

X. ACCOUNTANTS' REPORT



Singam & Yong (AF 0040)
Chartered Accountants



ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)

13 January 2005

The Board of Directors
Malaysia Steel Works (KL) Bhd
Wisma Safety
No. 43, Jalan Melayu
50100 Kuala Lumpur

Dear Sirs,

1 INTRODUCTION

This report has been prepared by Singam & Yong, an approved company auditor for the purposes of inclusion in the Prospectus of Malaysia Steel Works (KL) Bhd (hereinafter referred to as "MSW" or "the Company") dated 17 January 2005 in connection with the following:-

- (i) the offer for sale of 17,100,000 ordinary shares of RM0.50 each ("MSW Share(s)") at an offer price of RM1.30 per MSW Share, to be allocated to Bumiputra investors approved by the Ministry of International Trade and Industry ("MITI"), and identified investors by way of private placement;
- (ii) the public issue of 23,297,000 new MSW Shares at an issue price of RM1.30 per new MSW Share to the Malaysian public, the eligible Directors and employees, customers and suppliers of MSW, and identified investors by way of private placement; and
- (iii) the listing of and quotation for the entire enlarged issued and paid-up share capital comprising 133,000,000 MSW Shares on the Main Board of the Bursa Malaysia Securities Berhad ("Bursa Securities").

2 GENERAL INFORMATION

2.1 The Company's background

MSW was incorporated in Malaysia under the Companies Act, 1965 on 25 March 1971 as a private limited company under the name of Malaysia Steel Works (KL) Sdn. Bhd. It was converted into a public limited company on 18 August 1997 and assumed the name Malaysia Steel Works (KL) Berhad. On 2 April 2003, it was converted into a private limited company and was subsequently re-converted into a public limited company on 14 November 2003 and assumed the name Malaysia Steel Works (KL) Bhd.

The principal activities of the Company are the manufacturing of steel bars and steel billets. There have been no significant changes in the activities of the Company during the financial years/period under review. The Company does not have any subsidiaries or associated companies.

We have acted as auditors of the Company for all the financial years/period under review. The auditors' reports on the financial statements for all the financial years/period under review were not subjected to any reservations or qualifications.

2.2 Share Capital

The authorised share capital of MSW is RM100,000,000 comprising 200,000,000 MSW Shares. The issued and paid-up share capital of MSW is RM54,851,500 comprising 109,703,000 MSW Shares.

X. ACCOUNTANTS' REPORT (CONT'D)



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2 GENERAL INFORMATION (CONT'D)

2.2 Share Capital (Cont'd)

The changes in the issued and paid up share capital of MSW since its incorporation are as follows:

Date of Allotment	Par Value	No. of ordinary shares allotted	Consideration/Type of issue	Total issued and paid-up share capital RM
25.3.1971	1.00	3	Subscribers' shares	3
23.6.1972	1.00	1,607,297	Cash	1,607,300
23.6.1972	1.00	392,700	Issued at par as consideration for the purchase of land	2,000,000
23.5.1984	1.00	12,000,000	Cash	14,000,000
3.9.1987	1.00	6,500,000	Bonus issue of approximately 0.46 ordinary shares of RM1.00 each for every 1 existing ordinary shares of RM1.00 each held in MSW from the capitalisation of the revaluation surplus account	20,500,000
25.9.1992	1.00	5,500,000	Issued at par pursuant to the assignment of debt to Soon Seng Company Sdn Bhd ("SSCSB")	26,000,000
21.2.1994	1.00	560,000	Issued at premium of RM1.00 each pursuant to the conversion of advances by SSCSB	26,560,000
15.2.1996	1.00	9,910,000	Issued at par pursuant to the conversion of 9,910,000 redeemable convertible preference shares*	36,470,000
26.5.1997	1.00	2,530,000	Issued at par pursuant to the conversion of 2,530,000 redeemable convertible preference shares*	39,000,000
2.6.2003	1.00	5,263,158	Cash	44,263,158
2.6.2003	1.00	10,588,235	Issued at premium of approximately RM0.70 each pursuant to the conversion of debt due to SSCSB	54,851,393
29.9.2003	1.00	107	Issued at par pursuant to the conversion of debt due to SSCSB	54,851,500
13.7.2004	0.50	109,703,000	Subdivision of par value from RM1.00 per share to RM0.50 per share	54,851,500

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2 GENERAL INFORMATION (CONT'D)

2.2 Share Capital (Cont'd)

Note:

- * Being the conversion of 12,440,000 redeemable convertible preference shares into 12,440,000 ordinary shares of RM1.00 each of MSW at a conversion price of RM1.00.

2.3 Listing Scheme

In conjunction with and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of MSW on the Main Board of Bursa Securities, the Company undertook a listing scheme which was approved by the MITI on 17 May 2004, 24 May 2004 and 1 September 2004, the SC on behalf of the FIC on 11 May 2004 and 5 July 2004, and the SC on 11 May 2004, 29 June 2004 and 26 October 2004, involving the following inter-conditional transactions:

(i) Share Split

Sub-division of par value for every existing ordinary share in MSW from RM1.00 to RM0.50. The Share Split was completed on 13 July 2004 and upon completion of the Share Split, the issued and paid-up share capital of MSW comprises 109,703,000 MSW Shares;

(ii) Offer for Sale

Following the completion of the Share Split and in conjunction with the listing of MSW, the offerors will undertake an offer for sale of 17,100,000 MSW Shares at an offer price of RM1.30 per MSW Share to the Bumiputera investors approved by the MITI and identified investors by way of private placement;

(iii) Public Issue

In conjunction with the listing of MSW, the Company is implementing a public issue of 23,297,000 new MSW Shares at an issue price of RM1.30 per new MSW Share to the Malaysian public, the eligible Directors and employees, customers and suppliers of MSW, and identified investors by way of private placement; and

(iv) Listing and Quotation

The listing of and quotation for the entire enlarged issued and paid-up share capital of MSW comprising 133,000,000 MSW Shares will be sought on the Main Board of Bursa Securities.

3 BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This report is based on the audited financial statements which have been prepared in accordance with applicable approved accounting standards in Malaysia issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with the accounting policies normally adopted by the Company.

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4 INCOME STATEMENTS

The income statements of MSW as presented below are based on the audited financial statements for the past 5 financial years ended 31 December, 1999 to 2003 and 9 months period ended 30 September 2004.

	<----- Financial years ended 31 December ----->					30 September
	1999	2000	2001	2002	2003	2004
	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000
Turnover	133,623	148,480	162,342	178,622	242,405	226,987
Profit before interest, depreciation and taxation	26,363	29,607	33,716	39,284	42,055	⁽⁵⁾ 46,474
Interest income	2	1	-	-	-	-
Interest expenses	(12,808)	(13,644)	(12,480)	(12,827)	(11,861)	(7,496)
Depreciation	(8,922)	(9,931)	(10,158)	(10,406)	(10,560)	(8,269)
Exceptional item ⁽¹⁾	-	(750)	-	(1,497)	-	(280)
Profit before taxation ("PBT")	4,635	5,283	11,078	14,554	19,634	⁽⁵⁾ 30,429
Taxation ⁽²⁾	-	-	-	-	-	-
Profit after taxation ("PAT")	4,635	5,283	11,078	14,554	19,634	30,429
No. of ordinary shares in issue	^39,000	^39,000	^39,000	^39,000	^54,852	+109,703
Gross earning per share ("EPS") (sen) ⁽³⁾	11.89	13.55	28.41	37.32	35.79	*36.98
Net EPS (sen) ⁽⁴⁾	11.89	13.55	28.41	37.32	35.79	*36.98

Notes:

* Annualised.

^ Based on par value of RM1.00 each.

+ Based on par value of RM0.50 each.

(1) The exceptional item represents insurance claims due to a fire in the factory and damages claimed against third party.

(2) There was no taxation charge for all the relevant financial years/period due to the availability of brought forward capital allowances and reinvestment allowances.

(3) The gross EPS is computed based on the PBT divided by number of ordinary shares in issue.

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**4 INCOME STATEMENTS (CONT'D)**

- (4) The net EPS is computed based on the PAT divided by number of ordinary shares in issue.
- (5) The PBT includes RM11.842 million, representing the write-back of electricity arrears over-accrued in prior years.
- (6) There were no extraordinary items during the financial years/period under review.

5 DIVIDENDS

No dividends were proposed, declared or paid during the financial years/period under review.

6 BALANCE SHEETS

The Balance Sheets of MSW are based on the audited financial statements for the past 5 financial years ended 31 December, 1999 to 2003 and 9 months period ended 30 September 2004 as follows:

	<----- Financial years ended 31 December ----->					30 September
	1999	2000	2001	2002	2003	2004
	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000
ASSETS EMPLOYED:						
Property, plant and equipment	271,574	273,287	269,920	263,754	272,607	264,952
Current assets	36,424	50,311	67,680	89,155	103,383	99,991
Current liabilities	(159,626)	(180,192)	(185,502)	(167,661)	(166,841)	(135,417)
Net current liabilities	(123,202)	(129,881)	(117,822)	(78,506)	(63,458)	(35,426)
	<u>148,372</u>	<u>143,406</u>	<u>152,098</u>	<u>185,248</u>	<u>209,149</u>	<u>229,526</u>
FINANCED BY:						
Share capital	39,000	39,000	39,000	39,000	54,852	54,852
Share premium	13,000	13,000	13,000	13,000	25,149	25,149
Retained profits	20,796	26,829	37,907	54,580	74,214	104,642
Shareholders' fund	<u>72,796</u>	<u>78,829</u>	<u>89,907</u>	<u>106,580</u>	<u>154,215</u>	<u>184,643</u>
Long term liabilities	74,955	63,956	61,570	78,668	54,934	44,883
Deferred taxation	621	621	621	-	-	-
	<u>148,372</u>	<u>143,406</u>	<u>152,098</u>	<u>185,248</u>	<u>209,149</u>	<u>229,526</u>
No. of ordinary shares (in 000)	39,000	39,000	39,000	39,000	54,852	109,703
Net tangible assets per ordinary share (RM)	1.87	2.02	2.31	2.73	2.81	1.68

X. ACCOUNTANTS' REPORT (CONT'D)


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7 STATEMENTS OF ASSETS AND LIABILITIES

The following is the proforma statement of assets and liabilities of MSW which has been prepared for illustrative purposes only and is based on audited financial statements of MSW as at 30 September 2004. The statements of assets and liabilities have been prepared to show the effects of the Offer for Sale, Public Issue and the listing of and quotation for the entire enlarged issued and paid-up share capital of MSW on the Main Board of Bursa Securities and the utilisation of proceeds having been completed on that date and should be read in conjunction with the notes thereon:

	Note	Audited RM 000	Proforma RM 000
ASSETS EMPLOYED:			
Property, plant and equipment	C	264,952	272,952
Current assets			
Inventories	D	38,737	38,737
Trade receivables	E	53,307	53,307
Other receivables, deposits and prepayments		612	612
Cash and bank balances		7,335	9,665
		<u>99,991</u>	<u>102,321</u>
Current liabilities			
Bills payable	F	61,570	54,114
Trade payables	G	22,823	22,823
Other payables and accruals	H	38,959	38,959
Fixed term loans – current portion	I	11,982	11,982
Hire purchase payables – current portion	J	83	83
		<u>135,417</u>	<u>127,961</u>
Net current liabilities		(35,426)	(25,640)
		<u>229,526</u>	<u>247,312</u>
FINANCED BY:			
Share capital	K	54,852	66,500
Share premium	L	25,149	41,287
Retained profits		104,642	104,642
Shareholders' fund		<u>184,643</u>	<u>212,429</u>
Long term liabilities			
Fixed term loans	I	44,644	34,644
Hire purchase payables	J	239	239
		<u>229,526</u>	<u>247,312</u>
Net tangible asset per share ("NTA") (RM)		*1.68	**1.60

Notes:

* The NTA has been computed based on the shareholders' fund divided by 109,703,000 ordinary shares of RM0.50 each.

** The NTA has been computed based on the shareholders' fund divided by 133,000,000 MSW Shares.

X. ACCOUNTANTS' REPORT (CONT'D)**Singam & Yong** (AF 0040)

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**8 CASH FLOW STATEMENTS**

The proforma cash flow statement of MSW has been prepared for illustrative purposes only and is based on audited financial statements of MSW as at 30 September 2004. The cash flow statements have been prepared to show the effects of the Offer for Sale, Public Issue and the listing of and quotation for the entire enlarged issued and paid-up share capital of MSW on the Main Board of Bursa Securities and the utilisation of proceeds having been completed on that date.

	Audited RM 000	Proforma RM 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	30,429	30,429
Adjustments for:		
Depreciation of property, plant and equipment	8,269	8,269
Bank interest	7,483	7,483
Hire purchase interest	13	13
Operating profit before working capital changes	46,194	46,194
Increase in inventories	(2,931)	(2,931)
Decrease in trade receivables	9,024	9,024
Increase in other receivables, deposits and prepayments	(151)	(151)
Decrease in bills payable	(2,915)	(10,371)
Decrease in trade payables	(5,789)	(5,789)
Decrease in other payables and accruals	(28,532)	(28,532)
Cash generated from operations	14,900	7,444
Bank interest paid	(7,483)	(7,483)
Net cash inflow/(outflow) from operating activities	7,417	(39)
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of plant and equipment	(614)	(8,614)
Net cash outflow from investing activity	(614)	(8,614)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of fixed term loans	(4,233)	(14,233)
Hire purchase payables	55	55
Repayment of hire purchase payables	(62)	(62)
Hire purchase interest	(13)	(13)
Payment of listing expenses	-	(2,500)
Proceeds from Public Issue	-	30,286
Net cash (outflow)/inflow from financing activities	(4,253)	13,533
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,550	4,880
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	4,785	4,785
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	7,335	9,665

X. ACCOUNTANTS' REPORT (CONT'D)**Singam & Yong** (AF 0040)

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**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES****A SIGNIFICANT ACCOUNTING POLICIES****(a) Accounting basis**

The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain assets and are in compliance with applicable approved accounting standards and the provisions of the Companies Act 1965.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Depreciation is calculated to write off the cost of property, plant and equipment over their estimated useful lives on a straight line basis. Leasehold land is amortised over the period of the lease. The principal annual rates used for this purpose are as follows: -

Leasehold land	1/56	-	1/80
Factory/Freehold building	2%	-	7.5%/5%
Plant and machinery	3%	-	10%
Factory equipment, electrical installation, office equipment and furniture and fittings	7.5%	-	20%
Motor vehicles			20%

Certain plant and equipment which have been fully depreciated are shown at a net book value of RM1.00 each.

(c) Inventories

Inventories which comprise of raw materials and finished goods have been valued at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. The cost of finished goods comprise the cost of raw materials, direct labour, direct charge and a proportion of production overheads.

(d) Trade receivables

Trade receivables are recognised and carried at original invoiced amount less provision for doubtful debts. An estimation for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(e) Assets carried at revalued amounts

The accumulated depreciation of revalued assets have been eliminated and the net revalued amount has been treated as the new gross carrying amount.

(f) Assets acquired under hire purchase

Assets acquired under hire purchase arrangements are capitalised as plant and equipment and the corresponding obligations treated as liabilities. Finance charges are allocated to income statement to give a constant periodic rate of interest on the remaining hire purchase liabilities.

X. ACCOUNTANTS' REPORT (CONT'D)

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**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****A SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(g) Sale of goods**

Sale of goods are recognised upon delivery and customer acceptance.

Revenue recognition

Revenue of the Company represents sale of steel bars and steel billets and is recognised when the goods are delivered and invoiced.

Gain on disposal of plant and equipment and other income is recognised on an accrual basis unless collectibility is in doubt.

(h) Currency conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at the transaction dates. Assets and liabilities at the end of the financial period are translated at the rates of exchange ruling at that date and differences are taken to the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows :

<u>Foreign currency</u>	<u>30.09.2004</u>
1 US Dollar	RM3.80
1 Singapore Dollar	RM2.30

(i) Leases

Lease rental payable for assets acquired under operating leases, which do not transfer to the lessee substantially all the benefits and risks of ownership, are charged against the income statement as incurred.

(j) Impairment of assets

At each balance sheet date, the carrying values of assets are reviewed for impairment by comparing the carrying values of the assets against their recoverable amounts. If the review of the carrying amount of an asset finds no evidence of conditions of impairment, determination of the assets' recoverable amount is not required.

(k) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item where applicable. The carrying amounts of the financial instruments approximates their fair value.

(l) Fair values

The carrying amounts of the Company's financial assets and liabilities recorded at the balance sheet date approximate to their fair values.

X. ACCOUNTANTS' REPORT (CONT'D)



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9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

A SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Cash and cash equivalents

Cash and cash equivalents represent cash in hand and bank balances.

(n) Income tax

Income tax on the profit for the financial period comprises of current and deferred tax. Current financial period tax is the expected amount of income taxes payable in respect of the taxable profit for the financial period and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is possible that future taxable profits will be available against which the asset can be utilised.

(o) Employee benefits

Short term benefits

Wages, salaries, bonuses and social security contribution are recognised as an expense in the period in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

B GENERAL

The Company is a public limited company, incorporated in Malaysia. The registered office of the Company is located at Wisma Safety, No. 43, Jalan Melayu, 50100 Kuala Lumpur.

The principal activities of the Company are the manufacturing of steel bars and steel billets. There has been no significant change in this activity during the financial period.

X. ACCOUNTANTS' REPORT (CONT'D)



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9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

C PROPERTY, PLANT AND EQUIPMENT

<u>Audited</u>	<u>Freehold land and building RM 000</u>	<u>Leasehold land and building RM 000</u>	<u>Plant and machinery, factory and electrical equipment RM 000</u>	<u>Motor vehicles RM 000</u>	<u>Office equipment, furniture and fittings RM 000</u>	<u>Electrical installation RM 000</u>	<u>Total RM 000</u>
<u>Cost/Valuation</u>							
At 1 January, 2004	189	58,779	297,049	1,187	1,108	176	358,488
Additions	-	172	368	61	13	-	614
At 30 September, 2004	189	58,951	297,417	1,248	1,121	176	359,102
<u>Accumulated Depreciation</u>							
At 1 January, 2004	-	6,070	78,000	771	949	91	85,881
Charge for the financial period	44	438	7,653	86	35	13	8,269
At 30 September, 2004	44	6,508	85,653	857	984	104	94,150
<u>Net Book Value</u>							
At 30 September, 2004	145	52,443	211,764	391	137	72	264,952

X. ACCOUNTANTS' REPORT (CONT'D)



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9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

C PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Proforma	Freehold land and building		Leasehold land and building		Plant and machinery, factory and electrical equipment		Motor vehicles		Office equipment, furniture and fittings		Electrical installation		Total RM 000
	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	RM 000	
<u>Cost/Valuation</u>													
At 1 January, 2004	189	58,779	297,049	1,187	1,108	176	358,488						
Additions	-	172	8,368	61	13	-	8,614						
At 30 September, 2004	189	58,951	305,417	1,248	1,121	176	367,102						
<u>Accumulated Depreciation</u>													
At 1 January, 2004	-	6,070	78,000	771	949	91	85,881						
Charge for the financial period	44	438	7,653	86	35	13	8,269						
At 30 September, 2004	44	6,508	85,653	857	984	104	94,150						
<u>Net Book Value</u>													
At 30 September, 2004	145	52,443	219,764	391	137	72	272,952						

Leasehold properties have an unexpired period of lease of more than fifty years.

The net book value of motor vehicles acquired under hire purchase amounts to RM391,000.

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**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****D INVENTORIES**

	Audited/ Proforma RM 000
Raw materials	32,412
Finished goods	6,325
	<u>38,737</u>

E TRADE RECEIVABLES

	Audited/ Proforma RM 000
Trade receivables:	
Related parties	66
External parties	54,620
Less: Provision for doubtful debts	(1,379)
	<u>53,307</u>

F BILLS PAYABLE

	Audited RM 000	Proforma RM 000
Bills payable:		
Southern Bank Berhad	3,000	2,656
Standard Chartered Bank Malaysia Berhad	10,134	8,899
RHB Bank Berhad	17,757	15,404
EON Bank Berhad	5,861	5,172
Bank Islam Malaysia Berhad	8,206	7,288
Affin Bank Berhad	7,936	7,001
United Overseas Bank Berhad	8,676	7,694
	<u>61,570</u>	<u>54,114</u>

G TRADE PAYABLES

	Audited/ Proforma RM 000
Trade payables:	
Related parties	1,788
External parties	21,035
	<u>22,823</u>

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**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****H OTHER PAYABLES AND ACCRUALS**

	Audited/ Proforma RM 000
Other payables and accruals	<u>38,959</u>

Included under other payables and accruals is an amount due to Tenaga Nasional Berhad (TNB) amounting to RM38.146 million. Of this balance, an amount of RM33.976 million is repayable in monthly instalments pursuant to a deed of settlement executed on 13 September 2004 between TNB and the Company. The amount repayable during the period from 1 October 2004 to 31 December 2004 is RM6 million and the balance of RM27.976 million is repayable during the financial year ending 31 December 2005. The deed of settlement arose from the finalisation of the special tariff rates applicable to the Company and consequently resulted in an amount of RM11.842 million being electricity over accrued in previous years. This amount has been written back to the Income Statement for the current period.

I FIXED TERM LOANS

	Audited RM 000	Proforma RM 000
Repayable within the next 12 months	11,982	11,982
Repayable after the next 12 months	44,644	34,644
	<u>56,626</u>	<u>46,626</u>

The term loans are secured by a first legal charge over the Company's lands and buildings, assignment over leasehold land, a third party charge on the properties of associated companies, lien on the fixed deposit of a third party and a registered debenture covering all fixed and floating assets of the Company. The facilities are additionally guaranteed by the Company's directors, individuals and a major corporate shareholder. The facilities carry interest rates which vary according to prevailing inter-bank offered rates or base lending rates, as the case may be. The rates vary between 7.25% to 10.50% per annum.

J HIRE PURCHASE PAYABLES

	Audited/ Proforma RM 000
Gross amount payable	393
Less: Interest in suspense	<u>(71)</u>
	322
Less: Amount payable within the next 12 months	(83)
Amount payable after the next 12 months	<u>239</u>

The hire purchase obligations are subject to fixed interest rates ranging from 3.50% to 5.00% per annum.

X. ACCOUNTANTS' REPORT (CONT'D)**Singam & Yong (AF 0040)**

Chartered Accountants

**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****K SHARE CAPITAL**

	Audited RM 000	Proforma RM 000
Authorised:		
Ordinary shares of RM0.50 each	100,000	100,000
Issued and fully paid:		
Ordinary shares of RM0.50 each	54,852	66,500

On 13 July 2004, the par value of the ordinary share of MSW was subdivided from RM1.00 to RM0.50. This has resulted in a change in the authorised share capital of MSW from RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each to RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each.

	Proforma RM 000
Issued and fully paid:	
Ordinary shares of RM0.50 each:	
As per audited financial statements as at 30 September 2004	54,852
Ordinary shares of RM0.50 each:	
Public Issue	11,648
	<u>66,500</u>

L SHARE PREMIUM

	Audited RM 000	Proforma RM 000
Share Premium	25,149	*41,287

Note:

* The estimated listing expenses of RM2,500,000 have been set-off against the share premium account.

	Proforma RM 000
As per audited financial statements as at 30 September 2004	25,149
Public issue	18,638
	<u>43,787</u>
Less : Estimated listing expenses	(2,500)
	<u>41,287</u>

X. ACCOUNTANTS' REPORT (CONT'D)



Singam & Yong (AF 0040)

Chartered Accountants



9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

M CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

- a) The following are pending litigation in respect of claims instituted against the Company :
- (i) Claim of RM1.23 million for the balance of the purchase price for goods sold. The Company has filed a defence and counter claim for damages of RM1.31 million. The solicitors of the Company are of the opinion that the Company has a fair chance to succeed in the counter claim.
 - (ii) Arbitration for letter of demand against the Company for RM2.44 million is now pending instructions from the arbitrator on the filing of claims and counter-claims. The solicitors of the Company are of the opinion that the chances of succeeding in the claim proper are good.
 - (iii) Claims of RM7.56 Million for goods sold and delivered. The solicitors of the Company are of the opinion that the claim will fail in court since there were no agreements whatsoever nor even any prior demand or claim made against the Company previously.
- b) As at 30 September 2004, there is no capital commitment, which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Company.

N FINANCIAL MANAGEMENT RISK OBJECTIVES AND POLICIES

The Company's financial risk management policy is to ensure adequate financial resources are available for the development of the Company's business whilst managing its risk. The main areas of risk faced by the Company and the policy in respect of the major areas of treasury activity are set out as follows:

- Credit risk

The credit risk is controlled and monitored by the directors of the Company.

- Interest rate risk

The borrowings of the Company are a mix of short term and long term borrowings for working capital and thus the exposure to interest rate risk is minimal.

- Liquidity and Cash Flow risk

The Company seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Company and a flexible borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Company's means to repay and refinance.

X. ACCOUNTANTS' REPORT (CONT'D)**Singam & Yong (AF 0040)**

Chartered Accountants

**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****O TAXATION AND DEFERRED TAXATION**

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	Audited RM 000
Profit before taxation	30,429
Taxation at Malaysian statutory tax rate of 28%	8,520
Utilisation of capital allowances	(11,136)
Expenses not deductible for tax purposes	2,616
Tax expense for the financial period	<u>NIL</u>

There is no tax charge in respect of the profit for the financial period as the Company has sufficient unabsorbed capital allowances available for set-off.

Capital allowances and reinvestment allowances have not been computed for the current period as tax regulations do not allow for apportionment of allowances on a pro-rated basis. Therefore, the reconciliation of capital allowances and property, plant and equipment are based on balances of the previous year.

Unabsorbed capital allowances are analysed as follows:

	Audited RM 000
Tax savings recognised during the financial period arising from :	
Utilisation of unabsorbed capital allowances brought forward from previous years	<u>11,136</u>
Unabsorbed capital allowances carried forward	<u>6,312</u>
Reinvestment allowance carried forward	<u>58,206</u>

Deferred tax assets have not been recognised in respect of these items as tabulated below, as they are available indefinitely for set-off against future taxable profits of the Company in which those items arose.

	Audited RM 000
Unabsorbed capital allowances	6,312
Reinvestment allowance	58,206
Allowance for doubtful debts	386
	<u>64,904</u>

X. ACCOUNTANTS' REPORT (CONT'D)

Singam & Yong (AF 0040)
Chartered Accountants

**9 NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)****O TAXATION AND DEFERRED TAXATION (CONT'D)**

The carrying amount of property, plant and equipment and the corresponding tax base as at 31 December 2003 is as follows:

	RM 000
Carrying amount	206,338
Tax base	(99,680)
Temporary differences	<u>106,658</u>
Deferred tax liability @ 28%	<u>29,864</u>

Deferred tax liability has not been recognised as the directors are of the opinion that the effects of the temporary differences are unlikely to reverse in the foreseeable future due to the substantial amount of reinvestment allowance and unabsorbed capital allowances available to be utilised for set-off.

10 PROCEEDS FROM PUBLIC ISSUE

The proceeds from the Public Issue will be utilised in the following manner:

	RM 000
Repayment of bank borrowings	17,456
Capital expenditure	8,000
Working capital	2,330
Estimated listing expenses	2,500
	<u>30,286</u>

11 PROFORMA NET TANGIBLE ASSETS COVER

Based on the Proforma statement of assets and liabilities of MSW as at 30 September 2004, the net tangible assets per share would be as follows:

	RM 000
Net tangible assets as per MSW's Proforma statement of assets and liabilities	<u>212,429</u>
Number of MSW Shares in issue (000)	<u>133,000</u>
Net tangible assets per MSW Share (RM)	<u>1.60</u>

X. ACCOUNTANTS' REPORT (CONT'D)



Singam & Yong (AF 0040)

Chartered Accountants



12 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 September 2004.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'SINGAM & YONG'.

SINGAM & YONG
Chartered Accountants
No. AF 0040

A handwritten signature in black ink, appearing to be 'JAYAPALASINGAM A/L KANDIAH'.

JAYAPALASINGAM A/L KANDIAH
No. 457/03/05 (J/PH)
Partner of the firm

XI. DIRECTORS' REPORT



MALAYSIA STEEL WORKS (KL) BHD
(7878-V)

(Prepared for inclusion in this Prospectus)

Registered Office:

Wisma Safety
No. 43, Jalan Melayu
50100 Kuala Lumpur

13 January 2005

The Shareholders
Malaysia Steel Works (KL) Bhd

Dear Sir/Madam,

On behalf of the Directors of Malaysia Steel Works (KL) Bhd ("MSW" or "Company"), I report after due inquiry that during the period from 30 September 2004 (being the date to which the last audited financial statements of MSW has been made up) to 13 January 2005 (being a date not earlier than fourteen days before the issue of this Prospectus):

- (a) the business of the Company, in the opinion of the Board of Directors, has been satisfactorily maintained;
- (b) in the opinion of the Board of Directors, no circumstances have arisen subsequent to the last audited financial statements of the Company which have adversely affected the trading or the value of the assets of the Company;
- (c) the current assets of the Company appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section IX(2) this Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company;
- (e) the Board of Directors are unaware of any default or any known event that could give rise to a default situation in respect of payments of interest and/or principal sums of the borrowings of the Company since the date of the last audited financial statements of MSW; and
- (f) save as disclosed in Section X of this Prospectus, there have been no material changes in published reserves or any unusual factors affecting the profits of the Company.

Yours faithfully
For and on behalf of
the Board of Directors of MSW

Tai Hean Leng @ Tek Hean Leng
Managing Director/Chief Executive Officer

REGISTERED ADDRESS:
Wisma Safety
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03-2694 8941

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