



FRONTKEN CORPORATION BERHAD

(Co. No. 651020-T)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2013

(The figures have not been audited)

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30 Jun 2013 RM '000	Preceding Year Corresponding Quarter 30 Jun 2012 RM '000	Current Year To-date 30 Jun 2013 RM '000	Preceding Year Corresponding Period 30 Jun 2012 RM '000
Revenue	42,291	44,359	85,671	92,350
Operating expenses	(37,296)	(39,932)	(75,544)	(82,750)
Profit before depreciation and finance costs	4,995	4,427	10,127	9,600
Depreciation	(4,551)	(4,966)	(9,172)	(9,835)
Finance costs	(375)	(666)	(790)	(1,327)
Other operating income	641	2,328	1,470	3,131
Share of results of associated companies	(344)	98	(598)	174
Profit before tax	366	1,221	1,037	1,743
Taxation	(809)	(319)	(1,351)	(498)
(Loss)/Profit after tax	(443)	902	(314)	1,245
Other comprehensive expenses:				
Foreign currency translation	921	3,757	151	2,727
Total comprehensive income for the period	478	4,659	(163)	3,972
(Loss)/Profit after tax attributable to :				
Owners of the Company	(455)	864	(1,439)	1,436
Non-controlling interests	12	38	1,125	(191)
(Loss)/Profit for the period	(443)	902	(314)	1,245
Total comprehensive income attributable to:				
Owners of the Company	(317)	3,852	(1,590)	3,677
Non-controlling interests	795	807	1,427	295
Total comprehensive income for the period	478	4,659	(163)	3,972
Earnings per share attributable to equity holders of the company :				
Basic (sen)	-	0.09	-	0.14
Diluted (sen)	N/A	N/A	N/A	N/A

The condensed consolidated income statement is to be read in conjunction with the accompanying notes to the interim financial report.

The comparative figures are based on unaudited financial statements of the Company for the financial period ended 30 June 2012.



FRONTKEN CORPORATION BERHAD

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013 (The figures have not been audited)

	Unaudited 30 Jun 2013 RM'000	Audited 31 Dec 2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	147,525	153,534
Investment in associated companies	3,652	4,236
Goodwill on consolidation	25,394	25,394
Deferred tax assets	442	441
Total non-current assets	<u>177,013</u>	<u>183,605</u>
Current assets		
Inventories	12,811	11,188
Amount due from contract customers	1,152	501
Trade receivables	72,488	68,283
Other receivables, deposits and prepaid expenses	6,091	5,483
Amount owing by associates	1,448	2,118
Tax recoverable	630	462
Fixed deposits with licensed bank	3,674	3,171
Cash and bank balances	19,921	38,286
	<u>118,215</u>	<u>129,492</u>
Asset held for sale	1,085	1,081
Total current assets	<u>119,300</u>	<u>130,573</u>
Total assets	<u><u>296,313</u></u>	<u><u>314,178</u></u>
EQUITY AND LIABILITIES		
Capital and reserve		
Issued capital	101,141	101,141
Reserves	16,622	16,469
Retained earnings	65,540	67,283
Equity attributable to owners of the Company	<u>183,303</u>	<u>184,893</u>
Non-controlling interests	29,543	28,116
Total equity	<u>212,846</u>	<u>213,009</u>
Non-current liabilities		
Bank borrowings	26,489	28,452
Hire-purchase payables	2,413	3,280
Deferred tax liabilities	311	363
Total non-current liabilities	<u>29,213</u>	<u>32,095</u>
Current liabilities		
Trade payables	14,791	15,113
Other payables and accrued expenses	23,277	17,523
Amount owing to associates	-	-
Bank overdrafts	-	-
Bank borrowings - current portion	12,607	32,779
Hire purchase payable - current portion	2,548	2,934
Tax liabilities	1,031	725
Total current liabilities	<u>54,254</u>	<u>69,074</u>
Total liabilities	<u>83,467</u>	<u>101,169</u>
Total equity and liabilities	<u><u>296,313</u></u>	<u><u>314,178</u></u>
Net assets per share (RM)	0.21	0.21

The condensed consolidated balance sheet is to be read in conjunction with the accompanying notes to the interim financial report.

The comparative figures are based on audited financial statements of the Company for the financial year ended 31 December 2012.



FRONTKEN CORPORATION BERHAD

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SECOND QUARTER ENDED 30 JUNE 2013

(The figures have not been audited)

	Non-distributable					Distributable				
	Foreign currency					Attributable to				
	Share capital	Share premium	Treasury shares	translation reserve	Warrant reserve	Statutory reserve	Retained earnings	owners of the Company	Non-controlling interests	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as of 1 January 2013	101,141	9,337	(195)	6,074	883	370	67,283	184,893	28,116	213,009
Other comprehensive income/expenses recognised for the period, net of tax										
Foreign currency translation	-	-	-	(151)	-	-	-	(151)	302	151
Loss for the period	-	-	-	-	-	-	(1,439)	(1,439)	1,125	(314)
Total comprehensive income for the period	-	-	-	(151)	-	-	(1,439)	(1,590)	1,427	(163)
Transfer to statutory reserve	-	-	-	-	-	304	(304)	-	-	-
Balance as of 30 June 2013	101,141	9,337	(195)	5,923	883	674	65,540	183,303	29,543	212,846

CORRESPONDING PERIOD CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SECOND QUARTER ENDED 30 JUNE 2012

	<----- Non-distributable ----->					Distributable														
	Foreign currency					Attributable to														
	Share capital	Share premium	Treasury shares	translation reserve	Warrant reserve	Statutory reserve	Retained earnings	owners of the Company	Non-controlling interests	Total										
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000										
Balance as of 1 January 2012	101,141	9,337	(195)	4,214	883	198	63,694	179,272	27,890	207,162										
Other comprehensive income recognised for the period, net of tax																				
Foreign currency translation											-	-	-	2,241	-	-	-	2,241	486	2,727
Profit for the period											-	-	-	-	-	-	1,436	1,436	(191)	1,245
Total comprehensive income for the period	-	-	-	2,241	-	-	1,436	3,677	295	3,972										
Arising from issue of shares by subsidiary	-	-	-	-	-	-	-	-	786	786										
Changes in ownership interests in a subsidiary	-	-	-	-	-	-	17	17	(494)	(477)										
Transfer to statutory reserve	-	-	-	-	-	248	(248)	-	-	-										
Balance as of 30 June 2012	101,141	9,337	(195)	6,455	883	446	64,899	182,966	28,477	211,443										

The condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes to the interim financial report.



FRONTKEN CORPORATION BERHAD

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SECOND QUARTER ENDED 30 JUNE 2013

(The figures have not been audited)

	CUMULATIVE QUARTER	
	Current Period	Preceding
	To Date	Corresponding
	30 Jun 2013	30 Jun 2012
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,037	1,743
Adjustments for:		
Depreciation of property, plant and equipment	9,172	9,835
Interest expense	790	1,327
Unrealised loss on foreign exchange	(358)	3
Interest income	(85)	(64)
Gain on disposal of property, plant and equipment	(65)	(320)
Writeback of allowance for impairment losses on trade receivables	(115)	(1,569)
Property, plant and equipment written off	203	566
Allowance for impairment losses on receivables	349	116
Bad debt written off	1,119	-
Gain on dilution of investment in subsidiary	-	(104)
Share of results of associates	598	(174)
Operating profit before working capital changes	12,645	11,359
Inventories	(1,588)	870
Amount due from contract customers	(651)	(71)
Trade receivables	(4,643)	2,204
Other receivables, deposits and prepaid expenses	(596)	(3,443)
Amount owing by associates	678	549
Trade payables	(415)	(3,740)
Other payables and accrued expenses	5,234	(505)
Amount owing to associates	-	169
Cash generated from operations	10,664	7,392
Taxes paid	(1,281)	(632)
Net cash from operating activities	9,383	6,760
CASH FLOWS FOR INVESTING ACTIVITIES		
Interest received	85	64
Acquisition of additional interest in subsidiary	-	(477)
Purchase of property, plant and equipment	(2,351)	(8,457)
Proceeds from disposal of property, plant and equipment	65	520
Net cash for investing activities	(2,201)	(8,350)



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	CUMULATIVE QUARTER	
	Current Period To Date	Preceding Corresponding Period
	30 Jun 2013 RM'000	30 Jun 2012 RM'000
CASH FLOWS FOR FINANCING ACTIVITIES		
Interest paid	(790)	(1,327)
Issue of shares by subsidiary to non-controlling interests	-	890
Drawdown of term loans	-	4,392
Repayment of term loans	(22,406)	(3,898)
Payment of hire purchase payables	(1,801)	(3,452)
Net cash for financing activities	(24,997)	(3,395)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,815)	(4,985)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	41,457	24,692
EFFECT OF EXCHANGE DIFFERENCES	(47)	670
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u>23,595</u>	<u>20,377</u>
THE CASH AND CASH EQUIVALENTS COMPRISE:		
CASH AND BANK BALANCES	19,921	20,526
SHORT-TERM DEPOSITS WITH LICENSED BANKS	3,674	2,844
BANK OVERDRAFT	-	(2,993)
	<u>23,595</u>	<u>20,377</u>

The condensed consolidated cash flow statement is to be read in conjunction with the accompanying notes to the interim financial report.

The comparative figures are based on unaudited financial statements of the Company for the financial period ended 30 June 2012.



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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2013

A NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the reporting requirements outlined in the Malaysian Financial Reporting Standards ("MFRS") No.134 : Interim Financial Reporting, and Paragraph 9.22 of Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements and should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2012.

The explanatory notes attached to the 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 Frontken Corporation Berhad ("FCB" or "the Company"), its subsidiaries and associated companies since the financial year ended 31 December 2012.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2012 except for those standards, amendments and interpretations which are effective from the annual period beginning 1 January 2013. The adoption of the MFRSs and Amendments do not have significant impact on the financial statements of the Group.

A2. Realised and Unrealised Profits or Losses

	As at 30 Jun 2013 RM'000	As at 30 Jun 2012 RM'000
Total retained profits of FCB and its subsidiaries		
- Realised	75,631	79,083
- Unrealised	(194)	(2,498)
	75,437	76,585
Total share of retained profits from associated companies		
- Realised	770	1,982
- Unrealised	22	-
	792	1,982
Less: Consolidation adjustments	(10,689)	(13,668)
Total Group retained profits	65,540	64,899

A3. Audit qualification

The auditors' report in respect of the audited consolidated financial statements of FCB for the financial year ended 31 December 2012 was not subjected to any qualification.



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A4. Seasonality or cyclicity of interim operations

The Group's business operations were not materially affected by any seasonal or cyclical factors during the quarter under review.

A5. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no items or events that arose, which affected the assets, liabilities, equity, net income or cash flows, of the Group that are unusual by reason of their nature, size or incidence during the current quarter:

A6. Material changes in estimates

There were no changes in estimates that had a material effect on the current quarter's results.

A7. Issuance, cancellations, repurchases, resale and repayments of debt and equity securities

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations or resale of treasury shares during the current quarter.

As at 30 June 2013, the Company held 1,836,600 repurchased shares as treasury shares out of its total issued and paid-up share capital of 1,011,408,160 ordinary shares of RM0.10 each. Such treasury shares are held at a carrying amount of RM194,966.

A8. Dividends

No dividends were paid and/or declared during the quarter under review.

A9. Segmental information

The breakdown of the Group's revenue and results by geographical regions for the quarter ended 30 June 2013 are set out below. Revenue and results by geographical sales were based on the location of the Group's subsidiaries.

Current Quarter 30 June 2013

	<u>Singapore</u>	<u>Malaysia</u>	<u>Philippines</u>	<u>China</u>	<u>Indonesia</u>	<u>Taiwan</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Segment Revenue</u>							
External sales	14,003	8,343	2,763	683	384	16,115	42,291
Inter-segment sales	1,153	36	295	-	-	82	1,566
Total revenue	<u>15,156</u>	<u>8,379</u>	<u>3,058</u>	<u>683</u>	<u>384</u>	<u>16,197</u>	<u>43,857</u>

Segment Results

Operating profit/(loss)	(523)	(1,215)	365	(266)	(175)	2,854	1,040
Interest income							45
Finance cost							(375)
Share of results in associates							(344)
Profit before taxation							<u>366</u>

Current Year-to-date 30 June 2013

<u>Segment Revenue</u>							
External sales	31,590	15,548	6,370	1,546	684	29,933	85,671
Inter-segment sales	1,593	36	325	-	-	212	2,166
Total revenue	<u>33,183</u>	<u>15,584</u>	<u>6,695</u>	<u>1,546</u>	<u>684</u>	<u>30,145</u>	<u>87,837</u>



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**Current Year-to-date
30 June 2013**

	Singapore	Malaysia	Philippines	China	Indonesia	Taiwan	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Segment Results</u>							
Operating profit/(loss)	295	(1,733)	881	(294)	(450)	3,641	2,340
Interest income							85
Finance cost							(790)
Share of results of associates							(598)
Profit before taxation							<u>1,037</u>

Disclosure of segmental information of the Group by business segment is not presented as the Group is primarily engaged in only one business segment which is the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.



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A10. Profit before tax

Profit before tax is arrived at after crediting/(charging) the following:

	Current Quarter 30 Jun 2013	Current Year-to-date 30 Jun 2013
	RM'000	RM'000
Interest income	45	85
Writeback of allowance for impairment losses	110	115
Gain on disposal of property, plant and equipment	-	65
Interest expense	(375)	(790)
Allowance for impairment losses	(270)	(349)
Bad debt written off	-	(1,119)
Depreciation of property, plant and equipment	(4,551)	(9,172)
Property, plant and equipment written off	(16)	(203)
Foreign exchange gain	640	433

A11. Valuation of property, plant and equipment

There was no revaluation of property, plant and equipment during the quarter under review.

A12. Material events subsequent to the end of the quarter

There were no material events subsequent to the end of the current quarter under review up to the date of this report.

A13. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter under review:

A14. Contingent liabilities

As at 30 June 2013, the Group has no contingent liabilities which, upon crystallisation would have a material impact on the financial position of the Group.

A15. Cash and cash equivalents

	As at 30 Jun 2013
	RM'000
Cash at bank	19,871
Cash on hand	50
Fixed deposits	3,674
	23,595
Bank overdrafts	-
	23,595



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A16. Significant related party transactions

	Current Quarter 30 Jun 2013	Current Year-to-date 30 Jun 2013
	RM'000	RM'000
Sales to AMT	13	27
Sales to Chinyee	222	406
Sales to A&I	1	1
Purchases from Chinyee	1	13
Rental payable to MIC-W	123	246
Rental payable to AMT	36	72

Name of Related Parties	Relationship
AMT	Sia Chiok Meng, a Director of FEM, is also a director and substantial shareholder of AMT.
Chinyee	An associate of Frontken (Singapore) Pte Ltd which in turn is a wholly owned subsidiary of the Company.
A&I	Sia Chiok Meng, a director of FEM, is also a director and substantial shareholder of A&I.
MIC-W	MIC-W is a subsidiary of Marketech International Corporation, which in turn is a deemed substantial shareholder of FMIC.

Abbreviations:

AMT	AMT Engineering Sdn Bhd	FMIC	Frontken-MIC (Wuxi) Co. Ltd
A&I	A&I Engine Rebuilders Sdn Bhd	MIC-W	MIC-Tech (Wuxi) Co., Ltd
Chinyee	Chinyee Engineering & Machinery Pte Ltd	FEM	Frontken (East Malaysia) Sdn Bhd

A17. Capital commitments

Capital expenditure of the Group approved by the Directors but not provided for in the condensed financial statements are as follows:

	As at 30 Jun 2013 RM'000
Acquisition of machinery and equipment	904



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B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Analysis of performance

The Group's revenue for the current quarter and six (6) months ended 30 June 2013 ("FY2013") decreased by approximately RM2.1 million (4.7%) and RM6.7 million (7.2%) respectively mainly due to lower revenue from its operations in Singapore and Malaysia.

The lower revenue from Singapore for FY2013 was partly due to disposal of Metall-Treat Industries Pte Ltd, a wholly owned subsidiary, on 6 December 2012 and a one off trading sales in the preceding corresponding period. The lower revenue from Malaysia was mainly due to lower sales in the semi-conductor industry which experienced a slow first half of the year.

Against the same period last year, the profit before tax ("PBT") for the current quarter and FY2013 decreased by approximately RM0.9 million and RM0.7 million respectively mainly due to higher write-back of allowance for impairment losses on trade receivables in 2012.

B2. Comparison with immediate preceding quarter

	2nd Quarter 30 Jun 2013	1st Quarter 31 Mar 2013
	RM'000	RM'000
Revenue	42,291	43,380
Profit before tax	366	671

The Group's revenue decreased by 2.5% during the current quarter as compared to the immediate preceding quarter due to lower revenue by its subsidiary in Singapore.

The Group's lower unaudited PBT during the current quarter as compared to the immediate preceding quarter was primarily due to the bad debts written off from a mutually agreed out of court settlement by one of its subsidiaries against SGL Carbon Sdn Bhd.

B3. Prospects for the year

The Group anticipates that the overall business conditions this year will continue to be challenging amidst subdued global economic conditions and slower growth in the regional economies. This has also resulted in an increase in pressure from customers for price reduction. To remain competitive and in order to maintain its market share, the Group had embarked on a series of improvement measures including cutting its cost base, improving cross selling for greater operational synergies and implementing best practice margin management and sourcing strategy to deliver better value propositions to its customers. Key priorities for the year would be to manage our costs to protect our earnings, exercise prudence in liquidity management, disciplined execution of strategy whilst focusing on the fundamentals of the Group's business.

B4. Variance in profit forecast

Not applicable as no profit forecast or profit guarantee has been announced or disclosed in a public document previously.



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B5. Taxation

	Current Quarter 30 Jun 2013	Current Year-to-date 30 Jun 2013
	RM'000	RM'000
Income tax	834	1,403
Deferred tax	(25)	(52)
	809	1,351

The Group's effective tax rate for the period under review is higher than the statutory tax rate principally due to losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

B6. Status of corporate proposals

There were no corporate proposals that were announced but not completed.

B7. Group borrowings

The Group's borrowings as at 30 June 2103 are as follows:

	Short-term	Long-term	Total
	RM'000	RM'000	RM'000
<u>Secured</u>			
Bank overdrafts	-	-	-
Hire purchase creditors	2,548	2,413	4,961
Term loans	12,607	26,489	39,096
	15,155	28,902	44,057

The Group's borrowings that are not denominated in functional currency are as follows:

	Short-term	Long-term	Total
	RM'000	RM'000	RM'000
<u>Currency</u>			
Singapore Dollar	7,777	10,437	18,214
New Taiwan Dollar	4,241	12,126	16,367
	12,018	22,563	34,581



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B8. Material litigations

Save as disclosed below, the Group is not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings as at 13 August 2013:

(a) Litigation by Frontken Petroleum Sdn Bhd (“FPSB”) against SGL Carbon Sdn Bhd (“SGL”)

On 25 August 2010, FPSB, an effectively 60.1% subsidiary of FCB, served, via its solicitors, a Writ of Summons together with a Statement of Claims on SGL.

Under the said Writ of Summons, FPSB claimed for a sum of RM1,541,807.20, being revised outstanding debts due from SGL in relation to work performed by FPSB as set out in the ensuing paragraph. In addition, FPSB also claimed for interest, costs and such further or other reliefs or orders as the Court deems fit.

In February 2009, SGL awarded FPSB the order for busbar welding for an agreed contract sum of RM2.5 million and RM1.4 million for scope 1 and scope 2 respectively. FPSB duly completed substantial part of the work and the remaining work was stopped in or around August 2009 upon mutual agreement/consent. Various invoices were issued for progress payments, with a sum of RM1,577,007.20 remaining due and owing from SGL. SGL refused to make payments and claimed for a set-off of the sum for delay or late completion of the contract and defective works. The outstanding sum was reduced by FPSB to RM1,541,807.20 out of goodwill after considering the allegations raised by SGL. However, SGL failed, refused and or neglected to settle the revised outstanding sum.

On 4 October 2010, SGL filed a defence and counterclaim via its solicitors on FPSB. In the said defence, SGL denied the Statement of Claims and prayed that the claims be dismissed with costs. Further, SGL alleged that FPSB had breached the terms and conditions of the letter of award and its related agreements resulting in SGL suffering loss and damage, and therefore, counterclaimed against FPSB for special damages in the sum of RM1,617,633.09, general damages and/or liquidated damages in the sum of RM8,894,485.88 as at 6 September 2010 and still continuing, and interest at the rate of 8% per annum on daily rests from the date of filing of the counterclaim until full settlement.

On 2 July 2013, FPSB accepted the proposal from SGL and received RM275,000.00 as full and final settlement of the claim against SGL and sign a Certificate of Discontinuance.



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B9. Earnings per share (“EPS”)

(a) Basic EPS

The calculation of the basic EPS is based on the net profit for the financial period under review divided by the number of ordinary shares of RM0.10 each in issue.

	Current Quarter	Preceding Corres- ponding Quarter	Current Year-to- date	Preceding Corres- ponding Year-to- date
(Loss)/ Profit attributable to owners of the Company (RM'000)	(455)	864	(1,439)	1,436
Number of shares in issue ('000)	1,011,408	1,011,408	1,011,408	1,011,408
Effects of treasury shares acquired ('000)	(1,836)	(1,834)	(1,836)	(1,834)
Weighted average number of shares in issue ('000)	1,009,572	1,009,574	1,009,572	1,009,574
Basic EPS (sen)	-	0.09	-	0.14

b) Diluted EPS

The diluted earnings per share at the end of the reporting period was not presented as the average market value of the ordinary shares of the Company is lower than the exercise price for the outstanding warrants and any exercise of warrants would be antidilutive.

B10. Dividends

No dividend has been declared for the current quarter ended 30 June 2013.

By Order of the Board
Frontken Corporation Berhad

Ng Wai Pin
Chairman / Managing Director
20 August 2013