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If you are in any doubt about the course of action to be taken, you should consult your Stockbroker, Bank Manager, Solicitor, Accountant or other professional adviser immediately. If you have sold all your shares in **KKB Engineering Berhad**, please hand this Circular together with the accompanying Form of Proxy, to the agent through whom the sale was contracted for transmission to the purchaser.

THE APPROVAL OF THE SECURITIES COMMISSION FOR THE PROPOSED BONUS ISSUE, PROPOSED RIGHTS ISSUE AND PROPOSED AMENDMENT TO THE BYE-LAWS SHALL NOT BE TAKEN TO INDICATE THAT THE SECURITIES COMMISSION RECOMMENDS THE PROPOSALS. SHAREHOLDERS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE PROPOSALS.

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KKB ENGINEERING BERHAD

(Company No : 26495-D)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO:-

- (1) **PROPOSED BONUS ISSUE OF UP TO 24,951,000 NEW ORDINARY SHARES OF RM1.00 EACH IN KKB ENGINEERING BERHAD ("KKB") ON THE BASIS OF THREE (3) NEW ORDINARY SHARES FOR EVERY TWO (2) EXISTING ORDINARY SHARES HELD IN THE COMPANY;**
- (2) **PROPOSED RIGHTS ISSUE OF UP TO 8,317,000 NEW ORDINARY SHARES OF RM1.00 EACH AT AN ISSUE PRICE OF RM1.00 PER KKB SHARE ON THE BASIS OF ONE (1) NEW ORDINARY SHARE FOR EVERY TWO (2) EXISTING ORDINARY SHARES HELD; AND**
- (3) **PROPOSED AMENDMENT TO BYE-LAW 9 OF THE EMPLOYEES' SHARE OPTION SCHEME.**

Advised by



Arab-Malaysian Merchant Bank Berhad

(23742-V) (Licensed Merchant Bank)
(A Member of the Arab-Malaysian Banking Group)

The Notice of an Extraordinary General Meeting to be held at Merdeka Palace Hotel and Suites, Balai Merdeka, 3rd Floor, Jalan Tun Abang Haji Openg, 93000 Kuching, Sarawak on 27 February 2001, Tuesday at 10.30 a.m. is set out in this Circular. Shareholders are advised to refer to the Notice of the Extraordinary General Meeting and the Form of Proxy which are enclosed. The Form of Proxy should be lodged at the registered office of the Company not less than 48 hours before the time stipulated for holding the meeting.

This Circular is dated 12 February 2001

DEFINITIONS

For the purpose of this Circular, except where the context otherwise requires, the following definitions shall apply:-

Arab-Malaysian	- Arab-Malaysian Merchant Bank Berhad (23742-V)
Board	- The Board of Directors of KKB
Bonus Shares	- Up to 24,951,000 ordinary shares of RM1.00 each to be issued pursuant to the Proposed Bonus Issue
Bye-Laws	- The rules, terms and conditions of the Scheme
CDS	- Central Depository System
EGM	- Extraordinary General Meeting
EPS	- Earnings Per Share
ESOS	- KKB's Employee's Share Option Scheme which was established on 10 October 1998 for a period of five (5) years, ending on 9 October 2003
FYE	- Financial year ended/ ending 31 December
KLSE	- Kuala Lumpur Stock Exchange (30632-P)
MCD	- Malaysian Central Depository
NTA	- Net Tangible Assets
KKB or Company	- KKB Engineering Berhad (26495-D)
KKB Group or Group	- KKB and its subsidiary and associated companies
Proposals	- Proposed Bonus Issue, Proposed Rights Issue and Proposed Amendment
Proposed Amendment	- The proposed amendment to Clause 9 of the existing Bye-Laws of the ESOS
Proposed Bonus Issue	- The proposed bonus issue of up to 24,951,000 new ordinary shares of RM1.00 each to be credited as fully paid-up to the shareholders of the Company on the basis of three (3) new ordinary shares for every two (2) existing ordinary shares held
Proposed Rights Issue	- The proposed rights issue of up to 8,317,000 new ordinary shares of RM1.00 each at an issue price of RM1.00 per KKB share on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held
Rights Shares	- Up to 8,317,000 new ordinary shares of RM1.00 each to be issued pursuant to the Proposed Rights Issue
RM and sen	- Ringgit Malaysia and sen respectively
SC	- Securities Commission

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KKB ENGINEERING BERHAD

(Company No: 26495-D)
(Incorporated in Malaysia)

Registered Office

Lot 865, Section 66
Bintawa Industrial Estate
Jalan Kilang
93450 Kuching
Sarawak

12 February 2001

Directors

Kho Kak Beng (*JBK*) (*Chairman and Group Managing Director*)
YAM Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah (*Director*)
Dato' Anwarudin Bin Ahamad Osman (*Director*)
Dr. Arjunan Subramaniam (*Director*)
Chai Woon Chew (*Director*)
Leong Siew Ting (*Director*)
Tan Heong Ming (*Executive Director*)
Kho Pok Tong (*Executive Director*)
Kho Poh Lin (*Executive Director*)
Kho Poh Joo (*Alternate Director to Kho Pok Tong*)

To : The Shareholders of **KKB ENGINEERING BERHAD**

Dear Sir/Madam,

KKB ENGINEERING BERHAD ("KKB" OR "THE COMPANY")

- (I) **PROPOSED BONUS ISSUE OF UP TO 24,951,000 NEW ORDINARY SHARES OF RM1.00 EACH IN THE COMPANY ON THE BASIS OF THREE (3) NEW ORDINARY SHARES FOR EVERY TWO (2) EXISTING ORDINARY SHARES HELD IN THE COMPANY;**
 - (II) **PROPOSED RIGHTS ISSUE OF UP TO 8,317,000 NEW ORDINARY SHARES OF RM1.00 EACH AT RM1.00 PER KKB SHARE ON THE BASIS OF ONE (1) NEW ORDINARY SHARE FOR EVERY TWO (2) EXISTING ORDINARY SHARES HELD; AND**
 - (III) **PROPOSED AMENDMENT TO BYE-LAW 9 OF THE EMPLOYEES' SHARE OPTION SCHEME.**
-

1. INTRODUCTION

Arab-Malaysian had on behalf of the Board of Directors of KKB on 29 August 2000 announced the following:-

- (i) Proposed Bonus Issue;
- (ii) Proposed Rights Issue; and
- (iii) Proposed Amendment.

(collectively known as "**Proposals**")

Arab-Malaysian on behalf of the Company had on 5 January 2001 announced that the SC has approved the Proposed Rights Issue as proposed, and the Proposed Amendment. In respect to the Proposed Bonus Issue which is proposed to be capitalized from the share premium, revaluation reserve and unappropriated profits of the Company, the SC has approved the valuation of the landed properties of the Group at RM23,658,000. Arising therefrom, the Board of Directors of KKB had on 8 January 2001 submitted an application to revise the capitalization of the Proposed Bonus Issue. Subsequently on 9 February 2001, Arab-Malaysian had announced that the SC has approved the proposed revised capitalization for up to 7,608,970 new ordinary shares of RM1.00 from the share premium account (RM2,574,337) and revaluation reserves (RM5,034,633). The capitalization for the remaining 17,342,030 Bonus Shares from the unappropriated profits does not require the approval from the SC. In the same announcement, Arab-Malaysian has announced the fixing of the rights issue price by the Company at RM1.00 per share.

The purpose of this Circular is to provide you with the details, rationale and effects of the Proposals and to seek your approval for the ordinary resolutions pertaining to the non-interconditional Proposals to be tabled at the forthcoming EGM to be convened on 27 February 2001.

2. THE PROPOSED BONUS ISSUE

2.1 Details of the Proposed Bonus Issue

The Company is proposing to undertake a bonus issue of up to 24,951,000 new ordinary shares of RM1.00 each to be credited as fully paid-up on the basis of three (3) new ordinary shares for every two (2) existing ordinary shares held on an entitlement date to be determined at a later date.

The actual number of the new ordinary shares to be issued pursuant to the Proposed Bonus Issue would depend on the then issued and paid-up share capital of the Company after taking into account the following:-

- (i) the issued and paid-up share capital of the Company as at 15 January 2001 of RM15,668,000 comprising 15,668,000 ordinary shares of RM1.00 each in the Company; and
- (ii) approximately 966,000 options (outstanding and to be granted) that may be exercisable pursuant to the Company's ESOS.

The Proposed Bonus Issue will involve capitalising an amount out of the share premium account, revaluation reserve account and unappropriated profits of the Company. The audited share premium, revaluation reserve and unappropriated profit of the Company as at 31 December 1999 were RM32,739, RM10,932,265 and RM29,269,306 respectively. Subsequent to the financial year ended 31 December 1999 and pursuant to an exercise of 617,000 options at the exercise price of RM2.82 and RM3.46, the balance in the share premium account of the Company has increased to RM1,166,390 as at 15 January 2001.

In this respect, an amount of RM1,125,337, RM5,034,633 and RM17,342,030 from the share premium account, revaluation reserve account and unappropriated profits of the Company respectively will be utilised for the capitalisation of 23,502,000 Bonus Shares (based on the issued and paid-up capital of 15,668,000 ordinary shares as at 15 January 2001). Additional Bonus Shares of 1,449,000 to be issued assuming that the entire outstanding 966,000 options that may be exercisable pursuant to the ESOS are fully exercised on or prior to the entitlement date at subscription prices of RM2.82, RM3.46, RM3.61, RM5.60 and RM3.69 (assumed for options that have yet to be granted based on the past five (5) days weighted average price per KKB share up to and including 16 January 2001) will be capitalised from the additional share premium arising therefrom, estimated to amount to RM2,485,670.

2.2 *Ranking of the Bonus Shares*

The Bonus Shares shall not be entitled to the Proposed Rights Issue and shall upon allotment and issue, rank *pari passu* in all respects with the existing ordinary shares of the Company except that they shall not be entitled to any dividends, rights, allotments or other distributions which may be declared for any record date that is prior to the entitlement date of the Bonus Shares.

The actual number of new ordinary shares to be issued pursuant to the Proposed Bonus Issue can only be determined at the future entitlement date and is dependent upon the exercise, if any, of the options outstanding under the ESOS on or prior to the entitlement date. In determining shareholders' entitlements to the Proposed Bonus Issue, fractional entitlements of Bonus Shares will be disregarded and shall be dealt with in such manner as the Board of KKB shall in their absolute discretion think expedient or to be in the interest of the Company.

The KLSE has already prescribed the shares of KKB which are listed on the Official List of the Second Board of the KLSE to be deposited with the MCD. Accordingly, any dealings in the new ordinary shares arising from the Proposed Bonus Issue which are prescribed securities under the CDS will be subject to the Securities Industry (Central Depositories) Act, 1991 and the Rules of the MCD. The Bonus Shares to be issued pursuant to the Proposed Bonus Issue will be credited directly into the respective CDS accounts of entitled shareholders and notice of allotment will be dispatched to entitled shareholders within ten (10) market days of the Book Closing Date. No physical certificate will be issued.

The entitlement date for the Bonus Shares will be determined at a later date subsequent to the receipt of all relevant approvals for the Proposed Bonus Issue.

2.3 *Rationale of the Proposed Bonus Issue*

The Proposed Bonus Issue together with the Proposed Rights Issue will enable the Company to comply with the minimum RM40,000,000 issued and paid-up share capital requirement for a company listed on the Second Board of the KLSE.

The Proposed Bonus Issue will also reward KKB's existing shareholders for their continuous support of the Company and improve the marketability of the shares in the market.

3. THE PROPOSED RIGHTS ISSUE

3.1 *Details of the Proposed Rights Issue*

The Company is proposing a renounceable rights issue of up to 8,317,000 new ordinary shares of RM1.00 each at an issue price of RM1.00 per KKB share on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held. The issue price of the Rights Shares is payable in full upon acceptance.

The actual number of new ordinary shares to be issued pursuant to the Proposed Rights Issue can only be determined at the future entitlement date and is dependent upon the exercise, if any, of the options outstanding under the ESOS on or prior to the entitlement date. In determining the shareholders' entitlement to the new shares to be issued pursuant to the Proposed Rights Issue, fractional entitlements will be disregarded. Fractional entitlements shall be disposed of in such manner as the Directors may in their absolute discretion think expedient and in the interest of the Company.

New Rights Shares which are not taken up or allotted for any reason shall first be made available for excess share applications to minimise the incidence of odd lots and if undersubscribed, will be allotted to the underwriters.

The new securities arising from the Proposed Rights Issue in respect of the deposited securities of KKB will be credited directly into the CDS accounts of entitled shareholders and no physical certificate will be issued. However, a notice of allotment will be despatched to the entitled shareholders.

3.2 Basis for Determining the Rights Issue Price

The issue price of RM1.00 per KKB share was arrived at after taking into consideration the weighted average market price of KKB shares for the past five (5) days up to and including 8 February 2001 (price fixing date) of RM3.55. The theoretical ex-all price based on the above is approximately RM1.35. The issue price of RM1.00 represents a discount of approximately 26% based on the abovementioned theoretical ex-all price.

3.3 Ranking of the Rights Shares

The Rights Shares shall not be entitled to the Proposed Bonus Issue and shall upon allotment and issue, rank pari passu in all respects with the existing Shares of the Company except that they shall not be entitled to any dividends, rights, allotments or other distributions which may be declared for any record date that is prior to the entitlement date of the Rights Shares.

3.4 Substantial Shareholders' Undertaking and Underwriting

The following substantial shareholders have given their irrevocable written undertaking on 21 September 2000 to subscribe in full for their entitlements amounting to 57.7% of the Rights Shares as follows:-

	No. of shares held as at 15 January 2001	% of existing issued and paid-up share capital	No. of Rights Shares entitled	% of Rights Shares*
Kho Kak Beng Holding Company Sdn. Bhd.	7,840,000	50.04	3,920,000	50.04
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	1,200,000	7.66	600,000	7.66

** The percentages of their respective entitlements are based on the assumption that there is no exercise of ESOS options.*

Arab-Malaysian who will act as the managing underwriter for the Proposed Rights Issue will together with the Company arrange for the underwriting of the remaining Rights Shares. Underwriting commission which will be borne by the Company has yet to be determined at this juncture.

3.5 Rationale of the Proposed Rights Issue

The Proposed Rights Issue will enable the Group to raise funds for working capital for the commissioning of the Group's new steel pipes manufacturing plant and to finance the upgrading of its existing Liquefied Petroleum Gas ("LPG") cylinder plant, both located in Kuching. Total construction costs for the steel pipes manufacturing plant is approximately RM11.5 million. The upgrading of LPG cylinder plant, which is estimated to cost approximately RM6.10 million, involve the purchase of new machineries which is expected to be commissioned by end of 2002. The steel pipes manufacturing plant is the crystallisation of the Group's upstream expansion strategy. Equipped with one (1) production line, the plant is capable of producing up to twenty-one (21) pipes when working on a single 12-hour shift based on 25 working days. The management expects the annual output of the plant to be 6,300 units of pipes with the maximum capacity in excess of 7,000 pipes per annum on double shift basis. The management plans to sell the steel pipes in the domestic market initially with future plans to tap the export markets. The upgrading of LPG cylinder plant will be undertaken in

stages over a period of eighteen (18) months from the date of receipt of the rights issue proceeds and is expected to increase the productivity of the plant by 15% upon completion of the upgrade. With the increased level of automation and productivity, overall direct labour cost per unit is expected to decrease by approximately 40%.

Having been fully commissioned at the end of 2000, the Group's new steel pipes manufacturing plant with total built-up area of 5,640 sq. meters is positioned to participate in the water distribution infrastructure development of the state.

3.6 *Utilisation of Proceeds*

The Proposed Rights Issue will raise funds for an amount up to RM8.32 million which will be utilised in the manner set out below:-

	Notes	RM million
Upgrading of LPG cylinder plant	(a)	6.10
Working capital for the new steel pipe manufacturing plant	(b)	*1.42
Estimated expenses of the Proposals		0.80
	TOTAL	8.32

Notes:-

- * Any shortfall from the proceeds to be raised that may arise due to there being no exercise of outstanding ESOS options on or prior to the entitlement date will be effected from the working capital for the new steel pipes manufacturing plant..
- (a) Approximately RM6.1 million will be used to upgrade the Group's existing LPG cylinder plant located in Bintawa Industrial Estate, Kuching. The upgrading of LPG cylinder plant will be undertaken in stages over a period of eighteen (18) months from the date of receipt of the rights issue proceeds and is expected to increase the productivity of the plant by 15% upon completion of the upgrade.
- (b) During 2000, the Group invested in a new steel pipe manufacturing plant in Kuching which cost approximately RM11.5 million to construct. The investment cost for the steel pipes manufacturing plant is financed entirely from the Company's internally generated funds. Approximately RM1.42 million from the proceeds of the Proposed Rights Issue will be used as working capital for the operations of this new plant.

4. THE PROPOSED AMENDMENT

4.1 *Details of the Proposed Amendment*

The SC has allowed the exercise price of options offered under employee share option schemes to be set at a discount of not more than 10% on the five (5) day weighted average market price of the underlying shares at the date of the offer. Hence, the Company is proposing to amend the bye-laws of its ESOS in respect of Clause 9 which relates to option price. The change in the option price is prospective and so does not affect options that have been granted but have not been exercised. The Company has obtained the approval from KLSE for the Proposed Amendment on 1 November 2000.

Existing Clause 9

The price at which the Grantee is entitled to subscribe for each new Share shall not be lower than the market price at the time the Option is granted and generally based on the weighted average of the mean market quotation (calculated as the average of the highest and lowest price transacted on the KLSE on the same day) of the Shares as shown in the Daily Official List issued by the KLSE for the five (5) market days preceding the Date of Offer (subject to the provisions of Clause 16 hereof) or at the par value of the Shares, whichever is the higher.

Proposed Clause 9

Option Price

The Option Price shall be the higher of the following:-

- (a) a price to be determined by the Board upon the recommendation of the ESOS Committee which is at a discount of not more than 10% on the weighted average market price of the Shares for the five (5) market days preceding the Date of Offer; and
- (b) the par value of the Shares.

4.2 Rationale of the Proposed Amendment

The establishment of the ESOS serves to reward eligible employees of KKB and its subsidiary companies whose services are considered vital to the operations and continued growth of the Group.

In addition, the granting of options under the ESOS would further motivate them towards better performance through greater dedication and loyalty with a view to enhance productivity.

In line with these objectives, the Proposed Amendment will allow the eligible employees to benefit from the discount given upon subscription of the shares of the Company and further encourage these employees to continue contributing to the well-being of the respective companies in the KKB Group.

5. FINANCIAL EFFECTS OF THE PROPOSED BONUS ISSUE AND PROPOSED RIGHTS ISSUE

The following are the summary of the effects of the Proposed Bonus Issue and Proposed Rights Issue (The Proposed Amendment will not have any material financial effects on the Group):-

5.1 Share Capital

The changes in the issued and paid-up share capital of KKB as a result of the Proposed Bonus Issue and Proposed Rights Issue are as follows:-

	Assuming no options pursuant to the ESOS are exercised *	Assuming the options pursuant to the ESOS are fully exercised #
As at 15 January 2001	15,668,000	15,668,000
Add : Options outstanding and to be granted	-	966,000
Total	15,668,000	16,634,000
To be issued pursuant to the Proposed Bonus Issue	23,502,000	24,951,000
To be issued pursuant to the Proposed Rights Issue	7,834,000	8,317,000
Enlarged share capital after the Proposed Bonus and Rights Issues	47,004,000	49,902,000

* Assuming the options granted and/ or to be granted pursuant to the Company's ESOS are not exercised on or prior to the entitlement date of the Proposed Bonus Issue and Proposed Rights Issue

Assuming all options granted and/or to be granted pursuant to the Company's ESOS will be exercised on or prior to the entitlement date of the Proposed Bonus Issue and Proposed Rights Issue

5.2 Earnings

As the Proposals are expected to be completed after FYE 2000, there will be no effect on the earnings for the aforementioned financial year. The Proposed Bonus Issue will not have any effect on the earnings for the FYE 2001 except for the proportionate reduction in the Group's earnings per share as a result of the increase in the issued and paid-up share capital of the Company. The Proposed Rights Issue is expected to enhance the earnings of the Group for the FYE 2001 as well as for the subsequent financial years as a result of improved efficiency of the LPG cylinder plant upon completion of the upgrade. In addition, the earnings of the Group is also expected to be improved upon the crystallisation of the contribution from the proceeds to be used as working capital for the Group's new steel pipe manufacturing plant.

5.3 NTA

The effects of the Proposals on the NTA of the Group based on the audited balance sheet as at 31 December 1999 is as follows:-

Assuming no exercise of 966,000 options (outstanding and to be granted) pursuant to the ESOS

	(1)	(2)	(3)@	(4)
	RM	RM	RM	RM
Share Capital	15,051,000	15,668,000	39,170,000	47,004,000
Share Premium	32,739	[^] 1,166,390	41,053	[!] -
Revaluation Reserve	11,989,017	11,989,017	6,954,384	6,954,384
Unappropriated Profits	27,968,494	27,968,494	10,626,464	19,867,517
NTA	55,041,250	56,791,901	56,791,901	63,825,901
NTA per share (RM)	3.66	3.62	1.45	1.36

(1) Audited accounts as at 31.12.1999

(2) After incorporating the effects of 617,000 options exercised between 1.1.2000 to 15.01.2001

(3) After (2) and the Proposed Bonus Issue

(4) After (2), (3) and the Proposed Rights Issue

[^] 598,000 options exercised at the subscription price of RM2.82 per ordinary share and 19,000 exercised at the subscription price of RM3.46 per ordinary share and share issue expenses amounting to RM1,449

@ After capitalisation of RM1,125,337 from the share premium account, RM5,034,633 from the revaluation reserve account and RM17,342,030 from the unappropriated profit account

[!] A total of RM800,000 have been deducted for the estimated expenses of which RM41,053 will be taken from the share premium account and the balance from the unappropriated profits account

Assuming 966,000 options# (outstanding and to be granted) pursuant to the ESOS are fully exercised

	(1)	(2)	(3)*	(4)
	RM	RM	RM	RM
Share Capital	15,051,000	15,668,000	41,585,000	49,902,000
Share Premium	32,739	[^] 1,166,390	1,077,723	[!] 277,723
Revaluation Reserve	11,989,017	11,989,017	6,954,384	6,954,384
Unappropriated Profits	27,968,494	27,968,494	10,626,464	10,626,464
NTA	55,041,250	56,791,901	60,243,571	67,760,571
NTA per share (RM)	3.66	3.62	1.45	1.36

- (1) *Audited accounts as at 31.12.1999*
- (2) *After incorporating the effects of 617,000 options exercised between 1.1.2000 to 15.01.2001*
- (3) *After (2), the effects of the exercise of an additional 966,000 options pursuant to the ESOS and the Proposed Bonus Issue*
- (4) *After (2), (3) and the Proposed Rights Issue*
- ^ *598,000 options exercised at the subscription price of RM2.82 per ordinary share and 19,000 exercised at the subscription price of RM3.46 per ordinary share and share issue expenses amounting to RM1,449*
- # *166,000 options to be exercised at the subscription price of RM5.60 per share
152,000 options to be exercised at the subscription price of RM3.69 per share (assumed to be granted at RM3.69)
137,000 options to be exercised at the subscription price of RM3.61 per share
40,000 options to be exercised at the subscription price of RM3.46 per share
471,000 options to be exercised at the subscription price of RM2.82 per share*
- * *After capitalisation of RM2,574,337 from the share premium account, RM5,034,633 from the revaluation reserve account and RM17,342,030 from the unappropriated profit account*
- ! *After deducting estimated expenses of RM800,000*

5.4 Dividend

The Company declared a tax exempt dividend of 4% for financial year ended 31 December 1999. Barring unforeseen circumstances, the Board of Directors of KKB expects the Company to be able to pay a tax exempt dividend of 4% for the financial year ended/ ending 31 December 2000 and 2001.

6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

None of the Directors and/or substantial shareholders and/or persons connected to Directors and/or substantial shareholders of KKB Group have any interest, either direct or indirect, in the Proposals beyond their entitlement under the Proposed Bonus Issue and Proposed Rights Issue for which all existing shareholders of KKB are entitled to.

7. CONDITIONS TO THE PROPOSALS

The Proposals are subject to the approvals of the following:-

- i) the SC (obtained on 22 December 2000 and 8 February 2001);
- ii) the KLSE for the listing and quotation of the new ordinary shares to be issued pursuant to the Proposed Bonus Issue and Proposed Rights Issue;
- iii) KLSE's approval for the Proposed Amendment (obtained on 1 November 2000);
- iv) shareholders of the Company at the forthcoming EGM; and
- v) any other relevant authority.

The SC's approval for the Proposed Rights Issue is, inter-alia, subject to the following conditions:-

- (i) Approval of the shareholders of KKB must be obtained for any changes amounting to 25% or more towards the original utilisation of the said proceeds. Should the changes that is proposed to be implemented is less than 25%, an appropriate disclosure must be made to the shareholders of KKB;

- (ii) SC's approval must be obtained for any changes towards the utilisation of the proceeds from the rights issue should the said changes involve any other utilisation except for the core business of KKB;
- (iii) Any extension from the period determined by KKB for the utilisation of the proceeds from the rights issue must be approved by way of a resolution by the Board of Directors of KKB and full disclosure must be made to the KLSE; and
- (iv) An appropriate disclosure on the status of the utilization of the proceeds from the rights issue as mentioned must be made in the quarterly report and the annual report of KKB until the complete utilization of the said proceeds.

8. DIRECTORS' RECOMMENDATION

Having considered the rationale for the Proposals and the advice of Arab-Malaysian, your Board is of the opinion that the Proposals are in the long term best interests of the shareholders and the Company. Accordingly, they recommend that you vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

9. EXTRAORDINARY GENERAL MEETING

For the purpose of approving the Proposals, an EGM, the notice of which is enclosed with this Circular, is to be held at Merdeka Palace Hotel and Suites, Balai Merdeka, 3rd Floor, Jalan Tun Abang Haji Openg, 93000 Kuching, Sarawak on 27 February 2001, Tuesday at 10.30 a.m.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions therein as soon as possible and in any event so as to arrive at the Registered Office of the Company not less than 48 hours before the time set for the EGM. The completion and return of the form of proxy does not preclude you from attending and voting in person should you subsequently wish to do so.

10. FURTHER INFORMATION

Shareholders are requested to refer to Appendix I for further information.

Yours faithfully
For and on behalf of the Board of Directors

KHO KAK BENG (JBK)
Chairman & Group Managing Director

APPENDIX I - FURTHER INFORMATION

1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board of Directors of KKB and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. MATERIAL LITIGATION

KKB and its subsidiary companies are not engaged in any material litigation, either as plaintiff or defendant, and the Board of KKB has no knowledge of any proceedings pending or threatened against the Company and its subsidiary companies or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of KKB and its subsidiary companies.

3. MATERIAL CONTRACTS

Save as disclosed below, there are no other material contracts entered into by KKB and/or its subsidiary companies within the past two (2) years preceding the date of this circular, other than contracts entered into in the ordinary course of business:-

- (i) Sale and Purchase Agreement dated 30 November 1999 between Ting Siew Hoo & Ting Kah Sing, and KKB for the purchase of 100% equity interest in Optima Line Engineering Sdn. Bhd. comprising 25,000 ordinary shares of RM1.00 each for a total cash consideration of RM1,250,000.
- (ii) Sale and Purchase Agreement dated 22 December 1999 between Anthony Firdauz bin Bujang & Daud bin Drahman and KKB for the purchase of 100% equity interest in Harum Bidang Sdn. Bhd. comprising 2 ordinary shares of RM1.00 each for a total cash consideration of RM1,038,000.

4. MANAGEMENT AGREEMENTS AND SERVICE CONTRACTS

There are no existing or proposed management agreements or service contracts entered into between any of the Directors of the Company and KKB.

5. CONSENT

The written consent of Arab-Malaysian to the inclusion in this Circular of its name in the form and context in which it appears has been given and has not been subsequently withdrawn before the issue of this Circular.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company following the date of this Circular from Mondays to Fridays (except Public Holidays) during business hours up to and including the date of the EGM:-

- i) the Memorandum and Articles of Association of KKB;
- ii) the audited accounts of KKB Group for the past three (3) financial years ended 31 December 1997 to 1999;
- iii) the latest management accounts of KKB for the nine (9) months ended 30 September 2000;
- iv) material contracts referred to in Section 3 of this Appendix;
- v) the Bye-Laws of the ESOS of KKB; and
- vi) the letter of consent referred to in Section 5 of this Appendix.

KKB ENGINEERING BERHAD

(Company No : 26495-D)

(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of KKB Engineering Berhad (“KKB”) will be held at Merdeka Palace Hotel and Suites, Balai Merdeka, 3rd Floor, Jalan Tun Abang Haji Openg, 93000 Kuching, Sarawak on 27 February 2001, Tuesday at 10.30 a.m. to consider, and if thought fit, pass the following resolutions:-

ORDINARY RESOLUTION 1 - PROPOSED BONUS ISSUE

“THAT subject to the approvals of all relevant authorities and the approval-in-principle of the Kuala Lumpur Stock Exchange for the listing of and quotation for the new ordinary shares to be issued hereunder, authority be and is hereby given to the Directors to capitalise a sum of up to RM2,574,337 from the Company’s share premium account, a sum of RM5,034,633 from the Company’s revaluation reserve account and a further sum of RM17,342,030 from the Company’s unappropriated profits and that the same be applied in making payment in full at par of up to 24,951,000 new ordinary shares of RM1.00 each in the capital of the Company, such new ordinary shares to be allotted and distributed as fully paid amongst persons whose names appear in the Record of Depositors at the close of business on a date to be determined by the Directors, on the basis of three (3) new ordinary shares of RM1.00 each for every two (2) existing ordinary shares of RM1.00 each held then by such shareholders on that date (“**Proposed Bonus Issue**”);

AND THAT fractions of new ordinary shares shall be disregarded and that such new ordinary shares which represent fractional interests shall be dealt with by the Directors of the Company in such manner as they may deem fit and that such new ordinary shares shall not be entitled to the Proposed Rights Issue (defined hereunder) and shall upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company except that they shall not be entitled to any dividends, rights, allotments or other distributions which may be declared for any record date that is prior to the entitlement date of the new ordinary shares AND THAT the Directors be and are hereby authorised to give effect to the Proposed Bonus Issue with full power to assent to any condition, modification, variation and/or amendment as may be required by the relevant authorities”.

ORDINARY RESOLUTION 2 - PROPOSED RIGHTS ISSUE

“THAT subject to the approvals of all relevant authorities and the approval-in-principle of the KLSE for the listing of and quotation for all the new ordinary shares to be issued under the Proposed Rights Issue, the Directors be and are hereby authorised to provisionally allot by way of a renounceable rights issue of up to 8,317,000 new ordinary shares of RM1.00 each in the capital of the Company (“**Proposed Rights Issue**”) at an issue price of RM1.00 per KKB share on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held by persons whose names appear in the Record of Depositors at the close of business on a date to be determined by the Directors;

AND THAT fractions of new ordinary shares shall be disregarded and that such new ordinary shares which represent fractional interests shall be dealt with by the Directors of the Company in such manner as they may deem fit and that such new ordinary shares to be issued pursuant to the Proposed Rights Issue shall not be entitled to the Proposed Bonus Issue and shall upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company except that they shall not be entitled to any dividends, rights, allotments or other distributions which may be declared for any record date that is prior to the entitlement date of the new ordinary shares AND THAT the Directors be and are hereby authorised to give effect to the Proposed Rights Issue with full power to assent to any condition, modification, variation and/or amendment as may be required by the relevant authorities”.

ORDINARY RESOLUTION 3 - PROPOSED AMENDMENT

“THAT, subject to the approvals of the relevant authorities, the Directors be and are hereby authorised to adopt the amendment to Clause 9 of the Bye-Laws governing and constituting KKB Engineering Berhad’s Employees’ Share Option Scheme (“ESOS”) pertaining to the revision in the Option Price as set out as Proposed Clause 9 below to replace the existing Clause 9 of the Bye-Laws governing and constituting the ESOS with full powers to assent to any modification or amendments as may be required by any relevant authorities as they deem fit and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the amendment to Clause 9 of the ESOS.

Existing Clause 9

The price at which the Grantee is entitled to subscribe for each new Share shall not be lower than the market price at the time the Option is granted and generally based on the weighted average of the mean market quotation (calculated as the average of the highest and lowest price transacted on the KLSE on the same day) of the Shares as shown in the Daily Official List issued by the KLSE for the five (5) market days preceding the Date of Offer (subject to the provisions of Clause 16 hereof) or at the par value of the Shares, whichever is the higher.

Proposed Clause 9

Option Price

The Option Price shall be the higher of the following:-

- (a) a price to be determined by the Board upon the recommendation of the ESOS Committee which is at a discount of not more than 10% on the weighted average market price of the Shares for the five (5) market days preceding the Date of Offer; and
- (b) the par value of the Shares.”

By Order of the Board

LEONG OI WAH (MAICSA No. 7023802)
FIONA ANNE WONG LAI MANN (MIA 12106)
Joint Company Secretaries

12 February 2001

Notes:-

1. *A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.*
2. *Where a member appoints more than one proxy to attend the same meeting, the member shall specify the proportion of his shareholdings to be represented by each proxy, otherwise the appointment shall be invalid.*
3. *In the case of the corporate member, the instrument appointing a proxy shall be in writing under the hand of appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.*
4. *The instrument appointing a proxy must be deposited at the Registered Office of the Company at Lot 865, Section 66, Bintawa Industrial Estate, Jalan Kilang, 93450 Kuching, Sarawak not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.*



KKB ENGINEERING BERHAD

(Company No : 26495-D)
(Incorporated in Malaysia)

FORM OF PROXY

I/We _____
of _____
being a Member of abovementioned Company, hereby appoint _____
of _____
or failing him the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held at Merdeka Palace Hotel and Suites, Balai Merdeka, 3rd Floor, Jalan Tun Abang Haji Openg, 93000 Kuching, Sarawak on 27 February 2001, Tuesday at 10.30 a.m., and any adjournment thereof.

	FOR	AGAINST
ORDINARY RESOLUTION 1- PROPOSED BONUS ISSUE		
ORDINARY RESOLUTION 2- PROPOSED RIGHTS ISSUE		
ORDINARY RESOLUTION 3- PROPOSED AMENDMENT		

Please indicate "X" in the appropriate box against each resolution how you wish your vote to be cast. If no specific direction as to voting is indicated, the proxy will vote or abstain at his/ her discretion.

Dated this _____ day of _____

Signature of Shareholder(s)/ Common Seal

Number of shares held: _____

Notes:-

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. Where a member appoints more than one proxy to attend the same meeting, the member shall specify the proportion of his shareholdings to be represented by each proxy, otherwise the appointment shall be invalid.
3. In the case of the corporate member, the instrument appointing a proxy shall be in writing under the hand of appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
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