

SIN KEAN BOON GROUP BERHAD
(Company No. 219350 - H)
(Incorporated in Malaysia)
Notes to the interim financial report

1. Basis of preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The interim financial report should be read in conjunction with the most recent annual audited financial statements of the Group for the year ended 31 December 2004.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those accounting policies in the financial statements for the year ended 31 December 2004.

2. Auditors' qualification

No qualification on the audit report of the preceding annual financial statements of Sin Kean Boon Group Berhad ("SKBG").

3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors in the current quarter and current financial year to date.

4. Exceptional and extraordinary items

There were no material exceptional and extraordinary items for the period under review.

5. Change in estimates

There was no material changes in the estimates used for the preparation of this interim financial report.

6. Change in debt and equity securities

There were no issuance, cancellations, repurchase, resale and repayments of debt and equity securities for the current financial year-to-date.

7. Dividends paid

No dividend was paid for the current quarter ended 30 June 2005.

8. Segment revenue and results

No segment information by business activities has been prepared as the Group's activities involves is primarily in one sector of operations only.

9. Revaluation of property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

There were no material write-down in property, plant and equipment during the quarter under review.

10. Material post balance sheet events

There were no material post balance sheet events subsequent to the period under review.

11. Changes in Group's composition

There were no changes in the composition of the Group for the current quarter and financial year-to-date, other than the following:-

- a) The Company has on 26 May 2005 acquired 2 ordinary shares of RM1 each at par for cash in Neward Ventures Sdn Bhd, thereby making it a wholly owned subsidiary company. Neward Ventures Sdn Bhd had on 17 August 2005 increased its authorized share capital from RM100,000 divided into 100,000 ordinary shares of RM1 each to RM5,000,000 divided into 5,000,000 ordinary shares of RM1 each and its paid up share capital from RM2 divided into 2 ordinary shares of RM1 each to RM2,000,000 divided into 2,000,000 ordinary shares of RM1 each.
- b) SKB Aluminium Industries Sdn Bhd, a 51% owned subsidiary, has on 18 July 2005 acquired 1 ordinary share of RM1 at par for cash in Kosmo Indah Sdn Bhd "Kosmo"). This represents 50% of the total issued and paid up share capital of Kosmo.

12. Changes in contingent liabilities and assets

There were no changes in contingent liabilities and assets during the year under review.

13. Review of performance of the current quarter and current financial year to date

The Group recorded a net profit after taxation of RM0.765 million and RM1.564 million for the current quarter and current year to date respectively as compared to the net profit after taxation of RM1.203 million and RM1.166 million in the preceding year corresponding quarter and year to date ended 30 June 2004 respectively. The drop in profit for the current quarter was mainly due to the higher operating costs due to the escalating raw materials cost but fortunately the drop was mitigated by the positive contribution from the share of result of an associate company.

14. Variation of results against preceding quarter

The Group recorded an increase of 13.42% or RM4.717 million in revenue, RM39.886 million for the current quarter as compared to RM35.169 million in the preceding quarter ended 31 March 2005. The increase was due to the higher revenue recorded by the main subsidiaries in the group.

The net profit increased to RM0.788 million for the current quarter from RM0.714 million in the preceding quarter was mainly due to the positive contribution from the share of results of an associate company.

15. Current year prospects

The Group still faces inflationary pressure from the rising costs of raw materials which was due to the continuing increases in the crude petroleum prices in the world. But, the Group will treat it as a challenge and will continue to take positive steps to mitigate the economic impact and to explore new products, new markets and new opportunities that will contribute positively to the Group's performance.

16. Variance of profit forecast

Not applicable as no profit forecast was published.

17. Tax expense

	Individual Quarter		Cumulative Quarters	
	Current Year Quarter 30 June 2005 RM'000	Preceding Year Corresponding Quarter 30 June 2004 RM'000	Current Year To date 30 June 2005 RM'000	Preceding Year To date 30 June 2004 RM'000
Current taxation - Based on results for the period	62	432	298	448
	<hr/>	<hr/>	<hr/>	<hr/>
	62	432	298	448
Deferred taxation - Based on results for the period	-	-	-	-
- Prior period	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
On share of results of associated company	312	-	312	-
	<hr/>	<hr/>	<hr/>	<hr/>
	374	432	610	448
	<hr/>	<hr/>	<hr/>	<hr/>

18. Profit/(Loss) on sale of unquoted investments and/or properties for current quarter and financial year-to-date

There were no profits on sale of unquoted investments and properties as there were no disposals of investments and properties during the period under review.

19. Purchase or disposal of quoted securities

There were no material purchases or disposals of quoted shares for the period under review.

Investments in quoted securities as at 30 June 2005

	Cost RM'000	Book value RM'000	Market Value RM'000
Total quoted investment	<hr/>	<hr/>	<hr/>
	1,956	108	91

20. Status of corporate proposals

There were no corporate proposals in the current quarter and current financial year to date.

21. Group borrowings and debts securities

	30 June 2005 RM'000
Current	
Unsecured	<u>49403</u>
Non-current	
Unsecured	<u>451</u>

The above borrowings are denominated in Ringgit Malaysia.

22. Off balance sheet financial instruments

During the financial year to date, the group did not enter into any contracts involving off balance sheet financial instruments.

23. Changes in material litigation

(a) Penang High Court (No.2) Civil No:22-205-2002

On 17 April 2002, SKB Metal Sdn Bhd (“SMSB”) (a non-related company to the Group) commenced legal proceedings vide High Court (No. 2) Civil Suit No: 22-205-2002 against Sin Kean Boon Group Berhad (“SKB Group”) claiming for losses of RM12,590,923 and damages for breach of contract plus interest at 8% per annum and legal costs.

This claim is in respect of two Sale and Purchase Agreements for SMSB to sell and for SKB Group to purchase the entire share capital of Asas Cergas Sdn. Bhd. (“ACSB”) (a wholly-owned subsidiary of SMSB). ACSB is the registered owners of Lot Nos. 466 & 472, Jalan Perusahaan Baru Satu, Prai [see (b) below]. SMSB has terminated the Sale and Purchase Agreements. SKB Group accepted the termination and demanded for a refund of RM1.2 million being the deposit paid by SKB Group to SMSB under the Agreements. SKB Group has counterclaimed for this RM1.2 million in its counterclaim.

On 5 June 2002, SKB Group filed the defence and counterclaim and on 10 August 2002, SMSB made an application for further and better particulars of the SKB Group’s defence and counterclaim which was dismissed with costs. Upon appeal to the Judge in Chambers, the appeal was allowed with costs in the cause. SKB Group filed and served the Further and Better particulars as required on 13 October 2003.

On 15 April 2005, SMSB filed a Notice of Intention to Proceed with the suit after a lapse of 1 year, intending to proceed further with this suit.

On 25 May 2005, the solicitor of SMSB served a sealed copy of the application to amend the Statement of Claim which have been now amended claiming as follows: -

- a) loss and damages of RM13,340,136-88
- b) general damages

23. Changes in material litigation (Cont'd)

- c) interest at the rate of 8% per annum on RM5,341,405-65 from 1 April 2002 to date of full settlement and
- d) interest on RM8,277,360-00 at the rate of 8% p.a. from 1 April 2002 to date of full settlement

On 4 August 2005, SKB Group had filed an Amended Defence and Counter claim against the amended claim.

The case is still on going and the directors have received legal opinion to the effect that the final outcome of the above suit would be favourable to the Company.

(b) Penang High Court (No.2) Civil No:22-104-2002

On 5 March 2002, ACSB and SMSB commenced legal proceedings against the Company's wholly-owned subsidiary, Sin Kean Boon Metal Industries Sdn Bhd ("SKBMI") vide Penang High Court Civil Suit No: 22-104-2002 claiming vacant possession and double rental in respect of the tenancy of Lot Nos 466 & 472, Jalan Perusahaan Baru Satu, Prai Industrial Estate 3, 13600 Prai, Penang. On 10 October 2002, SKBMI has filed defence and counterclaim claiming amongst other things, alternatively, that they are entitled to compensation of approximately RM10.0 million being the investment cost and also all consequential damages flowing from the breach by ACSB and SMSB.

On 17 May 2002, SKBMI and SKB Group obtained an injunction restraining ACSB and SMSB from proceeding with or executing any Writ of Distress on SKBMI. ACSB and SMSB have lodged appeals in the Court of Appeal against the Injunction Order. Subsequently, the appeal against the injunction has been withdrawn. The injunction obtained by SKBMI and SKB Group is maintained.

On 13 March 2003, ACSB and SMSB has discontinued their claim in Civil Suit No. 22-104-2002 and the Court has ordered them to pay costs to SKBMI. SKBMI and SKB Group will be proceeding with their counterclaim against ACSB and SMSB. The said counterclaim Civil Suit No. 22-104-2002 has not yet been fixed for trial. The matter is fixed for Case Management on 21 February 2006.

ACSB and SMSB has submitted an application for stay of taxation and on 27 June 2005, the Court dismissed with costs ACSB and SMSB's application for stay of taxation and awarded SKBMI the taxed costs sought.

Meanwhile, SKBMI has been paying the monthly rental of RM46,300 per month without fail to its solicitors as stakeholders pending adjudication of this matter.

SKBMI and SKB Group has been advised by its solicitors, Messrs Sitham & Associates, that they have a reasonably strong Defence and Counterclaim, and that it would probably take one to two years for the trial of this civil suit and for the Court to adjudicate on this matter. SKBMI and SKB Group have counter-claimed for amongst other things, an order that any rental found due and payable from SKBMI to ACSB and SMSB if any, be set off from the RM1.2 million already paid by SKB Group to SMSB under Sale and Purchase Agreements for SKB Group to acquire the shares in ACSB (see (a) above).

23. Changes in material litigation (Cont'd)

(c) Penang High Court (No. 2) Civil Suit No. 22-267-2003

By a letter dated 21 March 2003, SMSB demanded for rent of RM972,000 and interest of RM74,078 for the period from July 2001 to March 2003 inclusive. By a letter dated 25 March 2003, SKBMI replied that as previously agreed, rental from July 2001 to March 2003 has been held in stakeholder's account pending the adjudication of the tenancy dispute, which is still awaiting trial by virtue of the counterclaim in suite 22-104-2002. Therefore, the rental cannot be realised to SMSB.

By letter dated 31 March 2003, SMSB gave notice to determine the tenancy on 2 May 2003. By letter dated 3 April 2003, SKBMI reiterated its stand that all rent has been paid up to date to the stakeholder's account. Furthermore, in its Counterclaim in suit 22-104-2002, the High Court will be deciding if SKBMI has acquired a tenancy coupled with an equity. Therefore, SMSB is not entitled to determine the tenancy on 2 May 2003 and their notice of termination of tenancy is null and void. By letter dated 10 April 2003, SMSB denied the assertions in letter dated 3 April 2003, and maintained their stand. By letter dated 2 May 2003, SKBMI reiterated its stand that it had not breached any covenant and SMSB is not entitled to determine the tenancy.

On 20 May 2003, SKBMI received a Writ Saman issued by the Penang High Court (No. 2) Civil Suit No: 22-267-2003. By the said Writ, SMSB has claimed against SKBMI for vacant possession, arrears of rent, interest and double rental in respect of the tenancy of Lot Nos, 466 & 472, Jalan Perusahaan Baru Satu, Prai Industrial Estate 3, 13600 Prai, Penang. On 28 May 2003, SKBMI has entered appearance. On 10 June 2003, SKBMI has filed defence stating that all monthly rental from July 2001 to todate has been paid to SKBMI's solicitors as stakeholders as previously agreed pending the tenancy dispute of the premises, which is still pending trial by virtue of the counterclaim in Suit No: 22-104-2002 [see paragraph (b) above].

SMSB made an application for summary judgement for arrears of rental which was fixed for hearing on 6 April 2004. SKBMI had opposed this application.

On 15 January 2004, SKBMI made an application for Suit No: 22-267-2003 and SKB Group's counterclaim in Suit No: 22-104-2002 to be consolidated and be heard together with the above application for summary of Judgment on 6 April 2004.

On 6 April 2004, the Court has directed both parties to file Written Submission for both applications for decision to be made on the applications on 4 June 2004.

On 22 April 2004, SKBG filed the Written Submissions as directed by the Court. On 13 May 2004, the Plaintiff's solicitors requested for an extension of time to file the Plaintiff's written reply submission. On 24 May 2004, SKBG announced that its solicitors have received the Plaintiff solicitors' Reply Written Submissions and the solicitors will be writing to Court for an extension of time of 2 weeks to enable them to file the Defendant's reply to the same.

The Court then fixed 28 June 2004 for decision for both SKB Group's application for Summary Judgement and SKBMI's application for consolidation of suit. The decision for both the application was subsequently adjourned to 27 July 2004.

23. Changes in material litigation (Cont'd)

On 27 July 2004, The Court allowed SMSB's application for Summary Judgment for the judgment sum of RM972,300 and interests of 8% on the said sum. Further, the Court also allowed SKBMI's application to consolidate this suit with the counter claim in Suit No. 22-104-2002.

SKBMI being unsatisfied with the decision of the learned Deputy Registrar filed an Appeal to the Judge In Chambers against the whole of the decision allowing for the Summary Judgment and the said appeal was fixed for hearing on 26 April 2005.

SKBMI had filed an appeal to the Judge in the Chambers against the decision allowing consolidation.

Meanwhile, on 3 August 2004, SKBMI made an application for stay of execution of the Summary Judgement obtained by SMSB. The stay application was fixed for hearing on 10 August 2004.

The Court granted a stay of execution of the summary judgment pending the disposal of the counterclaim in suit no: 22-104-2002. SMSB unsatisfied with the order, appeal to the High Court on 17 August 2004. The said appeal was fixed for hearing on 7 September 2004.

Subsequently, upon written request of the Solicitors for SKBMI, the Court has brought forward the hearing of the appeal originally fixed on 26 April 2005 to be heard on 7 September 2004, together with SMSB's appeal against the Order for Stay of Execution.

On 7 September 2004, the Learned Judge had allowed SKBMI's appeal against the Summary Judgement Order with cost to be in the cause. The matter will therefore be set down for trial in due course. SKBG shall update on the development pertaining to the trial. The Court has also ordered that all rentals paid so far and all future rentals to be paid into a trust account instead of to the solicitors as stakeholders.

The Court then fixed 26 October 2004 for the hearing of SMSB's appeal against the Order granting stay and the order granting consolidation of the matter with suit 22-104-2002.

On 26 October 2004, SMSB withdrew the appeal against the stay order with no order as to costs since this appeal would be purely academic. SMSB proceeded with the appeal against the consolidation. The Court having heard both parties' submission dismissed the said appeal with costs on 8 November 2004. Therefore, this suit is now consolidated with the Defence and Counterclaim in suit 22-104-2002, which is pending case management on 23 August 2005.

On 12 January 2005, SMSB's solicitors have served a Summons In Chambers for an order under 014A, Rules of High Court 1980, for an order for determination of the case on a point of law without a full trial. The hearing on 26 April 2005 is now adjourned for hearing on 16 August 2005.

On 16 August 2005, the Court adjourned the hearing of the above matter to a new hearing date yet to be fixed by the Court.

SKBMI has been advised by its solicitors, Messrs Sitham & Associates that they have a reasonably strong defence.

24. Proposed dividend

No dividend is proposed for the quarter ended 30 June 2005.

25. Earnings per share

The calculation of basic earnings per share for the current quarter and current year to date are based on the net profit attributable to ordinary shareholders of RM1.502 million and on the number of ordinary shares outstanding of 40,500,000.

26. Capital commitments

There was no capital commitment during the period under review.

27. Related party transactions

There were no non-recurrent related party transactions during the period under review.

BY ORDER OF THE BOARD

Lam Voon Kean

Company Secretary

Dated this 25 August 2005