an associate, Edisi Optima Sdn. Bhd.				
- Dividend income	40,000	-	40,000	-
- Provision of miscellaneous services such as machineries, equipments and labour	30,778	588	30,778	588
- Interest income	70	6,123	70	6,123
- Purchase of miscellaneous services such as machineries, equipments and labour	10,770	17,009	10,770	17,009
- Interest expense	69	128	69	128
Transactions with an associate and subsidiary of an associate investor, Cahya Mata Sarawak Bhd.				
- Sales of steel pipes and pipe fittings to CMS Infra Trading Sdn. Bhd.	9,503,585	3,992,271	9,503,585	3,992,271
- Provision of earthworks to OM Materials (Sarawak) Sdn. Bhd.	42,732	11,299,371	42,732	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	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
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	9,695,311	15,382,797	9,695,311	15,382,797
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The 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 RM64.3 million (1Q12: RM52.5 million) comprising revenue from the Engineering and Manufacturing sectors of RM49.1 million and RM15.2 million respectively. Revenue rose by 22.5% compared to the preceding year corresponding quarter mainly due to the growth in revenue from the Group's Steel Fabrication and Civil Construction divisions.

Group's profit before taxation of RM15.8 million (1Q12: RM10.7 million) has improved significantly by 47.7%, mainly in tandem to increase revenue from its steel fabrication and civil construction divisions coupled with improved margin for its steel pipes manufacturing business.

Engineering Sector

Group's revenue for the quarter of RM49.1 million (1Q12: RM21.7 million) has increased significantly by RM27.4 million, representing an increase of 126.3% over the preceding year corresponding quarter. Similarly, Gross Profit has soared 149.0% to record RM12.7 million (1Q12: RM5.1 million), on the back of improved revenue.

The Group's Construction Division recorded revenue of RM13.3 million, improved by 17.7% over the preceding year corresponding quarter. Revenue for the current quarter were mainly from progressive claims made on pipeline projects and other civil construction related works spilled over from the preceding year.

Steel Fabrication Division's sales for the quarter recovered strongly as compared to the preceding year corresponding quarter to register a surge from RM9.0 million to RM35.2 million, representing an increase of 291.1% over the preceding year corresponding quarter. Current quarter's revenue for Steel Fabrication division were contributed mainly from major structural steel work projects undertaken in Samalaju Industrial Park, Bintulu and Sibul Division, Sarawak, the supply of Steel Pipes piles for a bridge project in Samarahan Division, Sarawak and supply of Low and High tension poles to Sabah.

Hot Dip Galvanising division recorded a decrease in revenue due to lower business volume and continues to rely on ad-hoc orders from walk-in customers.

Manufacturing Sector

Revenue for the current quarter of RM15.2 million recorded a decrease of 50.6% compared to the preceding year corresponding quarter of RM30.8 million, due to lower sales of LPG cylinders and steel pipes.

Revenue from the Group's Steel Pipes manufacturing division recorded a reduction of more than 50% in the current quarter with aggregate revenue of RM12.0 million as compared to RM27.0 million recorded in the preceding year 1st quarter. The decline in revenue was mainly due to the fulfillment of their major contract for the supply of Mild Steel Cement-Lined Pipes and Pipes Specials for the Bekalan Air Luar Bandar project in Sarawak and Sabah towards the last fourth quarter of 2012.

LPG Cylinders manufacturing division recorded a marginal decrease of 16.2% in revenue to reach RM3.1 million (1Q12: RM3.7 million) due to lower offtake for LPG cylinders from the Company's major customer, Petronas Dagangan Berhad.

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

The Group's current quarter revenue of RM64.3 million rose by 67.0% compared to RM38.5 million achieved in the preceding quarter. Correspondingly, Group's Profit before taxation for the quarter of RM15.8 million showed an improvement of 93% over the preceding quarter of RM8.2 million.

The overall improvement were mainly driven by the significant increase in revenue of its Steel Fabrication Division, which contributed revenue of RM35.2 million as compared to RM10.2 million registered in the preceding quarter, coupled with the continuous efforts by management to effectively manage its operating costs.

17. Prospects

Going forward, the Group will continue with its on-going expansion plan to undertake larger and more complex Structural Steel Fabrication jobs for the Major Onshore Fabrication activities for Offshore Facilities Construction in the Oil and Gas sector.

With its ready strategic facilities located at Lot 777, Block 5, Jalan Bako, Muara Tebas Land District, Kuching, fronting the Sarawak River and equipped with load out private jetty facilities, the Group is actively scouting for potential business opportunities in the Major Onshore Fabrication to further improve its revenue and earnings base in collaboration with OceanMight Sdn Bhd.

OceanMight Sdn Bhd, an associate Company of KKB Engineering Berhad, has been licensed as Approved Service Provider by PETRONAS, Kuala Lumpur, for the Category - "OFFSHORE FACILITIES CONSTRUCTION - MAJOR ONSHORE FABRICATION" and the said licence is valid for three (3) years and shall expire in year 2016.

The Group expects growth to be sustained for the financial year ending 2013 on the back of its remaining jobs in hand and new opportunities available in the Sarawak Corridor of Renewable Energy (SCORE) and more projects roll out under the on-going implementation of infrastructure project under the Government's Economic Transformation Programme throughout East Malaysia.

While there is still instability in the euro zone and volatility of global raw material steel prices continue to pose as a challenge to the Group's profitability, the Board remains cautiously optimistic of achieving a favourable set of results in 2013, 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 3 Months Ended	
	Current Quarter Ended 31/03/2013 RM	Comparative Quarter Ended 31/03/2012 RM	Current Period Ended 31/03/2013 RM	Comparative Period Ended 31/03/2012 RM
Malaysian taxation				
- Current year	3,614,701	2,779,341	3,614,701	2,779,341
Deferred tax	273,623	(162,333)	273,623	(162,333)
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	3,888,324	2,617,008	3,888,324	2,617,008
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The Group's effective tax rate for the current quarter and 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

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 2013 were as follows: -

Loans and Borrowings (denominated in Ringgit Malaysia)	Secured RM	Unsecured RM
<u>Current</u>		
Lease payables	1,363,442	-
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<u>Non-Current</u>		
Lease payables	1,888,935	-
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Total borrowings	3,252,377	-
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24. Material Litigations

Status update on the Writ of Summons dated 26 June 2012 served by Global Upline Sdn Bhd ("GUSB") to the Company's wholly owned subsidiary, KKB Builders Sdn Bhd ("KKBB"):-

Further to the announcement made on 24 September 2012 pertaining to the arbitration proceedings between KKBB as the Claimant and GUSB as the Respondent, the Arbitrator has given direction as set out in the Procedural Order No. 1, to both parties.

On 12 April 2013, the Company through its Advocates, Messrs Battenberg & Talma Advocates, served on the Respondent, Global Upline Sdn Bhd, through its Advocates, Messrs Suhaili & Bong Advocates, and submitted to the Arbitrator and the Kuala Lumpur Regional Centre for Arbitration its Statement of Claim, together with the bundle of documents.

On 2 May 2013, the Company has been served a Defence and Counterclaim by the Respondent, GUSB.

The legal opinion given by the Company's lawyers is that the Respondent's claim is without basis.

Save as disclosed above, there were no pending material litigations against the Group which might materially and adversely affect the Group's financial position.

25. Dividend

A first and 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 2012 (FYE 2011: 10.0 sen per ordinary share of RM0.50 each, taxable at 25%) has been recommended by the Board of Directors on 22 February 2013, payable to shareholders of the Company whose names appear in the Record of Depositors on 16 May 2013.

The payment of this first and final dividend is subject to the shareholders' approval at the forthcoming Thirty-Seventh Annual General Meeting to be held on 9 May 2013, and if approved will be paid on 5 June 2013.

26. Earnings per share

	3 Months Ended		Cumulative 3 Months Ended	
	Current Quarter Ended 31/03/2013	Comparative Quarter Ended 31/03/2012	Current Period Ended 31/03/2013	Comparative Period Ended 31/03/2012
Net profit attributable to owners of the parent (RM)	<u>11,378,304</u>	<u>7,710,733</u>	<u>11,378,304</u>	<u>7,710,733</u>
Weighted average number of ordinary shares in issue	<u>257,792,000</u>	<u>257,792,000</u>	<u>257,792,000</u>	<u>257,792,000</u>
Basic earnings per share for the period attributable to owners of the parent (sen)	<u>4.41</u>	<u>2.99</u>	<u>4.41</u>	<u>2.99</u>

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 31/03/2013 RM	As at 31/12/2012 RM
Total retained profits of the Company and its subsidiaries:		
- Realised	141,600,943	129,498,215
- Unrealised	6,597,707	6,871,329
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	148,198,650	136,369,544
Total share of retained profits from associates:		
- Realised	1,147,101	1,070,152
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	149,345,751	137,439,696
Less: Consolidation adjustments	(7,944,301)	(7,416,550)
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Total group retained profits as per consolidated accounts	141,401,450	130,023,146
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28. Additional Disclosures on Profit for the period

	3 Months Ended		Cumulative 3 Months Ended	
	Current	Comparative	Current	Comparative
	Quarter Ended	Quarter Ended	Period Ended	Period Ended
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
	RM	RM	RM	RM
Profit for the period is arrived at after charging/(crediting):				
Interest income	(271,039)	(229,054)	(271,039)	(229,054)
Foreign exchange gain	(78,035)	(77,774)	(78,035)	(77,774)
Rental income	(4,500)	(1,900)	(4,500)	(1,900)
Depreciation of property, plant and equipment	1,536,623	1,182,776	1,536,623	1,182,776
Interest expense	74,036	81,185	74,036	81,185
Impairment loss on trade receivables	22,504	103,080	22,504	103,080
Property, plant and equipment written off	618	108	618	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 2013.