

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)

Notes:

N/A Not applicable

* Annualised to 12 months for comparison purposes

(i) Based on the issued and paid-up capital of 500,000,000 PHB Shares immediately prior to the IPO.

(ii) There were no extraordinary items / exceptional items for the financial years under review

(iii) The non-recurring items for the financial years / period under review are as follows:

	< ----- FYE ----- >			<4- month period ended>	
	31.12.2005	31.12.2006	31.12.2007	30.04.2007	30.04.2008
	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	-	(110,000)	-	-	-
Allowance for doubtful debts on trade receivables	-	1,206	2,236	-	3,509
Allowance for doubtful debts on other receivables	-	452	305	-	-
Bad debts written off on other receivables	-	-	-	-	30
Bad debts written off on certain related parties	16,057	-	-	-	19
Equipment written off	3,133	2,717	-	-	-
Loss arising from termination of contracted freight contracts	34,626	-	-	-	-
Waiver of overdue interest on hire purchase liabilities	-	(7,956)	-	-	-
Waiver of debts from creditors	-	(60,708)	(87,194)	-	-
Writeback of allowance for doubtful debts on trade debtors	(6,765)	-	-	-	-
Writeback of allowance for doubtful debts on amount owing by related parties	(11,509)	-	-	-	-
Share of Gurun Assets (profit)/loss [@]	(1,044)	10,307	3,048	-	-
Increase/(decrease) in PAT after adjusting for exceptional items	34,498	(163,982)	(81,605)	-	3,558

[@] Please refer to Section 14.2.3 for further details on the Gurun Assets.

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13. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

13.2 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

(Prepared for inclusion in this Prospectus)



27 JUN 2008

The Board of Directors
Perwaja Holdings Berhad
Level 31, Maju Tower
1001, Jalan Sultan Ismail
50250 Kuala Lumpur

Dear Sirs

**PERWAJA HOLDINGS BERHAD
(FORMERLY KNOWN AS VERTICAL WINNERS SDN BHD) ("PHB")
PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

We have reviewed the proforma consolidated financial information of PHB and its subsidiary ("PHB Group" or "the Group") for the financial years ended 31 December 2005, 2006 and 2007 and for the financial period ended 30 April 2008, together with the accompanying notes thereto, for which the Directors are solely responsible, as set out in the accompanying statements (initialled by us for the purpose of identification only), prepared for illustrative purposes for inclusion in the Prospectus of PHB in connection with the listing of PHB on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

It is our responsibility to form an opinion on the proforma consolidated financial information as required by the Prospectus Guidelines issued by the Securities Commission and to report our opinion to you.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the audited financial statements, considering the evidence supporting the adjustments, and discussing the proforma consolidated financial information with the Directors of the Group.

As the proforma consolidated financial information has been prepared for illustrative purposes only, such information may not, because of its nature, reflect the actual financial position, results and cash flows of the Group. Further, such information does not purport to predict the future financial position, results and cash flows of the Group.

In our opinion,

- (a) the proforma consolidated financial information has been properly prepared on the bases set out in the accompanying notes to the proforma financial information and such bases are consistent with the accounting policies of the PHB Group;
- (b) the financial statements used in the preparation of the proforma consolidated financial information were prepared in accordance with applicable approved Financial Reporting Standards in Malaysia; and
- (c) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing such proforma consolidated financial information.

Horwath *AF No 1018*
Kuala Lumpur Office
Chartered Accountants

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12 Jalan Yap Kwan Seng
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Malaysia

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13. HISTORICAL FINANCIAL INFORMATION (Cont'd)



We understand that this letter will be used solely for the purpose stated above, in connection with the aforementioned transactions. As such, this letter should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

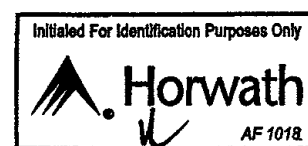
Yours faithfully

A handwritten signature in black ink, appearing to be "A. K. H.", written over the printed name of Onn Kien Hoe.

Horwath
Firm No : AF 1018
Chartered Accountants

A handwritten signature in black ink, appearing to be "A. K. H.", written over the printed name of Onn Kien Hoe.

Onn Kien Hoe
Approval No : 1772/11/08(J/PH)
Partner

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION****1. PROFORMA GROUP AND BASIS OF PREPARATION****1.1 Proforma Group**

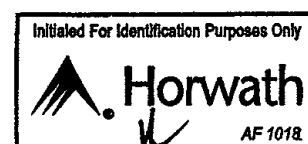
The proforma consolidated financial information of the PHB Group, comprising the financial information of PHB and Perwaja Steel Sdn. Bhd. ("PSSB"), are presented for the purpose of illustration only.

The relevant financial periods for the purpose of this report ("Relevant Financial Periods") are as follows:-

Company	Relevant Financial Periods
PHB	Financial period from 6 December 2007 (date of incorporation) to 30 April 2008 ("FPE 2008")
PSSB	Financial Years Ended ("FYE") 31 December 2005, 2006, 2007 and Financial Period("FPE") from 1 January 2008 to 30 April 2008.

The proforma consolidated financial information of the PHB Group is prepared on the assumption that PHB Group had been in existence throughout for the financial years ended 31 December 2005 to 2007 and for the financial period ended 30 April 2008. The proforma consolidated financial information comprises the following:-

- Section 2 - Proforma Consolidated Income Statements for the Relevant Financial Periods;
- Section 3 - Proforma Consolidated Balance Sheets as at 30 April 2008; and
- Section 4 - Proforma Consolidated Cash Flow Statements for the financial period ended 30 April 2008.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****1.2 Basis of Preparation**

PHB Group existed only upon the completion of the Acquisition of PSSB by PHB. Accordingly there are no consolidated financial information of PHB as PHB was incorporated only on 6 December 2007 and has not commenced business operations. Accordingly, the proforma consolidated financial information is prepared using the audited financial statements of PSSB for the Relevant Financial Periods, except for FPE 2008 where the proforma consolidated financial information included the audited financial statements of PHB and PSSB.

In preparing this report, certain reclassifications were made to ensure the consistency of presentation of information for comparison purposes. The details of the reclassifications made are set out as follows:-

	FYE 2005 RM'000	FYE 2006 RM'000	FYE 2007 RM'000	FPE 2008 RM'000
INCOME STATEMENT (EXTRACT)				
(a) Administrative expenses				
As per audited financial statements	76,124	40,118	40,742	18,421
Reclassification (i)	112	-	-	-
As per report	<u>76,236</u>	<u>40,118</u>	<u>40,742</u>	<u>18,421</u>
(b) Finance costs				
As per audited financial statements	54,765	34,826	66,003	22,685
Reclassification (i)	(112)	-	-	-
As per report	<u>54,653</u>	<u>34,826</u>	<u>66,003</u>	<u>22,685</u>

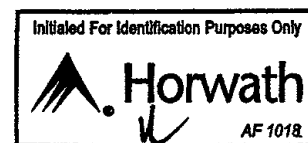
Note:-

- (i) reclassification of bank charges

The proforma consolidated financial information has been prepared in accordance with applicable approved Financial Reporting Standards in Malaysia consistent with those previously adopted in the preparation of the audited financial statements of the PHB Group for the financial period ended 30 April 2008 and after incorporating adjustments that are appropriate for the preparation of the proforma consolidated financial information.

The proforma consolidated financial statements have been prepared using the merger method. Under the merger method, the difference between the carrying value of the investment and the nominal value of the share capital of the subsidiary is taken to the merger reserve.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)


PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)
1.2 Basis of Preparation (Cont'd)

During the current financial period, the Group has adopted the following Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB") and effective for financial periods beginning on or after 1 July 2007:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The above FRSs align the MASB's FRSs with the equivalent International Accounting Standards ("IASs"), both in terms of form and content. The adoption of these standards will only impact the form and content of disclosures presented in the financial statements. The Group have applied these FRSs for the financial period ended 30 April 2008 onwards except for FRS 111 which is not relevant to the Group operations.

FRS 134 - Interim Financial Reporting has been issued and is effective for the financial periods beginning on or after 1 July 2007. This FRS aligns the MASB's FRS with the equivalent IAS, both in terms of form and content. The adoption of this standard will only impact the form and content of disclosures presented in the quarterly financial statements. The Group has applied this standard for the financial period ended 30 April 2008 onwards.

The Group has not adopted FRS 139 - Financial Instruments: Recognition and Measurement and the consequential amendments resulting from FRS 139 as the effective date is deferred to a date to be announced by the MASB. FRS 139 establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted. By virtue of the exemption provided under paragraph 103AB of FRS 139, the impact of applying FRS 139 on its financial statements upon first adoption of the standard as required by paragraph 30(b) of FRS 108 is not disclosed.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)



PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")

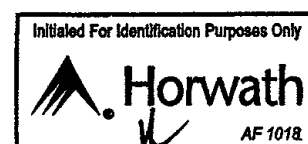
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

1.2 Basis of Preparation (Cont'd)

The proforma consolidated balance sheets, together with the accompanying notes thereto, have been prepared solely for illustrative purposes, to show the effects of the listing scheme had the scheme been implemented and completed on 30 April 2008:-

- (a) acquisition of the entire issued and paid-up share capital of PSSB comprising 1,216,180,704 ordinary shares of RM1.00 each for a total purchase consideration of RM966,253,600 which was satisfied by the issuance of 499,999,998 new PHB Shares at an issue price of RM1.93 per Share ("Acquisition");
- (b) issuance of 156,123,000 Irredeemable Convertible Unsecured Loan Stocks ("ICULS") to Kinsteel Bhd at an issue price of RM0.10 per ICULS. ("Issuance of ICULS");
- (c) public issue of 60,000,000 new PHB Shares ("Public Issue");
- (d) offer for sale by the Offerors of 90,000,000 PHB Shares ("Offer for Sale");
- (e) admission of PHB to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of PHB of RM560,000,000 comprising 560,000,000 PHB Shares on the Main Board of Bursa Securities ("Flotation").

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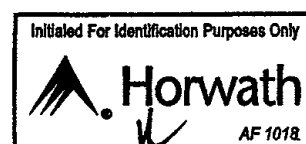
13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****2. PROFORMA CONSOLIDATED INCOME STATEMENTS OF PHB GROUP**

	FYE 2005 RM'000	FYE 2006 RM'000	FYE 2007 RM'000	FPE 2007 # RM'000	FPE 2008 RM'000
Revenue	1,062,572	1,182,092	1,693,007	505,485	661,436
Cost of goods sold	(1,047,781)	(1,013,990)	(1,441,496)	(433,958)	(527,759)
Gross profit ("GP")	14,791	168,102	251,511	71,527	133,677
Other income	26,550	27,543	37,159	562	6,952
	41,341	195,645	288,670	72,089	140,629
Selling and distribution expenses	(13,578)	(24,240)	(19,339)	(7,092)	(4,854)
Administrative expenses	(76,236)	(40,118)	(40,742)	(8,519)	(18,421)
(Loss)/Profit from operations	(48,473)	131,287	228,589	56,478	117,354
Finance costs	(54,653)	(34,826)	(66,003)	(14,900)	(22,685)
(Loss)/Profit before taxation ("LBT")/"PBT")	(103,126)	96,461	162,586	41,578	94,669
Income tax expense	-	110,000	-	-	-
(Loss)/Profit after taxation ("LAT")/"PAT")	(103,126)	206,461	162,586	41,578	94,669
GP margin (%)	1.4	14.2	14.9	14.2	20.2
(LBT)/PBT margin (%)	(9.7)	8.2	9.6	8.2	14.3
(LAT)/PAT margin (%)	(9.7)	17.5	9.6	8.2	14.3
Effective tax rate (%)	N/A	N/A	N/A	N/A	N/A
Earnings before interest, amortisation, depreciation and taxation (RM'000)	19,209	199,734	296,254	79,267	140,202
Interest coverage (times)	(0.9)	3.8	3.5	3.8	5.2
Trade receivables turnover ratio (days)	1.8	11.0	2.5	1.7	7.2
Trade payables turnover ratio (days)	187.6	117.3	30.5	115.1	24.2
inventories turnover ratio (days)	60.2	88.2	98.1	69.3	100.6
Gearing ratio (times)	0.5	0.7	0.8	0.6	0.7
Assumed number of ordinary shares in issue RM1.00 each ('000) *	500,000	500,000	500,000	500,000	500,000
(Loss)/Gross earnings per share ("LPS")/"EPS") (sen)	(20.6)	19.3	32.5	24.9 ^	56.8 ^
Net (LPS)/EPS (sen)	(20.6)	41.3	32.5	24.9 ^	56.8 ^

Notes:

- * - Based on the issued and paid-up capital of 500,000,000 PHB Shares immediately prior to the Public Issue
- ^ - Annualised to 12 months for comparison purposes
- # - The Income Statements for the four-month financial period ended 30 April 2007 are unaudited and are included for comparison purposes only.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)



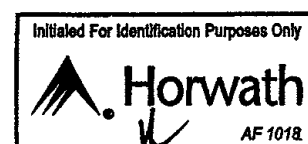
PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")
 PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS/STATEMENT OF ASSETS AND LIABILITIES OF PHB GROUP AS AT 30 APRIL 2008

Note	As at 30 April 2008 RM'000	Proforma I Acquisition and Proposed Capital Reduction RM'000	Proforma II ICULS Placement RM'000	Proforma III Public Issue and Offer for Sale RM'000	Proforma IV Exercise of ICULS RM'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	3.5	-	1,433,216	1,433,216	1,433,216
Prepaid lease payments	3.6	-	27,948	27,948	27,948
Other investment	3.7	-	4,000	4,000	4,000
Deferred tax asset	3.8	-	110,000	110,000	110,000
		-	1,575,164	1,575,164	1,575,164
CURRENT ASSETS					
Inventories	3.9	-	438,637	438,637	438,637
Trade receivables	3.10	-	39,494	39,494	39,494
Other receivables, deposits and prepayments	3.11	-	67,633	67,633	67,633
Amount owing by related companies	3.12	-	34,875	34,875	34,875
Amount owing by related parties	3.13	-	7,520	7,520	7,520
Tax refundable		-	103	103	103
Fixed deposit with a financial institution	3.14	-	13,275	13,275	13,275
Cash and bank balances	3.15	#	11,646	27,258	139,769
		-	613,183	628,795	741,306
TOTAL ASSETS		-	2,188,347	2,203,959	2,316,470
EQUITY AND LIABILITIES					
EQUITY					
Share capital	3.16	#	500,000	500,000	560,000
ICULS	3.17	-	-	10,748	-
Share premium	3.18	-	-	-	102,511
Merger reserve	3.19	-	287,776	287,776	287,776
(Accumulated loss)/Retained profit		(7)	94,669	94,669	94,669
TOTAL EQUITY		(7)	882,445	893,193	1,055,704
NON CURRENT LIABILITIES					
Long-term borrowings	3.20	-	194,654	194,654	194,654
Murabahah medium term loan	3.21	-	310,000	310,000	310,000
Collateralised loan	3.22	-	40,000	40,000	40,000
		-	544,654	544,654	544,654
CURRENT LIABILITIES					
Trade payables	3.23	-	105,568	105,568	105,568
Other payables and payables	3.24	5	38,864	38,864	38,864
Amount owing to ultimate holding company	3.25	-	21,773	21,773	21,773
Amount owing to immediate holding company	3.26	-	229,116	229,116	229,116
Amount owing to related companies	3.12	-	9,954	9,954	9,954
Amount owing to related parties	3.13	2	17,291	17,291	17,291
ICULS	3.17	-	-	4,864	-
Short-term borrowings	3.27	-	333,636	333,636	283,636
Bank overdraft	3.29	-	5,046	5,046	5,046
		7	761,248	766,112	711,248
TOTAL LIABILITIES		7	1,305,902	1,310,766	1,260,766
TOTAL EQUITY AND LIABILITIES		-	2,188,347	2,203,959	2,316,470
<i>Number of ordinary shares in issue of RM1.00 each ('000)</i>					
		#	500,000	500,000	560,000
<i>Net tangible assets ("NTA") (RM'000)</i>					
		(7)	882,445	893,193	1,055,704
<i>NTA per ordinary share (RM)</i>					
		(3,500.00)	1.76	1.79	1.89

Note: # - RM2

* - 2 ordinary shares

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.1 Proforma I**

Proforma I incorporates the effects of the proposed capital reduction of PSSB and the acquisition by PHB of the entire ordinary shares in PSSB through the issuance of 499,999,998 new PHB ordinary shares of RM1.00 each.

The proposed capital reduction is assumed to be done by:

- (i) the cancellation of PSSB's entire share premium account of RM121.618 million as at 31 December 2007; and
- (ii) the reduction of PSSB's issued and paid-up share capital from RM1,216.181 million comprising 1,216.181 million PSSB Share to RM787.776 million comprising RM787.776 PSSB Shares by the cancellation of 428.405 million PSSB Share.

3.2 Proforma II

Proforma II incorporates the effects of Proforma I and the issuance of ICULS.

3.3 Proforma III

Proforma III incorporates the effects of Proforma II and the Public Issue and the Offer For Sale.

The proceeds from the Public Issue will be utilised as follows:-

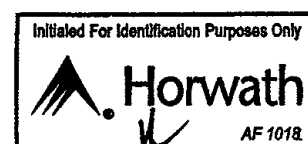
	RM'000
Repayment of bank borrowings	50,000
Working capital	112,511
Estimated listing expenses	11,000
	173,511

3.4 Proforma IV

Proforma IV incorporates the effects of Proforma III and the Exercise of ICULS.

For the purpose of the Proforma IV presentation, Kinsteel Bhd will convert the ICULS on 30 April 2008 into new PHB Shares at a conversion price of RM2.90 per PHB Share by tendering 1 ICULS and RM2.80 cash for 1 new PHB Share.

The liability portion of the ICULS is reclassified to equity on the assumption that no interest/coupon will be payable to the holders upon the full conversion of the ICULS.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.5 PROPERTY, PLANT AND EQUIPMENT**

The details of property, plant and equipment are illustrated below:-

	At cost RM'000	Accumulated impairment RM'000	Accumulated depreciation RM'000	Net book value RM'000
At 30.4.2008				
Buildings	121,655	(63,126)	(31,616)	26,913
Land improvements and infrastructure	114,560	(76,083)	(28,476)	10,001
Plant and machinery	2,537,899	(263,353)	(890,037)	1,384,509
Motor vehicles	52,385	-	(46,954)	5,431
Electrical installations, furniture, fittings and office equipment	43,362	-	(41,921)	1,441
Renovation	3,100	-	(123)	2,977
Capital work-in-progress	1,944	-	-	1,944
	2,874,905	(402,562)	(1,039,127)	1,433,216

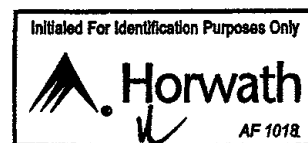
The property, plant and equipment were charged to financial institutions as security for banking facilities granted to the PHB Group as disclosed in Notes 3.21 and 3.27 below.

Included in property, plant and equipment of the PHB Group are the following assets acquired under hire purchase terms:-

	RM'000
Plant and machinery	8,086
Motor vehicles	726
	8,812

Motor vehicles with net book values of approximately RM6,000 and RM151,000 were held in trust by a director and a shareholder respectively.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)

**PERWAJA HOLDINGS BERHAD (“PHB”) AND ITS SUBSIDIARY (“PHB GROUP”)****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.6 PREPAID LEASE PAYMENTS**

	RM'000
At cost	40,796
Accumulated amortisation	(12,848)
	<u>27,948</u>

Prepaid lease payments which represent leasehold land have been pledged as security for banking facilities granted to the PHB Group as disclosed in Notes 3.21 and 3.27 below.

3.7 OTHER INVESTMENT

	RM'000
Subordinated bonds, at cost	<u>4,000</u>

The subordinated bonds are related to the collateralised loan disclosed in Note 3.22 below. The collateralised loan was provided by a syndication of lenders and one of the conditions is that the borrowers (the Group being one of them) are required to participate in the pool of lenders, limited to 10% of the amount borrowed.

3.8 DEFERRED TAX ASSET

The deferred tax asset represents the tax benefits from the expected utilisation of the unutilised tax losses in the foreseeable future, based on the prevailing applicable tax rate.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.9 INVENTORIES**

The details of the inventories are as follows:-

	RM'000
AT COST:-	
Raw materials	235,075
Engineering spares and consumables	125,037
Finished goods	47,912
	<hr/> 408,024
AT NET REALISABLE VALUE:-	
Raw materials	30,613
	<hr/> 438,637

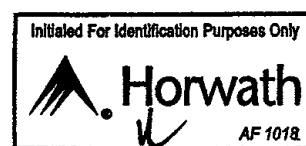
3.10 TRADE RECEIVABLES

	RM'000
Trade receivables	48,522
Allowance for doubtful debts	(9,028)
	<hr/> 39,494

The PHB Group's normal trade credit terms range from cash terms to 14 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure profile of the trade receivables is as follows:-

	RM'000
United States Dollar	34,550
	<hr/>

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.11 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

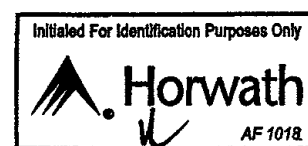
	RM'000
Gross receivables	67,170
Allowance for doubtful debts	(5,317)
	<hr/>
	61,853
Deposits and prepayments	5,780
	<hr/>
	67,633

3.12 AMOUNT OWING BY/(TO) RELATED COMPANIES

	RM'000
Amount owing by:	
- trade	34,916
- non-trade advances	(41)
	<hr/>
	34,875
	<hr/>
Amount owing to:	
- trade	(9,709)
- non-trade advances	(245)
	<hr/>
	(9,954)

The trade amounts owing are subject to normal credit terms. The amounts owing are unsecured and to be settled in cash.

The non-trade advances are unsecured, interest-free and receivable/repayable on demand. The advances are to be settled in cash.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.13 AMOUNT OWING BY/(TO) RELATED PARTIES**

	RM'000
Gross amount owing by related parties	21,136
Allowance for doubtful debts	(13,616)
	<u>7,520</u>
	RM'000
Amount owing by:	
- trade	<u>7,520</u>
Amount owing to:	
- trade	(15,049)
- non-trade advances	(2,242)
	<u>(17,291)</u>

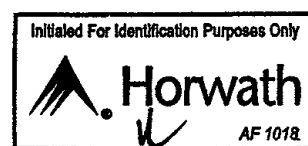
The trade amounts owing are subject to normal credit terms. The amounts owing are unsecured and to be settled in cash.

The non-trade advances are unsecured, interest-free and receivable/repayable on demand. The advances are to be settled in cash.

3.14 FIXED DEPOSIT WITH A FINANCIAL INSTITUTION

The fixed deposit has been pledged for Murabahah Medium Term Loan issued by PSSB.

The interest rate per annum of the fixed deposit in was 3.0%.

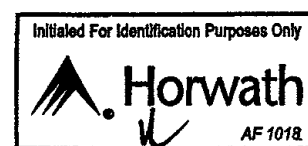
13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.15 CASH AND BANK BALANCES**

	RM'000
As at 30 April 2008	#
Acquisition	11,646
As per Proforma I	11,646
Proceeds from issuance of ICULS	15,612
As per Proforma II	27,258
Proceeds from Public Issue	173,511
Less:-	
Utilisation of Proceeds:	
- repayment of bank borrowings (Note 3.27)	(50,000)
- estimated listing expenses paid (Note 3.18)	(11,000)
As per Proforma III	139,769
Proceeds from Exercise of ICULS	437,145
As per Proforma IV	576,914

Note: # - RM2

The foreign currency exposure profile cash and bank balances is as follows:-

	RM'000
United States Dollar	11,184

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.16 SHARE CAPITAL**

As at the date of this report, the authorised share capital of PHB is RM2,000,000 comprising 2,000,000 ordinary shares of RM1 each. The issued and paid-up share capital of PHB as of the date of this report is RM2 comprising 2 ordinary shares of RM1 each.

The movements in the issued and paid-up share capital of PHB are as follows:-

	Number of Ordinary Shares ('000)	Amount of Share Capital RM'000
As at 30 April 2008	*	#
Acquisition	500,000	500,000
As per Proforma I/II	500,000	500,000
Public Issue	60,000	60,000
As per Proforma III	560,000	560,000
Exercise of ICULS	156,123	156,123
As per Proforma IV	716,123	716,123

Notes:

* - 2 ordinary shares

- RM2

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)


PERWAJA HOLDINGS BERHAD (“PHB”) AND ITS SUBSIDIARY (“PHB GROUP”)
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)
3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)
3.17 ICULS

The principal terms of the ICULS are as follows:-

- | | | |
|-----|--------------------------|--|
| (a) | Tenure/Maturity | The tenth (10 th) anniversary of the date of issue of ICULS. |
| (b) | Coupon rate | 4% per annum payable semi-annually. |
| (c) | Status | The ICULS constitute unsecured obligations of PHB and shall rank pari passu in all respects without priority amongst themselves. |
| (d) | Conversion Rights | Each ICULS can be converted into 1 new PHB Share at any time during the tenure of the ICULS, at the Conversion Price in accordance with the Conversion Mode. Any outstanding ICULS not converted on Maturity Date by the holder shall be automatically converted into new PHB Shares at the Conversion Price. |
| (e) | Conversion Price | The conversion price of the ICULS is RM2.90 per Share. |
| (f) | Status of new PHB Shares | The new PHB Shares to be issued pursuant to the conversion of the ICULS shall, upon allotment and issue, rank pari passu in all respects with the existing PHB Shares, provided that the new PHB Shares shall not be entitled to dividends, rights, allotments and/or other distributions declared, made or paid to shareholders of PHB the entitlement date of which is prior to the date of allotment of the new PHB Shares. |

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.18 SHARE PREMIUM**

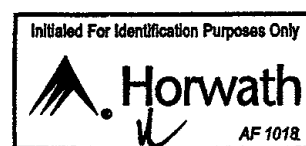
The movements in the share premium account are as follows:-

	RM'000
As at 30 April 2008	-
Acquisition	-
As per Proforma I/II	-
Public Issue	113,511
Estimated listing expenses (Note 3.15)	(11,000)
As per Proforma III	102,511
Exercise of ICULS	296,634
As per Proforma IV	<u>399,145</u>

The share premium is not distributable by way of dividends and can be utilised only in the manner as set out in Section 60(3) of the Companies Act, 1965.

3.19 MERGER RESERVE

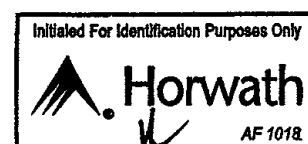
The merger reserve arose from the difference between the carrying value of the investment and the nominal value of the shares of the subsidiary upon consolidation using merger accounting principles.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.20 LONG-TERM BORROWINGS**

	Note	RM'000
Hire purchase payables (Note 3.28)		4,017
Loan from a related party	(a)	85,746
Loan from the Malaysian Government	(b)	104,891
		194,654
(a) Loan from a related party		
		RM'000
Current portion:		
Repayable within one year (Note 3.27)		21,070
Non-current portion		
Repayable between one to two years		21,070
Repayable between two to five years		64,676
		85,746
		106,816

The related party is Equal Concept Sdn. Bhd., a subsidiary of Maju Holdings Sdn Bhd. The loan is unsecured, interest-free and is repayable in five equal annual instalments of approximately RM21.1 million each, commencing on or before 4 September 2008.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)


PERWAJA HOLDINGS BERHAD (“PHB”) AND ITS SUBSIDIARY (“PHB GROUP”)
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)
3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)
3.20 LONG-TERM BORROWINGS (CONT'D)
(b) Loan from the Malaysian Government

	RM'000
Current portion:	
Repayable within one year (Note 3.27)	29,723
Non-current portion	
Repayable between one to two years	29,723
Repayable between two to five years	75,168
	104,891
	134,614

The loan from the Malaysian Government is unsecured and interest-free.

The loan is repayable as follows:

- (i) 2 year moratorium from having to repay any outstanding amount until January 2008; and
- (ii) upon expiry of the 2 year moratorium period, RM14 million and RM15.7 million will be payable on or before 14 March and 4 September annually to the Malaysian Government for the next 5 years towards the full settlement of the advances.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD (“PHB”) AND ITS SUBSIDIARY (“PHB GROUP”)****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.21 MURABAHAH MEDIUM TERM LOAN**

	RM'000
Repayable between one to two years	50,000
Repayable between two to five years	150,000
Repayable after five years	110,000
	310,000

On 25 September 2006, PSSB issued a RM310 million 9-year Medium Term Loan for the purpose of refinancing existing banking facilities, debts settlement to Tenaga National Berhad and for its working capital.

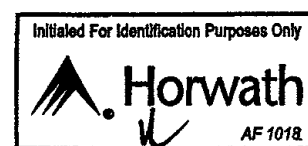
The principal terms of the Medium Term Loan are as follows:-

(a) Maturity and profit rate

Tranche	Tenure (Year)	RM' million	Profit rate (%)
1	3	50	7.6
2	4	50	8.1
3	5	50	8.5
4	6	50	8.9
5	7	50	9.2
6	8	40	9.4
7	9	20	9.7
		310	

Profit shall be payable semi-annually commencing 6 months from the date of the first issue until final maturity of the respective tranches.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)


PERWAJA HOLDINGS BERHAD (“PHB”) AND ITS SUBSIDIARY (“PHB GROUP”)
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)
3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)
3.21 MURABAHAH MEDIUM TERM LOAN (CONT'D)
(b) Security

- (i) Debenture creating first fixed and floating charge on all assets, present and future of PSSB;
- (ii) First legal charge over PSSB's leasehold land together with the plants erected thereon; and
- (iii) Fixed charge over all proceeds in the Designated Accounts, comprising the Escrow Account and Finance Service Reserve Account.

(c) Basis of Arrangement

On a “bought deal” basis.

(d) Issue and Redemption

The Medium Term Loan was issued at par and redeemable at par on the respective maturities.

3.22 COLLATERALISED LOAN

The unsecured collateralised loan bore an effective interest rate of 7.13% per annum and repayable on 18 January 2012.

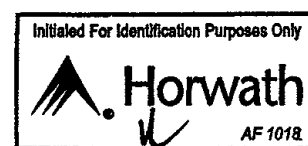
3.23 TRADE PAYABLES

The normal trade credit terms granted to the Company range from 30 to 90 days.

The foreign currency exposure profile of trade payables is as follows:-

	RM'000
Euro	2,120
United States Dollar	9,035
Swiss Francs	392
Japanese Yen	4,222
Others	1,358
	<hr/>

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)


PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)
3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)
3.24 OTHER PAYABLES AND ACCRUALS

	RM'000
Accrued interest	17,103
Trade advance collection	7,104
Other payables	10,681
Other accruals	3,976
	38,864

3.25 AMOUNT OWING TO ULTIMATE HOLDING COMPANY

The trade amount owing is subject to normal credit terms. The amount owing is unsecured and to be settled in cash.

3.26 AMOUNT OWING TO IMMEDIATE HOLDING COMPANY

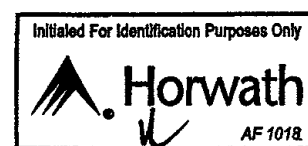
	RM'000
Amount owing by:	
- trade	20,834
- non-trade advances	11
	20,845
Amount owing to:	
- trade	(249,961)
	(229,116)

The foreign currency exposure profile of the trade receivables is as follows:-

	RM'000
United States Dollar	51,634

The trade amount owing is subject to normal credit terms. The amount owing is unsecured and to be settled in cash.

The non-trade advances are unsecured, interest-free and not subject to fixed terms of repayment. The advances are to be settled in cash.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.26 AMOUNT OWING TO IMMEDIATE HOLDING COMPANY (CONT'D)**

The trade advances of approximately RM174,961,000 is subject to an interest rate of 8.4% per annum.

3.27 SHORT-TERM BORROWINGS

	RM'000
Bankers' acceptances	280,319
Loan from a related party (Note 3.20)	21,070
Loan from the Malaysian Government (Note 3.20)	29,723
Hire purchase payables (Note 3.28)	2,524
As per Proforma I/II	333,636
Utilisation of proceeds from public issue (Note 3.15)	(50,000)
As per Proforma III/IV	<u>283,636</u>

The effective interest rate for the bankers' acceptances was 5.5% per annum. The bankers' acceptances are secured by way of:-

- (i) fixed and floating charges over all PSSB's property, plant and equipment;
- (ii) a debenture on all present and future assets of the PSSB;
- (iii) a first legal charge over the PSSB's leasehold land; and
- (iv) a corporate guarantee from Kinsteel Bhd.

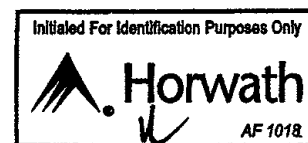
13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. PROFORMA CONSOLIDATED BALANCE SHEETS OF PHB GROUP (CONT'D)****3.28 HIRE PURCHASE PAYABLES**

	RM'000
Minimum hire purchase payables:	
- not later than one year	2,836
- later than one year and not later than five years	4,502
	7,338
Less: Future finance charges	(797)
	6,541
Current:	
- not later than one year (Note 3.27)	2,524
Non-current:	
- later than one year and not later than five years (Note 3.20)	4,017
	6,541

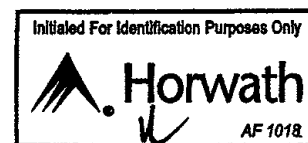
The hire purchase payables bore effective interest rates ranging from 4.5% to 15.9% per annum.

3.29 BANK OVERDRAFT

The bank overdraft bore an effective interest rate of 8.2% per annum and is secured in the same manner as the bankers' acceptances disclosed in Note 3.27 above.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****4. PROFORMA CONSOLIDATED CASH FLOW STATEMENTS OF PHB GROUP**

	FPE 2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES	
Profit before taxation	94,669
Adjustments for:-	
Allowance for doubtful debts	3,509
Amortisation of prepaid lease payments	244
Bad debts written off	49
Depreciation for property, plant and equipment	22,856
Interest expense	22,685
Loss on foreign exchange - unrealised	2,430
Interest income	(252)
Operating profit before working capital changes	146,190
Increase in inventories	(51,185)
Increase in trade and other receivables	(44,983)
Decrease in trade and other payables	(12,226)
Decrease in amount owing to ultimate holding company	(20,295)
Increase in amount owing to immediate holding company	32,050
Increase in amount owing to related companies	9,996
Decrease in amount owing to related parties	(5,829)
CASH FROM OPERATIONS	53,718
Interest paid	(15,453)
NET CASH FROM OPERATING ACTIVITIES	38,265
CASH FLOW FOR INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(19,912)
Interest received	252
NET CASH FOR INVESTING ACTIVITIES	(19,660)
BALANCE CARRIED FORWARD	18,605

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**PERWAJA HOLDINGS BERHAD ("PHB") AND ITS SUBSIDIARY ("PHB GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****4. PROFORMA CONSOLIDATED CASH FLOW STATEMENT OF PHB GROUP (CONT'D)**

	FPE 2008 RM'000
BALANCE BROUGHT FORWARD	18,605
CASH FLOW FOR FINANCING ACTIVITIES	
Proceeds from issuance of shares	#
Drawdown of bankers' acceptances	9,474
Repayment of hire purchase obligation	(951)
Repayment of Malaysian Government Loan	(14,000)
Repayment to related companies	(16,382)
Repayment to related parties	(757)
Repayment to immediate holding company	(19,261)
NET CASH FOR FINANCING ACTIVITIES	(41,877)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,272)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	43,147
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	19,875

Notes:

- RM2

The Proforma Consolidated Cash Flow Statements of PHB Group has been prepared before taking into account the proceeds from the Public Issue, Utilisation of Proceeds and Exercise of ICULS.

13. HISTORICAL FINANCIAL INFORMATION (Cont'd)**13.3 CAPITALISATION AND INDEBTEDNESS**

The following table shows the cash and bank balances, capitalisation and indebtedness of our Group:-

- (i) as at 30 April 2008 based on our proforma consolidated financial information; and
- (ii) as adjusted to show the effects of the Flotation Scheme, the net proceeds arising from the issuance of 60,000,000 IPO Shares pursuant to our IPO and the utilisation of proceeds as set out in Section 4.8 of the Prospectus as well as the assumption that 156,123,000 ICULS were fully converted on 30 April 2008:

		(A)	(B)	(C)	(D)
	As at date of incorporation RM'000	After the Acquisition of PSSB RM'000	After (A) and ICULS Placement RM'000	After (B) and Public Issue and Offer for Sale RM'000	After (C) and full conversion of ICULS RM'000
Cash and bank balances [^]	#	24,921	40,533	153,044	590,189
Indebtedness					
<i>Current</i>					
- secured and guaranteed	-	287,889	287,889	237,889	237,889
- unsecured and non-guaranteed	-	50,793	55,657	55,657	50,793
<i>Non-current</i>					
- secured and guaranteed*	-	314,017	314,017	314,017	314,017
- unsecured and non-guaranteed	-	230,637	230,637	230,637	230,637
Total indebtedness	-	883,336	888,200	838,200	833,336
Total shareholders' equity	(7)	882,445	893,193	1,055,704	1,497,713
Total capitalisation and indebtedness	(7)	1,765,781	1,781,393	1,893,904	2,331,049

Notes:

[^] Including fixed deposits with a financial institution

* Comprise secured and non-guaranteed indebtedness amounting to RM310,000,000

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14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION

The following discussion and analysis of our Group's past operating results and financial position should be read in conjunction with our proforma consolidated financial information included in Section 13.2 of this Prospectus and the related notes included in the Accountants' Report as set out in Section 16 of this Prospectus respectively. The information relating to the 4 month period ended 30 April 2007 have not been audited and have been included for comparison purposes only.

14.1 COMMENTARY ON PAST OPERATING RESULTS

(i) Comparison between FYE 31 December 2006 and 31 December 2005

Revenue

Revenue for the FYE 31 December 2006 increased by approximately 11.2% compared to FYE 31 December 2005. Sales of DRI increased due to the superior profit margin of DRI over semi-finished long steel products during the year. Moreover, due to increase in demand from the domestic market, our revenue from the local markets increased by RM261.5 million or equivalently 33.4% compared to the previous year.

Higher sales of DRI, in turn reduced the availability of DRI for the production of our semi-finished long steel products. Thus, this resulted in a decrease in sales of the semi-finished long steel products. For the FYE 31 December 2006, the revenue from the sale of semi-finished long steel products was RM577.3 million, which was 29.0% lower than the previous year.

Revenue for the FYE 31 December 2006 also increased due to the higher sales of wire rod, bars and sections produced by the Gurun Assets, which accounted for approximately RM162.5 million or 13.7% of our Group's revenue. During the FYE 31 December 2005, the financial results of the Gurun Assets were amalgamated in PSSB's financial statements with effect from 7 October 2005 (being the date of announcement of the Strategic Alliance) since Kinsteel was managing PSSB as well as the Gurun Assets. However, upon completion of the Strategic Alliance on 7 September 2006, revenue from the sale of wire rod, bars and sections were subsequently recognised in the books of Perfect Channel Sdn Bhd, a 51% subsidiary of Kinsteel and no longer recognised by PSSB. Similarly, the delivery of beam blanks and blooms to the Gurun Assets after 8 September 2006, were recognised as sales to Perfect Channel Sdn Bhd.

Gross profit

Our gross profit margin for the FYE 31 December 2005 and 2006 was 1.4% and 14.2% respectively. Our gross profit increased significantly by 1,036.5% compared to FYE 31 December 2005 mainly due to, *inter-alia*, higher profit margins for DRI, lower maintenance costs (since our management had assumed the staff/expertise which enabled our subsidiary to perform in-house maintenance instead of engaging the services of an external service provider), and a waiver of debts of approximately RM55 million from a supplier as part of the repayment scheme agreed between our subsidiary and the respective supplier.

Other income

Other income for the FYE 31 December 2006 was mainly attributable to the gain on foreign exchange of approximately RM6.31 million and RM20.79 million being waiver of overdue interest by creditors and hire purchase liabilities.

In comparison with the preceding year, other income for the FYE 31 December 2005 mainly comprise write back of allowance for doubtful debts of RM18.3 million and gain on foreign exchange of RM1.8 million.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (*Cont'd*)

Operating overheads

Operating overheads decreased by approximately 28.3% compared to FYE 31 December 2005. The lower operating overheads were mainly attributable to the non-recurrence of the previous financial year's bad debts written off of approximately RM16.1 million and provision for the cancellation of contract of affreightment. In the prior year, the provision for cancellation of contract of affreightment of approximately RM34.6 million was incurred due to the termination of freight contracts contracted (at higher freight rates as compared to the prevailing freight rates then) prior to the Strategic Alliance.

However, for the FYE 31 December 2006 the lower operating overheads were partially offset by the increase in higher selling and distribution expenses as a result of higher freight costs, staff costs and the professional fees incurred in relation to the issuance of MMTN in 2006.

Finance costs

Finance costs for the FYE 31 December 2006 decreased by approximately 36.3% compared to FYE 31 December 2005 mainly because one of our suppliers had agreed to waive the overdue interest of approximately RM29.7 million as part of the repayment scheme agreed between our subsidiary and the supplier, thus resulting in a lower over due interest in the FYE 31 December 2006.

The weighted average effective interest rates per annum for borrowings (excluding hire purchase and finance lease payables) for the FYE 31 December 2006 was 5% (2005: 3.1% to 6.4%). Other borrowings such as hire purchase payables, lease payables and bank overdraft were rendered with effective interest rates ranging between 4.9% to 17.27% which were incidentally the same rates for the preceding year.

PBT

Our Group managed to turnaround from a loss making position in the previous year to record a PBT of approximately RM96.5 million mainly due to the higher gross profit, lower operating overheads and finance costs as explained above.

Effective tax rate

No provision for taxation was made for the current year's taxable business income due to the utilisation of unabsorbed capital allowances brought forward. Further, we recognised deferred tax assets of RM110 million on unutilised tax losses brought forward in FYE 31 December 2006.

(ii) Comparison between FYE 31 December 2007 and 31 December 2006

Revenue

Our revenue increased by approximately 43.2% to RM1,693.0 million for the FYE 31 December 2007 compared to the previous year. Coupled with the higher utilisation rate and higher production volume for the FYE 31 December 2007, the increase in revenue was also due to the overall higher demand for the semi-finished long steel products in both local and international market, as well as the increase in ceiling price of billets for the local market. On 16 April 2007, the ceiling price was adjusted from RM1,294 to RM1,553 per metric tonne. In June 2007, the ceiling price was again adjusted to RM1,703 per metric tonne and subsequently on 1 December 2007, the ceiling price was adjusted to RM1,907 per metric tonne. For the FYE 31 December 2007, our revenue from the sale of semi-finished long steel products was RM1,460.8 million which was 153.0% higher than the previous year.

Incidentally, higher production and sales of billet during the year resulted in lower volume of DRI available for sale to third parties.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

Gross profit

Our gross profit margin for the FYE 31 December 2006 and 2007 was 14.2% and 14.9% respectively. During the FYE 31 December 2007, there was a rebate of approximately RM67.2 million from one of our creditor, which incidentally lowered the cost of production. The increase in gross profit for the FYE 31 December 2007 of RM83.4 million or 49.6%, was in-line with the higher revenue recorded for the financial year under review.

Other income

Other income increased by approximately 34.9% in the FYE 31 December 2007 mainly due to the waiver of debts by other payables (as a result of negotiations to settle with the respective creditors) amounting to approximately RM20.0 million.

Operating overheads

Operating overheads decreased by approximately 6.7% in the FYE 31 December 2007 mainly due to a decrease in the selling and distribution expenses as PSSB no longer absorbs the operating costs of the Gurun Assets subsequent to the completion of the Strategic Alliance on 7 September 2006. However, for the FYE 31 December 2007 there was a charge of RM3 million in relation to the Gurun Assets. This was mainly due to the waivers pertaining to the transactions transacted whilst PSSB was managing the Gurun Assets before the completion of the Strategic Alliance.

Furthermore, the lower operating overheads for the FYE 31 December 2007 were mainly attributable to the non-recurrence of the previous financial year's equipment write off amounting to RM2.7 million as well as the additional professional fees in connection with the issuance of the MMTN.

Finance costs

Finance costs increased by 89.5% in the FYE 31 December 2007. This was mainly due to MMTN interest of RM26.9 million being charged for the entire year as compared to RM6.7 million in FYE 31 December 2006, coupled with the collateral loan obligation interest of RM2.6 million.

The weighted average effective interest rates per annum for borrowings (excluding hire purchase and finance lease payables) for the FYE 31 December 2007 was 8% (2006: 5%). Other borrowings such as hire purchase payables and bank overdraft were rendered with effective interest rates ranging between 4.9% to 17.27%.

PBT

PBT increased by approximately 68.6 % in the FYE 31 December 2007 mainly due to higher gross profit margin and lower operating overheads as explained above.

Effective tax rate

No provision for taxation was made for current year's taxable business income due to the utilisation of unabsorbed capital allowances brought forward.

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14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (*Cont'd*)

(iii) Comparison between the 4 month period ended 30 April 2008 and 4 month period ended 30 April 2007

Revenue

Despite the temporary shutdown of the production plant for a scheduled routine inspection, repair and maintenance from 13 February 2008 to 8 April 2008, our revenue increased by approximately 30.9% in the 4 month period ended 30 April 2008 mainly due to the increased selling price for the products during the 4 month period 30 April 2008.

Gross profit

Gross profit for the 4 month period ended 30 April 2008 of RM133.677 million represents an increase of RM62.2 million or 86.9% over the gross profit for the 4 month period ended 30 April 2007. This is attributable to the higher average selling price for billets recorded for the period under review as well as lower cost of production for goods sold.

Other income

Other income increased by RM6.4 million in the 4 month period ended 30 April 2008 mainly due to realised gain on foreign exchange of approximately RM6.1 million.

Operating overheads

Operating overheads increased by approximately 49.1% in the 4 month period ended 30 April 2008 mainly due to allowance for doubtful debts and unrealised loss on foreign exchange of approximately RM3.5 million and RM2.4 million respectively.

Finance costs

Finance costs increased by 52.2% in the 4 month period ended 30 April 2008 mainly due to interest accrued for advances from Kinsteel and bankers' acceptances interest as a result of higher utilisation of the credit facility during the 4 month period ended 30 April 2008.

The weighted average effective interest rates per annum for borrowings (excluding hire purchase and finance lease payables) for the 4 month period ended 30 April 2008 ranges between 5.5% to 7.13%. Other borrowings such as hire purchase payables and bank overdraft are rendered with effective interest rates ranging between 4.5% to 15.9% which were approximately the same rates for the preceding year.

PBT

PBT for the 4 month period ended 30 April 2008 increased by approximately 127.7% mainly due to higher gross profit margin.

Effective tax rate

No provision for taxation was made for current year's taxable business income due to the utilisation of unabsorbed capital allowances brought forward.

14.2 FACTORS AFFECTING OUR OPERATING RESULTS AND FINANCIAL CONDITION

Our operating results and our financial condition have been and will continue to be affected by a number of factors, including those set out in the sections below.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

14.2.1 Sales Volume

Our results of operations are directly affected by our sales volume, which in turn is a function of market demand and our production capacity.

Our production facilities consist of a DRI Plant and a semi-finished long steel manufacturing plant. For the past 3 FYE 31 December 2007, the annual production capacity of our DRI plant and semi-finished long steel manufacturing plant is 1.2 million and 1.3 million tonnes respectively. The aforesaid production capacity takes into account the downtime, repair and maintenance works which are necessary for smooth production process. In May 2008, we have completed the upgrading works on our DRI production line and thus increasing our annual production capacity of DRI to 1.5 million tonnes. The expansion in our production capability will allow us to increase our sales to the domestic market as we are currently the sole supplier of DRI.

Our Group's capacity utilisation rate for the DRI plant and the semi-finished long steel manufacturing plant is depicted in the following table:

	<----- FYE ----->			<-4- month period ended->	
	31.12.2005	31.12.2006	31.12.2007	30.04.2007	30.04.2008
Capacity utilisation rate (%)					
DRI	71.3	75.6	89.9	82.2 [^]	48.5 [^]
Semi-finished long steel products*	46.8	41.8	69.4	62.9 [^]	62.0 [^]

Notes:

* Semi-finished long steel products comprise billets, beam blanks and bloom

[^] Calculated based on their respective annual capacities adjusted for 4 months

As shown in the table above, our capacity utilisation rate for the production of DRI has been increasing from 71.3% in 2005 to 89.9% in 2007. However, for the 4 month period ended 30 April 2008, the production capacity utilisation rate for the production of DRI was significantly lower at 48.5% due to the temporary shutdown of the DRI Plant for purposes of routine repair and maintenance from mid February 2008 to early April 2008 as well as to cater for inspection by the Department of Occupational Safety and Health.

For the FYE 31 December 2005 and 2006, our capacity utilisation rate for the production of semi-finished long steel products was 46.8% and 41.8%, respectively. This was mainly due to tight working capital conditions prior to the Strategic Alliance. Further, the production of beam-blanks and blooms had temporarily ceased in 2005 due to unfavourable market conditions but subsequently resumed in April 2006.

Pursuant to the Strategic Alliance, Kinsteel took the management control of PSSB on September 2005 and began a series of rationalisation exercise in respect of the operations and business of PSSB. This included fresh injection of funds *via* advances into PSSB to improve its cashflow liquidity and fund its working capital requirements. The turnaround is evidenced by higher capacity usage in FYE 31 December 2007 and corresponding improvement in its financial performance. Please refer to Section 14.1 for a detailed analysis of our financial performance.

In 2006, our capacity utilisation rate for the production of semi-finished long steel products was 41.8%. This was marginally lower as compared to the previous year because a higher proportion of the DRI produced were sold to third parties during the year due to better margins, thus lowering the stock of DRI available for the production of billets.

Overall, the increase in the capacity utilisation rate at our plant is due to the better management of production process through staff training, staff motivation and resolving bottlenecks.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

The breakdown of our production and sales volume by product segments for the 3 FYE 31 December 2007 and 4 month period ended 30 April 2007 and 2008 are as follows:

	<----- FYE ----->			<-4- month period ended->	
	31.12.2005 (tonnes)	31.12.2006 (tonnes)	31.12.2007 (tonnes)	30.04.2007 (tonnes)	30.04.2008 (tonnes)
Production volume					
DRI	855,804	906,854	1,078,983	328,663	194,087
Semi-finished long steel products*	608,934	543,264	902,256	272,645	268,623
Sales volume					
DRI	172,915	422,365	205,324	103,080	10,168
Semi-finished long steel products*	595,108	431,576	888,250	272,082	279,991

Note:

* Semi-finished long steel products comprise billets, beam blanks and bloom

Our Group has the flexibility to decide to manufacture and sell DRI, or retain the manufactured DRI for our own production of semi-finished long steel products. Our Group monitors the selling price of the respective steel products and adjusts the product mix in response to price changes and/or changing market demand. Therefore, the difference between the production volume and sales volume of DRI are mainly due to the retention of DRI for our own production of semi-finished long steel products.

The difference between the production volume and sales volume of the semi-finished long steel products comprise mainly of our stock, with the exception of FYE 31 December 2006, wherein the difference was mainly due to the use of the semi-finished long steel products for the production of steel beams, sections, bars, wire rods and other steel products at the Gurun Assets when PSSB was temporarily managing the Gurun Assets. However, after the completion of the Strategic Alliance on 7 September 2006, the delivery of the semi-finished long steel products to the Gurun Assets were recognised as sales to Perfect Channel Sdn Bhd.

Our production output is determined by *inter-alia*, the availability of raw materials and downtime of our plants.

A shortage of raw materials especially iron ore can adversely affect our production schedule. However, our Group currently has long-term contracts for the supply of 1,390,000 tonnes of iron ore in 2008, with an option for the supply of an additional 290,000 tonnes. This is a large proportion compared to our Group's purchase of 1,359,948 tonnes of iron ore during the FYE 31 December 2007. These long-term contracts for the supply of iron ore expire in 2010 and 2011. Further, to a limited extent, we are able to alternate the mix of raw materials used such as DRI and scrap iron in the production of our semi-finished long steel products if there is a shortage in either iron ore or scrap iron.

Our Group is required by law to shutdown our DRI reactors every 18 months for scheduled routine inspection by the Department of Occupational Safety and Health and the inspection period is typically for one month. As a result, no DRI is produced during the inspection period. However, the production of semi-finished long steel products may not be interrupted as our Group schedules a build up of DRI stock in advance of the scheduled shutdown. Alternatively, we may also use scrap iron, subject to costs and availability, as an alternative raw material to DRI in the production of semi-finished long steel products to ensure smooth and continual production.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

As part of our on-going efforts to enhance our operational capabilities, we are currently implementing a phased expansion programme to increase our DRI production capacity. We plan to upgrade our existing DRI reactors by upgrading ancillary equipment to improve the efficiency of our DRI reactors as well as further increase the DRI reactors' production capacity. Furthermore, we plan to re-commission three existing electric arc furnaces so as to increase our production capacity for semi-finished long steel products. Please see Section 8.11 of this Prospectus for details of our Group's future expansion plans.

Our Board is of the opinion that the upgrading of our existing production facilities is timely as it enables our Group to take advantage of the favourable steel industry conditions. With the increasing demand for steel products, our ability to increase production may translate to higher revenues and in turn higher PBT. In addition, the increase in our production capacity will enable us to achieve higher economies of scale.

14.2.2 Pricing of our steel products

Generally, the forces of supply and demand in domestic and overseas markets determine the pricing of our products. However, the selling price of steel billets in Malaysia (being one of the steel products sold by our Group) was previously capped by MDTCA. Export permits were also required from MITI for the export of billets. However, the selling prices of all the other steel products sold by our Group were not regulated by MDTCA.

On 12 May 2008, the Government of Malaysia announced the lifting of the price control on steel billets. Similarly, all local steel producers were allowed to export their products without restrictions after the deregulation.

The average selling price of DRI for the last 3 financial years and 4 month period ended 30 April 2008 ranges from RM933 per tonne to RM1,254 per tonne. In respect of the billets, the range of average selling price during the same period is between RM1,267 to RM2,426 per tonne. Similarly, for the last 3 financial years and 4 month period ended 30 April 2008 the range of average selling price of the beam blanks and blooms is between RM1,294 per tonne to RM1,908 per tonne. Since 2005 the prices of DRI and semi-finished long steel products have been on an uptrend.

As an integrated steel manufacturer, we have the flexibility to mix our products as detailed in Section 14.2.3 of this Prospectus in order to take full advantage of movement in prices for each category of products.

Moving forward, our Board believes that uptrend in prices will continue in the near foreseeable future in light of the recent deregulation of the steel industry and increase in energy and raw material costs. Our ability to increase the prices so that our profit margin is maintained or improved will also depend on our ability to pass on the additional cost to our customers, namely downstream steel and iron manufactures.

14.2.3 Product mix

Our operating results are also affected by our ability to plan our product mix. As an integrated steel manufacturer, our Group can choose to manufacture and sell DRI or, retain the manufactured DRI for our own production of semi-finished long steel products. Therefore, our Group monitors the selling price of our steel products closely and may adjust the product mix in response to price changes and/or changing market demand.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

Our revenue by products for the past 3 FYE 31 December 2007 and 4 month period ended 30 April 2007 and 2008 were as follows:

	31.12.2005		31.12.2006		31.12.2007		4-month period ended		30.04.08	
	(RM'000)	(%)	(RM'000)	%	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Revenue	190,343	17.9	408,404	34.5	203,864	12.0	97,943	19.4	11,489	1.7
DRI	14,451	1.4	13,380	1.1	32	0.0	32	0.0	-	-
CBI	813,309	76.5	534,174	45.2	1,178,826	69.6	339,839	67.2	581,059	87.8
Billets	-	-	43,169	3.7	282,007	16.7	57,618	11.4	49,262	7.4
Beam blanks and blooms	8,376	0.8	16,874	1.4	-	-	-	-	-	-
Bars*	14,759	1.4	115,136	9.7	-	-	-	-	-	-
Wire rod*	289	0.0	30,448	2.6	-	-	-	-	-	-
Section*	21,045	2.0	20,507	1.7	28,278	1.7	10,053	2.0	19,626	3.0
Others	1,062,572	100.0	1,182,092	100.0	1,693,007	100.0	505,485	100.0	661,436	100.0

Note:

* Revenue from the sale of bars, wire rods and sections were recognised in PSSB's financial statements for the FYE 31 December 2005 and 2006 because PSSB was temporarily managing the Gurun Assets pending the completion of the Strategic Alliance. Likewise, the operation costs and revenue of the Gurun Assets were recognised in PSSB's financial statements for the 2 FYE 31 December 2006. Subsequently, upon completion of the Strategic Alliance on 7 September 2006, the operation costs and revenue of the Gurun Assets were recognised in the financial statements of Perfect Channel Sdn Bhd.

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14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

Our gross profit by products for the past 3 FYE 31 December 2007 and 4 month period ended 30 April 2007 and 2008 were as follows:

	FYE		4 month period ended		4 month period ended	
	31.12.2005 (RM'000)	31.12.2006 (RM'000)	31.12.2007 (RM'000)	30.04.07 (RM'000)	30.04.08 (RM'000)	30.04.08 (%)
Gross profit/(loss)						
DRI	47,745	118,326	46,486	50,798	2,784	2.08
CBI	10,795	10,477	21	21	-	0.00
Billets	(54,346)	19,546	153,742	8,844	124,195	92.91
Beam blanks and blooms	-	4,711	29,667	4,070	4,596	3.44
Bars*	2,028	92	-	-	-	0.00
Wire rod*	1,083	(1,223)	-	-	-	0.00
Section*	289	5,980	-	-	-	0.00
Others	7,197	10,193	21,595	7,794	2,102	1.57
	14,791	168,102	251,511	71,527	133,677	100.00

Note:

* Revenue from the sale of bars, wire rods and sections were recognised in PSSB's financial statements for the FYE 31 December 2005 and 2006 because PSSB was temporarily managing the Gurun Assets pending the completion of the Strategic Alliance. Likewise, the operation costs and revenue of the Gurun Assets were recognised in PSSB's financial statements for the 2 FYE 31 December 2006. Subsequently, upon completion of the Strategic Alliance on 7 September 2006, the operation costs and revenue of the Gurun Assets were recognised in the financial statements of Perfect Channel Sdn Bhd.

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14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

14.2.4 Cost of production

Our cost of production principally comprises cost of raw materials, direct labour, consumables, factory overhead, depreciation, energy and utilities.

The table below shows the breakdown of our total production costs for the 3 FYE 31 December 2007 and 4 month period ended 30 April 2007 and 2008:

	<----- FYE ----->						<----- 4- month period ended ----->			
	31.12.2005 (RM'000)	% of sales	31.12.2006 (RM'000)	% of sales	31.12.2007 (RM'000)	% of sales	30.04.2007 (RM'000)	% of sales	30.04.2008 (RM'000)	% of sales
Raw materials	571,078	53.7	669,021	56.6	888,557	52.5	245,209	48.4	315,919	47.8
Direct labour	8,114	0.8	17,337	1.5	15,758	0.9	4,483	0.9	4,875	0.7
Consumables	98,570	9.3	76,693	6.5	201,717	11.9	59,648	11.8	84,364	12.8
Factory overheads	70,368	6.6	8,356	0.7	34,130	2.0	12,669	2.5	4,823	0.7
Depreciation	71,937	6.8	64,892	5.5	64,884	3.8	21,569	4.3	19,283	2.9
Energy and utilities	198,369	18.7	152,184	12.9	228,425	13.5	86,985	17.2	80,676	12.2
Others	29,345	2.8	25,507	2.2	8,025	0.5	3,395	0.7	17,819	2.7
Total cost of sales	1,047,781		1,013,990		1,441,496		433,958		527,759	
Revenue	1,062,572		1,182,092		1,693,007		505,485		661,436	
% of cost of sales over revenue	98.6		85.8		85.1		85.8		79.8	

Raw materials make up the largest portion of our cost of production. Our raw materials mainly consist of iron ore and scrap iron. The percentage of DRI and scrap iron used in the production of semi-finished long steel products depend on, *inter-alia*, the availability of DRI and scrap iron and the grade of semi-finished long steel products produced.

As shown above, the cost of raw materials as a percentage of sales is generally on a decreasing trend. The decreasing trend was mainly due to higher average selling price per tonne for semi-finished long steel products.

Although Malaysia is a producer of iron ore, the iron ore produced in Malaysia is mostly of a lower grade that is not suitable for the production of DRI. Consequently, all iron ore purchased by our Group is imported. We have entered into long-term contracts for the supply of iron ore, which gives our Group the right to purchase a specified quantity of iron ore.

Further, the local supply of scrap iron is not sufficient to meet the needs of the local primary steel products industry and consequently, Malaysia is a net importer of scrap iron. However, we currently source most of our scrap iron from local suppliers, and thus, we are not entirely reliant on imported scrap iron.

The price of iron ore and scrap iron are subject to the vagaries of the global commodity markets. Fluctuations in the price of iron ore and scrap iron have affected and are expected to continue to affect our operating results.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

The trend of global price for commonly traded types of iron ore is as follows:

Year	Iron Ore Pellets (1997 = 100)
1997	100.0
1998	102.7
1999	89.1
2000	94.4
2001	96.2
2002	90.8
2003	99.8
2004	118.6
2005	221.7
2006	215.0
2007	235.4 *
2008	395.5 *

(Source: Vital Factor Report)

* Estimate.

Based on the table above, the global price of iron ore in pellet form generally followed an upward trend between 1997 and 2008. The compounded annual growth rate of global iron ore prices is 13.3% during this period. The marked increase in iron ore prices during this period were in 2004, 2005 and 2008 where the percentage increase were 18.8%, 86.9% and 68.0% respectively compared to their respective preceding year.

The price indices of scrap iron from West Coast ports of the US from April 2003 to October 2007 are presented below. The price index of scrap iron from West Coast ports of the US is used as an indicator for the price of imported scrap to Malaysia as the US was Malaysia's largest source of imported scrap iron in 2006.

	Price Index (June 2003 = 100)
June 2003	100.0
December 2003	152.0
June 2004	148.0
December 2004	184.0
June 2005	128.0
December 2005	160.0
June 2006	192.0
December 2006	192.0
June 2007	228.0
December 2007	228.0

(Source: Vital Factor Report)

Although our Group currently purchase most of our scrap iron from Malaysian suppliers, the price of scrap supplied by these suppliers will be influenced by the price of imported scrap iron.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

The price index of scrap from West Coast ports of the United States increased from 100.0 in June 2003 to 228.0 in December 2007 represented a compounded annual growth rate of 22.88% from June 2003 to June 2007. The marked increase in scrap iron prices during this period were in December 2003 where the percentage increase was 52.0% compared to price in June 2003. Other notable increase were in December 2004, December 2005 and June 2006 where the prices increase by more than 20% compared to respective preceding 6 month prices. However, the price of scrap iron dropped by 30.4% in June 2005 compared to the price in December 2004.

The compounded annual growth rate of our revenue for the FYE 31 December 2005 to 2007 is 26.2% whilst the compounded annual growth rate of iron ore and scrap iron prices for 2005 to 2007 based on the above table are 3.0% and 19.4%, respectively.

Based on the above, our Board expects the prices of iron ore and scrap iron to continue affecting our operating results. However, our Board expects the increase in the selling prices of semi-finished long steel products, as discussed in Section 14.2.2, may offset this price increment.

Direct labour relates to the cost of manpower operating the plants. Cost of consumables generally comprises the cost of electrodes, replaceable machinery parts and alloying materials. Factory overheads relate to costs such as staff welfare, administrative expenses, quit rent and assessment. For the FYE 31 December 2005, the factory overheads were significantly higher mainly due to maintenance costs which were outsourced to an external party. However, the maintenance of the plant was performed by PSSB's employees in the FYE 31 December 2006, resulting in significant cost savings to our Group. This is reflected in lower factory overheads and an increase in direct labour for the FYE 31 December 2006.

Depreciation costs constitute a comparatively small proportion of our production cost. Depreciation relates to the cost of depreciation of plant, property and equipment relating to the plants. The depreciation costs have been on a decreasing trend since FYE 31 December 2005 due to an increasing number of plant, property and equipment which have already been fully depreciated in the past financial years.

Energy and utilities form the second largest portion of our cost of production. Insofar as energy and utility costs for production are concerned, we purchase the electricity and natural gas from TNB and Petroliam Nasional Berhad respectively. Accordingly, the cost of energy and utilities we purchase for our production purposes are dependent on tariffs regulated by the Government. As provided in Section 5 of this Prospectus, any increase in energy and utility cost may adversely impact our production costs and corresponding margin in the event that we are unable to pass the additional cost to our customers or we are unable to pass on the additional cost in a timely manner. Further, there is no assurance that we could enjoy the special rates from energy and utility suppliers moving forward.

Overall, we consistently monitor and manage our production cost to ensure our margins are at optimum. For the past 3 FYE 31 December 2007, our production cost over revenue has been declining from 98.6% in 2005 to 85.1% in 2007.

14.2.5 Other Key Drivers

The other qualitative factors affecting our revenue include, *inter-alia*, the following:

- (i) our ability to maintain relationship with existing customers;
- (ii) our ability to compete effectively with existing competitors in and any new entrants to the industry; and
- (iii) our ability to expand market reach to other foreign countries;

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

Our Group's principal customers contributed approximately 70.2% and 84.3% to our Group's total sales for the FYE 31 December 2007 and 4-month period ended 30 April 2008, respectively. Therefore, our Group is dependent to a significant extent on these 3 customers. The continued patronage from our principal customers will have an impact on our revenue and operating results.

As at end of 2007, there were only 4 operating DRI/HBI plants in South East Asia. The 4 operating DRI/HBI plants include 2 in Malaysia, 1 in Myanmar and another in Indonesia. Furthermore, there are only 6 manufacturers of semi-finished long steel products, of which we ranked third, with 17% market share, based on the production quantity in Malaysia. The relatively few DRI/HBI manufacturers in the South East Asian region as well as the small number of manufacturers in Malaysia will allow us the opportunity to grow our business.

We supply our products to steel companies in Malaysia and overseas, who utilise DRI and semi-finished long steel products for further downstream processing. Domestic market is in relation to sales to customers in Malaysia. International market is in relation to sales to customers in countries such as Vietnam, Indonesia, Thailand, Philippines, Iran, China, Myanmar and Korea. Export sales to Vietnam, Thailand, Philippines, Iran, China, Myanmar, Korea and some sales to Indonesia were made via intermediaries in Malaysia, Singapore, Korea and Hong Kong. For the FYE 31 December 2007, 82.1% and 17.9% of our revenue was derived from Malaysia and overseas respectively. For the 4 month period ended 30 April 2008, 88.5% and 11.5% of our revenue was derived from Malaysia and overseas respectively. Hence, a significant proportion of our sales are generated from domestic markets. Generally, we could command higher selling price for sales to overseas market but sometimes this may be offset by export costs such as transportation and foreign exchange cost.

Our revenue by countries for the past 3 FYE 31 December 2007 and 4 month period ended 30 April 2007 and 2008 are as follows:

	<----- FYE ----->						<-----4- month period ended----->			
	31.12.2005		31.12.2006		31.12.2007		30.04.2007		30.04.2008	
	RM'000	(%)	RM'000	(%)	RM'000	(%)	RM'000	(%)	RM'000	(%)
Revenue										
Domestic market	781,912	73.6	1,043,389	88.3	1,390,623	82.1	391,746	77.5	585,106	88.5
International market	280,660	26.4	138,703	11.7	302,384	17.9	113,739	22.5	76,331	11.5
	1,062,572	100.0	1,182,092	100.0	1,693,007	100.0	505,485	100.0	661,436*	100.0

Note:

* Does not add up due to rounding.

The increase in revenue in 2006 from the domestic market was mainly due to the inclusion of sales of products manufactured at the Gurun Assets sold to the domestic market.

14.2.6 Analysis Of Trade Debtors

The ageing analysis of our trade debtors as at 30 April 2008 is as follows:

<----- Trade Debtors ----->								
Within credit period			Exceed credit period			Gross trade receivables	Allowance for doubtful debts	Net trade receivables
0 - 30 days	31 - 60 days	61 - 90 days	91 - 180 days	6 - 12 months	more than 12 months			
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
39,268	-	-	32	3,281	5,941	48,522	(9,028)	39,494

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION *(Cont'd)*

Based on the above, the allowance for doubtful debts as at 30 April 2008 was approximately RM9.1 million with an additional allowance of RM3.5 million being made for the 4 month period ended 30 April 2008. No further allowance for doubtful debts have been made for the balance of trade receivables as our Directors are of the view that these debts can be recovered given the relationship with these customers the various credit control measures being implemented by our Group to minimise default by our customers.

14.2.7 Analysis Of Sales Order

As at 30 May 2008, the total secured sales order outstanding is approximately RM187.4 million, including RM54.2 million which was secured during the 4 months ended 30 April 2008.

14.2.8 Tax Losses and Allowances

As at 30 April 2008, our subsidiary, PSSB has unutilised tax losses, unabsorbed capital allowances and investment tax allowances of approximately RM1.805 billion, RM0.817 billion and RM0.839 billion respectively available to be carried forward for offset against future taxable business income.

14.2.9 Impact of Inflation

There is no material impact of inflation on our historical profits for the past 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008.

14.2.10 Government/Economic/Fiscal/Monetary Policies

Risks relating to the government, economic, fiscal or monetary policies or factors, which may materially affect our operations, is as set out in Sections 5.1.10 and 5.3.1 of this Prospectus. Please refer to Section 14.2.2 for the discussion on the effects of removal of price ceiling and export permits of steel products on our Company.

Save as disclosed above, there is no other government, economic, fiscal or monetary policies or factors that have a material impact on our historical profits for the past 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008.

14.3 TREND INFORMATION

As at the Latest Practicable Date, to the best of our Directors' knowledge and belief, our operations have not been and are not expected to be affected by any of the following:-

- (i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material impact on our Group's financial performance, position and operations other than those discussed in this section, Sections 5, 6, 7 and 8 of this Prospectus;
- (ii) material commitments for capital expenditure, as set out in Section 14.4.4 of this Prospectus;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as disclosed in this section and in Section 5 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on our Group revenue and/or profits, save for those that had been disclosed in this section, Sections 5, 7 and Section 8 of this Prospectus;

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (*Cont'd*)

- (v) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's liquidity and capital resources, other than those discussed in this section, Sections 5, 6, 7 and 8 of this Prospectus; and
- (vi) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position other than those disclosed in this section and in Section 5 of this Prospectus.

Information on our Group's business and financial prospects, significant trends in sales, production, costs and selling prices is set out in this section and Section 7 of this Prospectus. Discussion on the overview of the steel industry, its prospects and outlook are further elaborated in Section 8 of this Prospectus.

Given the favourable outlook of the steel industry as set out in Section 8.9 of this Prospectus, our Group's competitive strengths and advantages as set out in Section 7.9 of this Prospectus and our future plans for our Group as set out in Section 8.11 of this Prospectus, our Board is optimistic about the future prospects of our Group.

14.4 LIQUIDITY AND CAPITAL RESOURCES

14.4.1 Working capital and cashflow

Our principal sources of liquidity for the past 3 financial years have been cash from operations, advances from related parties, related companies and our holding company, Kinsteel, short term and long term borrowings. As at 30 April 2008, our Group has cash and bank balances and fixed deposits with a financial institution of RM24.9 million and total borrowings of RM883.3 million.

Our inventories turnover period for the 3 FYE 31 December 2007 was 60.2 days, 88.2 days and 98.1 days respectively. The increase in inventories turnover period for the past 3 financial years was mainly due to the higher need for iron ore and scrap iron to be in our inventories in order to support the increase in production. Our annual production volume for past 3 years has grown at a compounded annual growth rate of approximately 8.0% for DRI and 5.9% for semi-finished long products. However, for the 4 month period ended 30 April 2008, the inventories turnover period was 100.6 days because the DRI Plant had temporarily closed from 13 February 2008 to 8 April 2008 for a scheduled routine inspection, repair and maintenance.

Our trade receivables turnover for the 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008 was 1.8 days, 11 days, 2.5 days and 7.2 days respectively. Evidently, our accounts receivables are adequately managed. Our trade payables turnover for the 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008 was 187.6 days, 117.3 days and 30.5 days and 24.2 days respectively. The trade payables turnover for the respective periods has been improving consistently. This was mainly due to the new funding obtained from our holding company and financial institutions after the Strategic Alliance.

Our gearing ratio for the 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008 was 0.5 times, 0.7 times, 0.8 times and 0.7 times respectively. Meanwhile, our interest rate coverage for the 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008 was (0.9) times, 3.8 times, 3.5 times and 5.2 times respectively. In spite of the increasing gearing ratio, our interest rate coverage indicates our Group's increasing ability to pay our interest obligations.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

Based on the proforma consolidated balance sheets of our Group as at 30 April 2008 which has been set out in Section 13.2 of this Prospectus, our Group have total current assets of RM741.3 million and current liabilities of RM716.1 million which amounts to an excess of current assets over current liabilities of RM25.2 million. This translates into a current ratio of 1.04 times upon completion of the IPO. The current ratio of 1.04 times reflects the ability of our Group to meet its short-term obligations.

As at the Latest Practicable Date, we have banking facilities amounting to RM360 million of which RM61.2 million has not been utilised. Further, we have approval to issue MTN of up to RM400 million under the MMTN of which, we have already issued RM310 million nominal value of MTN as at the Latest Practicable Date. We may issue the balance of the nominal value of the MTN amounting to RM90 million during the 10 year tenure of the MMTN which expires in 2015.

Our Board believes that, after taking into consideration our current cash flow position, credit facilities currently available and the proceeds from the Public Issue and ICULS Placement, our Group will have sufficient working capital for a period of 12 months from the date of this Prospectus to meet our needs and foreseeable requirements.

Our Group's proforma consolidated cash flow for the 4 month period ended 30 April 2008 are set forth below:

	4 month period ended 30.04.2008 (RM'000)
Net cash generated from operating activities	38,265
Net cash used in investing activities	(19,660)
Net cash used for financing activities	(41,877)
Net increase in cash and cash equivalents	(23,272)
Cash and cash equivalents at beginning of the year/period	43,147
Cash and cash equivalents at end of the year/period	19,875

During the 4-month period ended 30 April 2008, our Group's net cash generated from operating activities before the adjustments for working capital changes was RM146.2 million. After adjusting for the changes in working capital of RM92.5 million and the interest paid of approximately RM15.4 million, our Group's net cash generated from operating activities was RM38.3 million.

During the 4-month period ended 30 April 2008, our Group's net cash used for investing activities of RM19.7 million was mainly due to the purchase of capital work in progress amounting to RM19.9 million. This was offset by interest received during the period.

During the 4-month period ended 30 April 2008, our Group's net cash used for financing activities of RM41.9 million was mainly due to the repayment of the loan to the Government of Malaysia, hire purchase and lease obligations, advances from related companies, advances from related parties and advances from the immediate holding company. The total cash outlay in respect of the repayments for the period was approximately RM51.4 million. This was offset by the cash receipts from the drawdown of the bankers' acceptances.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

There are no legal, financial or economic restrictions on the ability of our subsidiary to transfer funds to our Company in the form of cash dividends. A few of our lenders do require us to seek their prior consent for the dividend payments in accordance with the terms of the relevant facility agreements. However, we do not foresee our lenders to unreasonably withhold such consent and thus we are confident we can meet our cash obligations. For further details on the ability of our subsidiary to transfer funds to our company, please refer to Sections 5.2.6 and 15.

14.4.2 Borrowings

As at the Latest Practicable Date, our Group had total outstanding borrowings of RM890.2 million, details of which are set out below:

	(RM'000)
Long-term borrowings	
▪ Interest bearing	350,000
▪ Non-interest bearing	190,637
Short-term borrowings	
▪ Interest bearing	298,782
▪ Non-interest bearing	50,793
Total borrowings	890,212
Gearing ratio (times) *	0.74

Note:

* Computed based on our Group's total interest bearing borrowings as at the Latest Practicable Date of RM648.782 million divided by our Group's proforma consolidated shareholders' funds as at 30 April 2008 of RM882.445 million upon completion of the Acquisition of PSSB.

Our short-term bank borrowings are mainly bank acceptances and promissory notes, which are generally used for our working capital requirements. The interest rates for such credit facilities are generally based on the market rates prevailing at the dates of the respective transactions. The short-term borrowings also include the loan from the Government of which is non-interest bearing, subject to PSSB meeting its instalment payments, further details of which are available in Section 19.6 (iv).

Our long-term bank borrowings mainly comprise term loans, which are obtained for the purpose of refinancing existing banking facilities, settlement of debts to creditors and for working capital purposes. The interest rates for the term loans are generally based on the prevailing base lending rate plus a margin agreed upon between our Company and our respective bankers when the loans were granted. The long-term borrowings also include the aforesaid loan from the Government of which is non-interest bearing.

Furthermore, PSSB had on 25 September 2006 issued RM310 million nominal value of Murabahah MTN for the purpose of refinancing existing banking facilities, debt settlement to TNB and for working capital purposes. As at 30 April 2008, the total MMTN issued under the Programme amounts to RM310.0 million and the respective maturity dates and profit rates are as follows:

Tranche	Tenure (Years)	RM ('000)	Profit Rate (%)
1	3	50,000	7.6
2	4	50,000	8.1
3	5	50,000	8.5
4	6	50,000	8.9
5	7	50,000	9.2
6	8	40,000	9.4
7	9	20,000	9.7
	Total	310,000	

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

There are no borrowings in foreign currency and all borrowings are denominated in RM.

We have not defaulted on any payments of either interest and/or principal sums in relation to any borrowings for the past FYE 31 December 2007 and in the subsequent period up to the Latest Practicable Date.

A few of our financial lenders have imposed the condition that the management rights over PSSB must be held by Kinsteel at all times. Nevertheless, we did not breach any term and condition or covenant associated with credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of securities in us.

14.4.3 Contingent liabilities

Save as disclosed below, as at the Latest Practicable Date, our Directors are not aware of any contingent liabilities that upon materialisation, may have a material effect on our financial results/position.

	RM'000
Claim by a related party *	6,690
Claim by a third party against us [#]	36,080
Total	42,770

Notes:

* *A claim has been made by a related party on goods transferred to PSSB. PSSB does not agree with the amount claimed. To date, no legal action has been instituted by the related party*

Please refer to Sections 19.7 (iii) and (iv) of this Prospectus for further details

14.4.4 Material capital commitments

Save as disclosed below, as at the Latest Practicable Date, our Directors are not aware of any material capital commitments incurred or known to be incurred by our Group that has not been provided for, which upon becoming enforceable, may have a material impact on our financial results/position:

	RM'000
Approved and contracted for Plant and equipment	14,200
Approved and not contracted for Plant and equipment	1,500

The above capital commitments are intended to be used for enhancing the plant to increase production efficiency. We expect to finance the above material capital commitments through a combination of internally generated funds and bank borrowings.

14.4.5 Treasury Policy and Objectives

We have been financing our operations through cash generated from our operations and external source of funds. Our external source of funds consists of credit terms provided by our related parties, related companies and our holding company Kinsteel, suppliers as well as bank borrowings. The normal credit terms granted by our suppliers range from 30 days to 90 days. Details of our borrowings are provided in Section 14.4.2 above.

14. MANAGEMENT DISCUSSION AND ANALYSIS OF PAST OPERATING RESULTS AND FINANCIAL POSITION (Cont'd)

The decision to either utilise bank facilities or internally generated funds for our operations depends on, *inter-alia*, the following factors:

- our current cash balance;
- expected cash inflows;
- future working capital requirements;
- future capital expenditure requirements; and
- interest rates of current facilities.

Our minimum cash reserves at any point in time is dependent on, *inter-alia*, the expected cash inflows and our future working capital requirements.

For the FYE 31 December 2007 and 4 month period ended 30 April 2008, the following is the breakdown of our Group's revenue and purchases transacted in local and foreign currencies:

Currency	Revenue		Purchases	
	Amount (RM'000)	Proportion of Group Revenue (%)	Amount (RM'000)	Proportion of Group Purchases (%)
FYE 31.12.2007				
RM	1,052,030	62.1	928,595	62.3
USD	640,977	37.9	562,651	37.7
Total	1,693,007	100.0	1,491,246	100.0
FPE 30.04.2008				
RM	457,253	69.1	283,088	54.8
USD	204,184	30.9	233,852	45.2
Total	661,437	100.0	516,940	100.0

As a large proportion of our export revenue and imported raw materials are denominated in USD, we are able to pay for USD denominated purchases with the revenue received in USD. This serves as a natural hedge to foreign currency fluctuations.

We maintain foreign currency bank accounts to handle foreign currency transactions. Some of our foreign currency earnings are maintained in the respective foreign currency accounts, and are later used to make payments in the respective foreign currencies. This approach reduces the cost of carrying out currency conversions.

We also manage our foreign currency exposure through short-term forward contracts. Our Group has entered into some short-term forward contracts to partially lock in RM-USD exchange rates for some of our overseas revenue.

There is no material impact of foreign exchange on our historical profits for the past 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008.

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15. DIVIDEND POLICY

It is the policy of our Directors to recommend dividends to allow shareholders to participate in the profits of our Group as well as retaining adequate reserves for our future growth.

Our Directors have considered the general principles that they currently intend to apply when recommending dividends for approval by our shareholders or when declaring any interim dividends. In determining the size of any dividend, we will take into account a number of factors, including our operating cash flow requirements, debt servicing and financing commitments, and future expansion plans.

In the future, any dividends declared and paid on PHB Shares will depend primarily on the following factors:

- (i) the availability of adequate distributable reserves and our cash flows, which will be substantially dependent on the receipt of dividends and distributions from PSSB or any other future subsidiaries;
- (ii) covenants and other restrictions contained in PSSB's current financing arrangements which limit PSSB's, and in turn, our ability to declare and pay dividends. For a description of certain of these restrictions, see Section 5 – "Risk Factors";
- (iii) our Group's existing debt servicing and financial commitments;
- (iv) our Group's future prospects and their impact on our cashflows and the availability of adequate distributable reserves; and
- (v) our projected levels of capital expenditure and other investment plans.

Notwithstanding the above, our Directors have full discretion to propose the waiver of any future dividend payment as and when deemed necessary, if it is in the best interest of our Company.

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16. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



27 June 2008

The Board of Directors
Perwaja Holdings Berhad
Level 31, Maju Tower
1001, Jalan Sultan Ismail
50250 Kuala Lumpur.

Dear Sirs

**PERWAJA HOLDINGS BERHAD
(FORMERLY KNOWN AS VERTICAL WINNERS SDN BHD) ("PHB")
ACCOUNTANTS' REPORT**

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of PHB to be dated 21 July 2008 in connection with the listing of PHB on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities"). The details of the listing scheme are disclosed in paragraph 2.2 of this report.

2. DETAILS OF THE LISTING SCHEME

2.1 THE COMPANY

PHB was incorporated on 6 December 2007 as a private company limited by shares under the Malaysian Companies Act, 1965 under the name of Vertical Winners Sdn Bhd. On 21 December 2007, the Company changed its name to Perwaja Holdings Sdn Bhd. On 28 December 2007, the Company was converted into a public company and assumed its present name.

2.2 LISTING SCHEME

PHB seeks the listing of and quotation for its entire enlarged issued and paid-up share capital on the Main Board of Bursa Securities which comprise the following:-

- (a) acquisition of the entire issued and paid-up share capital of Perwaja Steel Sdn. Bhd. ("PSSB") comprising 1,216,180,704 ordinary shares of RM1.00 each for a total purchase consideration of RM966,253,600 which was satisfied by the issuance of 499,999,998 new PHB Shares at an issue price of RM1.93 per Share ("Acquisition");
- (b) issuance of 156,123,000 ICULS to Kinsteel Bhd at an issue price of RM0.10 per Irredeemable Convertible Unsecured Loan Stocks ("Issuance of ICULS");
- (c) public issue of 60,000,000 new PHB Shares ("Pubic Issue");

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