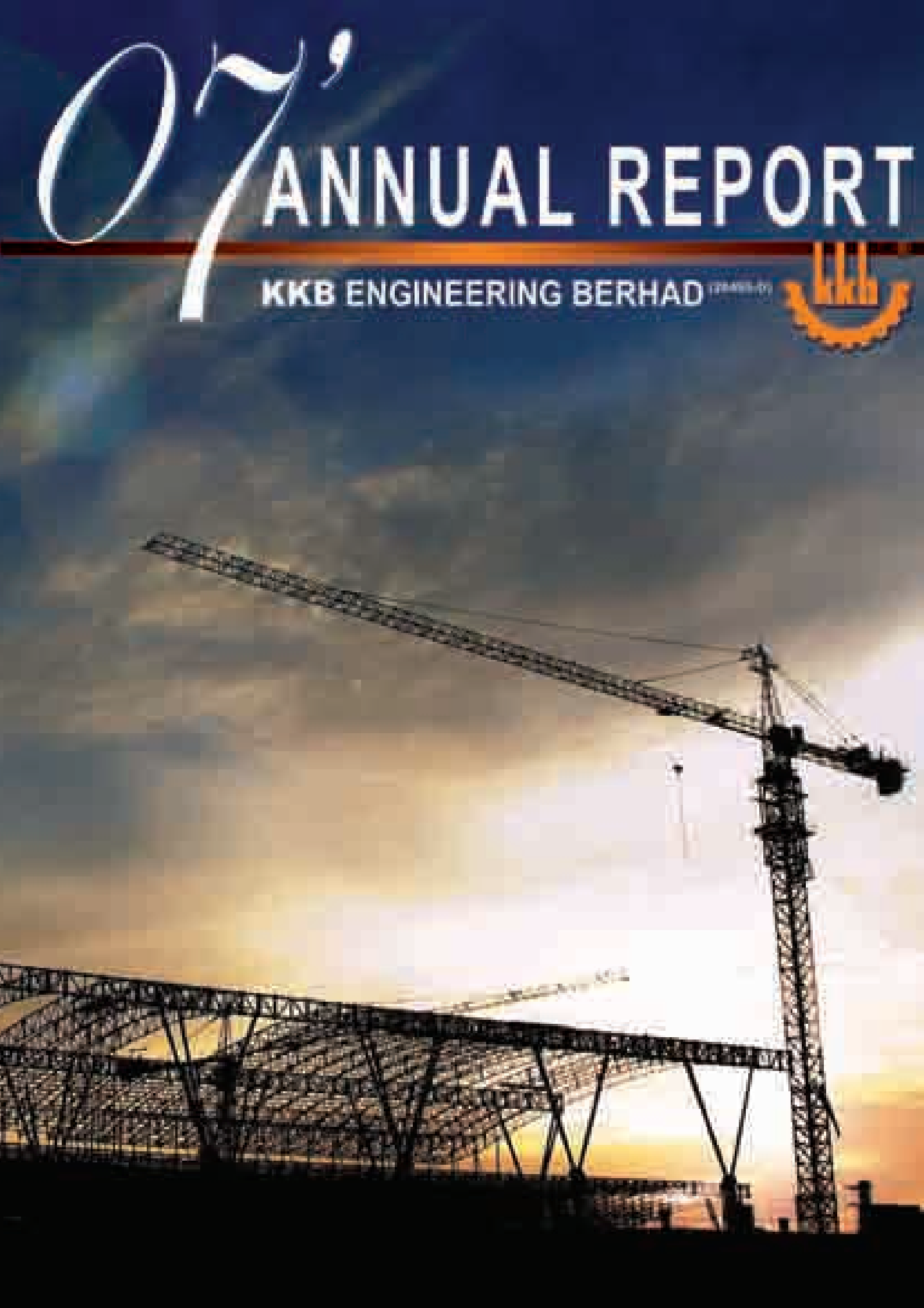


07

# ANNUAL REPORT

KKB ENGINEERING BERHAD (1999-01-01)





# VISION

A Successful and Diversified Steel related International Business Enterprise.

# MISSION

To be "Supplier of First Choice" of Customers.

To have consistent "Fair and Equitable Return of Investment" for Shareholders.

To progress through continuous advancement on Technology, Innovation and Training.

To be "A Preferred Place of Work" of Employees.

To be a good Corporate Citizen, who is committed to a high standard of protection of Health, Safety and Environment (HSE) at all times.

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KKB ENGINEERING BERHAD  
[26495-D]



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# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Thirty-Second Annual General Meeting of the Company will be held at Balai Merdeka, 3<sup>rd</sup> Floor, Merdeka Palace Hotel & Suites, Jalan Tun Abang Haji Openg, 93000 Kuching, Sarawak on Thursday, 8 May 2008 at 10.00 a.m. for the following purposes:-

## AGENDA

- a. To receive the Audited Financial Statements for the financial year ended 31 December 2007 together with the Reports of the Directors and Auditors thereon. **Resolution 1**
- b. To declare a first and final dividend of eight (8) sen per share, consisting of 3.8 sen (tax exempt) and 4.2 sen (taxable at 26%) in respect of the financial year ended 31 December 2007 as recommended by the Directors. **Resolution 2**
- c. To approve the payment of Directors' fees amounting to RM324,000 for the financial year ended 31 December 2007. (2006:RM270,000). **Resolution 3**
- d. To re-elect the following Directors who retire pursuant to Article 82 of the Company's Articles of Association:-
- i) Dato Kho Kak Beng **Resolution 4**
  - ii) Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah **Resolution 5**
  - iii) Dato' Anwarrudin Bin Ahamad Osman **Resolution 6**
- e. To re-appoint Messrs Ernst & Young as auditors of the Company and to authorize the Directors to fix their remuneration for the ensuing year. **Resolution 7**
- f. **As Special Businesses**  
*To consider and, if thought fit, pass the following resolutions as special and ordinary resolutions:-*
- **Ordinary Resolution - Authority to issue shares pursuant to Section 132D of the Companies Act, 1965** **Resolution 8**  

“THAT pursuant to Section 132D of the Companies Act, 1965 and subject always to the Company's Articles of Association and approvals of the relevant authorities, the Directors be and are hereby empowered to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, including but not limited to such shares as may be issued pursuant to the Employees' Share Option Scheme provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being AND THAT the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”
  - **Ordinary Resolution - Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature (“Proposed Shareholders' Mandate”)** **Resolution 9**  

“THAT subject always to Bursa Malaysia Securities Berhad Listing Requirements, approval be and is hereby given to the Company and/or its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in Clause 3.3 (i) and (ii) of the Circular to Shareholders dated 10 April 2008 (“the Circular”), which are necessary for its day-to-day operations subject further to the following:-

    - i) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not to the detriment of the minority shareholders; and
    - ii) disclosure is made in the annual report a breakdown of the aggregate value of transactions conducted pursuant to the Proposed Shareholders' Mandate during the financial year, where the aggregate value is equal to or exceeds the applicable prescribed threshold under Paragraph 2.1 of the Practice Note No. 12/2001, and amongst others, based on the following information:-

# Notice of Annual General Meeting [cont'd]

- the type of recurrent transactions made; and
- the names of the related parties involved in each type of the recurrent transactions made and their relationship with the Company.

**AND THAT** such approval shall continue to be in force until:-

- the conclusion of the next Annual General Meeting (“**AGM**”) of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- the expiration of the period within which the next AGM of the Company subsequent to the date it is required to be held pursuant to Section 143(1) of the Malaysian Companies Act, 1965 (the “**Act**”) [but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act]; or
- revoked or varied by resolution passed by the shareholders in general meeting;

whichever is the earlier;

**AND THAT** the Directors of the Company be hereby authorized to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Shareholders’ Mandate.

**AND THAT** the estimated value given on the recurrent related party transactions specified in Clause 3.3(i) of the Circular being provisional in nature, the Directors of the Company be hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in Clause 3.4 of the Circular.”

• **Special Resolution - Proposed Amendments to the Company’s Articles of Association** **Resolution 10**

“**THAT** the proposed amendments to the Company’s Articles of Association as set out in Part B of the Circular to Shareholders dated 10 April 2008, be and are hereby approved.”

- To transact any other business which may properly be transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act, 1965 and the Company’s Articles of Association.

## NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

**NOTICE IS ALSO HEREBY GIVEN** that a first and final dividend of eight (8) sen per share, consisting of 3.8 sen (tax exempt) and 4.2 sen (taxable at 26%) in respect of the financial year ended 31 December 2007, if approved at the Thirty-Second Annual General Meeting, will be paid on 30 May 2008 to Depositors whose names appear in the Record of Depositors on 16 May 2008.

A Depositor shall qualify for entitlement only in respect of:-

- Shares transferred into the Depositors’ Securities Account before 4.00 pm on 16 May 2008 in respect of transfer; and
- Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

**VOON JAN MOI (MAICSA 7021367)**  
Company Secretary

Kuching, Sarawak  
Dated: 10 April 2008

# Notice of Annual General Meeting [cont'd]

## Explanatory Notes on Special Businesses

Pursuant to Para 8.28 (3) of the Bursa Malaysia Securities Berhad Listing Requirements, append hereunder is the explanatory notes on Special Businesses in resolutions 8, 9 and 10.

### Ordinary Resolution 8 - Authority to issue shares pursuant to Section 132D of the Companies Act, 1965.

The proposed resolution 8, if passed, will empower the Directors of the Company from the date of the above General Meeting to issue and allot Ordinary Shares from the unissued capital of the Company for such purposes as the Directors consider would be in the interests of the Company including but not limited to such share as may be issued pursuant to the Employees' Share Option Scheme ("ESOS").

This authority will unless revoked or varied by the Company in General Meeting expire at the next Annual General Meeting of the Company. With this authority, the Company will be able to raise capital from the equity market in a shorter period of time and the costs to be incurred will also be lower as the need to convene an extraordinary general meeting will be dispensed with.

### Ordinary Resolution 9 - Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature

The proposed resolution 9, if passed, will authorize the Company and/or its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations, provided such transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not to the detriment of the minority shareholders.

By obtaining the shareholders' mandate, the necessity to convene separate meetings from time to time to seek shareholders' approval as and when such recurrent related party transactions occur would not arise. This would reduce substantial administrative time and costs associated with the convening of such meetings without compromising on the corporate objectives of the KKB Group or adversely affecting the business opportunities available to the KKB Group.

### Special Resolution 10 - Proposed Amendments to the Company's Articles of Association

The proposed resolution 10 on the Proposed Amendments to the Company's Articles of Association is to be in line with the Bursa Malaysia Securities Listing Requirements governing the listed companies. Please refer to Part B in the Circular to Shareholders dated 10 April 2008 for details of the Proposed Amendments.

## 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 appoint 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 the 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 authorized.
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.

# Corporate Information

## DIRECTORS

Dato Kho Kak Beng  
*Chairman/Group Managing Director*

Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah  
*Independent and Non-Executive Director*

Dr Arjunan Subramaniam  
*Independent and Non-Executive Director*

Dato' Anwarudin Bin Ahamad Osman  
*Non-Independent and Non-Executive Director*

Chai Woon Chew  
*Non-Independent and Non-Executive Director*

Tan Jin Kok  
*Independent and Non-Executive Director*

Kho Pok Tong  
*Group Executive Director*

Tan Heong Ming  
*Executive Director*

Kho Poh Lin  
*Executive Director*

## AUDIT COMMITTEE

Dr Arjunan Subramaniam (*Chairman*)  
Tan Heong Ming  
Tan Jin Kok

## NOMINATION COMMITTEE

Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah (*Chairman*)  
Dr Arjunan Subramaniam  
Chai Woon Chew

## REMUNERATION COMMITTEE

Dato' Anwarudin Bin Ahamad Osman (*Chairman*)  
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah  
Dr Arjunan Subramaniam

## MANAGEMENT EXECUTIVE COMMITTEE

Dato Kho Kak Beng (*Chairman*)  
Kho Pok Tong  
Tan Heong Ming  
Kho Poh Lin

## RISK MANAGEMENT COMMITTEE

Kho Pok Tong (*Chairman*)  
Kho Poh Lin  
Kho Poh Joo  
Dominic A/L Laah  
Liew Hup Kui  
Diwek Anak Dayus  
Ang Chee Yong  
Teh Kiang Meng

## ESOS COMMITTEE

Tan Heong Ming (*Chairman*)  
Kho Pok Tong  
Kho Poh Lin

## COMPANY SECRETARY

Voon Jan Moi (MAICSA 7021367)

## LEGAL ADVISOR

Battenberg & Talma, Advocates

## AUDITORS

Ernst & Young, Chartered Accountants

## PRINCIPAL BANKERS

Hong Leong Bank Berhad  
AmBank (M) Berhad  
RHB Bank Berhad

## REGISTRAR

Symphony Share Registrars Sdn Bhd  
Level 26, Menara Multi-Purpose, Capital Square  
No. 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur, Malaysia  
Tel: 603-2721 2222  
Fax: 603-2721 2530 / 2721 2531

## REGISTERED OFFICE

Lot 865, Section 66  
Bintawa Industrial Estate, Jalan Kilang  
93450 Kuching, Sarawak, Malaysia  
Tel: 6082-333 877 (10 lines)  
Fax: 6082-331 152

**Email:** [kkbeb@po.jaring.my](mailto:kkbeb@po.jaring.my)  
**Web-site:** [www.kkbeb.com.my](http://www.kkbeb.com.my)

## BRANCH OFFICE - KUALA LUMPUR

701, Block A, Kelana Business Centre  
97, Jalan SS7/2  
47301 Petaling Jaya, Selangor, Malaysia  
Tel: 603-7492 6383 (3 lines)  
Fax: 603-7492 6380

**E-mail:** [kkbeb@streamyx.com](mailto:kkbeb@streamyx.com)

## BRANCH OFFICE - KOTA KINABALU

No. 11-13, Jalan 1G KKIP Selatan  
Lots 13, 14 & 15 (IZ 4)  
Kota Kinabalu Industrial Park  
88460 Kota Kinabalu, Sabah, Malaysia  
Tel: 6088-495 240 (3 Lines)  
Fax: 6088-495 340

**E-mail:** [leettf@kkbis.com.my](mailto:leettf@kkbis.com.my)

## STOCK EXCHANGE LISTING

Main Board of the Bursa Malaysia Securities Berhad (BMSB) on 21.6.2007  
Stock Name: KKB  
Stock code: 9466

# Board of Directors' Profile



DATO KHO KAK BENG

Aged 64. Malaysian. Appointed to the Board on 20 February 1976.

He is the founder of KKB Engineering Berhad and Group Managing Director of the Company and its Group of Companies. He is also the Chairman of the Management Executive Committee. Dato Kho Kak Beng started his business in 1962 in welding works and subsequently his business foresight and indepth knowledge in steel works allowed him to embark on other steel related engineering and construction industries. His vast experience and dynamic vision and entrepreneurship coupled with his technical and managerial skills have strongly positioned him as Group Managing Director in charge of the overall group management and business development. Under his leadership, the Group has grown into one of the biggest steel fabrication companies in Sarawak today. He also sits on the Board of various other private companies.

Dato Kho Kak Beng's entrepreneurship was recognized and endorsed by the State Government of Sarawak when he was awarded Master Entrepreneur by the Ministry of Industrial Development Sarawak on 7 September 2004. He is also the Chairman of Sarawak Foundry & Engineering Industries Association since 1995. He is also the Vice President of Federation Of Malaysian Foundry & Engineering Industries Associations.

Dato Kho Kak Beng does not sit on any Board Committee of the Company nor does he hold any directorship in other public companies. He is the father to Directors, Kho Pok Tong and Kho Poh Lin and is a shareholder of Kho Kak Beng Holding Company Sdn Bhd. He has no previous convictions for any offences within the past 10 years. Except for certain recurrent related party transactions of revenue nature for which he is deemed interested by virtue of his interests in certain companies in which he is a Director, there are no other business arrangements with the Company in which he has personal interest.

During the financial year ended 31 December 2007, he attended 3 out of 4 Board meetings.

As at 13 March 2008, his shareholdings in the Company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	1,181,575	1.87	31,755,575*	50.17

\* Deemed interested by virtue of his substantial interest in Kho Kak Beng Holding Company Sdn Bhd, spouse and child's shareholding

----- KKB ENGINEERING BERHAD -----



RAJA DATO' SERI ASHMAN SHAH  
IBNI SULTAN AZLAN SHAH

Aged 49. Malaysian. Appointed to the Board as Non-Executive Director since 5 September 1994. He is an Independent and Non-Executive Director of the Company. He is the Chairman of the Nomination Committee and a member of the Remuneration Committee.

He graduated from the University of Nottingham with a Bachelors degree in Economics in 1981. Thereafter he studied law at Westminster University, London and qualified as a Barrister-at-law from Lincoln's Inn, London. In 1985, he attained his Masters of Law Degree from Cambridge University.

From 1986 to 1992, Raja Dato' Seri Ashman Shah was the Executive Director of Kanzen Berhad. Presently he is the Executive Chairman of a private company involved in property development. He is also a Director of Kian Joo Can Factory Berhad.

He has no relationship with other directors and has no previous convictions for any offences within the past 10 years. He has no conflict of interest with the Company.

During the financial year ended 31 December 2007, he attended 2 out of 4 Board meetings.

## Board of Directors' Profile [cont'd]

Aged 65. Malaysian. Appointed to the Board as Independent and Non-Executive Director since 1 January 1999 and re-designated as Non-Independent and Non-Executive Director on 27 February 2004. He is the Chairman of the Remuneration Committee.

He holds a Bachelor of Arts degree from the University of Malaya.

Before joining Petronas, Dato' Anwarrudin served 10 years in the Government Civil Service. He also gained valuable experience whilst working with Petronas for 23 years holding various senior positions until his retirement in 1998 as the Managing Director/Chief Executive Officer of Petronas Dagangan Berhad.

Dato' Anwarrudin is currently the Executive Chairman of Technic Data Works (M) Sdn Bhd.

He also sits on the Board of UEM Builders Bhd and Fraser & Neave Holdings Berhad. He has no relationship with other directors and has no previous convictions for any offences within the past 10 years. Except for certain Recurrent Related Party Transactions of revenue nature for which he is deemed interested by virtue of his interests in an associated company and in which he is a Director and major shareholder, he has no conflict of interest with the Company.

During the financial year ended 31 December 2007, he attended 4 out of 4 Board meetings.

As at 13 March 2008, his shareholdings in the Company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	6,250	0.01	-	-

.....KKB ENGINEERING BERHAD.....

Aged 66. Malaysian. Appointed to the Board as Independent and Non-Executive Director since 5 September 1994. He is the Chairman of the Audit Committee, member of the Nomination and Remuneration Committees. He is also appointed as Senior Independent Director to whom concerns may be conveyed to him.

He holds a Bachelor of Art (Hons.) degree, Bachelor of Law (Hons.) degree, and a Master of Laws degree from University of London. He is also Doctor of Philosophy (Malaya), a Fellow member of Malaysian Institute of Taxation and was Chairman of the Tax Practice Committee of Malaysian Institute of Accountants. He also holds a Certificate in Legal Practice (CLP).

He joined Inland Revenue Department and was Assistant Director General when he left to be a Tax Director of an International Accounting Firm. Dr Arjunan has extensive experience in corporate tax planning, restructuring, tax investigation and formulating business plans and drafting of tax statutes and is still an active member. He also wrote several books on tax policies and taxation and is an Adjunct Professor at UUM (School of Accounting). Previously, he was an Adjunct Professor of Law, Northern Territory University, Darwin, Australia.

Currently, he is an advocate and solicitor, and is a partner of Lee Hishammuddin Allen & Gledhill.

Dr Arjunan Subramaniam does not hold directorship in other public listed companies. He has no relationship with other directors and substantial shareholders and has no previous convictions for any offences within the past 10 years. He has no conflict of interest with the Company.

During the financial year ended 31 December 2007, he attended 4 out of 4 Board meetings and 4 out of 4 Audit Committee meetings.



**DATO ANWARRUDIN BIN AHAMAD OSMAN**



**DR ARJUNAN SUBRAMANIAM**

## Board of Directors' Profile [cont'd]



TAN HEONG MING

Aged 66. Malaysian. Appointed to the Board and as Executive Director since 28 February 1997. He is a member of the Audit Committee, Management Executive Committee and the Chairman of the Employees' Share Option Scheme (ESOS) Committee.

He holds a Diploma in Mechanical Engineering (Ballarat School of Mines, Australia), a Bachelor of Mechanical Engineering (Hons.) degree and a Masters of Engineering Science (Hons.) degree, both from University of Melbourne, Australia. He is a Registered Professional Engineer (Malaysia), a member of the Institution of Engineers (Singapore) and a Chartered Professional Engineer (Australia).

He worked for a period in Australia, and first joined Shell Group in Singapore as a transport engineer in 1968. He served a continuous 28 years in Shell Group until he retired in 1996. During this period, he held various professional and managerial positions locally with Shell Companies in Malaysia, and overseas with Shell Companies in Singapore and Shell International Trading in the United Kingdom. Before his retirement, he served on the Boards of various Shell Companies in Malaysia. He was also a Trustee of then Shell Malaysia Retirement Funds.

Tan Heong Ming does not hold any directorship in other public companies but sits on the Board of various private companies. He has no family relationship with other directors and substantial shareholders and has no previous convictions for any offences within the past 10 years. He has no conflict of interest with the Company.

During the financial year ended 31 December 2007, he attended 4 out of 4 Board meetings and 4 out of 4 Audit Committee meetings.

As at 13 March 2008, his shareholdings in the Company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	875,000	1.38	30,000*	0.05

\* Deemed interested by virtue of his child's shareholding

KKB ENGINEERING BERHAD



CHAI WOON CHEW

Aged 50. Malaysian. Appointed to the Board as Non-Executive Director since 5 September 1994. He is the Non-Independent and Non-Executive Director. On 2 March 2004, he was appointed as member of the Nomination Committee.

He holds a Bachelor of Laws (Hons.) degree from the University of Buckingham, Bachelor of Science (Hons.) degree from University of Surrey, UK and qualified as Barrister at Law from Lincoln's Inn, England. Currently, he is a partner of Michael Chai & Co, Advocate & Solicitors.

He also sits on the Board of Minetech Resources Berhad. He is not related to any of the directors and has no previous convictions for any offences within the past 10 years. He has no conflict of interest with the Company.

During the financial year ended 31 December 2007, he attended 4 out of 4 Board meetings.

As at 13 March 2008, his shareholdings in the Company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	180,625	0.29	4,500,000*	7.11

\* Deemed interested by virtue of his interest in Laman Satria Sdn Bhd

## Board of Directors' Profile [cont'd]

Aged 57. Malaysian. Appointed to the Board as Independent and Non-Executive Director on 1 December 2001. He is a member of the Audit Committee.

Tan Jin Kok is a Chartered Accountant and a member of Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants, Malaysian Institute of Taxation and fellow-member of The Association of Chartered Certified Accountants, UK.

He joined Inland Revenue Department, Sarawak and was an Examiner when he left. He is presently a partner of Moor Stephens, Chartered Accountants, Malaysia and the owner of Tan Jin Kok & Co., Chartered Accountants. He also sits on the board of various associations/societies in Miri besides other private companies.

Tan Jin Kok does not hold any directorship in other public companies. He is not related to any of the directors and substantial shareholders and has no previous convictions for any offences within the past 10 years. He has no conflict of interest with the Company.

During the financial year ended 31 December 2007, he attended 4 out of 4 Board meetings and 4 out of 4 Audit Committee meetings.

As at 13 March 2008, his shareholdings in the Company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	44,875	0.07	-	-

-----KKB ENGINEERING BERHAD-----

Aged 39. Malaysian. Appointed to the Board and as Executive Director since 14 January 1994. He is a member of Employees' Share Option Scheme (ESOS) Committee, Management Executive Committee and the Chairman of the Risk Management Committee.

Kho Pok Tong holds a Bachelor of Laws (Hons.) degree from the University of London.

He joined the Company as Manager in 1992 and was responsible for the business and operations of various divisions within the Company. Instrumental in the pre-public listing and corporate exercise of the Company, he was appointed Executive Director in 1994 and Group Executive Director on 1 October 2006.

In line with the Company's expansion plan and diversifications from Engineering activities - Steel, Construction and Hot-Dip Galvanizing into Steel Related Manufacturing activities - LP Gas Cylinders, Cylindrical Steel Drums and Steel Water Pipes and Specials since 1994, he was actively involved and is currently responsible for the overall Group's Operations. He initiated the Quality Assurance Programme and now oversees the maintenance of the Group's current six (6) ISO certifications since 1996 and the Group's Health, Safety & Environment Policies.

He is a member of the Federation of Malaysian Manufacturers Working Committee (Sarawak), since 30 August 2001 and also sits on the Board of all related Subsidiaries and Associated Companies and various other private companies.

Kho Pok Tong does not hold any directorship in other public companies. He is the son of Dato Kho Kak Beng, brother of Kho Poh Lin and a shareholder of Kho Kak Beng Holding Company Sdn Bhd. He has no previous convictions for any offences within the past 10 years. Except for certain recurrent related party transactions of revenue nature for which he is deemed interested by virtue of his interests in certain companies in which he is a Director, there are no other business arrangements with the Company in which he has personal interest.

During the financial year ended 31 December 2007, he attended 4 out of 4 Board meetings.

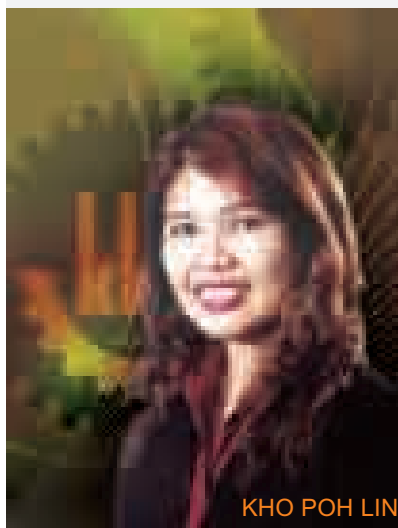
As at 13 March 2008, his shareholdings in the Company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	92,500	0.15	31,615,925*	49.95

\* Deemed interested by virtue of his substantial interest in Kho Kak Beng Holding Company Sdn Bhd



## Board of Directors' Profile [cont'd]



Aged 41. Malaysian. Appointed to the Board and as Executive Director since 14 January 1994. She is a member of the Employees' Share Option Scheme (ESOS) Committee, Management Executive Committee and Risk Management Committee.

Kho Poh Lin holds a Bachelor of Law (LL.B) (Hons.) degree from University of Buckingham and also a Certificate in Legal Practice (CLP). She is also qualified as a licensed Company Secretary.

She is responsible for the Corporate and Legal Affairs of the Company and its Group of Companies. In addition, she also takes responsibilities in the administration and management of the Company such as human resources, registration and licensing with statutory and regulatory authorities. She is also in charge of all compliance requirements of Bursa Securities and Securities Commission for the Company including all company secretarial practices for the Group. Before appointment as Executive Director, Kho Poh Lin served the Company as Corporate and Legal Affairs Manager and also held the position of Alternate Director. Prior to joining the Company, she was attached to Battenberg and Talma, Advocates before being admitted as an Advocate of the High Court in Borneo, Sarawak. She also sits on the Board of various private companies.

Kho Poh Lin does not hold any directorship in other public companies. She is the daughter of Dato Kho Kak Beng, sister of Kho Pok Tong and a shareholder of Kho Kak Beng Holding Company Sdn Bhd. She has no previous convictions for any offences within the past 10 years. Except for certain recurrent related party transactions of revenue nature for which she is deemed interested by virtue of her interests in certain companies in which she is a Director, there are no other business arrangements with the Company in which she has personal interest.

During the financial year ended 31 December 2007, she attended 4 out of 4 Board meetings.

As at 13 March 2008, her shareholdings in the company are as follows:-

Name of Company	Direct Interest	%	Indirect Interest	%
KKB Engineering Berhad	92,500	0.15	31,615,925*	49.95

\* Deemed interested by virtue of her substantial interest in Kho Kak Beng Holding Company Sdn Bhd

# Chairman's Statement

*Dear Shareholders,*

*On behalf of the Board of Directors, I am pleased to present the Annual Report of KKB Engineering Berhad (KKB) and its subsidiaries ("Group") for the financial year ended 31 December 2007.*

*Year 2007 marked a fruitful and eventful year for the Group with its successful transfer from the Second Board of Bursa Malaysia Securities Berhad to the Main Board, signifying another successful chapter accomplished in the history of KKB. The coming of age of 45 years is also a testimony of the Group's maturity and continuous sustainability in its businesses.*



## Financial Highlights

The Group has had another challenging and excellent year. I am pleased to report that the Group's results for the financial year under review have registered positive growth for the 5<sup>th</sup> consecutive year, in both turnover and profit.

During the year under review, the Group's turnover has risen by 37.9% to RM136.8 million, from RM99.2 million in the preceding financial year. Accordingly, the Group's profit before taxation grew by 23.5% to RM20.5 million, a significant improvement from the preceding year of RM16.6 million.

The Group was able to sustain its strong performance in 2007 attributed mainly to higher turnover and gross profit recorded from its Steel Fabrication Division, which have shown a marked improvement over the preceding year's performance.

Profit after taxation and minority interests for the current year soared by 22.7% to reach RM14.6 million as against RM11.9 million registered in the preceding year, thereby increasing our net earnings per share to 23.69 sen as compared to the preceding year's adjusted net earnings per share of 19.77 sen (after adjusting the 1 for 4 Bonus Issue undertaken in June 2007), representing an increase of 20.0%.

## Operations Overview

### Engineering Sector

The Engineering Sector, which represents the core of the Group's activities, continues to be the major driver of the

Group's businesses, contributing 77.0% of the Group's gross profit. The sector reported a gross profit of RM25.5 million on the back of revenue of RM86.5 million, an impressive increase of 52.7% and 92.2% respectively over the preceding year. Margins however have declined from 37.1% to 29.5% in view of stiffer competition and rising costs.

The main contributor to the growth of this sector was its Steel Fabrication Division which achieved a turnover and gross profit of RM67.7 million and RM19.7 million respectively, compared to RM27.1 and RM10.4 million in the preceding year.

This sector is poised to strengthen further on the back of various infrastructure development projects launched under the 9<sup>th</sup> Malaysia Plan, and in the development of growth corridors. Under the 9<sup>th</sup> Malaysia Plan, KKB Group has identified its participation in various projects related to the power generation and transmission in the State of Sarawak, which would require significant amount of steel fabrication work. Furthermore, the steel fabrication services for the oil and gas sector is expected to remain strong in the medium term with crude oil prices staying at the present high levels.

In line with our Group's vision to be a successful and diversified steel related international business enterprise, it is critical for the Group to focus on the need to expand its operations in enhancing its performance in the coming years. Thus as announced earlier in 2007, the Proposed Acquisition of approximately 27.6 hectares of land from CMS Steel Berhad in Kuching will enable KKB to embark on new activities in small craft shipbuilding, and in steel fabrication services for the oil and gas sector.

# Chairman's Statement [cont'd]

## Manufacturing Sector

The Manufacturing Sector contributed a lower turnover of RM50.3 million as compared to RM54.2 million achieved in the preceding year, with contribution both from the steel water pipes and LPG cylinder manufacturing businesses.

The decline was partly attributed to the discontinuance of its steel drum manufacturing business in 2006.

Steel water pipes and LPG cylinders manufacturing businesses, being the two core Divisions under the manufacturing sector, remain steady and active in their operations during the past financial years, and are constantly looking to embrace new perspectives to grow the businesses.

During the year under review, KKB has amongst other contracts secured, also signed a contract worth RM21.0 million with Shell International Petroleum Co. Ltd involving the supply of LPG cylinders to Shell Gas LPG Local Operating Unit in Malaysia for duration of two years with effect from April 2007.

In addition to the above, Letter of Award with an estimated contract sum of RM30.1 million has been issued by CMS Infra Trading Sdn Bhd to KKB's 90% owned subsidiary, namely Harum Bidang Sdn Bhd, for the supply and delivery of various cement-lined Mild Steel Pipes & Mechanical couplings for duration of two years with effect from December 2007.

## Corporate Development

### **Listing of and quotation for the entire issued and paid-up share capital from the Second Board to the Main Board of Bursa Malaysia Securities Berhad**

In June 2007, KKB had implemented a Bonus Issue of 1 new share for every 4 existing shares held, resulting in the listing and quotation of an additional 12,261,000 new shares. Further to this bonus issue, I am pleased to place on record that KKB was successfully transferred from the Second Board of Bursa Malaysia Securities Berhad to the Main Board on 21 June 2007 under the "Industrial Products" sector.



### **Proposed Acquisition of Approximately 27.6 hectares of a parcel of provisional leasehold land together with buildings thereon at Lot 777 Block 5, MTLD, Sejingkat, Kuching from CMS Steel Berhad and proposed Strategic Alliance**

KKB had in July 2007 entered into a Memorandum of Understanding with Cahya Mata Sarawak Berhad ("CMSB") of its intention and mutual understanding in connection with the Proposed Acquisition of leasehold land together with buildings thereon measuring approximately 27.6 hectares at Lot 777, Block 5, MTLD, Sejingkat, Kuching from CMS Steel Berhad, a subsidiary of CMSB and the Proposed Strategic Alliance between KKB and CMSB to undertake steel fabrication activities in the oil and gas, shipping and marine sectors.

On 7 November 2007, KKB had entered into a conditional sale and purchase agreement with CMS steel Berhad to undertake the Proposed Acquisition for a total purchase consideration of RM32,000,000 to be satisfied by the issuance of 16,000,000 new ordinary shares of RM1.00 each in KKB at an issue price of RM2.00 per share. It is my pleasure to announce that the Securities Commission and shareholders have approved the Proposed Acquisition on 25 January 2008 and 24 March 2008 respectively.

In line with the Group's corporate strategies to expand its operations and to further enhance the shareholders' values in the coming years, the Board has identified and approved the Proposed Acquisition as an appropriate investment, which together with the strategic tie-up with Cahya Mata Sarawak Berhad will enhance the future earnings potential of the Group.

The newly acquired Land, which has a strategic river frontage location will enable KKB to potentially increase its production capacity for the fabrication work from its existing 10,000 to 40,000 metric tonne per annum under a 2-phase development. The increased production capacity as well as its ability to accommodate larger and more complex steel fabrication structures will enable KKB to embark on new activities in small craft shipbuilding, and in steel fabrication services for the oil and gas sector.

The Proposed Acquisition and the ensuing strategic partnership between the KKB Group and CMSB Group, will facilitate the Group's participation in the growth of the engineering and steel fabrication industry in Sarawak, particularly in the shipbuilding, marine and oil and gas sectors, and hence will position KKB Group in a ready growth path post 2007.

### **Sarawak Chamber Of Commerce & Industry (SCCI) Corporate Report Awards 2007**

I am indeed very proud that KKB was awarded runner up for Overall Excellence Reporting for the SCCI Annual Corporate Report Awards 2007. It is also heartening to note that KKB has been awarded three times since 1999. In 2004, it was adjudged Winner for the SCCI Annual Corporate Report Overall Excellence Award.

# Chairman's Statement [cont'd]

## Dividends

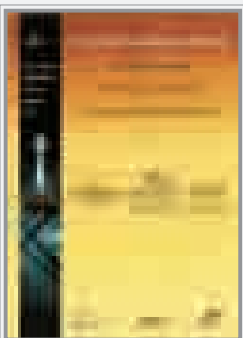
With the mission to have consistent "Fair and Equitable Return of Investment" for shareholders, the Directors are now recommending for shareholders approval a first and final dividend of 8 sen per share, consisting of 3.8 sen per share tax exempt and 4.2 sen per share less 26% income tax, in respect of the financial year ended 31 December 2007.

## Corporate Social Responsibility (CSR)

Continuing to be a good Corporate Citizen, KKB Group always place its commitment in taking positive steps towards implementing strong CSR initiatives.

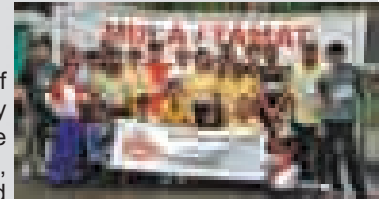
KKB has generously donated a sum of RM291,000 to various organizations including schools, social and charitable organizations during its 45<sup>th</sup> anniversary celebration held on 5 April 2007. Some of the beneficiaries, amongst others, include Pertubuhan Kebajikan Anak-Anak Yatim Negeri Sarawak, Perkim Cawangan Kuching, Kidney Association of Sarawak, Mental Health Association of Sarawak, Sarawak Foundry & Engineering Industries Association, The Committee of Management of Kuching Chung Hua Middle School No. 1, 3 & 4, Perkata Sarawak, Social Welfare Council of Sarawak, SMB St Joseph School, St Joseph's Cathedral Kuching, Sarawak Breast Cancer Support Group, Scout Association for Malaysia Sarawak Branch, Sarawak Koh Yang (Kho Clan) Association, Sarawak Hun Nam Siang Tng, Malaysian Red Crescent Society, The Salvation Army, Sarawak Thong Sim Siang Tng, Girl Guides Association Malaysia Sarawak Branch, Sin Ee Koo Hu Chu Association, Komiti Gereja Baru Nanga Assan, Sarawak Cheshire Home, Kuching Samarahan Division Building & Civil Engineering Contractors Association, Sarawak Heart Foundation and Sarawak Chawan Association.

KKB Group through its employees has again, participated in the Malaysian Red Crescent Society Charity Run in December 2007. On 18 August 2007, a Blood Donation campaign was held during KKB's Safety Month as part of the regular contributions to the blood bank by KKB's staffs. In addition to donating to charitable organisations, KKB Group also regularly offer short term positions to students from colleges and polytechnics for industrial training at its factories.



## Prospects and Outlook

The present activities of KKB Group are closely correlated to the construction, infrastructure, utilities, manufacturing and engineering sectors. The future prospects of the Group will continue to be linked to the growth of the aforesaid sectors.



The proposed diversification into small craft shipbuilding and to increase participation in steel fabrication services for the oil and gas sector will position the Group in favourable position to grow.

The world economy is expected to continue expanding albeit at a slower pace and amidst high crude oil prices and U.S. sub-prime crises. The Malaysian economy is forecasted to register a growth of between 6% and 6.5% by Malaysian Finance Ministry, with the Government continues to ensure sufficiency, electricity generation and transmission networks will be fully developed particularly in the rural parts of Sabah and Sarawak.

The construction sector is poised to strengthen further on the back of ongoing infrastructure projects and new projects under 9MP, and the corridors development.

Barring unforeseen circumstances, with the 27.6 hectares land acquisition together with the strategic cooperation between KKB Group and CMSB Group, KKB will be able to further expand its operations and improve its performance in the coming years.

## Appreciation

Lastly, I wish to convey my sincere thanks to our fellow directors and all the employees of KKB Group for their continued loyalty, commitment and professionalism. Warmest thanks also goes to our valued shareholders for their trust and confidence in KKB. I would also like to extend the Board's gratitude to our valued customers, suppliers, bankers, various government authorities for their continued support and confidence in our Group. Given the joint co-operation of the Board of Directors and all relevant personnel, the Group is poised to meet new challenges in the years ahead.

**Dato Kho Kak Beng**  
Chairman / Group Managing Director

# Audit Committee Report

## Membership

The composition of the Company's Audit Committee, appointed by the Board from amongst its members, comprises three members of which two are independent and Non-Executive Directors.

## Composition

Name	Position	Category
Dr Arjunan Subramaniam	Chairman	(Independent and Non-Executive Director)
Tan Jin Kok	Member	(Independent and Non-Executive Director)
Tan Heong Ming	Member	(Executive Director)

## 1. Terms of Reference

### 1.1 Composition

The Audit Committee must comprise of not less than three (3) members with majority as Independent Directors being Directors independent of management free of any relationship that in the opinion of the Board of Directors would interfere with the exercise of independent judgment on committee members.

The Chairman of the Committee shall be an Independent Director.

At least one member of the Audit Committee:-

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and:-
  - (a) he must have passed the examinations specified in Part 1 of the 1<sup>st</sup> Schedule of the Accountants Act, 1967; or
  - (b) he must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act, 1967.

Alternate Director is not allowed to become a member of the Audit Committee.

If the number of members is reduced to below three (3) by reason of resignation, death or for any other reason ceases to be a member with the result that the number of the members is reduced below three (3), the Board of Directors shall, within three (3) months of the event, appoint such number of new members as may be required to fulfill the minimum requirement.

### 1.2 Attendance

At the request of the Chairman, Directors and employees will be in attendance at the Committee Meetings or for selected agenda items and representatives of the External Auditors and Internal Auditors may also be invited.

### 1.3 Meetings

The Committee shall meet at least four (4) times a year and the quorum shall be two (2). At least twice a year the Committee shall meet with the External Auditors without Executive Board Members present.

The Chairman shall convene a meeting of the Audit Committee if a request is made by any committee member, the management, the Internal or External Auditors to consider any matter relating to the scope and responsibilities of the Committee.

The Company Secretary shall act as Secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

# Audit Committee Report [cont'd]

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to committee members and to the other members of the Board of Directors.

## 1.4 Authority

The Committee is authorized by the Board to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee. The Committee shall have unrestricted access to both Internal and External Auditors and is authorized by the Board to obtain outside legal or other independent professional advice if it considers necessary.

## 1.5 Duties

The Duties of the Committee shall be:-

**1.5.1** To review the quarterly results and year end financial statements prior to the approval by the Board of Directors, focusing particularly on:-

- the going concern assumption;
- compliance with accounting standards and other legal requirements;
- any changes in accounting policies and practices; and
- significant issues from the audit and significant and unusual events.

**1.5.2** To review the following with External Auditors and report the same to the Board of Directors:-

- the audit plan and report;
- evaluation of system of internal controls; and
- problems and reservation arising from interim and financial audits.

**1.5.3** To review with the Internal Audit Functions on the following:-

- adequacy of the scope, function and resources of the Internal Auditors and that it has the necessary authority to carry out its work;
- the internal audit programme, processes, the results of the internal audits, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- internal audit plan, consider the major findings of internal audit, fraud, investigation and actions and steps taken by management in response to audit findings; and
- any appraisal or assessment of the performance of members of the internal audit function.

**1.5.4** To monitor related party transactions and conflict of interest situation that may arise within the Company or Group.

**1.5.5** To review:-

- any letter of resignation from External Auditors of the Company or Group;
- whether there is reason to believe that the Company or Group's External Auditors is not suitable for re-appointment;
- any recommendations on the nomination of a person or persons as External Auditors; and
- the appointment or re-appointment of Internal Auditors or recommend the nomination of a person or persons as Internal Auditors.

**1.5.6** To assess the adequacy and effectiveness of the system of internal control and accounting control procedures of the Company and Group by reviewing External Auditors' management letter and management's response.

**1.5.7** To verify the allocation of options pursuant to ESOS (where applicable) at the end of each financial year.

**1.5.8** To undertake such other responsibilities as may be agreed by the Committee and the Board.

# Audit Committee Report [cont'd]

## 2. Review of Composition of Audit Committee

The term of office and performance of the Audit Committee and each of the members shall be reviewed by the Board of Directors at least once every three (3) years to determine whether the Audit Committee and its members have carried out their duties in accordance with the Terms of Reference.

## 3. Internal Audit Function

The Board should establish an Internal Audit Function which reports directly to the Audit Committee.

In ensuring an independent, objective assurance to add value and to continuously improve the Group's operations, the Company has established an Internal Audit Function to help in its endeavors to evaluate and improve the effectiveness of risk management, business control and governance processes. Such audits also ensure instituted controls as appropriate are effectively applied and are within acceptable risks exposure.

The Internal Audit Function is outsourced to an independent external service provider which performs its role with impartiality and is adequately resourced with professionally competent audit staff. The Internal Auditor reports directly to the Audit Committee with its findings and recommendations. Any necessary corrective actions after reporting to the Board of Directors by the Audit Committee will be directed by the Board.

During the financial year under review, the Internal Auditor carried out its audit assignments according to the Audit Plan as approved by the Audit Committee.

During the financial year under review, the Audit Committee received four (4) quarterly reports.

The Audit Topics for 2007 were on the followings:-

- (i) Business Start-up Review Audit (primary focus on "KKB Industries (Sabah) Sdn Bhd")
- (ii) KKB Group Insurance Review (conducted by an appointed independent Insurance Consultant)
- (iii) Maintenance Schedules Review Audit (primary focus on "KKB Engineering Bhd")
- (iv) Key Performance Indicators Review Audit (primary focus on "KKB Engineering Bhd")

## 4. Attendance of Meetings

The Audit Committee held four (4) meetings during the financial year under review namely February 2007, May 2007, August 2007 and November 2007 and details of the members and their attendance at the meetings are as follows:-

Name	Designation	No. of Meetings	Attendance of Meeting
Dr Arjunan Subramaniam	Independent and Non-Executive Director (Chairman)	4	4
Tan Jin Kok	Independent and Non-Executive Director	4	4
Tan Heong Ming	Executive Director	4	4

## 5. Summary of Activities

The Audit Committee had discharged its duties as set out in the Terms of Reference.

During the financial year under review and in line with the Terms of Reference, the activities of the Audit Committee included:-

- a. Review of the unaudited quarterly financial statement and the audited annual financial statement of the Company and the Group, prior to recommending the same document for approval by Board, upon being satisfied that the financial reporting and disclosure requirements to the relevant authorities had been complied with, before the release to Bursa Malaysia Securities Berhad.
- b. Review with the External Auditors the Audit Plan for 2007.

# Audit Committee Report [cont'd]

- c. The Audit Committee sat with the External Auditors without the presence of the Executive Management to determine whether there were any significant issues on the findings of their audit.
- d. Review and approve audit plan of the Internal Auditors for 2007.
- e. Review Quarterly Related Party Transactions which are required to be transacted at arms length and are not detrimental to the interests of minority shareholders.
- f. Verify the allocation of options pursuant to ESOS as being in compliance with the criteria referring to in Para 8.21A (at the end of each financial year) in the Annual Report.
- g. Review the Audit Committee Terms of Reference.

## 6. Statement Verifying Allocation of Options

The Audit Committee has reviewed and verified that the allocation of share options pursuant to the Employees' Share Options Scheme ("ESOS") for the financial year ended 31 December 2007 was made in accordance with the criteria set out in the by-laws of the ESOS.



# Statement on Corporate Governance

The Board of Directors of KKB Engineering Berhad is committed to its fiduciary responsibility for good corporate governance in its business practices. Accordingly, the Board supports the Malaysian Code on Corporate Governance (“the Code”) and continued to apply the principles and practices therein.

## A. Board of Directors

The Board of Directors has the overall responsibility for corporate governance, strategic planning and oversee the conduct of the Company’s business.

The roles of the Board as well as the respective roles of the Executive Directors and Non-Executive Directors are defined.

In fulfilling its functions, the Board is being assisted by the various Board Committees discussed below in this Statement on Corporate Governance.

### Board Composition and Balance

There were no changes in Board’s composition during the financial year ended 31 December 2007. Further, considering the size of the Company and the clear division of responsibility of Executive Directors, the existing structure is functioning efficiently.

Category	No. of Directors	%
Executive Directors	4	44.45
Non-Executive Directors	2	22.22
Independent and Non-Executive Directors	3*	33.33
	9	100

\* *minimum requirements with Paragraph 15.02, Bursa Malaysia Securities Berhad’s Listing Requirements requires 1/3 of the Board to comprise of independent directors.*

The Directors have a wide range of legal, business, financial, technical and management experience. A brief description on the profile of each Director is presented from Pages 05 to 09 of this Annual Report.

The Board has complied with best practices in Corporate Governance except that the Chairman also holds an Executive position as Group Managing Director. Notwithstanding this combined roles, the board is of the opinion that there is balanced view at all deliberations and no unfettered powers of decision due to the presence of 1/3 Independent Non-Executive Directors who are independent from management and free of any business or other relationship, and therefore able to bring independent judgement on all issues, including key appointments and standards of conduct.

### Board Meetings

The effectiveness of the Board is ensured through regular and scheduled meetings with formal schedule of matters specifically reserved to it for deliberation and decision to ensure that the direction and control of the Group are firmly in its hands.

The Board conducts at least four (4) scheduled meetings annually at quarterly intervals for the prime purpose of timely review of Group’s quarterly financial performance against its annual operating and capital budgets, approving strategic business plans, corporate business plans and development of the Group. It is also responsible for reviewing the adequacy and integrity of the Company’s Internal Control System and Risk Management.

During the financial year ended 31 December 2007, the Board met four (4) times where it deliberated upon a variety of matters. All proceedings at the Board Meeting are minuted and confirmed by the Chairman of the meeting.

The Company Secretary will ensure that the Board’s proceedings are followed regularly and reviewed. She will provide guidance to the Board on Directors’ obligations arising from the rules and regulations including those as listed in the Malaysian Code on Corporate Governance (“the Code”), the Listing Requirements of Bursa Malaysia Securities Berhad or other regulatory requirements of the Companies Act, 1965.

# Statement on Corporate Governance [cont'd]

The attendance of the Directors who held office during the financial year is set out below:-

Name of Directors	Meetings Attended
Dato Kho Kak Beng	3/4
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	2/4
Dato' Anwarudin Bin Ahamad Osman	4/4
Dr Arjunan Subramaniam	4/4
Chai Woon Chew	4/4
Tan Jin Kok	4/4
Tan Heong Ming	4/4
Kho Pok Tong	4/4
Kho Poh Lin	4/4

## Re-election of Directors

In accordance with the Articles of Association of the Company, at least 1/3 of all the Directors are subject to retirement by rotation at each Annual General Meeting. Retiring Directors may offer themselves for re-election to the Board at the Annual General Meeting. In this Annual Report, details of Directors seeking re-election such as inter-alia, age, relevant experience, list of directorship, participation in the Board Committee are disclosed separately.

## Supply of Information

Prior to each Board Meeting, Directors are furnished with an agenda and comprehensive information in order to allow Directors to have adequate review and preparation to ensure the effectiveness of the proceeding of the meetings. The Board papers circulated include Quarterly and Annual "year-to-date" Financial Statements, Minutes of immediate past meeting, report on Recurrent Related Party Transactions, updates on Regulatory Authorities, Internal and External Audit Reports and Group Operations Report.

The Board of Directors has access to all information within the Company and the advice and services of the Company Secretary in furtherance of their duties. Non-Executive Directors have the same right of access to all data and information within the Company as Executive Directors.

In addition, the Board has unrestricted access to seek independent professional advices either legal or financial, as and when required, at the Company's expenses.

## Directors Training

All the Directors have successfully completed the Mandatory Accreditation Programme ("MAP") within the stipulated timeframe as required by Bursa Malaysia Securities Berhad. They have also fully completed the Continuing Education Programme during the financial year under review.

The Directors also have undergone some relevant training programmes during the financial year in order to further enhance their skills and knowledge to keep them abreast with the relevant development in the business environment.

A brief description of the training or seminar attended by the Directors is scheduled as follows:-

Name of Directors	Description of Training
Dato Kho Kak Beng	Role of Tax Planning in Preserving Your Wealth
Kho Pok Tong	Bursa Malaysia - MAICSA Roadshow 2007 'Updates on Listing Requirements: Issues and Challenges'
Kho Poh Lin	Bursa Malaysia - MAICSA Roadshow 2007 'Updates on Listing Requirements: Issues and Challenges'  The Revised Malaysian Code on Corporate Governance: The Challenges Ahead for Internal Auditors
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	The Rise of the Ringgit Malaysia - a boon or a bane?

# Statement on Corporate Governance [cont'd]

Chai Woon Chew	Legal and Practical Issues on Housing Developers Under The Housing Developers Act and The Regulations Made Thereunder : The Right, Duties and Liabilities of Developers, Purchasers and Financiers  Legal and Practical Issues on Strata Titles, Duties of Developers and Management Corporation  The Rise of the Ringgit Malaysia - a boon or a bane?
Tan Heong Ming	CMDF - Bursa Research Scheme II Seminar
Dato' Anwarudin Bin Ahamad Osman	Programme for Building High Performance Directors
Dr Arjunan Subramaniam	A Critique of Tax Cases and Issues Arising
Tan Jin Kok	National Tax Conference 2007

## Directorships in other companies

In compliance with Paragraph 15.06 of the Listing Requirements of Bursa Malaysia Securities Berhad, Directors do not hold more than 10 directorships in Public Listed Companies and do not hold more than 15 directorships in Non-Public Listed Companies. The listing of directorship held by Directors is confirmed by each director.

## Directors' Remuneration

The Remuneration Committee is responsible for recommending to the Board the remuneration framework of Executive Directors. The level of remuneration reflects the experience and level of responsibilities undertaken by the Executive Directors. The fees payable to Non-Executive Directors are the responsibilities of the entire Board.

The details of aggregate remuneration payable to the Directors of the Company for the financial year ended 31 December 2007 are as follows:-

Aggregate Remuneration	Executive Directors RM	Non-Executive Directors RM
Salaries	1,128,000	-
Fees	144,000	180,000
Bonus	556,000	-
Allowances and Benefit in Kind	325,907	53,500
ESOS	4,950	-

In compliance with transparency, accountability and disclosure requirements under the Listing Requirements of Bursa Malaysia Securities Berhad, the number of Directors whose total remuneration falls within the following bands during the financial year ended 31 December 2007 are as follows:-

Total Remuneration Band	Executive Directors	Non-Executive Directors
Less than RM50,000	-	3
RM 50,000 to RM150,000	-	2
RM150,001 to RM250,000	1	-
RM250,001 to RM350,000	1	-
RM350,001 to RM450,000	1	-
RM1,150,001 to RM1,250,000	1	-

## Board Committees

All the following committees will act based on approved terms of reference or procedures to assist the Board in the execution of its function. The process allows for detailed consideration of complex issues with diversity of opinions, suggestions and recommendations from the Committees. The Chairman of the respective committee will report to the Board on matters considered and submit recommendation to the Board for approval as appropriate.

# Statement on Corporate Governance [cont'd]

The Board of Directors has established five (5) Board Committees as follows:-



## (i) Audit Committee

The Terms of Reference of this Committee together with its report are presented from Pages 13 to 16 in the Audit Committee Report. On 26 February 2008 and based on Nomination Committee's Performance Evaluation report, the Board has reviewed and is satisfied that the Audit Committee and each of its members have carried out their duties in accordance with the Terms of Reference.

## (ii) Nomination Committee

The Nomination Committee comprises the following members:-

Name	Position	Category
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	Chairman	Independent and Non-Executive Director
Dr Arjunan Subramaniam	Member	Independent and Non-Executive Director
Chai Woon Chew	Member	Non-Independent and Non-Executive Director

The Nomination Committee is responsible for considering and proposing new nominees for the Board, assessing the relevant expertise and contribution of existing board member and the effectiveness of the Board as a whole.

During the financial year under review, the Nomination Committee met once.

## (iii) Remuneration Committee

The Remuneration Committee comprises the followings:-

Name	Position	Category
Dato' Anwarrudin Bin Ahamad Osman	Chairman	Non-Independent and Non-Executive Director
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah	Member	Independent and Non-Executive Director
Dr Arjunan Subramaniam	Member	Independent and Non-Executive Director

The Remuneration Committee assists the Board in reviewing and assessing the remuneration packages of Executive Directors and Group Managing Director, although determination of remuneration packages of both Executive and Non-Executive Directors remains with the Board. The Committee is responsible to ensure the level of remuneration is sufficiently attractive to retain a stable management team and to further encourage the creation of value for the shareholders and link rewards to corporate goals and individual performance. Further, the Committee has to keep abreast with changes in the total remuneration packages in the external market comparables, and reviews and recommends changes to the Board when deemed necessary.

The Remuneration Committee met once during the financial year under review.

# Statement on Corporate Governance [cont'd]

## (iv) ESOS Committee

The ESOS Committee was formed and consists of the following members:-

Name	Position	Category
Tan Heong Ming	Chairman	Executive Director
Kho Pok Tong	Member	Group Executive Director
Kho Poh Lin	Member	Executive Director

The ESOS Committee meets as and when required. It is authorized to act within the confines of the new ESOS Bye-Laws and to grant options to eligible employees from time to time.

## (v) Management Executive Committee

This Committee refers all the Executive Directors of the Company:-

Name	Category
Dato Kho Kak Beng	Group Managing Director
Kho Pok Tong	Group Executive Director
Tan Heong Ming	Executive Director
Kho Poh Lin	Executive Director

The Management Executive Committee represents the Board of Directors and ensures the implementation of decisions and policies by the Board. The Committee ensures effective and efficient business processes and smooth running of daily operations within the Group. The Committee sits as often as possible to discuss the conduct of the Company's business and plans.

## (vi) Risk Management Committee

The members of the Risk Management Committee are as follows:-

Name	Position	Category
Kho Pok Tong	Chairman	Group Executive Director
Kho Poh Lin	Member	Executive Director
Kho Poh Joo	Member	Group Manager (Human Resource and Business Services)
Dominic A/L Laah	Member	Group Manager (Commercial and Project)
Liew Hup Kui	Member	Group Manager (Manufacturing–Business)
Diwek Anak Dayus	Member	Group Manager (Finance)
Ang Chee Yong	Member	Group Manager (Project)
Teh Kiang Meng	Member	Deputy General Manager (Harum Bidang Sdn Bhd)

The Terms of Reference of the Risk Management Committee lay down its duties and responsibilities. It reports to the Management Executive Committee which in turn reports to the Board.

During the financial year, the Risk Management Committee sat four (4) times and initiated formally the principal stages in the Risk Management Framework such as risk awareness, risk identification, key risk profile/corporate risk scorecards development, implementation of continuous risk monitoring system.

## B. Accountability and Audit

### Audit Committee

The Audit Committee provides assistance to the Board in relation to accounting, reporting and business practices of the Company and its Group of Companies. It independently serves to implement and support the oversight function of the Board.

The independent Audit Committee is a platform for regular, informal and private discussions between the Independent Directors and External Auditors. It is a forum for a focused review and detailed discussions of the Company's process for producing financial reports and internal control.

The Audit Committee Report is found separately in this Annual Report.

# Statement on Corporate Governance [cont'd]

## Financial Reporting

The Board is responsible to ensure that the Company and Group's financial statements are prepared in accordance with the applicable approved accounting standards and provisions of the Companies Act, 1965.

A statement by the Directors of their responsibility in preparing the financial statement is set out separately in this Annual Report.

## Internal Control

The Board is committed to maintain a sound system of internal control to safeguard the shareholders' investment and Company's assets. Accordingly, the Directors are obliged to ensure that an Internal Control System exists. The Audit Committee assists the Board in fulfilling such obligation by reviewing and evaluating independently its effectiveness and adequacy with the assistance of the Internal Audit Function.

In addition to the Audit Committee's independent evaluation of the Internal Control System, the Risk Management Committee also ensures the implementation of a Risk Management Framework in relation to all the Group's operations and business activities. The Risk Management Committee reports to the Management Executive Committee who reports and recommends to the Board of Directors on its findings.

Further details relating to Internal Control System are set out under Statement on Internal Control in this Annual Report.

## Relationship with the Auditors

The External Auditors play an essential role for the shareholders by giving assurance on the reliability of the financial statement. Key features underlying this relationship between the Audit Committee and the External Auditors are included in the Audit Committee's Report.

The External Auditors met the Board whenever necessary and it shall meet the Audit Committee without the presence of Executive Directors \*once a year in the Audit Committee meeting.

\* *With effect from next financial year, the Audit Committee meet External Auditors without presence of Executive Directors twice a year.*

## C. Shareholders

The Board acknowledges the need for shareholders to be informed of all material business and corporate development affecting the Company.

Announcements, quarterly reports and financial results, Annual Reports and Circulars, where appropriate are provided to the shareholders and investing public. The Annual General Meeting is the principal forum for dialogue with the shareholders and shareholders are notified of the meeting and provided with a copy of the Company's Annual Report before the meeting.

Further, the Company operates a Website that is readily accessible by all where Company's profile and other information are available for viewing area which contents are updated regularly.

# Directors' Responsibility Statement

Pursuant to S169(15) of the Companies Act, 1965, the Directors are required to state that the Group's financial statement for the financial year are drawn up in accordance with approved accounting standards so as to give a true and fair view of the Group's statement of affairs and of the results of the Group's business operations for the financial year.

In preparing the financial statement of the Company and the Group, the Directors have adopted suitable accounting policies and applying them consistently, have made judgements and estimates that are reasonable and prudent and ensured applicable accounting standards have been complied.

All financial results required for announcement to Bursa Malaysia Securities Berhad by the Board of Directors are released within stipulated timeframe.

# Statement on Internal Control

## Introduction

This Statement on Internal Control is made pursuant to Para 15.27(b) of Bursa Malaysia Securities Berhad's Listing Requirements with regards to compliance with the principles and best practices as provided in the Malaysian Code on Corporate Governance ("the Code") which relate to internal control.

## Board Responsibility

The Board of Directors recognizes its responsibility and the importance of maintaining a sound system of Internal Control to safeguard shareholders' investment and Group's assets. The Board also acknowledges its responsibility to review the adequacy and integrity of the system. It is committed to maintaining a sound system of Internal Control in the Group. The Internal Control System is a process that provides reasonable assurance that the Group's business objectives will be achieved.

The system covers not only financial controls but operational and compliance controls and risk management. The Internal Control System however, can only manage rather than eliminate the risk of failure to achieve the Group's business objectives due to the limitation inherent in any system of Internal Control. Therefore, any system can only provide reasonable and not absolute assurance against material misstatement or loss regarding:

- The safeguarding of the Company's assets against unauthorized use or disposition; and
- The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The statement below outlines the processes and scope of Internal Control put in place in the Group during the financial year.

## Risk Management

The Board is mindful of the various risks involved in the Group's businesses and is fully committed to exercise due care to manage these risks. Risk Management practices and Internal Control are embedded in the daily operations of the Group.

The Board has an established on-going process for identifying, evaluating and managing the significant risks encountered by the Group in accordance with the guidelines as contained in the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("the Internal Control Guidance") issued by the Institute of Internal Auditors Malaysia Task Force on Internal Control.

The Board of Directors with the assistance of professionals and advisers, identify principal risks and ensure an appropriate system is implemented to manage and to minimize such risks.

## Risk Management Committee

To further enhance and improve the process of Risk Management, the Risk Management Committee comprising Executive Directors as well as Senior Management personnel has a duty to act and execute in accordance with the Terms of Reference laid down.

The duties and responsibilities of the Risk Management Committee are defined in the Terms of Reference, Policy and Guidelines. It carries out risks identification, evaluate, monitor and formulate mitigation strategies on risks identified. The Risk Management Committee executes its duty based on the Group's operational activities and manages risks as directed by the Management Executive Committee who in turn reports to the Board of Directors.

The Risk Management Committee periodically reviews Risk Management processes and policies to ensure relevancy and effectiveness. It will then submit an annual report on the overall Risk Management processes to the Board for review through the Management Executive Committee.

During the financial year under review, the Risk Management Committee held four (4) meetings and worked within the adopted Risk Management framework. This process is monitored and reviewed by the Management Executive Committee who shall report and recommend to the Board of Directors in ensuring the adequacy and integrity of the system on Internal Control and to ensure that an appropriate mix of techniques is used to obtain level of assurance required by the Board.

# Statement on Internal Control [cont'd]

The risk responses and internal controls that the management have taken and/or are taking are documented in the minutes of the Risk Management Committee's meeting. For each of the risks identified, the management is assigned to ensure appropriate risk response actions are carried out.

## Internal Audit Function

Whilst the Risk Management Committee operates independently within the confines of its terms of reference and reports to the Management Executive Committee in ensuring that a sound system of internal control is maintained, the adequacy and integrity of the Internal Control System are further assured by the existence of an Independent Internal Audit Function which possesses the necessary expertise to perform their duties. The Internal Audit Function's activities are outsourced to independent external service provider or consultants, who are adequately resourced to ensure the audit activities are carried out professionally with independence, objectivity and impartiality without interference.

The Internal Auditors' role is separate (although may overlap) from that of the Risk Management Committee as it regularly evaluates on an independent basis the effectiveness and appropriateness of the entire Risk Management and control structure as directed by the Audit Committee. In addition, the Internal Auditors may also provide such assurance and advice covering specialised areas. With the report presented to the Audit Committee, the Audit Committee in turn reports back to the Board of Directors for review on the adequacy and effectiveness on Internal Control and Risk Management System.

As an on-going process, the Internal Auditors carried out detailed risk audits on each identified area according to approved audit plan.

For the financial year under review, a total of four planned audits were conducted. They are:-

- (i) Business Start-up Review Audit (primary focus on "KKB Industries (Sabah) Sdn Bhd")
- (ii) KKB Group Insurance Review (conducted by an appointed independent Insurance Consultant)
- (iii) Maintenance Schedules Review Audit (primary focus on "KKB Engineering Bhd")
- (iv) Key Performance Indicators Review Audit (primary focus on "KKB Engineering Bhd")

At the conclusion of each audit, the Internal Auditors submit their findings and recommendations to the Audit Committee during the scheduled Audit Committee Meetings. The findings from each audit were subsequently tabled to the Board at scheduled Board Meetings by the Chairman of the Audit Committee accordingly.

## Other Key Risk and Control Processes

Other key areas of the Group's Internal Control System include the followings:-

- Board Committees such as Audit Committee, Nomination Committee, Remuneration Committee, ESOS Committee and Management Executive Committee, each with clearly defined terms of reference, authority and responsibility.
- The existence of ISO 9001: 2000 certifications for operational control procedures with stringent documentation requirements provide assurance that a trail of accountability exists and also continuous quality improvement.
- Scheduled management meetings for each division and department to review operational matters, contingency plans, new requirements and updates.
- Establishment of Employee's Handbook, Health & Safety Manual and other publication provide for continuous assurance and trail of accountability.
- A well structured organizational hierarchy with formally defined lines of responsibility and duties.
- Implementation of Enterprise Resource Planning (ERP) via a JDEdward Application Software System to integrate and improve the overall efficiency of the Group's financial and operational control, and to optimize capacity utilization.
- The Internal Audit function is outsourced to an independent professional consultants body which is an entity adequately staffed with professional resources in respective specialized areas. It reports directly to the Audit Committee.

# Statement on Internal Control [cont'd]

- Where areas of improvement in the systems are identified, the Board is always ready to receive and consider the recommendations made by the Audit Committee.
- Continuous practice of Employee's Performance appraisal on a yearly basis, and to align it with the Group's Pay and Reward Scheme.
- The Human Resource & Business Services (HRBS) Department continuously facilitates operational skills and leadership development and training as well as knowledge enhancement for employees against company's business requirements, consistent with the Company's Mission of Employer of Choice.
- Comprehensive systems of timely financial reporting to the Audit Committee and then to the Board of Directors of quarterly financial performance.
- Legal, Corporate and Bursa Malaysia Listing Rules compliance are continuously addressed, monitored and managed via a single focal point through the Executive Director in charge of Legal and Corporate Affairs, assisted and advised by legal counsel and company secretary as necessary.

## Board Review

Pursuant to Paragraph 15.24 of the Listing Requirements, the External Auditors have reviewed this statement for inclusion in the Annual Report for the financial year ended 31 December 2007 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

The Board confirms that there is a continuous process for identifying, evaluating and managing significant risks to assess and enhance the effectiveness of the Internal Control System.

During the period under review, the Board is pleased to report that there were no significant material weaknesses in internal control resulting in significant losses. Management will continue to review the adequacy and integrity of the Company's internal control systems.

*This Statement is made in accordance with a resolution of the Board of Directors dated 26 February 2008.*

# Certifications and Accreditation

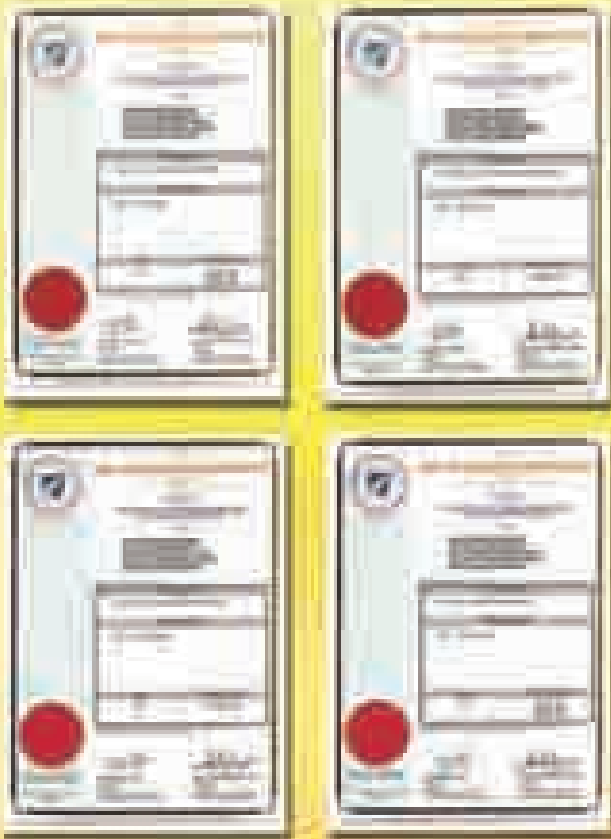


Cert. No. 401125



Scope of Accreditation:  
**ISO 9001 : 2000**

- Fabrication of steel structures, non-pressurised tanks, silos, piping spools, lamp posts and steel containers.
- Provision of hot-dip galvanising of steel products.
- Design and manufacture of LPG cylinders.
- Reconditioning of used LPG cylinders.
- Manufacture of steel pipes and pipe specials.

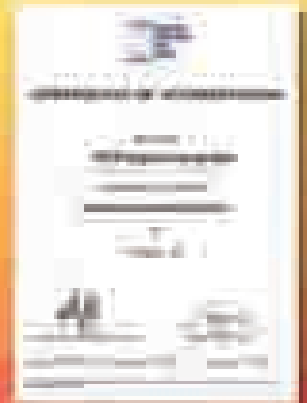
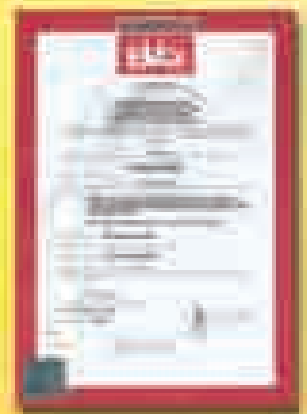
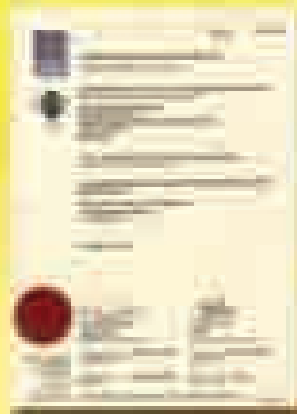


Certification Body:  
**SIRIM QAS Sdn. Bhd.**

Product Certification:  
**KKB Engineering Bhd**  
**Lighting Columns**  
**(Galvanized Tapered Octagonal Steel With Bracket)**



**SIRIM**  
Certified To BS 3649 : PT 1-PT 8 : 1978  
Certification No. PKD-0101



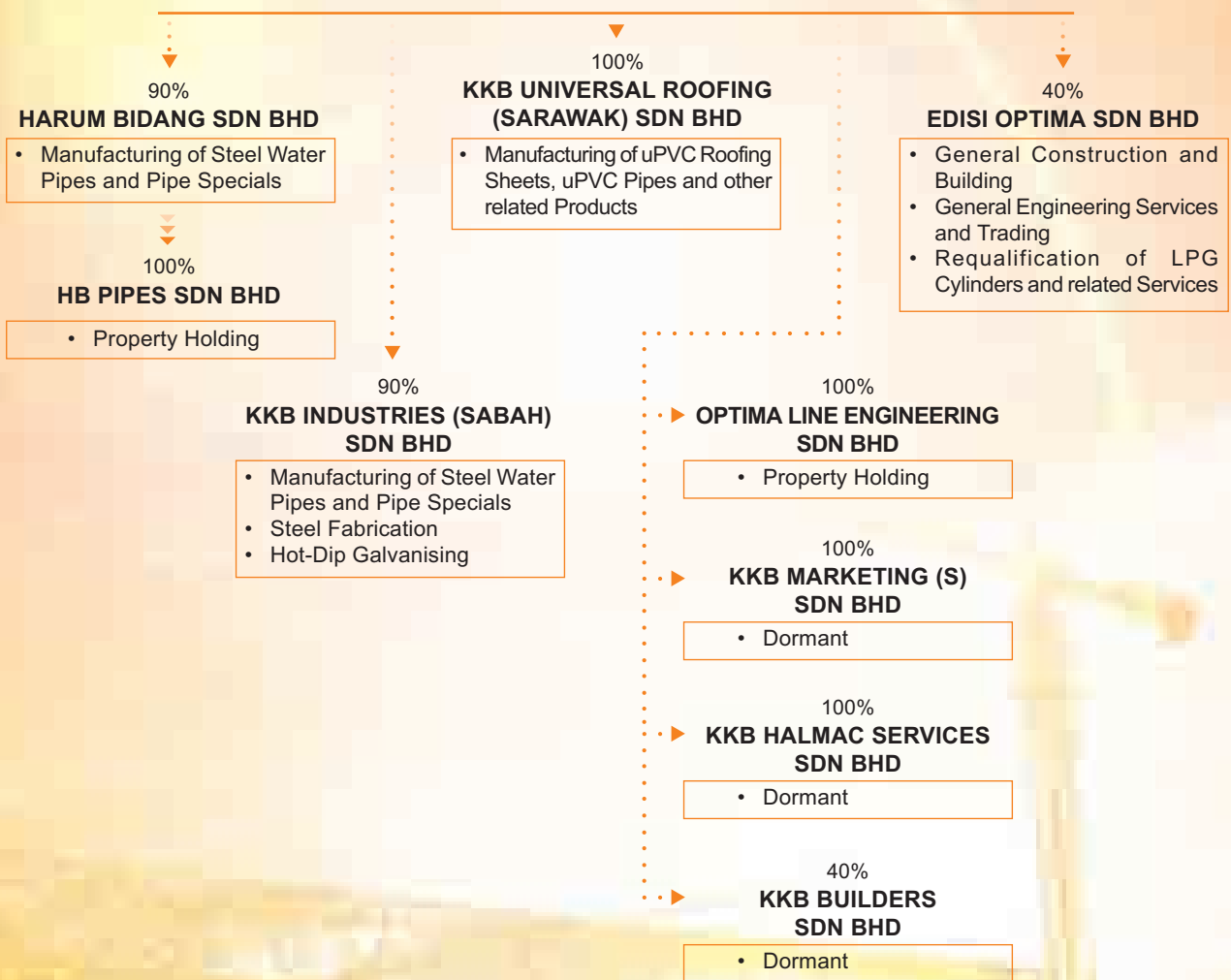
*Product Certification...*

# Corporate Structure



## KKB ENGINEERING BERHAD

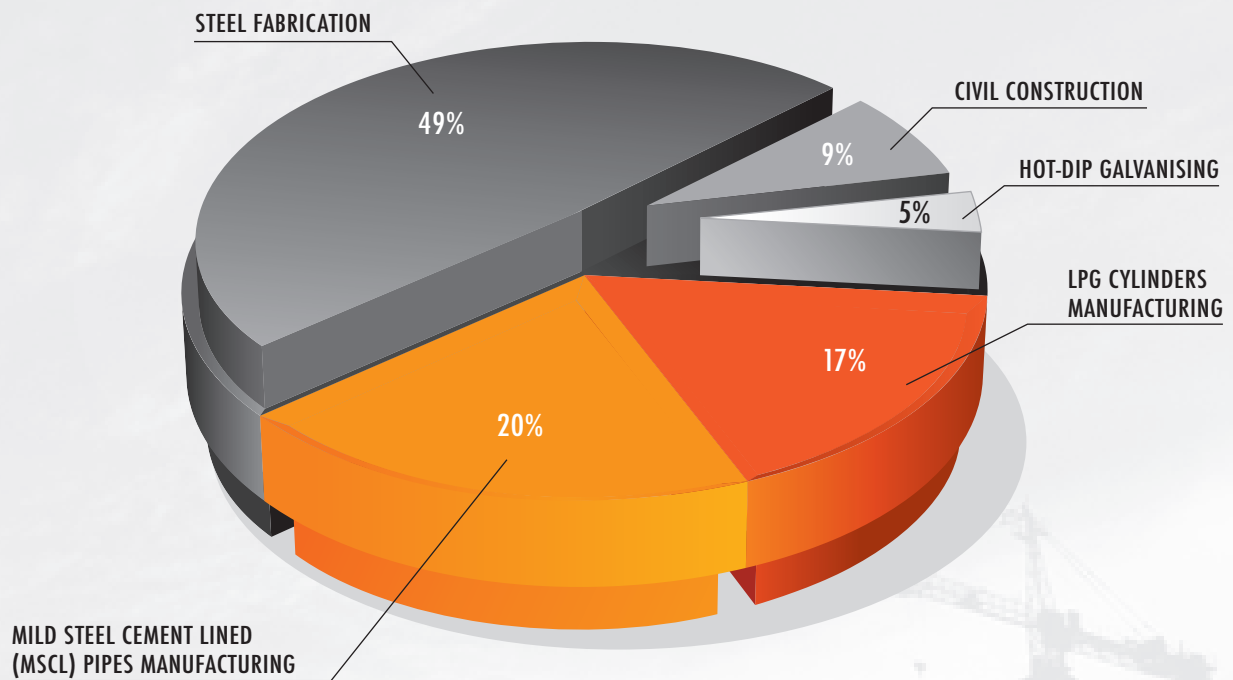
- Steel Fabrication
- Civil Construction
- Hot-Dip Galvanising
- Manufacturing of LPG Cylinders



# Review of KKB Group's Core Businesses

## ENGINEERING AND MANUFACTURING

2007 REVENUE



**Engineering 63%**



**Manufacturing 37%**

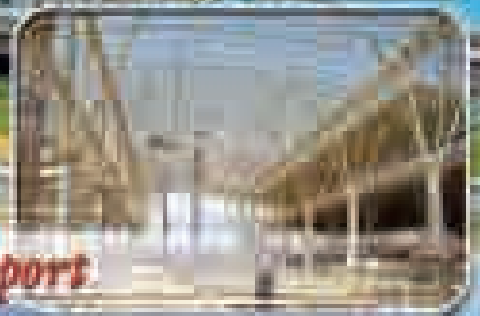
**KKB Group's Core Businesses are ALL in steel related activities**

# Group Activities and Events

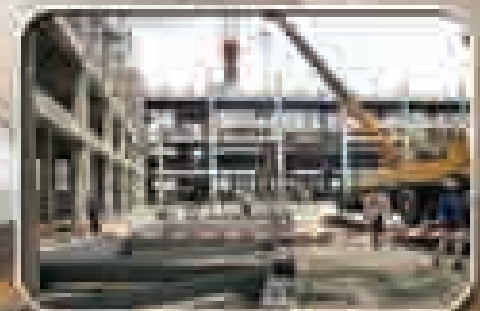
## Steel Fabrication...



*Kota Kinabalu  
International Airport*



*Sarawak Convention  
Exhibition Centre*



# Group Activities and Events

## Steel Fabrication...

*Labuan Airport*



*Kuching Kinabalu Airport Terminal 2*



*Putrajaya Terminal 2 Construction*

# Group Activities and Events [cont'd]

## Hot-Dip Galvanising...



## Civil Construction...

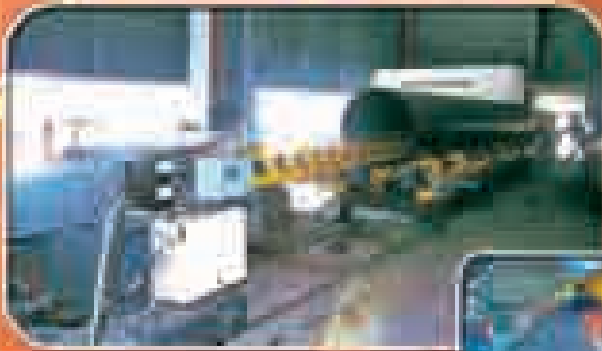


Salim Water Treatment and Transmission  
Plant and 1800mm Diameter Pipeline  
from Jalan Batu Kambing to  
Jalan Bukit Sempang, Teluk Anson, Kuala Lumpur

Salim Water Treatment Plant,  
Sibu



# Group Activities and Events [cont'd]



## Steel Pipes Manufacturing...



# Group Activities and Events [cont'd]

## LPG Cylinders

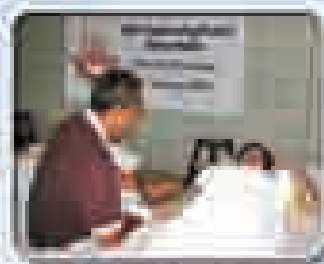
### Manufacturing...



# Group Activities and Events [cont'd]



# Group Activities and Events [cont'd]



Mr. Chong Kah Wai (left) and Mr. Chong Kah Wai (right) receiving the award from Mr. Chong Kah Wai (right) at the award ceremony.



Mr. Chong Kah Wai (left) and Mr. Chong Kah Wai (right) at the meeting.

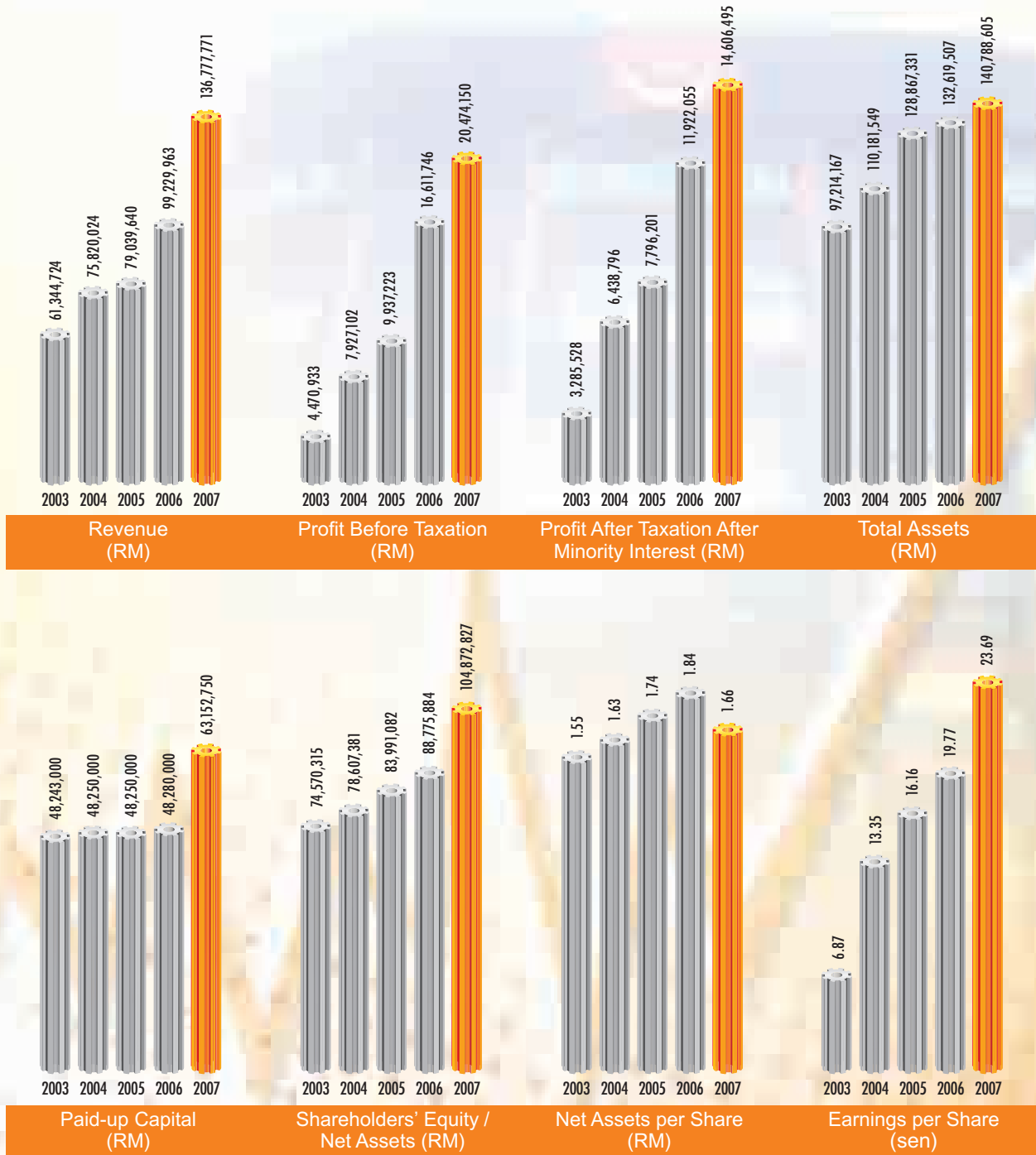


Cake Cutting Ceremony for the Group's 20th Anniversary at the KCB's Diamond Jubilee Dinner on 12th December 2011.

# Group Performance

## SUMMARY OF THE CONSOLIDATED FINANCIAL RESULT OF KKB GROUP

Financial Year Ended 31 December



### Remarks:

- (1) Revenue and profit before and after taxation stated above are an aggregate of continuing and discontinued operations.
- (2) Earnings per share for comparative financial year ended 31 December 2006 has been adjusted to take into account the effect of 1 for 4 Bonus share issue resulting in the increase in ordinary share base.
- (3) The net assets per share for the financial year ended 31 December 2007 was computed based on the enlarged issued and paid-up share capital of 63,152,750 ordinary shares of RM1.00 each, whilst that of the preceding financial year ended 31 December 2006 was based on the issued and paid-up share capital of 48,280,000 ordinary shares of RM1.00 each.



**KKB ENGINEERING BERHAD**  
[ 2 6 4 9 5 - D ]



# FINANCIAL STATEMENTS

[ For The Year Ended 31 December 2007 ]

# Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activities of the Company consist of steel fabrication, civil construction, hot dip galvanising and the manufacture of LPG cylinders. The principal activities of the subsidiaries are set out in Note 14 of the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

## RESULTS

	Group RM	Company RM
Profit after tax from continuing operations	14,244,899	14,765,169
Profit from discontinued operation	301,386	301,918
	<u>14,546,285</u>	<u>15,067,087</u>
Profit for the year	<u>14,546,285</u>	<u>15,067,087</u>
Attributable to:		
Equity holders of the Company	14,606,495	15,067,087
Minority interests	(60,210)	-
	<u>14,546,285</u>	<u>15,067,087</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

## DIVIDENDS

The amount of dividends paid by the Company since 31 December 2006 were as follows:

	RM
In respect of the financial year ended 31 December 2006 as reported in the directors' report of that year:	
Final dividend of 5%, tax exempt, on 49,044,000 ordinary shares declared on 26 February 2007 and paid on 6 June 2007	<u>2,452,200</u>

At the forthcoming Annual General Meeting, the following first and final dividends in respect of the current financial year ended 31 December 2007 will be proposed for shareholders' approval:

- (a) 4.2% less 26% taxation on 63,152,750 ordinary shares, amounting to a dividend payable of RM1,962,787; and
- (b) 3.8% tax exempt on 63,152,750 ordinary shares, amounting to a dividend payable of RM2,399,805.

The financial statements for the current financial year do not reflect these proposed dividends, which will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2008 when approved by shareholders.

# Directors' Report [cont'd]

## EMPLOYEES' SHARE OPTION SCHEME

The Company's Employees' Share Option Scheme ('ESOS') was approved by the shareholders on 14 August 1998 and became effective on 10 October 1998. The ESOS had lapsed on 9 October 2003.

The Company's new Employees' Share Option Scheme ('New ESOS') was approved by the shareholders at the Twenty-Seventh Annual General Meeting of the Company on 28 May 2003. The first option to subscribe for the unissued ordinary shares of RM1 each at the option price of RM1.54 per ordinary shares was offered to eligible employees and full time executive directors of the Company and its subsidiaries on 30 January 2004.

In 2004, a total of 3,333,000 and 102,000 new options at two offer prices of RM1.54 and RM1.39 respectively, were offered to eligible employees and full time executive directors of the Company and its subsidiaries.

In 2005, a total of 233,000 and 195,000 new options at two offer prices of RM1.33 and RM1.26 respectively, were offered to eligible employees and full time executive directors of the Company and its subsidiaries.

In 2006, a total of 151,000 and 181,000 new options at two offer prices of RM1.33 and RM1.40 respectively, were offered to eligible employees and full time executive directors of the Company and its subsidiaries.

During the year, a total of 299,000 new option at offer price of RM2.10 was offered to eligible employees and full time executive directors of the Company and its subsidiaries.

The main features of the New ESOS are as follows:

- (a) The New ESOS shall be in force for a period of five years commencing 14 October 2003.
- (b) The number of new ordinary shares to be offered under the New ESOS shall be subject to a maximum of 10% of the issued and paid-up share capital of the Company at any time during the existence of the New ESOS.
- (c) Any employee including an executive director of KKB Engineering Berhad Group shall be eligible to participate in the New ESOS if:
  - (i) the employee has served for a continuous period of at least one year in the Group and confirmed in service as a full time executive director or employee on the date of offer;
  - (ii) any director of the Company who holds office in a full time executive capacity and whose allocation of shares under the scheme is specifically approved by the Company in a General Meeting.
- (d) The subscription price payable upon exercise of the options under the ESOS shall be the weighted average market price of the ordinary shares as quoted and shown in the Daily Official List issued by Bursa Malaysia Securities Berhad for the five market days immediately preceding the date of offer, with a discount of not more than 10% (if deemed appropriate), or at par value of the ordinary shares, whichever is the higher.

The Company has been granted an exemption by the Suruhanjaya Syarikat Malaysia from having to disclose the names of option holders who were granted options to subscribe for less than 100,000 ordinary shares during the financial year.

## DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Dato Kho Kak Beng  
Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah  
Dato' Anwarudin Bin Ahamad Osman  
Dr. Arjunan Subramaniam  
Chai Woon Chew  
Tan Jin Kok  
Tan Heong Ming  
Kho Pok Tong  
Kho Poh Lin

# Directors' Report [cont'd]

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted by the Company pursuant to the Company's Employees' Share Option Scheme.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 7 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except for those benefits arising from transactions as disclosed in Note 35 to the financial statements.

## REMUNERATION COMMITTEE

The remuneration committee recommends to the Board of Directors, the framework of the Executive Directors' remuneration and the remuneration package for each Executive Director, drawing from outside advice as necessary and to review Executive Directors' scope of service contracts. Executive Directors shall include Group Managing Director and/or Chief Executive Director.

The remuneration committee's members comprising the following Non-Executive Directors:-

Raja Dato' Seri Ashman Shah Ibni Sultan Azlan Shah  
Dato' Anwarudin Bin Ahamad Osman  
Dr. Arjunan Subramaniam

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options in the Company and its related corporations during the financial year were as follows:

	1.1.2007	Number of ordinary shares of RM1 each			31.12.2007
		ESOS Exercised	Bonus Issue	Bought Sold	
<b>The Company</b>					
Direct interest:					
Dato Kho Kak Beng	691,600	200,000	234,475	55,500	1,181,575
Dato' Anwarudin Bin Ahamad Osman	5,000	-	1,250	-	6,250
Tan Heong Ming	555,000	145,000	175,000	-	875,000
Chai Woon Chew	57,000	-	36,125	87,500	180,625
Kho Pok Tong	52,000	55,000	15,500	-	92,500
Kho Poh Lin	44,000	150,000	23,500	-	92,500
Tan Jin Kok	35,900	-	8,975	-	44,875

	1.1.2007	Number of ordinary shares of RM1 each			31.12.2007
		ESOS Exercised	Bonus Issue	Bought Sold	
Indirect interest:					
Dato Kho Kak Beng	25,160,100	42,000	6,322,375	224,100	31,710,475
Tan Heong Ming	24,000	-	6,000	-	30,000
Chai Woon Chew	3,600,000	-	900,000	-	4,500,000
Kho Pok Tong	25,062,100	-	6,289,625	219,100	31,570,825
Kho Poh Lin	25,062,100	-	6,289,625	219,100	31,570,825

# Directors' Report [cont'd]

## DIRECTORS' INTERESTS (cont'd)

### Number of ordinary shares of RM1 each Shareholdings registered in the names of directors 1.1.2007 and 31.12.2007

#### Holding company

#### Kho Kak Beng Holding Company Sdn. Bhd.

Dato Kho Kak Beng	234,091
Kho Pok Tong	36,720
Kho Poh Lin	36,720

### Number of options over ordinary shares of RM1.00 each

	← Exercise Price →		As at 01.01.2007	Granted	Bonus issue	Exercised	As at 31.12.2007
	before bonus issue RM	after bonus issue RM					

#### The Company

Dato Kho Kak Beng	1.54	1.23	400,000	-	50,000	(200,000)	250,000
Tan Heong Ming	1.54	1.23	200,000	-	13,750	(145,000)	68,750
Tan Heong Ming	-	2.10	-	50,000	-	-	50,000
Kho Pok Tong	1.54	1.23	250,000	-	60,000	(55,000)	255,000
Kho Poh Lin	1.33	1.06	50,000	-	-	(50,000)	-
Kho Poh Lin	1.54	1.23	200,000	-	50,000	(100,000)	150,000

Dato Kho Kak Beng, Kho Pok Tong and Kho Poh Lin by virtue of their interest in shares of KKB Engineering Berhad are also deemed interested in the shares of the subsidiaries to the extent of the Company's interest in these companies.

None of the other directors in office at the end of the financial year had any interest in shares and options in the Company or its related corporations during the financial year.

## ISSUE OF SHARES

During the financial year, the Company increased its:

Issued and paid-up ordinary share capital from RM48,280,000 to RM63,152,750 by way of:

- the issuance of 12,261,000 ordinary shares of RM1 each pursuant to the Bonus Issue on the basis of one new ordinary share of RM1 for every four existing shares each held in the Company; and
- the issuance of 2,611,750 ordinary shares of RM1 each for cash pursuant to the Company's Employees' Share Options Scheme at an average exercise price of RM1.28 per ordinary share.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

# Directors' Report [cont'd]

## OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet its obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

## SIGNIFICANT EVENTS

Significant events are disclosed in Note 36 to the financial statements.

## SUBSEQUENT EVENTS

Subsequent events are disclosed in Note 37 to the financial statements.

# Directors' Report [cont'd]

## HOLDING COMPANY

The holding company is Kho Kak Beng Holding Company Sdn. Bhd., a company incorporated and domiciled in Malaysia, with its registered office located at Lot 2069, Section 66, Bintawa Industrial Estate, Jalan Utama, 93450 Kuching.

## AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 February 2008.

**DATO KHO KAK BENG**

**DR. ARJUNAN SUBRAMANIAM**



ANNUAL REPORT

# Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

We, **Dato Kho Kak Beng** and **Dr. Arjunan Subramaniam**, being two of the directors of **KKB Engineering Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 46 to 103 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2007 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 February 2008.

**DATO KHO KAK BENG**

**DR. ARJUNAN SUBRAMANIAM**

# Statutory Declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Diwek ak Dayus**, being the officer primarily responsible for the financial management of **KKB Engineering Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 46 to 103 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by  
the abovenamed **Diwek ak Dayus**  
at Kuching in the State of Sarawak  
on 26 February 2008.

**DIWEK AK DAYUS**

Before me,

Commissioner For Oaths

# Report of the Auditors to the members of KKB Engineering Berhad

We have audited the accompanying financial statements set out on pages 46 to 103. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31 December 2007 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries for which we have acted as the auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

**ERNST & YOUNG**  
AF: 0039  
Chartered Accountants

**YONG VOON KAR**  
1769/04/08 (J/PH)  
Partner

Kuching, Malaysia  
Date: 26 February 2008

# Income Statements

## for the year ended 31 December 2007

	Note	Group		Company	
		2007 RM	2006 RM	2007 RM	2006 RM
<b>Continuing Operations</b>					
Revenue	3	136,717,430	96,214,757	110,554,990	67,176,258
Cost of sales		(103,749,721)	(71,032,209)	(81,244,798)	(48,118,717)
<b>Gross profit</b>		<b>32,967,709</b>	<b>25,182,548</b>	<b>29,310,192</b>	<b>19,057,541</b>
Other income	4	2,630,923	2,232,017	2,569,807	2,060,101
Administrative expenses		(8,734,936)	(7,003,534)	(6,720,587)	(5,008,223)
Distribution expenses		(3,275,319)	(1,602,229)	(1,459,134)	(985,090)
Other expenses		(2,772,896)	(1,322,382)	(2,528,491)	(1,129,714)
<b>Operating profit</b>		<b>20,815,481</b>	<b>17,486,420</b>	<b>21,171,787</b>	<b>13,994,615</b>
Finance costs	5	(883,552)	(1,020,780)	(470,611)	(214,973)
Share of profit of associates		237,595	82,806	-	-
<b>Profit before tax</b>	6	<b>20,169,524</b>	<b>16,548,446</b>	<b>20,701,176</b>	<b>13,779,642</b>
Income tax expense	8	(5,924,625)	(4,274,691)	(5,936,007)	(3,934,790)
<b>Profit for the year from continuing operations</b>		<b>14,244,899</b>	<b>12,273,755</b>	<b>14,765,169</b>	<b>9,844,852</b>
<b>Discontinued operation</b>					
Profit/(loss) for the year from discontinued operation	9	301,386	(117,332)	301,918	(117,332)
<b>Profit for the year</b>		<b>14,546,285</b>	<b>12,156,423</b>	<b>15,067,087</b>	<b>9,727,520</b>
Attributable to:					
Equity holders of the Company		14,606,495	11,922,055	15,067,087	9,727,520
Minority interests		(60,210)	234,368	-	-
		<b>14,546,285</b>	<b>12,156,423</b>	<b>15,067,087</b>	<b>9,727,520</b>

# Income Statements

## for the year ended 31 December 2007 [cont'd]

	Note	Group 2007 sen	2006 sen
<b>Earnings/(loss) per share attributable to equity holders of the Company:</b>			
Basic, for profit from continuing operations	10	23.20	19.96
Basic, for profit/(loss) from discontinued operation	10	0.49	(0.19)
Basic, for profit for the year	10	<u>23.69</u>	<u>19.77</u>
Diluted, for profit from continuing operations	10	23.01	19.95
Diluted, for profit/(loss) from discontinued operation	10	0.48	(0.19)
Diluted, for profit for the year	10	<u>23.49</u>	<u>19.76</u>

*The comparative earnings per share has been adjusted to take into account the effect of one for four Bonus Issue of share resulting in the increase in the ordinary share base.*

The accompanying notes form an integral part of the financial statements.

# Balance Sheets as at 31 December 2007

	Note	Group		Company	
		2007	2006	2007	2006
		RM	(restated) RM	RM	(restated) RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	12	34,753,885	34,613,807	19,256,296	17,896,207
Prepaid land lease payments	13	18,303,031	18,709,358	7,669,361	7,898,280
Investment in subsidiaries	14	-	-	19,686,234	19,686,234
Investment in associates	15	949,082	747,986	140,000	140,000
		<u>54,005,998</u>	<u>54,071,151</u>	<u>46,751,891</u>	<u>45,620,721</u>
<b>Current assets</b>					
Inventories	16	20,387,756	30,968,441	12,486,936	14,272,851
Amount due from customers for contract work	17	-	3,632	-	3,632
Trade receivables	18	41,310,533	27,776,727	37,129,157	18,265,611
Other receivables	19	485,970	807,519	325,130	699,536
Amount due from related companies	20	19,812	1,208,762	8,453,710	8,841,684
Short-term deposits	21	22,644,337	15,367,924	19,503,981	12,461,430
Cash and bank balances		1,934,199	1,393,518	1,291,184	928,584
		<u>86,782,607</u>	<u>77,526,523</u>	<u>79,190,098</u>	<u>55,473,328</u>
Non-current asset classified as held for sale	9	-	1,021,833	-	1,021,833
		<u>86,782,607</u>	<u>78,548,356</u>	<u>79,190,098</u>	<u>56,495,161</u>
<b>TOTAL ASSETS</b>		<u>140,788,605</u>	<u>132,619,507</u>	<u>125,941,989</u>	<u>102,115,882</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the parent</b>					
Share capital	28	63,152,750	48,280,000	63,152,750	48,280,000
Share premium	28	865,239	164,583	865,239	164,583
Other reserves	29	7,065,242	6,435,000	5,364,283	4,881,723
Retained earnings	30	33,789,596	33,896,301	28,863,220	28,509,333
		<u>104,872,827</u>	<u>88,775,884</u>	<u>98,245,492</u>	<u>81,835,639</u>
<b>Minority interests</b>		<u>3,292,312</u>	<u>3,352,522</u>	-	-
<b>Total equity</b>		<u>108,165,139</u>	<u>92,128,406</u>	<u>98,245,492</u>	<u>81,835,639</u>

# Balance Sheets as at 31 December 2007 [cont'd]

	Note	Group		Company	
		2007 RM	2006 (restated) RM	2007 RM	2006 (restated) RM
<b>Non-current liabilities</b>					
Borrowings	22	2,915,680	4,475,680	-	-
Lease payables	23	930,828	396,112	866,999	187,491
Deferred tax liabilities	26	1,370,660	2,061,377	1,015,000	1,546,000
		<u>5,217,168</u>	<u>6,933,169</u>	<u>1,881,999</u>	<u>1,733,491</u>
<b>Current liabilities</b>					
Amount due to customers for contract work	17	2,102,027	-	2,102,027	-
Amount due to related companies	20	-	-	3,516,034	1,974,056
Borrowings	22	13,790,000	19,499,730	9,830,000	4,777,000
Lease payables	23	573,973	646,596	429,181	256,831
Trade payables	24	6,313,560	10,530,830	5,472,604	8,873,057
Other payables	25	1,996,680	1,085,950	1,847,681	880,718
Current tax payable		2,630,058	1,794,826	2,616,971	1,785,090
		<u>27,406,298</u>	<u>33,557,932</u>	<u>25,814,498</u>	<u>18,546,752</u>
<b>Total liabilities</b>		<u>32,623,466</u>	<u>40,491,101</u>	<u>27,696,497</u>	<u>20,280,243</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>140,788,605</u>	<u>132,619,507</u>	<u>125,941,989</u>	<u>102,115,882</u>

The accompanying notes form an integral part of the financial statements.

# Consolidated Statements of Changes in Equity for the year ended 31 December 2007

	← Attributable to equity holders of the parent →					Minority Interest	Total Equity
	Share Capital (Note 28) RM	Non-distributable Share Premium (Note 28) RM	Other Reserves (Note 29) RM	Distributable Retained Earnings (Note 30) RM	Total RM		
<b>At 1 January 2006</b>	48,250,000	154,733	6,374,603	29,211,746	83,991,082	3,170,285	87,161,367
Net profit for the year, representing total recognised income and expense for the year	-	-	-	11,922,055	11,922,055	234,368	12,156,423
Dividends	-	-	-	(7,237,500)	(7,237,500)	-	(7,237,500)
Acquisition of remaining equity interest in an existing subsidiary	-	-	-	-	-	(52,131)	(52,131)
Issue of ordinary shares pursuant to ESOS	30,000	9,900	-	-	39,900	-	39,900
Share issuance expenses written off	-	(50)	-	-	(50)	-	(50)
Share options granted under ESOS	-	-	60,397	-	60,397	-	60,397
<b>At 31 December 2006</b>	<u>48,280,000</u>	<u>164,583</u>	<u>6,435,000</u>	<u>33,896,301</u>	<u>88,775,884</u>	<u>3,352,522</u>	<u>92,128,406</u>