

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your Stockbroker, Bank Manager, Solicitor, Accountant or other professional advisers immediately. If you have sold or transferred all your ordinary shares in **KKB Engineering Berhad**, you should at once hand this Circular to the purchaser or stockbroker or agent through whom you effected the sale or transfer for onward transmission to the purchaser or transferee.

The approval of the Securities Commission for the Employees' Share Option Scheme shall not be taken to indicate that the Securities Commission recommends the proposal. Shareholders should rely on their own evaluation to assess the merits and risks of the proposal.

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KKB ENGINEERING BERHAD

(Company No :26495-D)
(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS

in relation to :

PART A

PROPOSED ESTABLISHMENT OF A NEW EMPLOYEES' SHARE OPTION SCHEME

PART B

PROPOSED VARIATION TO THE UTILISATION OF PROCEEDS RAISED FROM THE RIGHTS ISSUE

Part A Advised By



AmMerchant Bank Berhad

(Formerly known as Arab-Malaysian Merchant Bank Berhad) (23742-V)
A member of the AmBank Group

The Notice of an Annual General Meeting of KKB Engineering Berhad to consider the special business in relation to the above to be held at Balai Merdeka, 3rd Floor, Merdeka Palace Hotel & Suites, Jalan Tun Abang Haji Openg, 93000 Kuching, Sarawak on Wednesday, 28 May 2003 at 10.00 a.m. is set out in the Annual Report despatched together with this Circular. Shareholders are advised to refer to the Notice of the Annual General Meeting and the Form of Proxy which are enclosed in the Company's Annual Report. Please complete and return the Form of Proxy in accordance with the instructions therein as soon as possible. The Form of Proxy should be lodged at the registered office of the Company at Lot 865, Section 66, Bintawa Industrial Estate, Jalan Kilang, 93450 Kuching, Sarawak, not less than 48 hours before the time stipulated for holding the meeting.

This Circular is dated 2 May 2003

DEFINITIONS

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

Act	- Companies Act, 1965, as amended from time to time and any re-enactment thereof
AGM	- Annual General Meeting
AmMerchant Bank	- AmMerchant Bank Berhad (<i>formerly known as Arab-Malaysian Merchant Bank Berhad</i>) (23742-V)
Board of Directors or Board	- The Board of Directors of KKB
Bye-Laws	- The bye-laws governing the Proposed New ESOS
CDS	- Central Depository System
Date of Commencement	- The date of commencement of the Proposed New ESOS being the date of the confirmation letter by the adviser as stated in the Bye-Laws
Date of Eligibility	- A date to be determined by the Option Committee on the eligibility of any employee or executive directors
Date of Expiry	- The last day of an Option Period
Duration of the Scheme	- The duration of the Proposed New ESOS as defined in the Bye-Laws and includes any extension or renewal thereof
Eligible Employee	- Any employee or executive director of the Group satisfying the conditions stipulated in the Bye-Laws
EPS	- Earnings Per Share
ESOS or Scheme	- Employees' Share Option Scheme
Existing ESOS	- KKB Engineering Berhad's existing ESOS 1998/2003
KKB or Company	- KKB Engineering Berhad (26495-D)
KKB Group or Group	- KKB and its subsidiaries
KLSE	- Kuala Lumpur Stock Exchange (30632-P)
LPG	- Liquefied Petroleum Gas
Listing Requirements	- Listing Requirements of KLSE including any amendment or modification thereto
Market Day(s)	- A day on which the stock market of the KLSE is open for trading in securities

DEFINITIONS (cont'd)

Maximum Allowable Allotment	- The maximum number of Shares that can be offered and allotted to an Eligible Employee falling within a particular category of employees under the Proposed New ESOS
MCD	- Malaysian Central Depository Sdn Bhd (165570-W)
NTA	- Net Tangible Assets
Offer	- An offer made in writing by the Option Committee to an Eligible Employee pursuant to the Bye-Laws
Offer Date	- The date on which an Offer is made by the Option Committee to an Eligible Employee in writing
Options	- Options issued pursuant to the Company's ESOS
Option Certificate	- The certificate confirming the granting of the Option(s) to an Eligible Employee and the number of Shares comprised in the Option(s)
Option Committee	- A committee comprising senior management personnel and/or Board members appointed by the Board to administer the Proposed New ESOS
Option Holder	- An Eligible Employee who has accepted an Offer made by the Option Committee pursuant to the Bye-Laws
Option Period	- A period commencing from the Offer Date and expiring at the end of five (5) calendar years from such aforesaid date or such shorter period as may be specifically stated in the Offer provided that no Option Period shall extend beyond the expiry of the Proposed New ESOS as set out in the Bye-Laws
Proposed New ESOS	- Proposed establishment of a new ESOS (2003/2008) of up to ten percent (10%) of the issued and paid-up capital of the Company
Proposed Variation	- Proposed variation to the utilisation of proceeds raised from the Rights Issue
Rights Issue	- The rights issue of 7,385,500 new Shares at an issue price of RM1.00 per Share on the basis of one (1) new Share for every two (2) existing Shares held
Rights Shares	- The 7,385,500 Shares issued pursuant to the Rights Issue
RM and sen	- Ringgit Malaysia and sen respectively
SC	- Securities Commission
SC Guidelines	- SC's Policies and Guidelines on Issue/Offer of Securities including any amendment or modification thereto
Share(s)	- Ordinary share(s) of RM1.00 each in the Company
Subscription Price	- The price at which the Option Holder shall be entitled to subscribe for each Share as set out in the Bye-Laws

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PART A

**PROPOSED ESTABLISHMENT OF A NEW EMPLOYEES'
SHARE OPTION SCHEME**

KKB ENGINEERING BERHAD

(Company No: 26495-D)
(Incorporated in Malaysia under the Act)

Registered Office

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

2 May 2003

Directors

Kho Kak Beng (*JBK*) (*Chairman and Group Managing Director*)
YAM Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah (*Non-Executive Director*)
Dato' Anwarrudin Bin Ahamad Osman (*Independent Non-Executive Director*)
Dr. Arjunan Subramaniam (*Independent Non-Executive Director*)
Chai Woon Chew (*Independent Non-Executive Director*)
Tan Jin Kok (*Independent Non-Executive Director*)
Tan Heong Ming (*Executive Director*)
Kho Pok Tong (*Executive Director*)
Kho Poh Lin (*Executive Director*)

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

Dear Shareholders,

KKB ENGINEERING BERHAD

▪ **PROPOSED ESTABLISHMENT OF A NEW ESOS**

1. INTRODUCTION

On 27 February 2003, AmMerchant Bank had announced on behalf of KKB, that the Company is proposing to establish a new ESOS of up to ten percent (10%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Proposed New ESOS or such additional number that may be permitted by the SC from time to time during the duration of the Proposed New ESOS, upon expiry of its Existing ESOS on 9 October 2003.

On 18 April 2003, AmMerchant Bank, on behalf of KKB, announced that the Proposed New ESOS was approved by the SC on 16 April 2003.

This Circular serves to provide you with the relevant information pertaining to the Proposed New ESOS and to seek your approval for the resolutions to be tabled at the forthcoming AGM. The Notice of AGM and Form of Proxy are enclosed in the Annual Report despatched together with this Circular.

2. DETAILS OF THE PROPOSED NEW ESOS

The principal features of the Proposed New ESOS, details of which are set out in the Bye-Laws attached herein as Appendix I, are as follows:-

2.1 Total Number of New Shares Available Under the Proposed New ESOS

The maximum number of new shares which may be allotted pursuant to the exercise of Options under the Proposed New ESOS shall not exceed ten percent (10%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Proposed New ESOS or such additional number of Shares that may be permitted by the SC from time to time during the duration of the Proposed New ESOS.

2.2 Eligibility

Any full time employee or executive director of KKB Group who is at least eighteen (18) years of age and have been employed for a continuous period of at least one (1) year in the KKB Group and who fulfils the conditions as set out in the Bye-Laws of the Proposed New ESOS shall be eligible to participate in the Proposed New ESOS.

2.3 Duration

The Proposed New ESOS shall only commence upon expiry of the Existing ESOS on 9 October 2003 and shall take effect from the date of the letter of confirmation required to be issued by the adviser of the Company to the SC in accordance with the SC Guidelines ("Effective Date"). The Proposed New ESOS shall be in force for a duration of five (5) years from the Effective Date. However, the Company may, if the Board of Directors deems fit, upon the recommendation by the Option Committee, extend the Proposed New ESOS for up to a further period of five (5) years.

2.4 Basis of determining number of Shares offered and Maximum Allowable Allotment

The categories of Eligible Employees who are eligible to participate in the Proposed New ESOS and their respective grading and Maximum Allowable Allotment as set out in Bye-Laws 6.1 are as follows:-

Staff Categorisation *	Grade	Maximum Allowable Allotment (No. of Option)
Group Managing Director	A1	400,000
Executive Director	A2	250,000
General Manager/ Senior Manager	A3	100,000
Group Manager	A4	80,000
Assistant Group Manager	A5	60,000
Manager	B1	50,000
Assistant Manager	B2	30,000
Senior Executive / Assistant Engineer	C1	20,000
Executive	C2	15,000
Assistant Supervisor/ Secretary	C3	12,000
Senior Clerk/ Senior Operator	D1	10,000
Clerk/ Operator	D2	8,000
General	D3	5,000

* Note - Where a subsidiary of KKB employs a different grading system than that adopted by the Company, the Maximum Allowable Allotment of such employee of that subsidiary shall be as the Option Committee determines, from time to time in their discretion based on the employee's equivalent grade within the system utilised by the Company taking into account, inter alia, the Eligible Employee's designation, job description, responsibilities and seniority.

The maximum number of shares allocated to Executive Directors and senior management (that is Categories A1, A2, A3 and A4 as per the table above) of the KKB Group in aggregate shall not exceed fifty percent (50%) of the Shares available under the Proposed New ESOS.

The maximum number of shares allocated to any individual director or employee who, either singly or collectively through his/her associates, holds twenty percent (20%) or more in the issued and paid-up capital of the Company, shall not exceed ten percent (10%) of the Shares available under the Proposed New ESOS. The term 'associates' will bear the same meaning as that in the Act.

Notwithstanding Bye-Law 5.1, the number of Options to be offered to each Eligible Employee shall, subject to Bye-Laws 6.1, 6.3 and 6.4, be at the discretion of the Option Committee. In exercising its discretion, the Option Committee shall take into consideration the seniority, performance and length of service of each Eligible Employee. The decision of the Option Committee shall be final and binding.

2.5 Offer

Subject always to Bye-Laws 6.3 and 6.4, the Option Committee may at its discretion at any time and from time to time within the duration of the Proposed New ESOS, as it shall deem fit select and shall be entitled in its discretion to determine the number of Shares to be comprised in an Offer and make such an Offer in writing to any Eligible Employee to subscribe for new Shares in accordance with the terms of the Proposed New ESOS PROVIDED ALWAYS that any such Offer by the Option Committee to the Eligible Employee shall not be less than one thousand (1,000) Shares nor more than the Maximum Allowable Allotment as set out in Bye-Law 6 and shall be in multiples of one thousand (1,000).

The Option Committee shall state the following particulars in the letter of Offer:-

- (a) the number of Options that are being offered to the Eligible Employee;
- (b) the number of Shares which the Eligible Employee shall be entitled to subscribe for upon the exercise of the Options being offered;
- (c) the Option Period;
- (d) the Subscription Price; and
- (e) the closing date for acceptance of the Offer.

An Offer shall be valid for a period of thirty (30) days from the Date of Offer or such longer period as may be determined by the Option Committee on a case-by-case basis at its discretion ("**Offer Period**").

No Offer shall be made to any Executive Director of the Company unless such Offer and the related allotment of Shares have previously been approved by the shareholders of the Company in a general meeting.

2.6 Acceptance of the Offer

An Offer shall be accepted by an Eligible Employee within the Offer Period by written notice to the Option Committee accompanied by a payment to the Company of a nominal non-refundable consideration of Ringgit Malaysia One (RM1.00) only for the grant of the Options.

If an Offer is not accepted in the manner aforesaid, the Offer shall automatically lapse upon the expiry of the Offer Period and be null and void and be of no further force and effect.

The Company shall within thirty (30) days of the acceptance of the Offer by the Eligible Employee (“**Acceptance Date**”), issue to the Eligible Employee an Option Certificate stating, inter alia, the number of Options granted, the Subscription Price and the Option Period.

2.7 Subscription Price

The subscription price for each new Share under the Proposed New ESOS shall be the higher of the following:-

- (a) the weighted average market price of the Shares for the five (5) Market Days immediately preceding the date of offer, with a discount of not more than ten percent (10%) (if deemed appropriate); and
- (b) the par value of the Shares.

2.8 Exercise of Option(s)

An Option granted to a Grantee under the Proposed New ESOS is, subject to the provisions of Bye-Laws 14, 16, 17 and 18, exercisable only by that Grantee during his lifetime and whilst he is in the employment of the Group and within the Option Period.

Upon acceptance of the Offer, the Grantee may during the period commencing from the Acceptance Date, exercise the Options in the manner set out in Bye-Law 10.6 subject to the maximum percentage of Options exercisable in each year commencing from the Date of Offer being less than the limit set out below:-

No. of Option granted	Maximum percentage of Option exercisable within each particular year of the Proposed New ESOS from Acceptance Date				
	Year 1	Year 2	Year 3	Year 4	Year 5
Below 5,000	100%	-	-	-	-
5,000 to less than 10,000	50%	50%	-	-	-
10,000 to less than 60,000	35%	35%	30%	-	-
60,000 and above	25%	25%	25%	25%	-

A Grantee shall exercise the Options granted to him in multiples of one thousand (1,000) Shares. Notwithstanding anything herein to the contrary in the event of any alteration in the share capital of the Company during the Option Period in accordance with Bye-Law 15 which result in the number of Shares comprised in an Option not being in multiples of one thousand (1,000), then the requirement that an Option shall be exercised in multiples of not less than one thousand (1,000) new Shares shall not be applicable for the Grantee’s final exercise of the Option.

Options which are exercisable in a particular year but are not exercised may be carried forward to subsequent years subject to the Option Period. All unexercised Options shall be exercisable in the last year of the Option Period. Any Options which remain unexercised at the expiry of the Option Period shall automatically lapse.

Within ten (10) Market Days of receipt of notice of exercise and payment or such other period as may be prescribed by the KLSE, the Company shall :-

- (a) issue and allot the relevant number of Shares. The said Shares will be credited directly into the CDS account of the Grantee or his financier, as the case may be.
- (b) despatch notices of allotment to the Grantee subject to the Articles of Association of the Company; and
- (c) make an application for the quotation of the said Shares.

2.9 Rights attaching to the Shares

The new Shares to be allotted and issued upon any exercise of the Options will, upon such allotment and issuance, rank pari passu in all respects with the then existing and issued Shares except that the new Shares so issued will not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to shareholders prior to the date of allotment of the new Shares. The new Shares will be subject to all the provisions of the Articles of Association in relation to their transfer, transmission or otherwise of the Shares. The Options shall not carry any right to vote at a general meeting of the Company.

3. RATIONALE FOR THE PROPOSED NEW ESOS

The rationale for the Proposed New ESOS are as follows:-

- (a) To recognise the contribution of Eligible Employees and Executive Directors whose services are valued and considered vital to the operations and continued growth of the KKB Group;
- (b) To motivate employees and Executive Directors of the KKB Group towards better performance through greater productivity and loyalty;
- (c) To stimulate a greater sense of belonging and dedication since employees and Executive Directors are given the opportunity to participate directly in the equity of the Company;
- (d) To encourage employees to remain with the KKB Group thus ensuring that the loss of key personnel is kept to a minimum; and
- (e) To reward employees and Executive Directors by allowing them to participate in the Company's profitability and eventually realise capital gains arising from any appreciation in the value of the Company's shares.

4. FINANCIAL EFFECTS OF THE PROPOSED NEW ESOS

The financial effects of the Proposed New ESOS are as follows: -

4.1 Share Capital

The Proposed New ESOS will not have any immediate material effect on the issued and paid-up share capital of the Company. However, assuming all options which may be granted under the Proposed New ESOS are granted and exercised, the issued and paid-up share capital of the Company will be increased as follows:-

	Scenario A ¹		Scenario B ²	
	No. of Shares	% of the enlarged issued and paid-up share capital	No. of Shares	% of the enlarged issued and paid-up share capital
<i>Existing as at 3 April 2003</i>	47,463,000	86.34%	47,463,000	90.91%
<i>To be issued pursuant to the exercise of outstanding options granted/ which may be granted under the Existing ESOS</i>	2,512,000	4.57%	-	-
	49,975,000	90.91%	47,463,000	90.91%
<i>To be issued pursuant to the Proposed New ESOS</i>	4,997,500	9.09%	4,746,300	9.09%
<i>Enlarged issued and paid-up share capital</i>	54,972,500	100.00%	52,209,300	100.00%

Notes:

1. **Scenario A :** Assuming all the outstanding options granted/ which may be granted under the Existing ESOS and the Proposed New ESOS are fully exercised.
2. **Scenario B :** Assuming none of the outstanding options granted/ which may be granted under the Existing ESOS are exercised prior to the implementation of the Proposed New ESOS

4.2 Shareholdings of Directors and Major Shareholders

The Proposed New ESOS is not expected to have any material effect on the shareholdings of the directors and major shareholders of the Company. However, the shareholdings of the directors and major shareholders (except for those directors who are eligible for ESOS Options under the Proposed New ESOS) will be diluted upon the exercise of the Options, if any as shown in the following table :-

Scenario A : Assuming all the outstanding options granted/ which may be granted under the Existing ESOS and the Proposed New ESOS are fully exercised

Name	Designation	Number of Shares held as at 3 April 2003		(i) Assuming full exercise of the options granted/ to be granted pursuant to the Existing ESOS		(ii) After (i) and assuming full exercise of the options to be granted pursuant to the Proposed New ESOS	
		Direct	% & Indirect	Direct	% ^ Indirect	Direct	% @ Indirect
Major Shareholders and Directors							
YAM Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	Non-Executive Director	3,600,000	7.58	3,600,000	7.20	3,600,000	6.55
Kho Kak Beng (JBK)	Chairman & Group Managing Director	194,000	0.41	347,000	0.69	747,000	1.36
Kho Pok Tong	Executive Director	27,000	0.06	133,000	0.27	383,000	0.70
Kho Poh Lin	Executive Director	19,000	0.04	103,000	0.21	353,000	0.64

Name	Designation	Number of Shares held as at 3 April 2003		Assuming full exercise of the options granted/ to be granted pursuant to the Existing ESOS		After (i) and assuming full exercise of the options to be granted pursuant to the Proposed New ESOS	
		Direct	% ^{&} Indirect	Direct	% [^] Indirect	Direct	% [@] Indirect
Major Shareholders Kho Kak Beng Holding Company Sdn Bhd	-	24,326,000	51.25	24,326,000	48.68	24,326,000	44.25
Liew Moi Fah	-	66,000	0.14	# 24,326,000	51.25	66,000	0.12
Kho Poh Joo	-	29,000	0.06	# 24,326,000	51.25	152,000	0.28
Directors Dato' Anwarudin Bin Ahamad Osman	Independent Non-Executive Director	5,000	0.01	-	-	5,000	0.01
Dr. Arjunan Subramaniam	Independent Non-Executive Director	-	-	-	-	-	-
Chai Woon Chew	Independent Non-Executive Director	53,000	0.11	53,000	0.11	53,000	0.10
Tan Jin Kok	Independent Non-Executive Director	-	-	-	-	-	-
Tan Heong Ming	Executive Director	522,000	1.10	564,000	1.13	814,000	1.48

Notes :-

- & Based on issued and paid-up share capital as at 3 April 2003 of 47,463,000 Shares as set out in Section 4.1
- ^ Based on enlarged issued and paid-up share capital of 49,975,000 Shares as set out under Scenario A in Section 4.1
- @ Based on enlarged issued and paid-up share capital of 54,972,500 Shares as set out under Scenario A in Section 4.1
- # Deemed interested by virtue of their substantial shareholdings in Kho Kak Beng Holding Company Sdn. Bhd.

Scenario B : Assuming none of the outstanding options granted/ which may be granted under the Existing ESOS are exercised prior to the implementation of the Proposed New ESOS

Name	Designation	Number of Shares held as at 3 April 2003				Assuming full exercise of the options to be granted pursuant to the Proposed New ESOS			
		Direct	% ^{&}	Indirect	% ^{&}	Direct	% [^]	Indirect	% [^]
<u>Major Shareholders and Directors</u>									
YAM Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	Non-Executive Director	3,600,000	7.58	-	-	3,600,000	6.90	-	-
Kho Kak Beng (JBK)	Chairman & Group Managing Director	194,000	0.41	# 24,326,000	51.25	594,000	1.14	# 24,326,000	46.59
Kho Pok Tong	Executive Director	27,000	0.06	# 24,326,000	51.25	277,000	0.53	# 24,326,000	46.59
Kho Poh Lin	Executive Director	19,000	0.04	# 24,326,000	51.25	269,000	0.52	# 24,326,000	46.59
<u>Major Shareholders</u>									
Kho Kak Beng Holding Company Sdn Bhd	-	24,326,000	51.25	-	-	24,326,000	46.59	-	-
Liew Moi Fah	-	66,000	0.14	# 24,326,000	51.25	66,000	0.13	# 24,326,000	46.59
Kho Poh Joo	-	29,000	0.06	# 24,326,000	51.25	109,000	0.21	# 24,326,000	46.59
<u>Directors</u>									
Dato' Anwarudin Bin Ahamad Osman	Independent Non-Executive Director	5,000	0.01	-	-	5,000	0.01	-	-
Dr. Arjunan Subramaniam	Independent Non-Executive Director	-	-	-	-	-	-	-	-
Chai Woon Chew	Independent Non-Executive Director	53,000	0.11	-	-	53,000	0.10	-	-
Tan Jin Kok	Independent Non-Executive Director	-	-	-	-	-	-	-	-
Tan Heong Ming	Executive Director	522,000	1.10	-	-	772,000	1.48	-	-

Notes :-

& Based on issued and paid-up share capital as at 3 April 2003 of 47,463,000 Shares as set out in Section 4.1

^ Based on enlarged issued and paid-up share capital of 52,209,300 Shares as set out under Scenario B in Section 4.1

Deemed interested by virtue of their substantial shareholdings in Kho Kak Beng Holding Company Sdn. Bhd.

4.3 Earnings

The Proposed New ESOS is not expected to have any material effect on the earnings of the KKB Group for the financial year ending 31 December 2003. Any potential effect on the EPS of the KKB Group in the future would depend on the number of Options granted and exercised at any point in time as well as the price payable upon exercise of the Options and the utilisation of proceeds arising from the exercise of the new Options. The estimated expenses for the Proposed New ESOS is RM75,000.

4.4 NTA

The Proposed New ESOS is not expected to have any immediate material effect on the NTA of the KKB Group, until such time when the Options are exercised. Any effect on the NTA per Share of the KKB Group will depend on the number of options granted and exercised at any point in time as well as the exercise price of the Option.

4.5 Dividends

The Proposed New ESOS is not expected to have any material effect on the dividend to be declared by the Company, if any, for the financial year ending 31 December 2003. Any potential effect on the dividends to be declared in the future would depend on the dividend rate to be determined after taking into consideration the number of new Shares issued pursuant to the exercise of the options.

5. CONDITIONS TO THE PROPOSED NEW ESOS

The Proposed New ESOS is conditional upon approvals being obtained from the following:-

- (i) the SC which was obtained on 16 April 2003;
- (ii) the shareholders of KKB at an AGM to be convened to approve the Proposed New ESOS and the proposed maximum entitlements of the executive directors of KKB;
- (iii) the KLSE for the listing of and quotation for the new Shares to be issued pursuant to the Proposed New ESOS; and
- (iv) any other relevant authorities, if applicable.

The approval of the SC is subject to the conditions, inter alia, that the Proposed New ESOS can only be implemented after the expiry of the Existing ESOS.

6. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

The direct and indirect interests of the Directors and major shareholders of KKB as at 3 April 2003 and their respective Proposed Maximum Allowable Allotment under the Proposed New ESOS, where applicable, are set out below:-

Name	Designation in KKB Group	Number of Shares held as at 3 April 2003				Proposed Maximum Allowable Allotment of ESOS Option
		Direct	%	Indirect	%	
Major Shareholders and Directors						
YAM Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	-	3,600,000	7.58	-	-	-
Kho Kak Beng (<i>JBK</i>)	Chairman & Group Managing Director	194,000	0.41	# 24,326,000	51.25	400,000
Kho Pok Tong	Executive Director	27,000	0.06	# 24,326,000	51.25	250,000
Kho Poh Lin	Executive Director	19,000	0.04	# 24,326,000	51.25	250,000
Major Shareholders						
Kho Kak Beng Holding Company Sdn Bhd	-	24,326,000	51.25	-	-	-
Liew Moi Fah	-	66,000	0.14	# 24,326,000	51.25	-
Kho Poh Joo	Group Manager (Human Resource & Business Services)	29,000	0.06	# 24,326,000	51.25	80,000
Directors						
Dato' Anwarrudin Bin Ahamad Osman	Independent Non-Executive Director	5,000	0.01	-	-	-
Dr. Arjunan Subramaniam	Independent Non-Executive Director	-	-	-	-	-

Name	Designation in KKB Group	Number of Shares held as at 3 April 2003				Proposed Maximum Allowable Allotment of ESOS Option
		Direct	%	Indirect	%	
Chai Woon Chew	Independent Non-Executive Director	53,000	0.11	-	-	-
Tan Jin Kok	Independent Non-Executive Director	-	-	-	-	-
Tan Heong Ming	Executive Director	522,000	1.10	-	-	250,000
<u>Persons connected to the Major Shareholders and Directors</u>						
Teh Kiang Meng	Group Manager (Facilities and Health, Safety, Environment)	14,000	0.03	-	-	80,000
Kho Hong Luan	Administration Executive	13,000	0.03	-	-	80,000

Notes :-

Deemed interested by virtue of their substantial shareholdings in Kho Kak Beng Holding Company Sdn. Bhd.

Mr. Kho Kak Beng (*JBK*), Mr. Tan Heong Ming, Mr. Kho Pok Tong and Ms. Kho Poh Lin are deemed interested in the proposed allocation of Options under the Proposed New ESOS to each of them in their capacity as Chairman & Group Managing Director and Executive Directors respectively. Mr. Kho Kak Beng (*JBK*) is the father of Mr. Kho Pok Tong and Ms. Kho Poh Lin and is also a substantial shareholder of the Company by virtue of his substantial shareholding in Kho Kak Beng Holding Company Sdn Bhd.

Accordingly Mr. Kho Kak Beng (*JBK*), Mr. Kho Pok Tong and Ms. Kho Poh Lin will abstain from all deliberations and voting at the Board meetings of the Company on the proposed allocation of Options under the Proposed New ESOS to themselves and to each other and will also respectively abstain from voting on the resolutions pertaining to the same in respect of their direct and/or indirect shareholdings, if any, in the Company at the AGM to be convened.

Mr. Tan Heong Ming will abstain from all deliberations and voting at the Board meetings of the Company on the proposed allocation of Options under the Proposed New ESOS to him and will also abstain from voting on the resolution pertaining to the same in respect of his direct and/or indirect shareholdings, if any, in the Company at the AGM to be convened.

Mr. Teh Kiang Meng and his wife, Ms. Kho Poh Joo, are the son-in-law and daughter respectively of Mr. Kho Kak Beng (*JBK*) and brother-in-law and sister respectively of Mr. Kho Pok Tong and Ms. Kho Poh Lin. Accordingly, they are persons connected to Mr. Kho Kak Beng (*JBK*), Mr. Kho Pok Tong and Ms. Kho Poh Lin and are also deemed interested in the Proposed ESOS by virtue of their eligibility for Options to be granted to them under the Proposed New ESOS as employees of KKB. Mr. Teh Kiang Meng and Ms. Kho Poh Joo will also abstain from voting on the resolutions pertaining to the proposed allocations of Options to themselves and to each other, and to Mr. Kho Kak Beng (*JBK*), Mr. Kho Pok Tong and Ms. Kho Poh Lin under the Proposed New ESOS to be tabled at the forthcoming AGM in respect of their direct and indirect shareholdings, if any, in the Company.

Ms. Kho Hong Luan who is the sister of Mr. Kho Kak Beng (*JBK*) is also a person connected to Mr. Kho Kak Beng (*JBK*). She is also deemed interested in the Proposed New ESOS by virtue of her eligibility for Options to be allocated under the Proposed New ESOS as an employee of KKB Group. Accordingly, Ms. Kho Hong Luan will abstain from voting on the resolution pertaining to the proposed allocation of Options to herself and to Mr. Kho Kak Beng (*JBK*) under the Proposed New ESOS to be tabled at the forthcoming AGM in respect of her direct and indirect shareholdings, if any, in the Company.

Mr. Kho Kak Beng (*JBK*), Mr. Tan Heong Ming, Mr. Kho Pok Tong and Ms. Kho Poh Lin also undertake to ensure that any other persons connected with them will abstain from voting in respect of their direct and indirect shareholdings on the resolutions pertaining to the proposed allocation of Options to them under the Proposed New ESOS, at the forthcoming AGM.

Save as disclosed above, none of the other Directors and/ or major shareholders of the Company and/ or persons connected (as defined in Section 122A of the Companies Act, 1965) with the Directors and/ or major shareholders of the Company, have any interest, directly or indirectly, in the Proposed New ESOS.

7. DIRECTORS' RECOMMENDATION

The Board, having considered the rationale for the Proposed New ESOS and after careful deliberation, is of the opinion that the Proposed New ESOS is in the best interest of KKB Group.

Accordingly, the Board (save for Mr. Kho Kak Beng (*JBK*), Mr. Tan Heong Ming, Mr. Kho Pok Tong and Ms. Kho Poh Lin, who being interested parties in the Proposed New ESOS, have abstained from expressing a recommendation relating to their respective entitlement under the Proposed New ESOS) recommends that you vote in favour of the resolutions pertaining to the Proposed New ESOS to be tabled at the forthcoming AGM.

Mr. Kho Kak Beng, Mr. Kho Pok Tong and Ms. Kho Poh Lin, in their capacity as Directors of the Company, have also abstained from recommending on their respective entitlement and the entitlement of each other under the Proposed New ESOS.

8. SPECIAL BUSINESS OF THE AGM

The special business of the AGM is to seek your approval, inter alia, for the Proposed New ESOS, the notice of which is set out in the Company's Annual Report despatched together with this Circular.

If you are unable to attend the AGM in person and wish to appoint a proxy, you are requested to complete, sign and return the Proxy Form attached to the Annual Report to arrive at the Registered Office of the Company at Lot 865, Section 66, Bintawa Industrial Estate, Jalan Kilang, 93450 Kuching, Sarawak not later than 48 hours before the time set for the AGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person should you subsequently wish to do so.

9. FURTHER INFORMATION

Shareholders are requested to refer to the Appendices for further information.

Yours faithfully,
For and on behalf of the Board of Directors
KKB ENGINEERING BERHAD

Dr. Arjunan Subramaniam
(*Independent Non-Executive Director*)

PART B

**PROPOSED VARIATION TO THE UTILISATION OF
PROCEEDS RAISED FROM THE RIGHTS ISSUE**

KKB ENGINEERING BERHAD

(Company No: 26495-D)
(Incorporated in Malaysia under the Act)

Registered Office

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

2 May 2003

Directors

Kho Kak Beng (*JBK*) (*Chairman and Group Managing Director*)
YAM Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah (*Non-Executive Director*)
Dato' Anwarrudin Bin Ahamad Osman (*Independent Non-Executive Director*)
Dr. Arjunan Subramaniam (*Independent Non-Executive Director*)
Chai Woon Chew (*Independent Non-Executive Director*)
Tan Jin Kok (*Independent Non-Executive Director*)
Tan Heong Ming (*Executive Director*)
Kho Pok Tong (*Executive Director*)
Kho Poh Lin (*Executive Director*)

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

Dear Shareholders,

KKB ENGINEERING BERHAD

- **PROPOSED VARIATION TO THE UTILISATION OF PROCEEDS RAISED FROM THE RIGHTS ISSUE**
-

1. INTRODUCTION

The Company had on 24 May 2001 completed the Rights Issue and raised a total proceed of RM7.84 million (fully received on 17 May 2001), of which RM6.10 million have been allocated for the upgrading of the Group's existing LPG cylinder plant located in Bintawa Industrial Estate in Kuching, Sarawak. The upgrading is expected to be undertaken in stages over a period of eighteen (18) months from the date of receipt of the proceeds.

On 30 October 2002, the Board announced that the Company has utilised approximately RM3.3 million of the proceeds for the upgrading of the LPG cylinder plant. With the then expanded plant capacity and the moderate off-take of LPG cylinders, due to weaker demand and market condition, the Board was of the view that productivity of the plant had increased to a satisfactory level to meet the required level of off-take of cylinders.

Accordingly, the Board announced on 30 October 2002, that :-

- (i) the RM1.30 million of the proceeds which is to be reallocated for the acquisition of additional equipment and machinery for the upgrading of the LPG cylinder plant to further improve the productivity of the LPG cylinder plant will be deferred for a period of twelve (12) months until 16 November 2003; and

- (ii) the balance of RM1.50 million allocated for the upgrading of the LPG cylinder plant is no longer required and the Company had decided to utilise the said amount for working capital purposes of the Company.

The said variation is tabulated as follows:-

Utilisation	As approved by shareholders on 27.2.2001 (RM' Million)	As per announcement dated 30.10.2002 (RM' Million)
a. Upgrading of LPG cylinder plant	6.10	3.30
b. Working Capital	-	1.50
c. Deferment of expenditure on LPG plant equipment and machinery till 16.11.2003	-	1.30
	6.10	6.10

Subsequent to the above announcement, on 3 April 2003, the Company announced its intention to vary part of the utilisation of proceeds raised from the Rights Issue amounting to RM1.30 million to be utilised as additional working capital of the Company.

The Purpose of Part B of this Circular is to provide you with the details and rationale of the Proposed Variation, set out the Board's recommendation thereon and to seek your approval for the resolution pertaining to the Proposed Variation to be tabled at the forthcoming AGM. The Notice of AGM and Form of Proxy are enclosed in the Annual Report despatched together with this Circular.

2. DETAILS OF AND RATIONALE FOR THE PROPOSED VARIATION

On 3 April 2003, the Company announced its intention to vary part of the utilisation of proceeds raised from the Rights Issue amounting to RM1.30 million to be utilised as additional working capital of the Company. The Proposed Variation is tabulated as follows:-

Utilisation	As per announcement dated 30.10.2002 (RM' Million)	As per announcement dated 3.4.2003 (RM' Million)
a. Upgrading of LPG cylinder plant	3.30	3.30
b. Working Capital	1.50	2.80
c. Deferment of expenditure on LPG plant equipment and machinery till 16.11.2003	1.30	-
	6.10	6.10

At present, the LPG cylinder plant is experiencing lower off-take as certain petroleum companies are generally cutting back their off-take volume due to slower demand from the market. In view of the prevailing soft market sentiment, the Board is of the opinion that the current productivity of the LPG cylinder plant is sufficient for the present and forecast level of off-take of cylinders. Accordingly, the Board is delaying/ postponing its capital expenditure for further upgrading of the LPG cylinder plant.

Whilst the LPG Cylinder Division of KKB is experiencing lower production due to the reasons above, the Company is actively expanding its construction activities consistent with the sustained infrastructure development work within the State of Sarawak. The Company's Civil Construction and Steel Fabrication Division is actively tendering for construction, completion and commissioning of water steel pipelines projects and is confident that the Company will be actively participating in such new contracts in the current year which is expected to contribute favourably to the Group's revenue.

As such, the Board of Directors is of the view that the balance RM1.30 million proceeds raised from the Rights Issue instead be utilised as working capital to accommodate such projects. The RM1.30 million proceeds together with the RM1.50 million proceeds as announced earlier on 30 October 2002 is expected to be fully utilised within the current financial year.

As the aggregate variation exceeds 25% of the Rights Issue proceeds, KKB is required to seek the shareholders' approval for the variation in utilisation of proceeds. The Proposed Variation was announced to the public on 3 April 2003.

3. EFFECTS OF THE PROPOSED VARIATION

The Proposed Variation is not expected to have any material effect on the share capital, shareholding structure and dividend of the Company, and the earnings and NTA of the Group.

4. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and Major Shareholders of KKB and person connected to these Directors and Major Shareholders have any interests, directly or indirectly, in the Proposed Variation.

5. APPROVAL

The Proposed Variation is subject to the approval of shareholders of KKB at an AGM to be convened.

6. DIRECTORS' RECOMMENDATION

The Board, having considered the rationale for the Proposed Variation and after careful deliberation is of the opinion that the Proposed Variation is in the best interest of KKB Group and accordingly, they recommend that you vote in favour of the resolution pertaining to the Proposed Variation to be tabled at the forthcoming AGM.

7. SPECIAL BUSINESS OF THE AGM

The special business of the AGM is to seek your approval, inter alia, for the Proposed Variation, the notice of which is set out in the Company's Annual Report despatched together with this Circular.

If you are unable to attend the AGM in person and wish to appoint a proxy, you are requested to complete, sign and return the Proxy Form attached to the Annual Report to arrive at the Registered Office of the Company at Lot 865, Section 66, Bintawa Industrial Estate, Jalan Kilang, 93450 Kuching, Sarawak not later than 48 hours before the time set for the AGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person should you subsequently wish to do so.

8. FURTHER INFORMATION

Shareholders are requested to refer to the Appendices for further information.

Yours faithfully,
For and on behalf of the Board of Directors
KKB ENGINEERING BERHAD

Dr. Arjunan Subramaniam
(Independent Non-Executive Director)