

## 16. ACCOUNTANTS' REPORT (Cont'd)

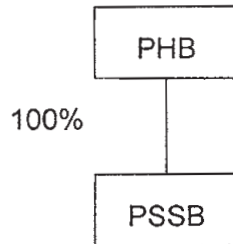


## 2.2 LISTING SCHEME (CONT'D)

- (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").

## 3. GROUP STRUCTURE

The group structure of PHB at the date of this report is as follows:-



Details of the subsidiary are as follows:-

Name of Company	Date of incorporation	Country of Incorporation	Issued paid up capital RM'000	Effective Equity Interest 2007	Principal Activities
PSSB	11 October 1989	Malaysia	RM1,216,181	100%	Manufacturing and trading of direct reduced iron, steel billets, beam, blanks and blooms

16. ACCOUNTANTS' REPORT (*Cont'd*)



4. RELEVANT FINANCIAL PERIODS

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

<b>Company</b>	<b>Relevant Financial Periods</b>
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 financial statements of PHB and PSSB for the financial years/periods under review were not subject to any audit qualification.

The auditors' report on the financial statements of PHB and PSSB for the Relevant Financial Periods are set out in Appendix I and II respectively.

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16. ACCOUNTANTS' REPORT (*Cont'd*)

## 5. ACCOUNTING STANDARDS AND POLICIES

## 5.1 BASIS OF PREPARATION

This report covers the financial information derived from the audited financial statements of PHB and PSSB for the Relevant Financial Periods. The financial statements of PHB and PSSB are prepared under the historical cost convention, and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with applicable approved Financial Reporting Standards in Malaysia.

During the current financial period, PHB and PSSB have 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. PHB and PSSB have applied these FRSs for the financial period ended 30 April 2008 onwards except for FRS 111 which is not relevant to PHB's and PSSB's 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. PHB and PSSB have applied this standard for the financial period ended 30 April 2008 onwards.

PHB and PSSB have 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.

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**16. ACCOUNTANTS' REPORT (Cont'd)**

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**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.2 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES**

This report is prepared on a basis consistent with the accounting policies adopted by PHB and PSSB as disclosed in paragraph 5.3 below. There were no changes in the significant accounting policies adopted by PHB and PSSB during the Relevant Financial Periods other than the adoption of all the new and revised FRS issued by the Malaysian Accounting Standards Board which are relevant to its operations and effective for financial periods beginning on or after 1 January 2008, as disclosed in paragraph 5.1 above.

**5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Critical Accounting Estimates And Judgements**

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of PHB's and PSSB's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:-

**(i) Depreciation of Property, Plant and Equipment**

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial and production factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions.

PHB and PSSB anticipate that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**(ii) Income Taxes**

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. PHB and PSSB recognise tax liabilities based on their understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

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**16. ACCOUNTANTS' REPORT (Cont'd)**

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**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(a) Critical Accounting Estimates And Judgements (Cont'd)***(iii) Impairment of Assets*

When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash-generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

*(iv) Allowance for Doubtful Debts of Receivables*

PHB and PSSB make allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

*(v) Allowance for Inventories*

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

*(vi) Fair Value Estimates for Certain Financial Assets and Liabilities*

PHB and PSSB carry certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if PHB and PSSB use different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and equity.

16. ACCOUNTANTS' REPORT (*Cont'd*)

## 5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (b) Financial Instruments

Financial instruments are recognised in the balance sheet when PHB and PSSB have become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when PHB and PSSB has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

## (c) Functional and Foreign Currency

(i) *Functional and Presentation Currency*

The functional currency of PHB and PSSB is measured using the currency of the primary economic environment in which PHB and PSSB operate.

The financial statements of PHB and PSSB are presented in Ringgit Malaysia ("RM") which is the functional and presentation currency.

(ii) *Transactions and Balances*

Transactions in foreign currency are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the balances sheet date are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are taken to the income statement.

## (d) Investments

Investments are held on a long-term basis and are stated at cost less allowance for diminution in value. Allowance for diminution in value is only made if the directors are of the opinion that the diminution is permanent.

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (e) Associates

An associate is an entity in which PHB and PSSB have a long-term equity interest and where they exercise significant influence over the financial and operating policies.

Investments in associates are stated at cost in the balance sheets of PHB and PSSB, and are reviewed for impairment at the end of the financial year if events or changes in circumstances indicate that their carrying values may not be recoverable.

On the disposal of the investments in associates, the difference between the net disposal proceeds and the carrying amount of the investments is taken to the income statement.

The equity method is not applied to account for the investment in associate as explained in Paragraph 7.2.10.

## (f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives.

Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Buildings	2%
Land improvements and infrastructure	2%
Plant and machinery	3.33% - 20%
Motor vehicles	20%
Electrical installations, furniture, fittings and office equipment	10% - 20%
Renovation	20%

The depreciation method, useful life and residual values are reviewed, and adjusted if appropriate, at each balance sheet date to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Capital work-in-progress represents assets under construction, and which are not ready for commercial use at the balance sheet date. Capital-work-in-progress is stated at cost, and is transferred to the relevant category of assets and depreciated accordingly when the assets are completed and ready for commercial use.

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## 16. ACCOUNTANTS' REPORT (Cont'd)



## 5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (f) Property, Plant and Equipment (Cont'd)

Cost of capital-work-in-progress includes direct cost, related expenditure and interest cost on borrowings taken to finance the acquisition of the assets to the date that the assets are completed and put into use.

## (g) Impairment of Assets

The carrying values of assets, other than those to which FRS 136 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' net selling price and their value-in-use, which is measured by reference to discounted future cash flow.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

## (h) Assets under Finance Lease and Hire Purchase

Leases of plant and equipment where substantially all the benefits and risks of ownership are transferred to PHB and PSSB are classified as finance leases.

Plant and equipment acquired under finance lease and hire purchase are capitalised in the financial statements.

Each lease or hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding outstanding obligations due under the finance lease and hire purchase after deducting finance charges are included as liabilities in the financial statements.



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**16. ACCOUNTANTS' REPORT (Cont'd)**

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**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(h) Assets under Finance Lease and Hire Purchase (Cont'd)**

Finance charges are allocated to the income statement over the period of the respective lease and hire purchase agreements.

Plant and equipment acquired under finance leases and hire purchase are depreciated over the useful lives of the assets. If there is no reasonable certainty that the ownership will be transferred to PHB and PSSB, the assets are depreciated over the shorter of the lease terms and their useful lives.

**(i) Prepaid Lease Payments**

Leases of land under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Lease prepayment for land use right is stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged to the income statement on a straight-line basis over the lease terms.

**(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and comprises the cost of materials and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods and work-in-progress includes the cost of materials, labour and an appropriate proportion of production overheads.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

Where necessary, due allowance is made for all damaged, obsolete and slow-moving items.

**(k) Receivables**

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

**(l) Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

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**16. ACCOUNTANTS' REPORT (Cont'd)**

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**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(m) Provisions**

Provisions are recognised when PHB and PSSB have a present obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

**(n) Income Taxes**

Income taxes for the year comprise current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

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**16. ACCOUNTANTS' REPORT (Cont'd)**

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**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(n) Income Taxes (Cont'd)**

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

**(o) Interest-bearing Borrowings**

Interest-bearing borrowings and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

All the borrowing costs are charged to the income statement as expenses in the period in which they are incurred.

**(p) Equity Instruments**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

**(q) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

16. ACCOUNTANTS' REPORT (*Cont'd*)

## 5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (r) Employee Benefits

(i) *Short-term Benefits*

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of PHB and PSSB.

(ii) *Defined Contribution Plans*

PHB's and PSSB's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, PHB and PSSB has no further liability in respect of the defined contribution plans.

## (s) Related Parties

For the purpose of these financial statements, a related party is considered to be related if:-

- (a) directly, or indirectly through one or more intermediaries, the party:-
  - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the entity that gives it significant influence over the entity; or
  - (iii) has joint control over the entity;
- (b) the party is an associate of the entity;
- (c) the party is a joint venture in which the entity is a venturer;
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

16. ACCOUNTANTS' REPORT (*Cont'd*)



5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) **Contingent Liabilities and Contingent Assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of PHB and PSSB. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of PHB and PSSB.

(u) **Revenue Recognition**

(i) *Sale of Goods*

Revenue is recognised upon delivery of goods and customers' acceptance, and where applicable, net of sales tax, returns and trade discounts.

(ii) *Rental and Interest Income*

Rental and interest income are recognised on an accrual basis.

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**16. ACCOUNTANTS' REPORT (Cont'd)**

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**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Cumulative Convertible Preference Shares ("CCPS")**

On the issue of a financial instrument that contains both a liability and equity element, the fair value of the liability portion is determined using a market interest rate for an equivalent financial instrument. This amount is carried as a non-current liability on the amortised cost basis until extinguished on the conversion or maturity of the instrument. The remainder of the proceeds is allocated to the conversion option which is recognised and included in the shareholders' equity, and the value of the conversion option is not changed in subsequent periods.

**(w) Medium Term Loans**

Medium Term Loans issued by PHB and PSSB are recognised based on net proceeds received. Interest expenses are charged to the income statement as expenses in the period in which they are incurred.

**6. FINANCIAL INFORMATION**

PHB Group exists upon the completion of the Acquisition as mentioned in Paragraph 2.2, hence there are no audited consolidated financial statements of PHB for the FYE 2005, FYE 2006, FYE 2007 and FPE 2008. The Acquisitions were completed on 24 June 2008. PHB has also not commenced any business during the financial period under review. For the purpose of this report, the audited financial statements of PSSB for the FYE 2005, FYE 2006, FYE 2007 and FPE 2008 are presented.

The financial information of PHB and PSSB as presented in Paragraph 7.1 and Paragraph 7.2 respectively are based on audited financial statements, modified as appropriate, for the purpose of this report.

The scope of work conducted in the preparation of this report does not constitute an audit in accordance with approved standards on auditing in Malaysia.

All information are extracted from the audited financial statements except those in italics which are prepared based on calculation, representation and/or explanation provided by the management.

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS

## 7.1 PHB

## 7.1.1 INCOME STATEMENT OF PHB

	Note	FPE 2008 RM'000
Revenue		-
Cost of goods sold		-
Gross profit ("GP")		-
Other income		-
		-
Selling and distribution expenses		-
Administrative expenses		(7)
Loss from operations		(7)
Finance costs		-
Loss before taxation ("LBT")	7.1.5	(7)
Income tax expense	7.1.6	-
Loss after taxation ("LAT")		(7)
GP margin (%)		N/A
LBT margin (%)		N/A
LAT margin (%)		N/A
Effective tax rate (%)		N/A
Earnings before interest, amortisation, depreciation and taxation (RM'000)		(7)
Interest coverage (times)		N/A
Trade receivables turnover ratio (times)		N/A
Trade payables turnover ratio (times)		N/A
Inventories turnover ratio (times)		N/A
Gearing ratio (times)		N/A
Number of ordinary shares in issue of RM1.00 each ('000)		#
Gross loss per share ("LPS") (RM)		(10,500.0) *
Net LPS (RM)		(10,500.0) *

# - RM2

\* - Annualised to 12 months

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16. ACCOUNTANTS' REPORT (*Cont'd*)

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7. AUDITED FINANCIAL STATEMENTS (CONT'D)

7.1 PHB (CONT'D)

7.1.1 INCOME STATEMENT OF PHB (CONT'D)

*Commentary on the Income Statement:-*

- (a) *The Company remained dormant during the Relevant Financial Period under review.*
- (b) *The gross LPS is calculated by dividing the LBT by the weighted average number of ordinary shares in issue during the Relevant Financial Period.*
- (c) *The net LPS is calculated by dividing the LAT by the weighted average number of ordinary shares in issue during the Relevant Financial Period.*
- (d) *There were no non-recurring items in the financial period under review.*

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## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PHB (CONT'D)

## 7.1.2 BALANCE SHEET OF PHB

	Note	FPE 2008 RM'000
ASSET		
CURRENT ASSET		
Cash in hand		#
EQUITY AND LIABILITY		
EQUITY		
Share capital	7.1.7	#
Accumulated loss		(7)
TOTAL EQUITY		(7)
CURRENT LIABILITIES		
Other payable and accrual		5
Amount owing to a related party	7.1.8	2
		7
TOTAL EQUITY AND LIABILITY		#
<i>Number of ordinary shares in issue of RM1.00 each ('000)</i>		
		*
<i>Net tangible liabilities ("NTL") (RM'000)</i>		
		(7)
<i>NTL per ordinary share (RM)</i>		
		(3,500.0)
<i>Trade receivables turnover ratio (times)</i>		
		N/A
<i>Trade payables turnover ratio (times)</i>		
		N/A
<i>Inventories turnover ratio (times)</i>		
		N/A
<i>Gearing ratio (times)</i>		
		N/A

# - RM2

\* - 2 ordinary shares

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.1 PHB (CONT'D)

## 7.1.3 CASH FLOW STATEMENT OF PHB

	FPE 2008 RM'000
CASH FLOW FOR OPERATING ACTIVITY	
Loss for the financial period	(7)
Increase in other payable	5
NET CASH FOR OPERATING ACTIVITY	(2)
CASH FLOW FOR FINANCING ACTIVITIES	
Proceeds from issuance of shares	#
Advances from a related party	2
NET CASH FROM FINANCING ACTIVITIES	2
CASH IN HAND AT THE END OF THE FINANCIAL PERIOD	#

## 7.1.4 STATEMENT OF CHANGES IN EQUITY OF PHB

	Share capital RM'000	Accumulated loss RM'000	Total RM'000
At 6 December 2007 (Date of incorporation)	#	-	-
Loss for the financial period	-	(7)	(7)
Balance at 30.4.2008	#	(7)	(7)

# - RM2

## 7.1.5 LOSS FOR THE FINANCIAL PERIOD

	FPE 2008 RM'000
Loss for the financial period is arrived at after charging:-	
Audit fee	1
Incorporation fee	2

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7.1.6 INCOME TAX EXPENSE

	FPE 2008 RM'000
Loss for the financial period	(7)
Tax at the statutory tax rates of 26%	(2)
Tax effect of:- Non-deductible expenses	2
Tax for the financial period	-

## 7.1.7 SHARE CAPITAL

	FPE 2008	FPE 2008
AUTHORISED:-		
Ordinary shares of RM1 each	100,000	100,000
ISSUED AND FULLY PAID UP:-		
Ordinary shares of RM1 each - Subscribers' shares	*	#

# - RM2

\* - 2 ordinary shares

## 7.1.8 AMOUNT OWING TO A RELATED PARTY

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

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PSSB

## 7.2.1 INCOME STATEMENTS OF PSSB

	Note	FYE 2005 RM'000	FYE 2006 RM'000	FYE 2007 RM'000	FPE 2007 # RM'000	FPE 2008 RM'000
Revenue	7.2.5	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)	(18,414)
(Loss)/Profit from operations		(48,473)	131,287	228,589	56,478	117,361
Finance costs		(54,653)	(34,826)	(66,003)	(14,900)	(22,685)
(Loss)/Profit before taxation ("(LBT)"/"PBT")	7.2.6	(103,126)	96,461	162,586	41,578	94,676
Income tax expense	7.2.7	-	110,000	-	-	-
(Loss)/Profit after taxation ("(LAT)"/"PAT")		(103,126)	206,461	162,586	41,578	94,676
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	140,209
Interest coverage (times)		(0.9)	3.8	3.5	3.8	5.2
Trade receivables turnover ratio (times)		*	*	*	*	*
Trade payables turnover ratio (times)		0.5	0.3	0.1	0.3	0.1
Inventories turnover ratio (times)		0.2	0.2	0.3	0.2	0.3
Gearing ratio (times)		0.5	0.7	0.8	0.6	0.7
Number of ordinary shares in issue of RM1.00 each ('000)		1,216,181	1,216,181	1,216,181	1,216,181	1,216,181
Gross (loss)/earnings per share ("(LPS)"/ "EPS") (sen)		(8.5)	7.9	13.4	10.3 ^	23.4 ^
Net (LPS)/EPS (sen)		(8.5)	17.0	13.4	10.3 ^	23.4 ^

\* - less than 0.1

^ - 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.

16. ACCOUNTANTS' REPORT (*Cont'd*)

## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PSSB (CONT'D)

## 7.2.1 INCOME STATEMENTS OF PSSB (CONT'D)

*Commentary on the Income Statements:-*

(a) FYE 2005

*Revenue decreased by approximately RM42.0 million or 3.8% as compared to FYE 2004 due to a drop in average monthly sales of billets and DRI from August to December 2005 as the Direct Reduction plant operated with only one reactor until April 2006. This was mainly due to a faulty reactor in the Direct Reduction plant in August 2005 coupled with lower global demand for billets.*

*The above contributed to the lower gross profit margin as the iron ore price had increased and the monthly fixed costs were absorbed by lower production volume.*

*As a result of the decrease in gross profit margin coupled with the increase in operating overheads and finance costs, PSSB recorded a LBT margin of 9.7% in FYE 2005. There was no provision for taxation in the FYE 2005 as PSSB was in a tax loss position.*

(b) FYE 2006

*Revenue increased by approximately RM119.5 million or 11.2% as compared to FYE 2005 due to the following:-*

- (i) *higher sales of DRI to Mega Steel Sdn. Bhd. and PT Krakatau Steel;*
- (ii) *increase in sales of wire rod, bars and sections generated from the following assets ("Gurun Assets") pursuant to the strategic alliance agreement with Kinsteel Bhd:-*
  - (aa) *a beam and section mill, which includes land, plants, structures, fittings, fixtures and buildings;*
  - (bb) *a bar and wire rod rolling mill together with the wire conditioning, nail processing and wire mesh factories which includes land, plants, structures, fittings, fixtures and buildings; and*
  - (cc) *2 pieces of land.*
- (iii) *Effective from 8 September 2006, BBB and billets transferred to Gurun will be taken up as PSSB sales to a newly incorporated private limited company under the strategic alliance, Perfect Channel Sdn. Bhd. following the acquisition of the Gurun Assets.*

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PSSB (CONT'D)

## 7.2.1 INCOME STATEMENTS OF PSSB (CONT'D)

(b) FYE 2006 (Cont'd)

Gross profit margin increased significantly from 1.4% in FYE 2005 to 14.2% in FYE 2006 mainly due to the following:-

- (i) the management had taken over the staff/expertise from a related party which enabled PSSB to perform in-house maintenance services. This has resulted in cost savings as only salary costs were incurred as compared to professional fees charged previously;
- (ii) better profit margin for DRI; and
- (iii) there was a waiver of debts of approximately RM55 million in FYE 2006 from a supplier.

The higher GP margin, and lower operating overheads and finance costs contributed to the increase in PBT margin of 8.2% in FYE 2006 as compared to LBT margin of 9.7% in FYE 2005.

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

PSSB has recognised a deferred tax asset of RM110 million on unutilised tax losses brought forward in FYE 2006.

(c) FYE 2007

Revenue increased from approximately RM1.18 billion in FYE 2006 to approximately RM1.69 billion in FYE 2007 mainly due to the increase in selling price of billets as the ceiling price for the local market was revised effective from 16 April 2007 and 1 December 2007. In addition, more sales were made to Kinsteel Bhd, the holding company and Perfect Channel Sdn. Bhd., the related company after the completion of the Strategic Alliance exercise.

The gross profit margin and PBT margin in FYE 2007 approximated those of FYE 2006.

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

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PSSB (CONT'D)

## 7.2.1 INCOME STATEMENTS OF PSSB (CONT'D)

(d) FPE 2008

The annualised revenue for FPE 2008 increased by 17.2% or RM291.3 million as compared to FYE 2007 mainly due to the increase in the ceiling price of billets in December 2007.

The above contributed to the higher gross profit margin as the average selling price for billet in FPE 2008 is higher than the average selling price in FYE 2007.

The annualised PBT for FPE 2008 has increased significantly from RM121.4 million or 74.7% compared to FYE 2007 mainly due to the increase in the gross profit margin and lower other income and operating overheads.

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

- (e) The gross EPS is calculated by dividing the PBT by the weighted average number of ordinary shares in issue during the Relevant Financial Periods.
- (f) The net EPS is calculated by dividing the PAT by the weighted average number of ordinary shares in issue during the Relevant Financial Periods.
- (g) There were no non-recurring items in the financial years/period under review save for the following:

	FYE 2005 RM'000	FYE 2006 RM'000	FYE 2007 RM'000	FPE 2007 # RM'000	FPE 2008 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

# - Not audited and is included for comparison purposes only.

## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PSSB (CONT'D)

## 7.2.2 BALANCE SHEETS OF PSSB

	Note	FYE 2005 RM'000	FYE 2006 RM'000	FYE 2007 RM'000	FPE 2008 RM'000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	7.2.8	1,555,664	1,490,372	1,436,007	1,433,216
Prepaid lease payments	7.2.9	29,658	28,924	28,192	27,948
Investment in an associate	7.2.10	-	-	-	-
Other investment	7.2.11	-	-	4,000	4,000
Deferred tax asset	7.2.12	-	110,000	110,000	110,000
		<b>1,585,322</b>	<b>1,629,296</b>	<b>1,578,199</b>	<b>1,575,164</b>
<b>CURRENT ASSETS</b>					
Inventories	7.2.13	172,786	244,913	387,452	438,637
Trade receivables	7.2.14	5,224	35,741	11,681	39,494
Other receivables, deposits and prepayments	7.2.15	7,023	37,587	54,003	67,633
Amount owing by an associate	7.2.16	94	18	18	-
Amount owing by related companies	7.2.17	11,097	41,784	28,953	34,875
Amount owing by related parties	7.2.18	4,365	12,915	928	7,520
Tax refundable		103	103	103	103
Fixed deposit with a financial institution	7.2.19	-	-	13,500	13,275
Cash and bank balances	7.2.20	944	18,578	31,281	11,646
		<b>201,636</b>	<b>391,639</b>	<b>527,919</b>	<b>613,183</b>
<b>TOTAL ASSETS</b>		<b>1,786,958</b>	<b>2,020,935</b>	<b>2,106,118</b>	<b>2,188,347</b>

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## 16. ACCOUNTANTS' REPORT (Cont'd)



## 7. AUDITED FINANCIAL STATEMENTS (CONT'D)

## 7.2 PSSB (CONT'D)

## 7.2.2 BALANCE SHEETS OF PSSB (CONT'D)

	Note	FYE 2005 RM'000	FYE 2006 RM'000	FYE 2007 RM'000	FPE 2008 RM'000
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital	7.2.21	1,216,181	1,216,181	1,216,181	1,216,181
Share premium	7.2.22	121,618	121,618	121,618	121,618
Accumulated losses		(919,070)	(712,609)	(550,023)	(455,347)
<b>TOTAL EQUITY</b>		<b>418,729</b>	<b>625,190</b>	<b>787,776</b>	<b>882,452</b>
<b>NON CURRENT LIABILITIES</b>					
Long-term borrowings	7.2.23	255,809	257,242	209,161	194,654
Murabahah medium term loan	7.2.24	-	310,000	310,000	310,000
Collateralised loan	7.2.25	-	-	40,000	40,000
		<b>255,809</b>	<b>567,242</b>	<b>559,161</b>	<b>544,654</b>
<b>CURRENT LIABILITIES</b>					
Trade payables	7.2.26	538,638	325,824	120,629	105,568
Other payables and payables	7.2.27	116,823	63,149	28,797	38,859
Amount owing to ultimate holding company	7.2.28	21,966	27,468	42,068	21,773
Amount owing to immediate holding company	7.2.29	69,257	168,842	213,897	229,116
Amount owing to related companies	7.2.17	1,699	4,354	10,418	9,954
Amount owing to related parties	7.2.18	102,310	73,910	17,285	17,289
Provision	7.2.30	34,626	10,943	-	-
Short-term borrowings	7.2.31	220,734	150,057	324,453	333,636
Bank overdraft	7.2.34	6,367	3,956	1,634	5,046
		<b>1,112,420</b>	<b>828,503</b>	<b>759,181</b>	<b>761,241</b>
<b>TOTAL LIABILITIES</b>		<b>1,368,229</b>	<b>1,395,745</b>	<b>1,318,342</b>	<b>1,305,895</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,786,958</b>	<b>2,020,935</b>	<b>2,106,118</b>	<b>2,188,347</b>
<i>Number of ordinary shares in issue of RM1.00 each ('000)</i>		<i>1,216,181</i>	<i>1,216,181</i>	<i>1,216,181</i>	<i>1,216,181</i>
<i>Net tangible assets ("NTA") (RM'000)</i>		<i>418,729</i>	<i>625,190</i>	<i>787,776</i>	<i>882,452</i>
<i>NTA per ordinary share (RM)</i>		<i>0.3</i>	<i>0.5</i>	<i>0.6</i>	<i>0.7</i>
<i>Trade receivables turnover ratio (times)</i>		<i>*</i>	<i>*</i>	<i>*</i>	<i>*</i>
<i>Trade payables turnover ratio (times)</i>		<i>0.5</i>	<i>0.3</i>	<i>0.1</i>	<i>0.1</i>
<i>Inventories turnover ratio (times)</i>		<i>0.2</i>	<i>0.2</i>	<i>0.3</i>	<i>0.3</i>
<i>Gearing ratio (times)</i>		<i>0.5</i>	<i>0.7</i>	<i>0.8</i>	<i>0.7</i>

\* - less than 0.1