5. RISK FACTORS *(Cont'd)*

5.1.5 Our operating results may be adversely affected by an increase in the price of natural gas or material interruptions in the supply of natural gas

Our Group uses large amount of natural gas for the production DRI. For the financial year ended 31 December 2007 and the 4 month period ended 30 April 2008, purchases of natural gas accounted for 7.1% and 5.0% of our total purchases respectively. We have been securing the supply of natural gas at competitive rates from Petroliam Nasional Berhad for our steel production. However, there is no assurance that we can consistently secure the supply of natural gas at these competitive rates moving forward. There is a risk that the price of natural gas will increase in line with the global increase in energy prices in the future. If this happens, it will increase our production cost and may affect our operating results if we are unable to pass the cost increase to our customers or if we could, we may not be able to pass it on in a timely manner. As of todate, we have not encountered any material interruptions in the supply of natural gas to our production facilities. Nevertheless, we cannot guarantee that any interruption or shortage of supply of natural gas to our production facilities in the future will not affect our operating results.

5.1.6 Availability of substitutes could reduce the demand for our products

We produce upstream steel products such as DRI that will then be used as feedstock by downstream steel manufacturers. In some situations, DRI, HBI, pig iron and scrap iron may generally be regarded as substitutes for one another for the manufacture of steel products. DRI and HBI are closer in similarity compared to pig iron and scrap iron. As such, there are more situations where DRI and HBI may substitute for one another. In some situations, manufacturers may use different proportions of DRI, HBI and certain types of scrap iron. Although in some situations DRI and HBI may substitute for pig iron, it is not common to do so as DRI and HBI are of higher quality and cost compared to pig iron.

Although DRI and HBI are close substitutes, they are not perfect substitutes. As such, DRI and HBI will have their own market segment, although there is some overlap.

(Source : Vital Factor Report)

However, if any one of the substitutes to DRI is in excess supply or lower in pricing, this could impact the demand for DRI and the financial performance of our Group may be adversely affected.

5.1.7 Unexpected equipment failures and catastrophic events may lead to production curtailments or shutdowns

We are an integrated steel producer that conduct substantially all of our steel manufacturing activities at a single production site in Kemaman, Terengganu. This production site consists of 2 manufacturing plants. Our manufacturing processes are dependent upon critical equipment such as our DRI reactors, steel furnaces, continuous casters as well as electrical equipment such as transformers. These equipment may, on occasion, be out of service as a result of unanticipated failures or damaged during accidents. In addition, our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires and floods.

Consequently, closure of our production site, interruption in, or prolonged suspension of, any substantial part of our production, or any damage to or destruction of our production facilities arising from catastrophic events or other similar events may affect our production schedules resulting in long business interruption periods as we do not have any alternative manufacturing facilities. This could materially impact our Group's financial performance adversely.

5. RISK FACTORS *(Cont'd)*

5.1.8 Dependency on our principal customers for our Group's sales revenue

For the FYE 31 December 2007, 3 of our Group's principal customers, Kinsteel, Perfect Channel Sdn Bhd and Cargill International Trading Pte Ltd, contributed approximately 31.9%, 20.8% and 17.5% to our Group's total sales, respectively. For the 4-month period ended 30 April 2008, 3 of our Group's principal customers, Kinsteel, Cargill International Trading Pte Ltd and Perfect Channel Sdn Bhd contributed approximately 44.7%, 20.4% and 19.2% to our Group's total sales, respectively. Therefore, our Group is dependent to a significant extent on these 3 customers. Failure to secure continuing patronage from our principal customers in the future would adversely affect our revenue and operating results.

In this regard, our Directors are of the view that the dependence on the aforesaid 3 customers is mitigated through the following:

(i) Perfect Channel Sdn Bhd is a 51% subsidiary of Kinsteel while Kinsteel in turn is the largest shareholder of our Company. Accordingly, our Company believes that it is unlikely that our Group would lose all of the business generated by Perfect Channel Sdn Bhd and Kinsteel. There can be no assurance, however, that the historical business relationship with Perfect Channel Sdn Bhd and Kinsteel is sustainable moving forward;

(ii) as at the Latest Practicable Date, our Group has 15 customers. Our Group enjoys a close and long-standing business relationship with our customers and place significant emphasis on developing and maintaining customer satisfaction, goodwill and rapport. This is reflected by the fact that approximately 50% of our Group's top 10 customers have been dealing with our Group for 4 years or more;

(iii) our Group is a producer of DRI, which is a key feedstock for the production of various types of long and flat steel products used in the construction and manufacturing industries respectively. Due to the wide applications for steel products produced using DRI, our Group is confident that a steady demand for our products exist due to the commodified nature of our primary steel products; and

(iv) PSSB is currently the only producer of DRI in Malaysia (1.5 million tonnes annual capacity) while Megasteel Sdn Bhd is currently completing a DRI plant in Banting, Selangor with a planned capacity of 1.7 million tonnes per annum. However, it is expected that all of Megasteel Sdn Bhd's DRI output will be used internally for its own production purposes. Accordingly, the limited number of competitors serving the DRI market serves as a competitive advantage for our Group. Further, according to the Vital Factor Report, the high capital cost required to set-up a plant for DRI and semi-finished long steel products also creates a very high barriers to entry for new entrants.

5.1.9 Dependency on major suppliers for raw materials/consumables

For the FYE 31 December 2007, our Group is dependent on our top 3 suppliers, PKK, Compania Minera Del Pacifico, and TNB which accounted for 19.7%, 15.8% and 11.4% of our Group's total purchases respectively. PKK supplies scrap iron, Compania Minera Del Pacifico supplies iron ore whilst TNB supplies electricity.

For the 4 month period ended 30 April 2008, we are dependent on our top 4 suppliers, PKK, CVRD International S.A, Cargill International Trading Pte Ltd and Compania Minera Del Pacifico which accounted for 21.5%, 15.1%, 12.8% and 10.0% of our Group's total purchases respectively. PKK supplies scrap iron, CVRD International S.A and Compania Minera Del Pacifico supply iron ore, and Cargill International Trading Pte Ltd supplies pig iron.

Therefore, our Group is dependent to a certain extent on these suppliers.

Our Directors are of the view that our Group will not face any problems in sourcing our raw materials from the said suppliers due to the following reasons:

(i) our Group has a long-term and stable business relationship with PKK and Compania Minera Del Pacifico and has been dealing with them for 14 years or more. Our Directors believe that this continuing business relationship will provide a basis for reliable and continuous support from them.

(ii) our Group has entered into long-term supply contracts for iron ore with some of our suppliers. Under the terms of these contracts, our Group has the right to purchase a specified quantity of iron ore from the supplier each year. Although we have entered into supply contracts with some of our suppliers, these contracts only provide us with some certainty as to continuity of supply because the price of iron ore under these contracts will have to be determined in the future depending on the then prevailing market price and, therefore is subject to negotiation with our suppliers.

(iii) Our Group will be able to source iron ore from other suppliers at anytime. As iron ore and scrap iron are commodities, they are readily available in the world market and can be sourced from overseas countries.

5.1.10 Our Group is exposed to risks related to foreign exchange fluctuation

Our Group is dependant on raw materials such as iron ore, which have to be imported. Purchases of certain imported raw materials such as iron ore, electrodes, refractories and ferro-alloys are often transacted in USD. Further, our Group's products are presently also sold in overseas markets. Sales to these markets are often transacted in USD, and any expenditure incurred by our Group in the generation of sales to these markets may be in local currencies.

As a result, our Group is exposed to foreign exchange fluctuations. Futhermore, during the FYE 31 December 2007 and 4 month period ended 30 April 2008, 53.2% and 55.4% of our major raw materials are imported respectively whilst our revenue generated from export markets are 17.9% and 11.5% respectively. The risk of foreign exchange fluctuation is mitigated by the managed float mechanism by Bank Negara Malaysia adopted since 21 July 2005 on the RM-USD conversion rate, which may minimise extreme exchange rate fluctuation.

As a large proportion of the Group's export revenue and imported raw material were denominated in USD, our Group is able to pay for the USD denominated purchases with revenue received in USD. This serves as a natural hedge to foreign currency fluctuations. However, we cannot guarantee that our sales generated from export markets could adequately covers our cost of imports. Our Group also entered into short-term forward contracts to partially lock in the RM-USD exchange rate for some of our Group's overseas revenue.

Notwithstanding the above, no assurance can be given that the managed float mechanism will be maintained in the future and that if the said managed float mechanism is removed or revised, it will not have an adverse material effect on the financial performance of our Group.

5.1.11 Cost of environmental and workplace safety compliance may adversely affect our operations

Our operations are subject to numerous environmental laws and regulations. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the industrial effluent or smoke, dust or gas into the atmosphere, the emissions of substances to water, land and atmosphere, the storage, use and handling of hazardous materials and chemicals, the generation, treatment and disposal of waste and solid waste management.

Our operations are also subject to regulations relating to workplace safety compliance. These regulations ensure the protection against risks to safety or health in connection with the activities of persons at work. As a measure of compliance, all machineries within our premises are subject to inspections and renewal of the certification.

Typically, these laws and regulations provide for substantial fines and potential criminal sanction for violations. Violations of these laws can result in permit revocation, cessation of or restricted operations, remedial work required to be carried out or the additional equipment required to be installed at substantial cost and/or plant shutdown.

The Department of Environment has issued compounds to PSSB with offences related to oil spillage and dust pollution. PSSB has successfully appealed for a reduction of the compound of RM4,000 for both offences and settled the compound in full on 8 October 2007.

PSSB has taken several measures to address the oil spillage and dust pollution in consultation with the Department of Environment. The Group has constructed a new facility to treat waste oil before sending them to third party. Further PSSB will install a continuous air quality monitoring system at its production site once specific guidelines on air quality monitoring system from the Department of Environment is available.

In addition, new laws and regulations, stricter enforcement of, or changes to existing laws and regulations, or the imposition of new clean-up requirements could in the future require us to incur costs, or affect our production or revenues, in ways that may have an adverse effect on our financial conditions or results of operations. No assurance can be given that material capital expenditures, costs or operating expenses beyond those currently anticipated will not be required under applicable laws and regulations, or that developments with respect to such laws and regulations will not adversely affect our Group's performance.

5.1.12 Risk associated with future expansion

As set out in Section 8.11 of this Prospectus, our Group's future plans include the upgrading of our existing DRI reactors (by upgrading ancillary equipment) to increase our DRI production capacity and re-commissioning our three existing electric arc furnaces so as to increase our production capacity for semi-finished long steel products. These future expansions could have adverse effects on our Group's financial performance due to the impact of high investment costs and the potential for under-utilisation upon commissioning of the facilities. Further, the incurrence of borrowings or usage of internal funds to finance the future expansions could adversely affect our Group's liquidity position. Accordingly, there can be no assurance that our Group's future expansion plans as set out in Section 8.11 would improve the financial performance of our Group.

5.1.13 Risk of explosion

Our Group utilises 2 DRI reactors in its steel production operations, which are used to reduce iron ore into DRI. These DRI reactors work on chemical based reduction processes, which have a certain level of volatility and have the propensity to cause an explosion when instability in the reactor occurs. An explosion within a DRI reactor may damage the DRI reactor and replacement time for a DRI reactor is generally estimated at 12 months. This in turn may result in business interruptions arising from bottlenecks to the manufacturing process.

The risk of an explosion in the DRI reactors is mitigated by maintaining stability in the DRI reactors through educating personnel to understand and follow the strict operating procedure while adhering to the maintenance programme. Our Group's management also sources its iron ore from selected suppliers to ensure consistency in the quality of iron ore used in the DRI reactors. By maintaining stringent quality requirements on its feedstock intake, our Group seeks to remove instability in the reactor caused by inferior iron ore which may, amongst others, create excessive fines generation while in the reactor.

5. RISK FACTORS *(Cont'd)*

5.1.14 No assurance that our insurance coverage would be adequate

Risks associated with steel production include damage to equipment and facilities, environmental pollution, transportation damage and delay, and risk posed by natural disasters all of which may results in reduced profit or losses to us. Possible adverse consequences arising from the realisation of these risks include, but are not limited to, interruptions to our business, and consequently negative effects on our business operations. To mitigate the effects of these potential events, our Group has obtained insurance coverage for all plants, machineries, equipments, other properties and miscellaneous buildings and facilities located at our production site, including business interruption arising from the effects of such potential events.

However, there can be no assurance that the insurance coverage will be adequate for the replacement cost of assets, loss of revenue due to interruptions to business operations, or any other consequential loss arising should these risks crystallises.

5.1.15 Significant fluctuation in interest rates could impact the financial performance of our Group

Significant fluctuation in interest rates could impact the financial performance of our Group, as the working capital of our Group is currently met primarily by banking facilities. As at the Latest Practicable Date, we have banking facilities amounting to RM360 million granted by various financial institutions, collaterised loan obligations of RM40.0 million and approval to issue MTN of up to RM400 million under the MMTN, of which RM648.4 million is outstanding. Any increase in interest rates will increase the burden of our Group with respect to interest payments of the borrowings depending on the total outstanding borrowings at that point in time.

As set out in Section 4.8 of this Prospectus, RM50.0 million of the proceeds of the Public Issue has been earmarked to repay our Group's bank borrowings. This will reduce our Group's gearing level from 0.71 times to 0.55 times based on the proforma consolidated balance sheet as at 30 April 2008. Our Directors are of the opinion that after taking into account the cash to be generated by our Group, banking facilities available and net proceeds from the Public Issue, our Group will have sufficient working capital for its current and immediate requirements and are expected to be more than adequate to meet the repayment terms of our outstanding banking facilities.

However, there can be no assurance that the performance of our Group will not be adversely affected in the event of any increase in the interest rates and/or financing charges.

5.1.16 Restrictive covenants under credit facilities agreements could adversely affect our ability to operate our business

The agreements governing our Group's banking or lending facilities and MMTN may contain, *inter-alia*, covenants which may limit our Group's operating and financial flexibility. Any act by our Group falling within the ambit and scope of such covenants may require the consent of the MTN holders, lenders or relevant financial institutions. Breach of such covenants may give rise to a right by the relevant lenders/financial institutions/MTN holders to terminate the relevant facilities and/or enforce any security/conditions in relation to the facilities/MTN, as well as the possibility of cross defaulting other facilities. Although our Group will take all reasonable efforts to observe such covenants at all times, there can be no assurance that the financial performance of our Group will not be affected should any breach occur.

5.1.17 Our Group is dependent on key management and personnel

Our Group's continuing success will depend to a large extent upon the abilities and continued efforts of our existing Board of Directors and key management. The loss of any member our Company's Board of Directors and key management would certainly be a loss of source of experience, knowledge and leadership to our Group and may adversely affect our Group's operation.

The Directors of PHB recognise the importance of our Group's ability to retain existing key management personnel and attract new skilled personnel and have in place human resource strategies, which include suitable compensation packages and training, as well as personal development programmes. Further, as part of our Group's management succession plan, we have made continuous efforts to train and groom the younger members of our management to gradually take on more responsibilities.

5.1.18 Our Group have ongoing legal proceedings

There are risks and costs associated with any litigation whether plaintiff or defense case. Our subsidiary, PSSB is currently a party to various legal proceedings.

Amongst the cases where PSSB is a party of, Megasteel Sdn Bhd had filed the Writ of Summons and Statement of Claim at the High Court of Malaya at Kuala Lumpur claiming for a sum of RM36,079,860.33 against PSSB. PSSB had filed its defence case and at the same time, made a counter-claim against Megasteel. Please refer to Section 19.7 of this Prospectus for details of these legal cases.

The outcome of the litigation cases, if adversely determined, would have a material adverse effect on our financial position.

5.1.19 Our Group undertakes a number of transactions with related parties

Our Group has entered into various transactions with companies directly or indirectly controlled by or associated with our Directors and substantial shareholders. Please refer to Section 11 of this Prospectus for details of these related party transactions. The transactions with the related parties may create a conflict of interest situation between the transacting parties which may not benefit the Group.

Our Group expects that we will continue to enter into business or other transactions with our related parties in the future. Therefore, our Group has established review procedures for these transactions as set out in Section 11.2 of this Prospectus. Furthermore, our Audit Committee will monitor these related party transactions to ensure that these transactions are carried out at arms length basis and on commercial terms, which will not be detrimental to the interest of our Group. Our Company will also seek the shareholders' mandate annually in respect of the transactions in accordance with the Listing Requirements.

5.1.20 Control of existing substantial shareholders may limit your ability to influence the outcome of decisions requiring the approval of shareholders

Following the completion of the IPO and upon Listing, the controlling shareholders of PHB, namely Kinsteel, ECSB and Maju (which wholly owns ECSB), will collectively hold approximately 73.2% equity interest in our Company. Consequently, Kinsteel, ECSB and Maju will be able to effectively control the business directions and the outcome of certain matters requiring the votes of the Company's shareholders unless they are required to abstain from voting by law, covenants and/or by the relevant authorities.

5. RISK FACTORS *(Cont'd)*

5.1.21 Ability to pay dividends

We are principally an investment holding company and the core operations of our Group are carried out through our subsidiary, namely, PSSB. Accordingly, an important source of our income, and consequently an important factor in our ability to pay dividends on the Shares, is dividends and other distributions received from our subsidiary. Our subsidiary's ability to pay dividends or make other distributions to us is subject to, *inter-alia*, certain restrictions contained in its loan agreements which includes, *inter-alia*, compliance of financial covenants and obligations under the respective loan agreements and non-occurrence of continuing event of default, its existing debt servicing and financing commitments and to it having sufficient funds and/or reserves to declare/pay dividends whereby these funds are not needed to fund its operations, other obligations or business plans.

For a description of our dividend policy, please refer to Section 15 of this Prospectus.

5.2 RISKS RELATING TO THE IPO

5.2.1 No prior market for our Shares

Prior to the IPO, there has been no market for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon Listing or, if developed, that such market will be sustained. We, together with the Offerors, our Advisers and Managing Underwriter, have determined and agreed to the IPO Price and Restricted Offer Price after taking into consideration a number of factors including but not limited to, our Group's financial and operating history and our Group's prospects. The prices at which our Shares are traded on Bursa Securities at any point in time after the IPO may vary significantly from the IPO Price and Restricted Offer Price.

Shares of other companies listed on Bursa Securities have experienced considerable price volatility in the past. It is possible that our Shares will be subject to price volatility, which may have no direct correlation with our Company's net asset value, financial results or performance. Price volatility may also affect the ability of our shareholders to sell and the price at which our Shares can be sold.

5.2.2 Delay or failure in our Listing

Our Listing may be potentially delayed or aborted in the event of the following:

(i) the identified investors failing to subscribe the portion of Shares allocated to them; or

(ii) the Managing Underwriter and Underwriters exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations thereunder;

(iii) we are unable to meet the minimum public spread requirements of Bursa Securities at the point of Listing;

(iv) any delay in the completion of the ICULS Placement; or

(v) any force majeure event(s) which are beyond our control before our Listing.

5.2.3 The performance of our Shares is subject to capital market risks

Our Shares will be listed on the Main Board of Bursa Securities. The performance of shares generally on Bursa Securities is affected by external factors such as the performance of regional and world exchanges and the inflow and outflow of foreign funds. Sentiments may also be affected by internal factors such as Malaysian economic and political conditions, and overall market conditions as well as the growth potential of various sectors of the economy. These factors may contribute towards the general volatility of share prices on Bursa Securities.

5. RISK FACTORS *(Cont'd)*

5.2.4 The sale and the possible sale of a substantial number of our Shares in the public market following the IPO could adversely affect the price of our Shares

Based on the enlarged issued and paid-up share capital of the Company upon the Listing comprising 560,000,000 PHB Shares, our Company will have 146,150,000 PHB Shares (representing up to approximately 26.10% equity interest) which will be publicly held by investors participating in the IPO and 410,000,000 PHB Shares (representing up to approximately 73.21% equity interest) will be held by our Company's existing shareholders. Our Shares sold in the IPO will be tradeable on the Main Board of Bursa Securities without restriction following the Listing. If existing shareholders sell or are perceived as intending to sell a substantial amount of Shares, the market price for our Company's Shares would be adversely affected.

Pursuant to the SC Guidelines and as a condition of the SC's approval for the Flotation Scheme, certain shareholders are not allowed to sell, transfer or assign their shareholdings in the Company amounting in total to 45% of the issued and paid-up share capital of the Company for one year from the date of admission to the Official List. For further details on the abovementioned moratorium, please refer to Section 10.2 of this Prospectus.

5.3 OTHER RISKS

5.3.1 Our Group and our business operations are subject to political and economic risks

Adverse developments in political and economic conditions in Malaysia and other countries where our Group is currently purchasing our raw materials and exporting our products, could materially affect the financial prospects of our Group. Political and economic uncertainties include risks of war, terrorism, riots, expropriation, nationalisation, renegotiation and nullification of existing contracts, changes in interest rates and method of taxation. There can be no assurance that adverse political and economic factors will not materially affect our Group.

5.3.2 Forward-looking statements

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategy, plans and objectives of the management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such factors include, *inter-alia*, general economic and business conditions, competitions, the impact of new laws and regulations affecting us and the industry, changes in interest rates and changes in foreign exchange rates.

In light of these uncertainties, the inclusion of such forward-looking statement in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

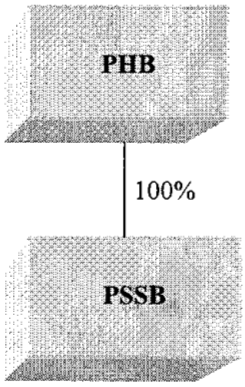
6. INFORMATION ON OUR GROUP

6.1 HISTORY AND BUSINESS OVERVIEW

We were incorporated in Malaysia under the Act as a private limited company on 6 December 2007 under the name Vertical Winners Sdn Bhd. On 21 December 2007, we changed our name to Perwaja Holdings Sdn Bhd. We were subsequently converted into a public limited company and assumed our present name on 28 December 2007.

We were incorporated as an investment holding company to facilitate our Listing. Our wholly-owned subsidiary, PSSB, is principally involved in the manufacturing and trading of DRI and semi-finished long products (steel billets, beam blanks and blooms).

The following chart depicts the corporate structure of our Group:



As part of the Flotation Scheme, on 30 January 2008, PHB had entered into a sale and purchase agreement with Kinsteel, ECSB and Maju to acquire 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 to be satisfied by the issuance of 499,999,998 new PHB Shares at an issue price of RM1.93 per PHB Share. The purchase consideration for the Acquisition of PSSB was arrived at after a 1.3 times multiple over the audited NTA of PSSB as at 30 September 2007 of RM743.272 million. The Acquisition of PSSB was completed on 24 June 2008. Upon completion of the Acquisition of PSSB, PSSB became a wholly-owned subsidiary of PHB.

6.2 SHARE CAPITAL

The present authorised share capital of PHB is RM2,000,000,000 comprising 2,000,000,000 Shares while the present issued and paid-up share capital of PHB is RM500,000,000 comprising 500,000,000 Shares. Upon completion of the Public Issue, the enlarged issued and paid-up share capital of PHB will be RM560,000,000 comprising 560,000,000 Shares.

Details of the changes in the issued and paid-up share capital of our Company since our incorporation are as follows:

Date of allotment	No. of Shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
06.12.2007	2	1.00	Cash	2
24.06.2008	499,999,998	1.00	Purchase consideration for the Acquisition of PSSB	500,000,000

Save for the ICULS, there are no outstanding warrants, options, convertible securities or uncalled capital in PHB as at the date of this Prospectus.

6.3 INFORMATION ON OUR SUBSIDIARY

6.3.1 PSSB

(i) History and business

PSSB was incorporated in Malaysia on 11 October 1989 as a private limited company under the Act. The principal activities of PSSB are manufacturing and trading of DRI and semi-finished long products (steel billets, beam blanks and blooms).

PSSB's steel manufacturing business was originally initiated by the Government under the 1st Industrial Master Plan as part of its efforts to rationalise the steel industry and to reduce the country's dependence on imported steel. As a result thereof, PTSB was incorporated in 1982, with Heavy Industry Corporation Malaysia (a Japanese consortium led by Nippon Steel Corporation) and Lembaga Tabung Amanah Warisan Negeri Terengganu as its shareholders, to operate a sponge iron and billet making plant. The production facility was initially installed with a HBI production plant, which was commissioned in 1985.

In 1990, under the Government's directive, a restructuring exercise of the Perwaja group of companies was commissioned. Following the restructuring exercise, PTSB became the ultimate holding company of Perwaja group of companies and all of its assets were transferred to PSSB.

In response to the Government's intention to privatise the Perwaja group of companies, Maju submitted a proposal in 1996 to which the Government had in principle accepted Maju's proposal subject to further terms and conditions.

However, with the onset of the Asian financial crisis in mid 1997, the Government had deferred the privatisation of PSSB and meanwhile, Maju was tasked to manage PSSB, implement a restructuring scheme and develop a strategic business plan on behalf of the Government.

In 2000, the Government revived the privatisation process and Maju was subsequently asked to submit a revised offer. Upon receipt of all the relevant approvals by January 2003, the privatisation exercise was completed and Maju became the ultimate holding company of PSSB via ECSB.

On 7 October 2005, Kinsteel entered into a strategic alliance agreement with ECSB to acquire *inter-alia*, 51% equity interest in PSSB. Upon completion of the Strategic Alliance in September 2006, PSSB became a 51% subsidiary of Kinsteel with the remaining 44% and 5% equity interest owned by ECSB and Maju respectively.

As part of the Flotation Scheme, on 30 January 2008, PHB had entered into a sale and purchase agreement with Kinsteel, ECSB and Maju to acquire 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 to be satisfied by the issuance of 499,999,998 new PHB Shares at an issue price of RM1.93 per PHB Share. Please refer to Section 7 of this Prospectus for further details of PSSB's business activities.

Our production facility was initially installed with a HBI production plant, which was commissioned in 1985. The plant had an annual production capacity of 600,000 tonnes of HBI. At the same time, 3 units of alternating current electric arc furnaces and 2 units of 4-strand continuous casting machines were commissioned. The annual production capability of semi-finished long steel products was approximately 350,000 tonnes. In 1989, an additional ladle furnace was commissioned and the annual production capacity increased to 400,000 tonnes of semi-finished long steel products.

Thereafter, a 6-strand continuous casting machine was commissioned in 1991, and the annual production capacity of semi-finished long steel products was increased to 650,000 tonnes. In 1993, 2 units of DRI reactors with an annual production capacity of 1.2 million tonnes of DRI were commissioned whilst the HBI plant was decommissioned in the same year.

In 1996, 2 units of direct current electric arc furnaces, 2 units of ladle furnaces, and a unit of 4-strand continuous casting machine were commissioned. This plant upgrade increased our production capacity for semi-finished long steel products to 1.3 million tonnes per year.

(ii) Share capital

PSSB's present authorised share capital is RM2,000,000,000 comprising 1,500,000,000 ordinary shares of RM1.00 each and 500,000,000 preference shares of RM1.00 each, of which RM1,216,180,704 comprising 1,216,180,704 ordinary shares of RM1.00 each are currently issued and credited as fully paid-up. There are no preference shares presently outstanding.

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

Date of allotment/ conversion	No. of shares allotted/ converted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
Ordinary shares				
11.10.1989	2	1.00	Subscribers' shares	2
14.07.1990	250,000,000	1.00	Cash	250,000,002
14.07.1990	426,371,667	1.00	Otherwise than for cash	676,371,669
08.04.1991	100,000,000	1.00	Cash	776,371,669
27.12.1991	64,000,000	1.00	Cash	840,371,669
27.12.1991	15,000,000	1.00	Otherwise than for cash	855,371,669
31.03.1995	60,809,035	1.00	Cash	916,180,704
17.04.1998	300,000,000	1.00	Conversion of preference shares to ordinary shares	1,216,180,704
Preference shares				
08.04.1991	100,000,000	1.00	Cash	100,000,000

Date of allotment/ conversion	No. of shares allotted/ converted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
20.08.1991	200,000,000	1.00	Cash	300,000,000
17.04.1998	(300,000,000)	1.00	Conversion of preference shares to ordinary shares	-

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital of PSSB.

(iii) Substantial shareholders

The substantial shareholders of PSSB as at 24 June 2008 are as follows:

Shareholders	<------Direct------>		<------Indirect------>		Country of incorporation / Nationality
	No. of Shares	%	No. of Shares	%	
PHB	1,216,180,704	100.0	-	-	Malaysia
Kinsteel	-	-	1,216,180,704	100.0[1]	Malaysia
ECSB	-	-	1,216,180,704	100.0[2]	Malaysia
Maju	-	-	1,216,180,704	100.0[3]	Malaysia
Tan Sri Abu Sahid bin Mohamed	-	-	1,216,180,704	100.0[4]	Malaysian
Kin Kee	-	-	1,216,180,704	100.0[5]	Malaysia
PKK	-	-	1,216,180,704	100.0[6]	Malaysia
Tan Sri Dato' Pheng Yin Huah	-	-	1,216,180,704	100.0[7]	Malaysian
Dato' Hong Thian Hock	-	-	1,216,180,704	100.0[8]	Malaysian

Notes:

1. *Deemed interest by virtue of its shareholdings in PHB pursuant to Section 6A of the Act*
2. *Deemed interest by virtue of its shareholdings in PHB pursuant to Section 6A of the Act*
3. *Deemed interest by virtue of its shareholdings in PHB and ECSB pursuant to Section 6A of the Act*
4. *Deemed interest by virtue of his shareholdings in Maju pursuant to Section 6A of the Act*
5. *Deemed interest by virtue of its shareholdings in Kinsteel pursuant to Section 6A of the Act*
6. *Deemed interest by virtue of its shareholdings in Kin Kee pursuant to Section 6A of the Act*
7. *Deemed interest by virtue of his shareholdings in PKK, Kin Kee, Kin Kee Metal Sdn Bhd and Kin Kin Hardware Sdn Bhd pursuant to Section 6A of the Act*
8. *Deemed interest by virtue of his shareholdings in PKK and Kin Kee pursuant to Section 6A of the Act and his child's shareholding in Kinsteel*

(iv) Subsidiary and associated companies

As at the Latest Practicable Date, PSSB has no subsidiary and associated companies.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.4 FLOTATION SCHEME

In conjunction with, and as an integral part of our listing of and quotation for the entire issued and paid-up share capital of our Company on the Main Board of Bursa Securities, the details of the Flotation Scheme are as follows:

6.4.1 Acquisition of PSSB

Pursuant to a Sale and Purchase Agreement dated 30 January 2008 with the shareholders of PSSB, we acquired 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 to the vendors of PSSB.

The purchase consideration for the Acquisition of PSSB was arrived at after applying a 1.3 times multiple over the audited NTA of PSSB as at 30 September 2007 of RM743.272 million.

The Acquisition of PSSB was completed on 24 June 2008. The 499,999,998 new PHB Shares issued pursuant to the Acquisition of PSSB ranked equally in all respects with the then existing PHB Shares.

Thereafter, the existing shareholders of PHB transferred 2 PHB Shares held by them to Kinsteel and ECSB each, for a total purchase consideration of RM2.00.

6.4.2 ICULS Placement

After the completion of the Acquisition of PSSB and as part of the Flotation Scheme, PHB shall place out 156,123,000 ICULS to Kinsteel at an issue price of RM0.10 per ICULS.

The conversion period of the ICULS ("Conversion Period") shall commenced from date of issue of the ICULS ("Issue Date") and expire on the date falling on the tenth anniversary of the Issue Date ("Maturity Date"). The ICULS can be converted at anytime during the Conversion Period into new PHB Shares at a conversion price of RM2.90 per PHB Share ("Conversion Price") by tendering 1 ICULS at nominal amount of RM0.10 and the balance thereof in cash for 1 new PHB Share. Any ICULS then outstanding as at Maturity Date shall be automatically converted in full into new PHB Shares by tendering an equivalent amount of ICULS to satisfy the Conversion Price for every 1 new PHB Share.

The ICULS will not be listed on any stock exchange.

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.

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6. INFORMATION ON OUR GROUP *(Cont'd)*

The salient terms of the ICULS are set out below:

1.	Issue Size	:	156,123,000 ICULS of nominal value RM0.10 each.
2.	Issue Price	:	RM0.10 per ICULS.
3.	Form and Denomination	:	The ICULS were issued in registered form and in denominations or multiples of RM0.10 each or such other denomination as the SC may approve from time to time.
4.	Tenure/Maturity Date	:	The tenth (10^{th}) anniversary of the date of issue of ICULS.
5.	Coupon Rate	:	4% per annum payable semi-annually.
6.	Status	:	The ICULS constitute unsecured obligations of PHB and shall rank *pari passu* in all respect without priority amongst themselves.
7.	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 (subject to any adjustments as provided in the Trust Deed) 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 (subject to any adjustments as provided in the Trust Deed) on the basis of an equivalent nominal value of ICULS to satisfy the conversion price for every 1 new PHB Share (subject to any adjustments as provided in the Trust Deed). Any fraction of new PHB Shares shall be dealt with at the discretion of the Directors of PHB.
8.	Conversion Price	:	The conversion price of the ICULS is RM2.90 per Share, subject to the Conversion Price being not less than the par value of the PHB Shares.
9.	Adjustments to the Conversion Price of the ICULS	:	The Conversion Price shall from time to time be adjusted by the Directors of PHB in consultation with the approved investment bank and certified by the auditors in accordance with the provisions of the Trust Deed.
10.	Conversion Mode	:	By tendering 1 ICULS at nominal value of RM0.10 and the balance in cash at the Conversion Price (subject to any adjustments as provided in the Trust Deed). Any outstanding ICULS not converted on maturity date by the holder shall be automatically converted into new PHB Shares at the Conversion Price (subject to any adjustments as provided in the Trust Deed) on the basis of an equivalent nominal value of ICULS to satisfy the Conversion Price for every 1 new PHB Share (subject to any adjustments as provided in the Trust Deed). Any fraction of new PHB Shares upon conversion on Maturity Date shall be dealt with at the discretion of the Directors of PHB.
11.	Listing	:	The ICULS will not be listed on any stock exchange. However, an application will be made to Bursa Securities for the listing of and quotation for the new PHB Shares to be issued pursuant to the conversion of the ICULS on Bursa Securities. The ICULS will be issued on a non-tender basis via the Fully Automated System For Issuing / Tendering ("FAST") and the Real-Time Electronic Transfer Of Funds And Securities ("RENTAS") maintained by BNM.
12.	Selling restriction	:	The ICULS may not be issued, offered for subscription or purchase, or any invitation to subscribe for or purchase the ICULS be made to persons other than those falling within any of the categories of persons specified in Schedules 6, 7 and 9 of the CMSA.
13.	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.

14.	Rating	:	The ICULS will not be rated.
15.	Trust Deed	:	The ICULS are constituted by a Trust Deed and other documentation (if any), which shall govern the terms of the ICULS.
16.	Governing Law	:	Laws of Malaysia.

Pursuant to the ICULS Placement, gross proceeds of approximately RM15.61 million will be raised by our Company and we intend to use the proceeds for working capital purposes within 12 months from the date of this Prospectus. Upon full conversion of the ICULS, we expect to raise approximately RM437.1 million which we expect to utilise for working capital purposes.

6.4.3 Initial Public Offering

Pursuant to this Prospectus, the Offerors and our Company will undertake the IPO comprising the following:

(i) Offer For Sale

The Offerors will collectively make an offer for sale of 90,000,000 Offer Shares, representing approximately 16.07% of the enlarged issued and paid-up share capital of the Company.

The details of the Offerors are as follows:

Name of Offerors	No. of Offer Shares
Kinsteel	45,900,000
ECSB	44,100,000

(ii) Public Issue

Our Company will issue 60,000,000 Issue Shares representing approximately 10.71% of the enlarged issued and paid-up share capital of our Company after the Public Issue.

Please refer to Section 4.4 of this Prospectus for the allocation of the 150,000,000 IPO Shares under the IPO.

Upon completion of the Public Issue, the issued and paid-up share capital of our Company will increase from RM500,000,000 comprising 500,000,000 Shares to RM560,000,000 comprising 560,000,000 Shares.

6.4.4 Listing on Bursa Securities

The entire enlarged issued and paid-up share capital of RM560,000,000 comprising 560,000,000 PHB Shares shall be listed and quoted on the Main Board of Bursa Securities.

6.5 PROPOSED CAPITAL REDUCTION

One of the conditions imposed by the SC requires RHB Investment Bank / our Company to address the issue of our accumulated losses prior to the issuance of the Prospectus. In this regard, PSSB has proposed to undertake a share capital reduction exercise in order to address our accumulated losses. However, PSSB intends to undertake the Flotation Scheme and Proposed Capital Reduction in parallel, independent of each other, thereby, reducing the time to market for the listing of our Group.

6. INFORMATION ON OUR GROUP *(Cont'd)*

Therefore, our Company had, on 30 April 2008 submitted an application to modify SC's condition to read as follows:

"RHB Investment Bank / PHB should address the issue of PHB's accumulated losses before the end of financial year end ending 31 December 2008." ("Modification")

In this regard, the SC had on 25 June 2008 *vide* its letter approved our application for the Modification. PSSB has, to date, obtained all consents from the respective borrowers for the Proposed Capital Reduction. Our solicitors have attended court on 30 June 2008 for the hearing of Summons for Direction in respect of, *inter alia*, the dispensation of creditors enquiry and direction for advertisement where the judge has granted order in terms for the said Summons for Directions. The matter has now been fixed for hearing of the petition on 21 July 2008.

Based on PSSB's audited financial statements for the FYE 31 December 2007, the Proposed Capital Reduction would entail the following:

(i) the cancellation of PSSB's entire audited 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 Shares to RM787.776 million comprising 787.776 million PSSB Shares by the cancellation of 428.405 million PSSB Shares,

whereby the total credit arising amounting to RM550.023 million will be utilised to eliminate PSSB's accumulated losses in its entirety.

Based on PSSB's audited financial statements for the FYE 31 December 2007, the audited accumulated losses are approximately RM550.023 million. However, the total equity as at 31 December 2007 is positive amounting to approximately RM787.776 million.

The Proposed Capital Reduction will not have any effect on the earnings, net assets, gearing and cashflow of PSSB or our Company. In addition, the Proposed Capital Reduction will not have any impact to the Flotation Scheme as it is undertaken to eliminate PSSB's accumulated losses in its entirety, allowing a healthier balance sheet and clarity in assessing PSSB's business performance in the future.

6.6 PROPOSED EXEMPTION

Pursuant to the ICULS Placement, Kinsteel will hold 156,123,000 ICULS which can be converted into 156,123,000 new PHB Shares. Assuming full conversion of the ICULS, Kinsteel's shareholdings in PHB will increase from 37.34% (after the completion of the IPO) to 51% (based on the enlarged issued and paid-up share capital of PHB after the full conversion of ICULS). Accordingly, pursuant to Part II of the Code, Kinsteel will trigger an obligation to undertake a mandatory offer for the remaining PHB Shares not held by Kinsteel and its persons acting in concert upon conversion of the ICULS held by Kinsteel.

Hence, subsequent to the completion of the Flotation Scheme, Kinsteel intends to seek a waiver from the SC on the obligation to undertake a mandatory offer for the remaining PHB Shares not held by Kinsteel and its persons acting in concert under the Code upon conversion of the ICULS, as and when the need arises in the future.

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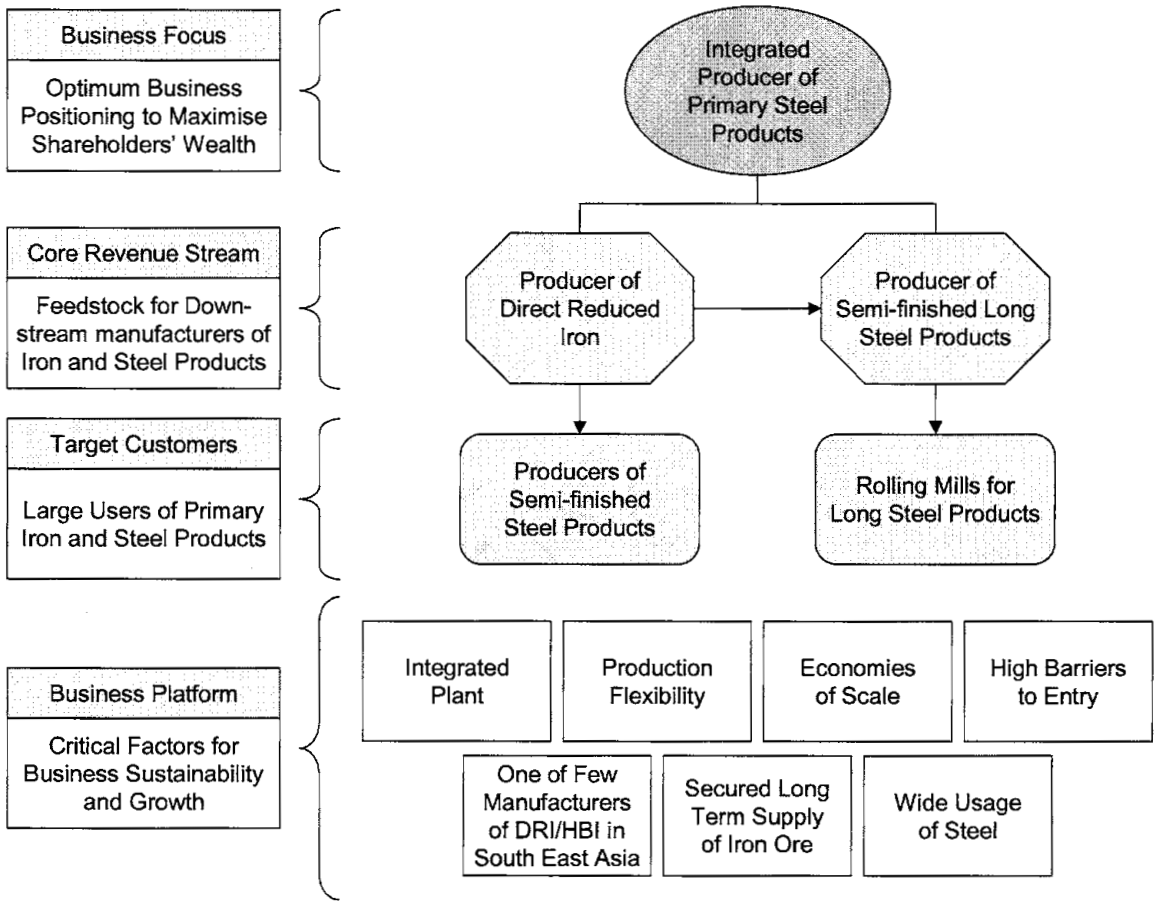
7. BUSINESS OVERVIEW

7.1 BUSINESS MODEL

Our Group's business model which is conducted *via* PSSB can be depicted as follows:



(i) Business focus

Our Group is an integrated producer of primary steel products operating within the upstream sector of the iron and steel manufacturing industry. Our Group has in place all of the necessary sources of raw materials, port facilities, plant and machinery, and skilled resources to be an integrated producer of primary steel products comprising DRI and semi-finished long steel products. Being positioned at the top of the value-added chain provides our Group with the potential to service the entire iron and steel manufacturing industry. In addition, our business can service the large local, regional and global markets.

(ii) Core revenue stream

Our core revenue stream comes from the production of DRI and semi-finished long steel products comprising blooms, billets and beam blanks. DRI produced by our Group is a form of refined iron that is typically further processed to produce semi-finished steel. The DRI produced by our Group is either sold to external customers or used internally for the production of semi-finished long steel products.

Semi-finished long steel products are typically not used by end-users, but are further processed to produce various types of long steel products such as light and heavy sections, beams, bars, rods and wire rods.

7. BUSINESS OVERVIEW *(Cont'd)*

The integrated nature of our core business activities help to ensure that there is a secure source of feedstock in the form of DRI for use in producing our Group's semi-finished long steel products.

(iii) Target customers

Our Group's target customers are:

(a) semi-finished steel product producers of blooms, billets, beam blanks, ingots and slabs for our DRI; and

(b) rolling mills for long steel products producing bars, wire rods, beams, sections and channels for our semi-finished steel products.

Our customers are primarily large users of iron and steel as they provide the feedstock for secondary and finished iron and steel products. Servicing high usage customers will ensure continuous demand for our products for business sustainability, and profitability through economies of scale.

(iv) Business platform

Our Group's business are driven by factors that are not easily duplicated and we operate within an environment that offers business sustainability and growth:

(a) Integrated plant

Our Group operates an integrated steel manufacturing facility at Kemaman, Terengganu comprising a DRI Plant and a semi-finished long steel products plant. Our main plant and equipment comprises DRI reactors and electric arc furnaces which are utilised for the DRI production and semi-finished long steel products production process respectively. As these plant and equipment are located within the same manufacturing facility, our Group enjoy synergies arising from the reduction in logistic and management costs, and energy costs in melting DRI for casting into our semi-finished long steel products.

Our Group is also able to exercise full control over the quality of the DRI produced that may subsequently be used for the production of our semi-finished long steel products. This is an important consideration as the quality of the feedstock used plays an important role in determining the efficiency of the steel melting process, as well as the quality of our semi-finished long steel products.

(b) Production flexibility

As an integrated steel manufacturer, our Group can choose to manufacture and sell DRI or use the manufactured DRI to produce semi-finished long steel products. In addition, our Group can vary the proportion of scrap iron and DRI used to produce semi-finished long steel products. Our Group can manufacture semi-finished long steel products using the following combinations of DRI and scrap iron:

- 100% DRI;
- 80% to 20% DRI, with the remainder comprising scrap iron; or
- 100% scrap iron.

Our Group monitors the selling prices of our steel products closely and may adjust our production schedules in response to changing market demand.

7. BUSINESS OVERVIEW *(Cont'd)*

(c) Economies of scale

The manufacturing of DRI is capital-intensive requiring significant economies of scale to be profitable. In addition, the production processes for DRI and semi-finished long steel products favour continuous 24-hour operation to reduce wastage in energy cost incurred during stoppages as plant and machinery has to be heated up again to resume production. Our Group currently enjoys these economies of scale due to our Group's high capacity utilisation rates for the production of DRI and semi-finished long steel products. As our Group is able to consume all of the DRI produced either in the form of DRI or converted to semi-finished long steel products, our Group is able to operate the DRI reactors at a high rate of utilisation. Our Group's average capacity utilisation rate for the production of DRI and semi-finished long steel products was approximately 90% and 69% respectively in 2007.

(d) High barrier to entry

The manufacture of DRI and semi-finished long steel products require significant capital outlay. The cost of setting up a DRI Plant and supporting facilities (similar to PSSB) would amount to approximately RM2 billion. In addition, a large investment in working capital is required to maintain stocks of raw materials and finished products. The high barrier to entry will reduce significantly the possibility of new entrants to compete with operators like our Group.

(e) One of few manufacturers of DRI/HBI in the region

As at end of 2007, there were only 4 operating DRI/HBI plants in South East Asia, while 1 is being completed. The 4 operating plants include 2 in Malaysia, 1 in Myanmar and another in Indonesia with a total manufacturing capacity of 4.4 million tonnes. The relatively few manufacturers of DRI/HBI in the South East Asian region will minimise the possibility of an oversupply situation. Our Group's manufacturing capacity of 1.2 million tonnes alone represents 27.3% of the said total manufacturing capacity.
(Source: Vital Factor Report)

(f) Secured long term supply of iron ore

Our Group has entered into long-term supply contracts for iron ore with some of our suppliers. Under the terms of these contracts, our Group has the right to purchase a specified quantity of iron ore from our suppliers each year, at a price that is determined periodically.

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 a total of 1.4 million tonnes of iron ore during the FYE 31 December 2007 and 0.3 million tonnes for the 4-month period ended 30 April 2008. Our Group's long-term contracts for the supply of iron ore expire in 2010 and 2011.

Our Group's long-term iron ore supply contracts will help us to mitigate against any disruptions arising from the lack of iron ore supply.

(g) Wide usage of steel

Steel is a widely used material with a very wide range of applications. Long steel products such as sections, beams and rods are used in the building and construction and infrastructure development industries, and used in the fabrication of many types of structures. Flat products such as sheets and coils are widely used in the manufacture of a wide range of vehicles, consumer and industrial products, in the fabrication of many types of structures, and in the production of various types of tubes and pipes.

Our Group is a producer of DRI, which is a key feedstock for the production of various types of long and flat steel products. Our Group is also a producer of semi-finished long steel products, which is further processed to produce various types of long steel products. Due to the wide range of applications for the steel products produced using DRI and semi-finished long steel products, our Group is confident that there will be steady demand for its primary steel products.

For illustrative purposes:

- In 2006, global production of DRI totalled 59.9 million tonnes;
- In 2006, global production of semi-finished steel totalled 1.2 billion tonnes; and
- In 2004 (the latest year for which data is available), global trade in finished steel products was equivalent to 36.3% of global finished steel products production.

(Source: Vital Factor Report)

7.2 PRODUCTS

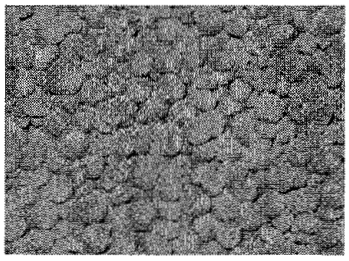
Our Group is primarily a producer of primary steel products in the form of DRI and semi-finished long steel products. A summary of these products is as follows:

(i) DRI

DRI is mined iron ore (in pellet, lump or fine form) that has undergone a process of chemical reduction to remove the oxides (rust) from the iron ore. A reducing agent is introduced to the iron ore. A series of chemical reactions occur under high temperature in the presence of a catalyst. The maximum reduction rate is about 95%, and the result is DRI with iron content (purity) of up to 97%.

The resulting DRI is produced in the form of small pellets or lumps. DRI is also known as sponge iron due to its spongy or cell-like microstructure. The relatively small pellet size and the spongy microstructure create a relatively large surface area to volume ratio, which makes re-melting easier. However, it also makes DRI more sensitive to reoxidation and ignition.

DRI can be used to produce a very wide range of steel and other ferrous metal alloys, including carbon steel, tool steel and stainless steel. As a refined form of iron, DRI can be used as the starting point for the production of practically all types of steel. DRI is primarily used as feedstock for the production of semi-finished long steel products (blooms, billets and beam blanks) and semi-finished flat steel products (slabs).



(ii) Semi-finished long steel products

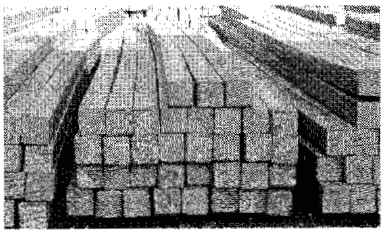
Semi-finished steel products are steel products that require further rolling or forging to produce finished products.

7. BUSINESS OVERVIEW *(Cont'd)*

Our Group currently produces the following type of semi-finished long steel products:

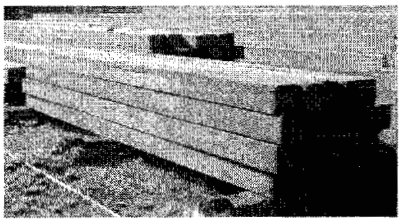
(a) Billets

Billets are semi-finished lengths of continuously cast steel, of square or rectangular cross-section with width of two to seven inches. Billets are used primarily as feedstock for hot rolling or other processes to produce sections, rods, bars and wire products. A billet is a smaller sized bloom.



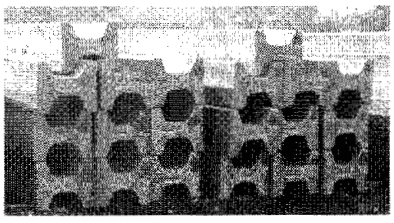
(b) Blooms

Blooms are semi-finished lengths of continuously cast steel, of square or rectangular cross-section of width more than eight inches. Blooms are used primarily as feedstock for hot rolling to produce heavy sections and beams. A bloom is a bigger sized billet.



(c) Beam blanks

Beam blanks are semi-finished lengths of continuously cast steel, used primarily as feedstock for hot rolled I-beams or H-beams. The cross-section of a beam blank is not regular and resembles that of an I-beam or H-beam. Beam blanks are typically larger than a billet. Since beam blanks are in the approximate shape of the final product, using beam blanks instead of blooms or billets uses less energy, thus providing cost savings.



The sizes of semi-finished long steel products currently produced by our Group are set out below:

Type of Product	Length	Height (mm)	Width (mm)
Billet	3.9 metres to 12 metres	120	120
Billet	3.9 metres to 12 metres	150	150
Bloom	3.9 metres to 12 metres	200	200
Beam Blanks	3.9 metres to 10 metres	390	470

The semi-finished long steel products produced by our Group are used to produce a wide range of long steel products (heavy and light sections, bars and rods and wire rods) that are used in a wide range of applications. These long steel products are used in the building, construction, infrastructure and steel structure industries.

Our Group also currently produces special grade semi-finished long steel products for specialised applications such as weldable structural steel for fixed offshore structures, low carbon wire steel rod for the manufacture of arc welding electrodes, carbon steel filler metals for gas shielded arc welding, low carbon steel, cold-heading quality steel for cold forging and engineering steel.

Our Group is currently carrying out R&D to develop the capability to produce new grades of steel with different chemical characteristics to widen the range of applications for the semi-finished long steel products produced by our Group. One of the chemical characteristics targeted by our Group includes varying the carbon content of the steel to control the physical characteristics of the steel, such as its hardness, ductility and tensile strength. As part of our Group's future plans, we plan to develop the capability to produce the new grades of semi-finished long steel products by 2009.

7.3 PRODUCTION FACILITIES AND TECHNOLOGIES USED

7.3.1 Production facilities

Our production facilities consist of a DRI Plant and a semi-finished long steel products plant located at Kemaman, Terengganu.

The main sections of our DRI Plant include an iron ore yard, gas reformer, carbon dioxide absorber system, DRI storage and DRI reactors, while the main sections of our semi-finished steel products plant include alternating current and direct current electric arc furnaces, and continuous casting machines. The DRI Plant operated by our Group utilises HYL III production technique developed in Mexico.

In 2007, our Group's production capacity, production output and utilisation rate are as follows:

Product	Production Capacity*	Production Output	Utilisation Rate
	(Tonnes)	*(Tonnes)*	
DRI	1,200,000	1,078,983	90%
Semi-finished long steel products	1,300,000	902,256	69%

Note:

* *Manufacturing capacity is calculated based 24 hours a day, 365 days a year. Our Group operates 3 shifts per day, 8 hours per shift and 7 days per week.*

Our Group's utilisation rate for the production of DRI was high, at approximately 90% in 2007. Our Group's utilisation rate for the production of semi-finished long steel products was 69% in 2007. These rates of utilisation indicates that our Group is operating efficiently and is able to enjoy the benefits of economies of scale.

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. As a result, no DRI is produced during the inspection period. The inspection period is typically for one month and the last scheduled shutdown was between 13 February 2008 to 8 April 2008. However, the production of semi-finished long steel products is not interrupted as our Group builds up a stock of DRI in advance of the scheduled shutdown. In addition, the availability of scrap iron, which is also used in the production of semi-finished long steel products, is unaffected by the shutdown of the DRI reactors.

As part of our Group's future plans, we plan to expand our range of production facilities by re-commissioning our 3 existing electric arc furnaces as well as upgrading our existing DRI reactor (by upgrading ancillary equipment) to increase our DRI production capacity. Please refer to Section 8.11 of this Prospectus for details of our Group's future expansion plans.

7.3.2 Technologies used

As we are a producer of DRI and semi-finished long steel products, the main technologies adopted by our Group relates to DRI technology and continuous casting technology.

Details of these technologies are set out in Sections 7.4.1 and 7.4.2 of this Prospectus.

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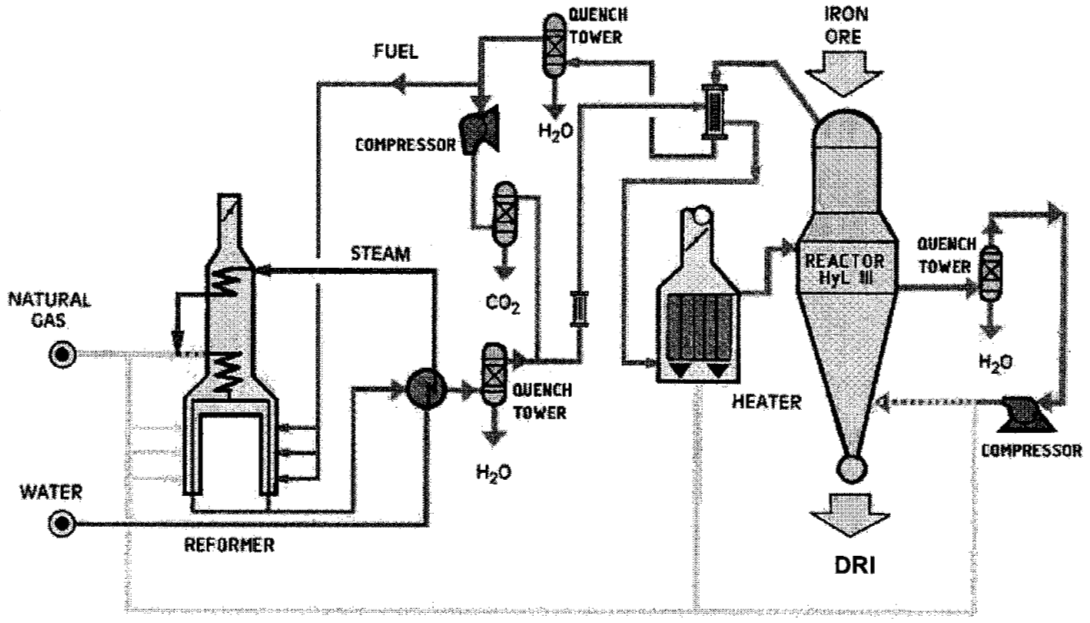
7.4 PRODUCTION PROCESS

7.4.1 Process flow for the production of DRI



Our Group utilises the HYL III DRI process to produce DRI using iron ore in lump or pellet form as the feedstock. In the HYL III DRI process, iron ore is reduced (that is, the oxygen is chemically removed) by the gaseous reducing agents, namely hydrogen gas (H_2) and carbon monoxide gas (CO), to produce DRI.

Our Group utilises an external reformer to generate the hydrogen and carbon monoxide gas. A mixture of natural gas, steam and recycled gas from the DRI reactor are passed through tubes of catalyst, where the mixture is converted into a gas that is rich is hydrogen and carbon monoxide. Steam is introduced to prevent carbon from forming on the catalyst.

The gas mixture is then passed through cooling towers. In the cooling towers, the gas mixture is cooled with water vapour. Thereafter, the residual water and carbon dioxide (CO_2) is removed by the cooling of the gas mixture.

When it exits the cooling tower, the gas mixture is rich in hydrogen and carbon monoxide. It is re-heated and pumped into the DRI reactor. Iron ore is fed through the top of the reactor. The high-temperature hydrogen and carbon monoxide gas react with the iron ore to form DRI, with water and carbon dioxide as the by-products.

The formula for the chemical reaction between iron ore and hydrogen gas is as follows:

$$Fe_2O_3 \text{ (Iron ore)} + 3H_2 \text{ (Hydrogen gas)} = 2Fe \text{ (DRI)} + 3H_2O \text{ (Water)}$$

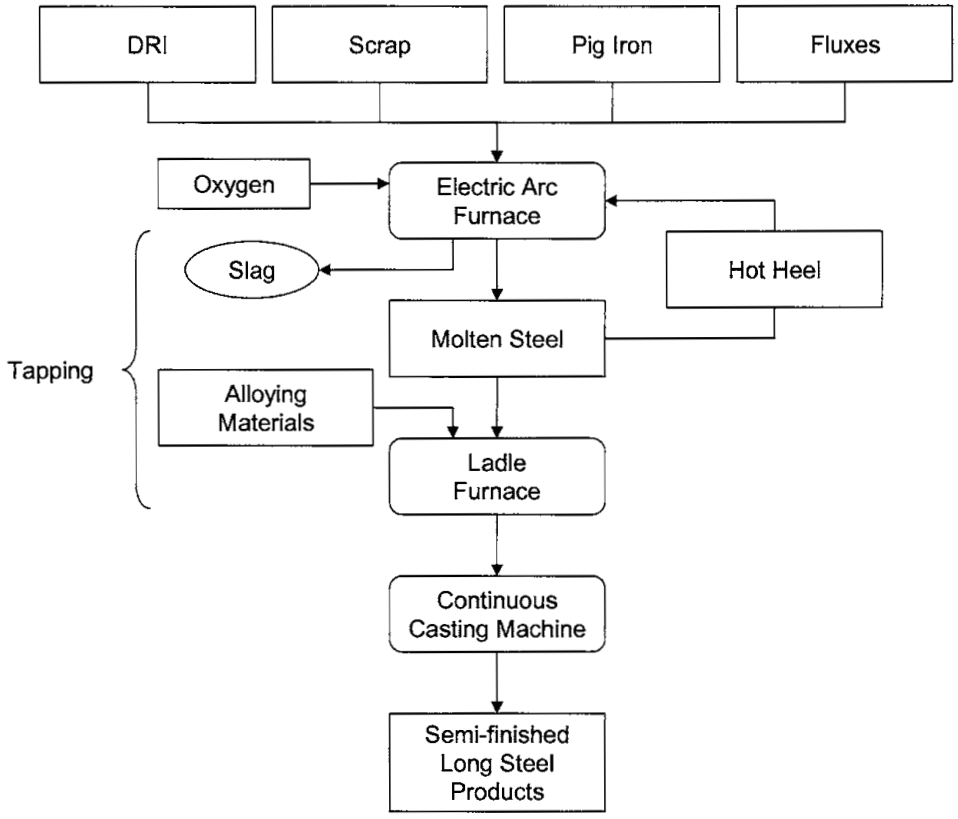
The formula for the chemical reaction between iron ore and carbon monoxide gas is as follows:

$$Fe_2O_3 \text{ (Iron ore)} + 3CO \text{ (Carbon monoxide gas)} = 2Fe \text{ (DRI)} + 3CO_2 \text{ (Carbon dioxide gas)}$$

The DRI that is produced is discharged from the reactor.

7. BUSINESS OVERVIEW *(Cont'd)*

7.4.2 Process flow for the production of semi-finished long steel products



Firstly, the electric arc furnace is charged with scrap iron, DRI and/or pig iron and fluxes (also known as slag formers). The fluxes combine with impurities contained in the scrap iron, DRI and/or pig iron to form a layer of slag. Once the electric arc furnace is fully charged, the electrodes are lowered and an arc is sparked. The arcing electricity generates intense heat, which melts the charged material. Oxygen may be lanced into the electric arc furnace to burn off excess carbon.

A second charge of DRI, scrap iron and/or pig iron may be added to the electric arc furnace once the first batch has been completely melted down. After the second charge is completely melted, refining operations are carried out to check and correct the steel chemistry. Additional fluxes are added and oxygen is lanced into the electric arc furnace to burn off impurities and trap metal impurities in the slag. The composition of metal impurities that cannot be removed as slag (such as nickel and copper) are controlled through the addition of DRI and/or pig iron.

The molten steel is super-heated above its freezing temperature in preparation for tapping into the ladle furnace.

Once the desired temperature and chemical composition are achieved, the molten steel is tapped into a preheated ladle through tilting the furnace. As soon as slag is detected during tapping, the furnace is rapidly tilted back towards the deslagging side to minimise slag entry into the ladle furnace.

Some alloying materials are introduced into the metal stream during the tapping process.

A few tonnes of molten steel and slag may be retained in the electric arc furnace to form a "hot heel" which helps pre-heat the next charge of material and accelerate meltdown.

After undergoing any necessary ladle treatments (such as alloying and degassing) the ladle is transported to the top of the continuous casting machine.

The molten steel is transferred to the continuous casting machine through a holding bath known as a tundish. The tundish allows a reservoir of molten steel to feed the continuous casting machine while ladles are switched, as well as smoothing out flow, regulating metal feed to the moulds and cleaning the molten steel. The molten steel is drained in a controlled manner through an open-base water-cooled oscillating copper mould. The shape and size of the semi-finished long steel will follow the cross section of the mould (after allowing for shrinkage of the steel as it cools).

In the copper mould, a thin shell of steel will form before the steel section (now known as a strand) exits the open base of the copper mould into a spray-chamber. The strand is immediately supported by closely-spaced, water-cooled rollers. The rollers support the walls of the strand against the internal pressure of the molten steel. The strand is sprayed with a large quantity of water to increase the rate of solidification.

After exiting the spray chamber, the strand passes through straightening rolls and withdrawal rolls. The strand may be passed through a hot rolling strand after withdrawal to take advantage of the metal's hot condition to pre-shape the final strand.

The continuous strand of semi-finished long steel product is finally cut into pre-determined lengths and removed for storage.

7.5 LOCATION OF OPERATIONAL FACILITIES

Our Group currently conducts our operations from the following locations:

Facilities	Location	Approximate built-up area (square feet)
Head Office	Level 31, Maju Tower 1001 Jalan Sultan Ismail 50250 Kuala Lumpur	5,987
DRI and semi-finished long steel products production facility	Kawasan Perindustrian Telok Kalong 24007 Kemaman Terengganu	17,424,000

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7.6 TYPES, SOURCES AND AVAILABILITY OF RAW MATERIALS

The following are the major types of raw materials utilised by our Group for the FYE 31 December 2007:

Raw materials / Consumables	Value of purchases (RM'000)	Percentage of total group purchases (%)	Sources of supply Local (%)	Imported (%)
Iron Ore	562,651	39.6	-	100.0
Scrap Iron	294,074	20.7	100.0	-
Electricity	162,250	11.4	100.0	-
Natural Gas	100,137	7.1	100.0	-
Fluxes and Alloying Materials	74,892	5.3	-	100.0
Refractory Materials and Electrodes	68,374	4.8	20.0	80.0
Spare Parts and Sundry Goods	46,861	3.3	70.0	30.0
Oxygen	36,502	2.6	100.0	-
Other Consumables	35,195	2.5	40.0	60.0
Pig Iron	27,506	1.9	-	100.0
Burnt Lime	10,869	0.8	100.0	-
Total	**1,419,311**		**46.8**	**53.2**

The following are the major types of raw materials utilised by our Group for the 4-month period ended 30 April 2008:

Raw materials / Consumables	Value of purchases (RM'000)	Percentage of total group purchases (%)	Sources of supply Local (%)	Imported (%)
Iron Ore	160,900	31.0	-	100.0
Scrap Iron	119,120	22.9	100.0	-
Pig Iron	66,542	12.8	-	100.0
Electricity	48,062	9.3	100.0	-
Fluxes and Alloying Materials	31,267	6.0	11.2	88.8
Natural Gas	26,046	5.0	100.0	-
Spare Parts and Sundry Goods	23,745	4.6	70.0	30.0
Refractory Materials and Electrodes	19,475	3.7	9.6	90.4
Other Consumables	13,249	2.6	40.0	60.0
Oxygen	10,978	2.1	100.0	-
Total	**519,384**		**44.6**	**55.4**

7. BUSINESS OVERVIEW *(Cont'd)*

As set out in the table above, the main raw materials and consumables for the production of DRI and semi-finished long steel products are iron ore, scrap iron, electricity and natural gas. Purchases of iron ore accounted for 39.6% of our Group's total purchases during the FYE 31 December 2007, while purchases of scrap iron, electricity and natural gas accounted for 20.7%, 11.4% and 7.1% of our Group's total purchases respectively. For the 4-month period ended 30 April 2008, purchases of iron ore accounted for 31.0% of our Group's total purchases, while purchases of scrap iron, electricity and natural gas accounted for 22.9%, 9.3% and 6.0% of our Group's total purchases respectively. For the 4-month period ended 30 April 2008, purchases of pig iron accounted for 12.8% of our total purchases. Pig iron is used primarily in the production of semi-finished long steel products, and may be used in place of DRI and scrap iron.

According to the Vital Factor Report, 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. This provides our Group with some assurance that it will be able to secure a continuous supply of iron ore from overseas.

The local supply of scrap iron is not sufficient to meet the needs of the local primary steel products industry, and scrap iron has to be imported into Malaysia. However, we currently source all of our scrap iron from Malaysian suppliers, and as such we are not entirely reliant on imported scrap iron. In addition, we are a producer of DRI, which we can use in place of scrap iron in the steel making process. We can also use pig iron in place of scrap iron, should there be a need to do so.

To date, we have not experienced any difficulties in obtaining raw materials and/or consumables as we have established and maintained good relationship with our suppliers. We also have not experienced any major disruption in the supply of raw materials since the completion of the Strategic Alliance.

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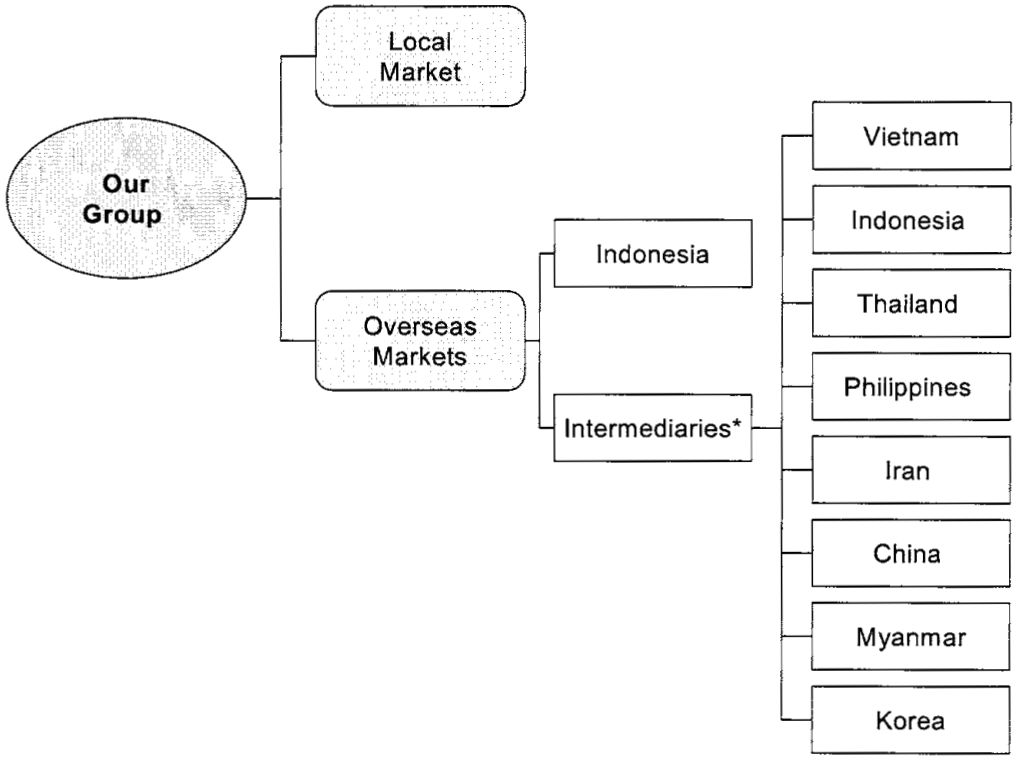
7. BUSINESS OVERVIEW *(Cont'd)*

7.7 PRINCIPAL MARKETS AND MARKET SHARE

7.7.1 Principal markets

For the FYE 31 December 2007, we primarily served the local market but also exported our products as depicted below:



* *Sales are made to intermediaries in Malaysia, Singapore, Hong Kong and Korea, and the products shipped to Vietnam, Thailand, Philippines, Iran, China, Myanmar, Korea and Indonesia.*

For the FYE 31 December 2007, revenue from Malaysia accounted for 82.1% of our Group's total revenue, while revenue derived from exports accounted for 17.9% of our Group's total revenue.

For the FYE 31 December 2007, we exported our products to 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. These intermediaries are primarily international trading companies.

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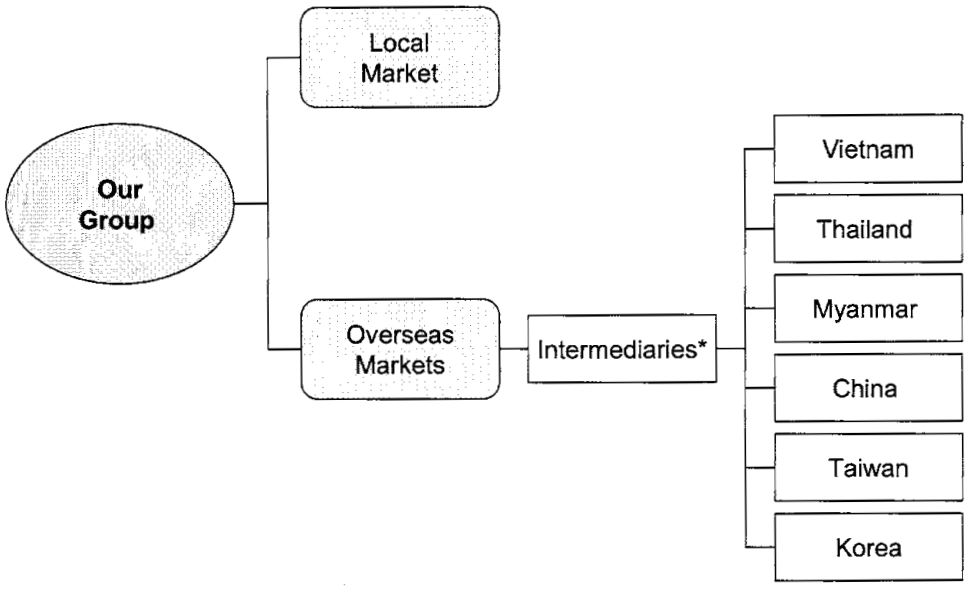
7. BUSINESS OVERVIEW *(Cont'd)*

For the 4-month period ended 30 April 2008, we primarily served the local market but also exported our products as depicted below:



* *Sales are made to intermediaries in Malaysia, Singapore, Hong Kong and Korea, and the products shipped to Vietnam, Thailand, Myanmar, China, Taiwan and Korea.*

For the 4-month period ended 30 April 2008, revenue from Malaysia accounted for 88.5% of our Group's total revenue, while revenue derived from exports accounted for 11.5% of our Group's total revenue.

For the 4-month period ended 30 April 2008, we exported our products to Vietnam, Thailand, Myanmar, China, Taiwan and Korea. Export sales to these countries were made via intermediaries in Malaysia, Singapore, Korea and Hong Kong. These intermediaries are primarily international trading companies.

Our Group's revenue contribution by countries of customers for the FYE 31 December 2007 and 4 month period ended 30 April 2008 can be segmented as follows:

	Revenue for the financial year ended 31.12.2007		**Revenue for the 4-month period ended 30.04.2008**	
	(RM'000)	**(%)**	**(RM'000)**	**(%)**
Local Customers	**1,390,623**	**82.1**	**585,106**	**88.5**
Overseas Customers	**302,384**	**17.9**	**76,331**	**11.5**
Singapore	151,139	50.0	29,497	38.6*
Indonesia	70,205	23.2	-	-
Hong Kong	47,799	15.8	13,155	17.2*
Korea	33,241	11.0	33,679	44.1*
Total Group Revenue	**1,693,007**	**100.0**	**661,436***	**100.0**

Note:
* *Does not add up due to rounding*

7. BUSINESS OVERVIEW *(Cont'd)*

For the FYE 31 December 2007, we served 13 customers, 5 of whom are in Malaysia, while 8 other customers are distributed among 4 overseas countries. Our products were shipped to 8 countries overseas.

For the 4-month period ended 30 April 2008, we served 12 customers, 7 of whom are in Malaysia, while 5 other customers are distributed among 3 overseas countries. Our products were shipped to 6 countries overseas.

7.7.2 Market share

In 2007, we ranked **first** in Malaysia in terms of quantity of DRI and HBI produced accounting for 60% of Malaysia's overall production quantity for DRI and HBI of approximately 1.8 million tonnes.

In 2007, we ranked **third** in Malaysia in terms of quantity of semi-finished long steel products produced accounting for 17% of Malaysia's production quantity for semi-finished long steel products of approximately 5.3 million tonnes.

(Source: Vital Factor Report)

7.8 MARKETING AND DISTRIBUTION NETWORK

7.8.1 Marketing Strategies

The major thrust of our Group's marketing strategy is to position ourselves as an integrated producer of high-quality DRI and semi-finished long steel products for the global market.

Other marketing strategies include:

(i) to position our Group as an established producer of DRI and semi-finished long steel products with a long track record;

(ii) to ensure that all products delivered to our customers are of a high quality and meet with customer specifications;

(iii) to continuously carry out R&D to diversify its range of semi-finished long steel products in terms of steel grades used and sizes with the aim of meeting our new and existing customer needs;

(iv) to cultivate and develop long-term business relationships by constantly delivering high quality products according to schedule; and

(v) to keep abreast of developments in the primary steel products industry to stay ahead of the competition, as well as to better meet the needs and requirements of our customers.

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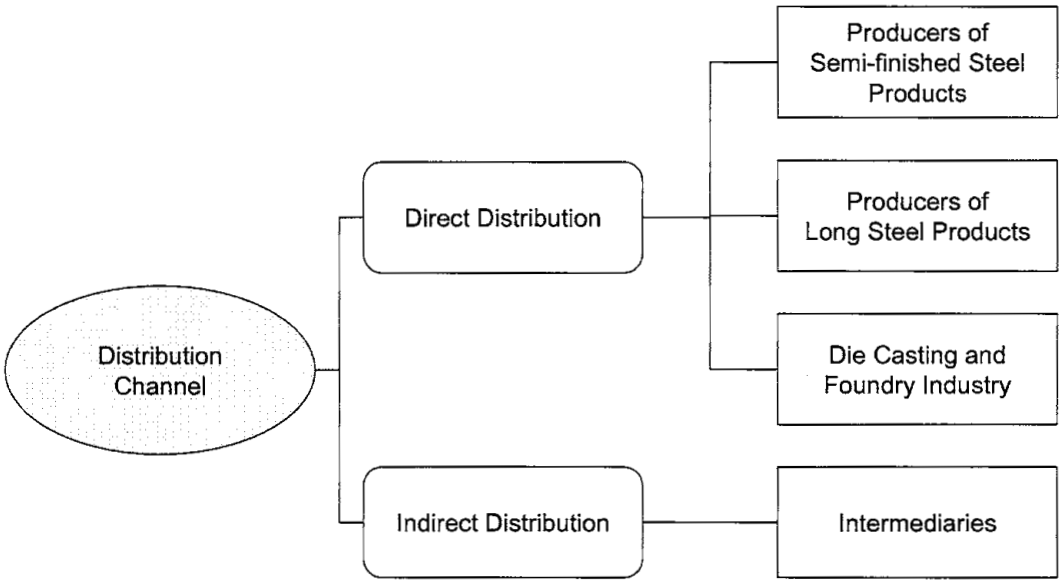
7. BUSINESS OVERVIEW *(Cont'd)*

7.8.2 Distribution channel strategy

The distribution channel strategy of our Group is based on direct and indirect distribution as depicted in the diagram below:



The direct distribution channel approach is executed through our own sales and marketing division, which focus on selling our products and services directly to customers. As at the Latest Practicable Date, we had a total of 28 sales and marketing personnel. The direct distribution strategy also has the advantage of enabling our Group to work closely with our customers to evaluate and attain a better understanding of their requirements.

We also utilise the indirect distribution channel for some of our sales to overseas customers. Under the indirect distribution channel, we sell some of our products through intermediaries. These intermediaries are primarily international trading companies.

7.9 COMPETITIVE STRENGTHS AND ADVANTAGES

We believe our key competitive strengths and advantages are as follows:

(i) Integrated producer of DRI and semi-finished long steel products

Our Group runs an integrated plant where the output of DRI can be directly utilised for the manufacture of blooms, billets and beam blanks. The synergies enjoyed by our Group are enhanced by having our Group's DRI reactors and electric arc furnaces located within the same manufacturing facility. This minimises logistic and management costs, and energy costs in melting DRI for casting into our semi-finished long steel products.

Our Group is also able to exercise full control over the quality of the DRI produced that may be subsequently used for the production of our semi-finished long steel products. This is an important consideration as the quality of the feedstock used plays an important role in determining the efficiency of the steel melting process, as well as the quality of our semi-finished long steel products produced.

The risk of disruption in the availability of feedstock for our semi-finished long steel products production process is also reduced as our Group exercises full control over DRI production. The continuous availability of feedstock enables our Group to maximise production efficiency in the manufacturing of our semi-finished long steel products.

As such, our Group is able to internalise the value created from the conversion of DRI into semi-finished long steel products.

(ii) Flexibility in meeting changing demand and supply conditions

Our Group's flexibility in dealing with changing demand and supply conditions in the global iron and steel industry is enhanced as our Group has the option to either market DRI to external customers, or utilise the DRI to produce semi-finished long steel products in-house. This enables our Group to market our products (either DRI or semi-finished long steel products) in a manner which can realise the highest return.

Our Group's flexibility in this respect is an important consideration as a producer of DRI, which is a capital-intensive business activity with significant economies of scale. As our Group is able to consume all of the DRI produced by the Group to produce semi-finished long steel products, our Group can continue to operate the DRI reactors at a high rate of utilisation should there be insufficient global demand for DRI. Similarly, our Group has the option to market the DRI produced by our Group to external parties should there be insufficient global demand for semi-finished long steel products.

(iii) High capacity utilisation enabling our Group to achieve economies of scale

The manufacturing of DRI is capital-intensive requiring significant economies of scale to be profitable. In addition, the production processes for DRI and semi-finished long steel products favour continuous 24-hour operation to reduce wastage in energy cost incurred during stoppages as plant and machinery have to be heated up again to resume production. Our Group currently enjoys these economies of scale due to our Group's high capacity utilisation rates for the production of DRI and semi-finished long steel products. As our Group is able to consume all of the DRI produced either in the form of DRI or converted to semi-finished long steel products, our Group is able to operate the DRI reactors at a high rate of utilisation. Our Group's average capacity utilisation rate for the production of DRI and semi-finished long steel products was approximately 90% and 69% respectively during 2007.

(iv) Logistics synergies

The synergies enjoyed by our Group in producing both DRI and semi-finished long steel products are enhanced by the fact that our Group's DRI reactors and electric arc furnaces are located within the same manufacturing facility, which minimises logistic costs and management.

This is a significant synergy, as special facilities and equipment are required to transport and store DRI. As the DRI reactors and electric arc furnaces are located close together, DRI can be transported directly from the DRI reactors to the furnaces without the need for specialised equipment and storage facilities.

Memorandums of understanding and sale and purchase agreements enhance our Group's ability to operate our DRI and semi-finished long steel products at the most efficient level, while providing stability to plan longer term capital investment.

(v) Secured long term supply of iron ore

Our Group has entered into long-term supply contracts for iron ore with some of our suppliers. Under the terms of these contracts, we have the right to purchase a specified quantity of iron ore from our supplier each year, at a price that is determined periodically.

Currently, our Group 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 a total of 1.4 million tonnes of iron ore for the FYE 31 December 2007 and 0.3 million tonnes for the 4-month period ended 30 April 2008. These long-term contracts for the supply of iron ore will expire in 2010 and 2011.

These long-term supply contracts provide us with assurance that we will be able to secure iron ore to help guard against disruptions of our operations due to supply of iron ore.

(vi) Overseas market coverage

Our Group's market coverage extends to customers in overseas countries. For the FYE 31 December 2007, our Group's overseas revenue amounted to RM302.4 million, accounting for 17.9% of total Group revenue. Our Group's products were exported to Vietnam, Indonesia, Thailand, Philippines, Iran, China, Myanmar and Korea. Exports to Vietnam, Thailand, Philippines, Iran, China, Myanmar, Korea and some sales to Indonesia were through intermediaries in Malaysia, Singapore, Hong Kong and Korea.

During the 4 month period ended 30 April 2008, our Group's overseas revenue totalled RM76.3 million, accounting for 11.5% of total Group revenue. Our Group's products were exported to Taiwan, Thailand, Vietnam, Myanmar, Korea and China. Sales to Taiwan, Thailand, Vietnam, Myanmar, Korea and China were through intermediaries in Malaysia, Singapore, Hong Kong and Korea.

The coverage of different markets overseas diversifies our customer base as well as demand for our Group's products and serves to mitigate against any adverse slowdown in demand from any individual market.

(vii) Product quality

Our Group places a significant emphasis on consistently delivering quality products to our customers. As such, PSSB had obtained ISO 9001:2000 certification in 1994, and has renewed the certification on 6 June 2008. Our ability to deliver high quality products consistently is a key advantage in building customer satisfaction and ensuring long-term customer loyalty.

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7.10 KEY ACHIEVEMENTS, MILESTONES AND AWARDS

Our key achievements, milestones and awards are as follows:

Year	Key achievements, milestones and awards
1985	Commissioning of our Group's HBI plant with an annual production capacity of 600,000 tonnes.
1985	Commissioning of 3 units of alternating current electric arc furnace and 2 units of 4-strand continuous casting machines with combined annual production capacity of 350,000 tonnes of semi-finished long steel products.
1985	Commissioning of our Group's first calcining plant with annual production capacity of 40,000 tonnes.
1989	Commissioning of 1 unit of additional ladle furnace, increasing semi-finished long steel products production capacity to 400,000 tonnes per year.
1991	Commissioning of 1 unit of 6-strand continuous casting machine, increasing semi-finished long steel products production capacity to 650,000 tonnes per year.
1993	Commissioning of 2 DRI reactors with production capacity of 1.2 million tonnes of DRI per year.
1994	PSSB achieved ISO 9001:2000 certification for the "Manufacture of direct reduced iron and steel billets, beam blanks and blooms" certified by SIRIM QAS International Sdn Bhd. The ISO certification which expired in 2006 was renewed on 6 June 2008.
1995	Commissioning of the second calcining plant with annual production capacity of 66,000 tonnes. The first calcining plant was decommissioned.
1996	Commissioning of 2 units of direct current electric arc furnace, 2 units of ladle furnaces, and 1 unit of 4-strand continuous casting machine. This plant upgrade increased our Group's production capacity for semi-finished long steel products to 1.3 million tonnes per year.
1999	PSSB was awarded the "Sijil Penghargaan" with respect to PSSB's contribution towards the success of "Program Pengurusan Hazad Kesihatan Reproduktif di Sektor Pembuatan" by Gabungan Penyelidikan Keselamatan & Kesihatan Pekerjaan.
2007	Commissioning of the wet screening & coating system at the DRI Plant, which enables the plant to increase the usage of lump ore in the material input
2008	Commissioning of the partial combustion system at the DRI Plant, increasing the production capacity to 1.5 million tonnes/year
2008	Installed and commissioned the new charge system at the DRI plant, which helps avoid the problem of cluster formation and enable higher throughput of material
2008	Commissioning of the new DBI (Dust Briquette Iron) plant was, which enables the DRI fines to be recycled back to the steelmaking plant, thereby reducing the amount of scrap iron input

7. BUSINESS OVERVIEW *(Cont'd)*

7.11 QUALITY CONTROL

Our Group places a high degree of emphasis on the quality of the products produced. Stringent quality controls are implemented in every aspect of our Group's business operations.

Our Group essentially adopts the following approaches to ensure that quality standards are internally maintained:

(i) quality checks and chemical analysis on in-coming raw materials to ensure that they meet the required specifications;

(ii) quality checks are undertaken during the production process to ensure that specifications are met; and

(iii) final quality checks in the form of inspections and testing are also carried out on primary steel products before delivery to customers.

As part of our Group's emphasis on quality, PSSB achieved ISO 9001:2000 certification on 26 May 1994 for the "Manufacture of direct reduced iron and steel billets, beam blanks and blooms" certified by SIRIM QAS International Sdn Bhd. The certification which expired on 25 May 2006 was renewed on 6 June 2008.

We have an in-house QA department that enables our Group to undertake in-house QA testing. As at 31 May 2008, our Group had 28 experienced QA personnel focused on ensuring that our product quality meets with the needs and specifications of customers.

For details of the QA equipment, please refer to Section 7.12.3 of this Prospectus.

7.12 R & D

R&D plays an important role for our Group, particularly in creating and sustaining competitive advantages through the following:

(i) increase production efficiency and productivity to minimise costs;

(ii) maintaining and improving product quality to ensure customer satisfaction;

(iii) developing the capability to produce steel of different grades and chemical composition; and

(iv) developing the capability to produce a wider range of semi-finished long steel products.

Through R&D, we aim to realise the following benefits:

(i) maintaining and improving production efficiency and productivity so as to remain competitive;

(ii) sustain and grow our Group's business by developing the capability to produce a wider range of steel; and

(iii) increase revenue and profitability by addressing new market segments with a wider range of semi-finished long steel products.

7.12.1 Present status of R&D

We have developed the capability to produce special grades of steel for use in specialised applications.

The special grades of steel currently produced by our Group includes:

Application	Steel Type
Weldable structural steel for fixed offshore structures	Plain carbon microalloyed steel, Si-Al killed
Low carbon wire steel rod for the manufacture of arc welding electrodes	Plain carbon rimmed steel substitute
Carbon steel filler metals for gas shielded arc welding	Plain carbon silicon killed steel
Carbon steel filler metals for gas shielded arc welding	Plain carbon silicon killed steel
Low carbon steel wire	Plain carbon rimmed steel substitute

In addition, we have also developed the capability to produce the following special steel grades for use as feedstock to manufacture the following types of products:

Application	Steel Grade
Cold-heading quality steel for cold forging/cold heading	Carbon steel wire rods (SWRCH 18A, 6R, 8R), JIS G 3507
Engineering steel – carbon steel for machine structural use	Carbon steel (S45C), Japanese Industrial Standards G 4051

7.12.2 Future R&D

Moving forward, our R&D will continue to develop the capability to produce new grades of steel with different chemical characteristics as well as to improve our manufacturing processes.

(i) Development of new steel grades to expand our products range

We are currently carrying out R&D to develop the capability to produce new grades of steel with different chemical characteristics to widen the range of applications for the semi-finished long steel products produced by us. One of the chemical characteristics targeted by us includes varying the carbon content of the steel so as to control the physical characteristics of the steel, such as its hardness, ductility and tensile strength.

In this respect, we plan to develop the capability to produce semi-finished long steel products in new steel grades for specialised applications such as fine wire drawing, auto forging (general purpose medium carbon steel), PC wire and general applications, bedding strings and wire rope in 2009.

(ii) Improving our Group's manufacturing processes

We continuously focus on internal process improvement, particularly in enhancing internal production processes. This is critical as it has a direct impact on our Group's production efficiency, effectiveness and productivity.

Through incremental improvements in the production processes, our Group aims to achieve the following key benefits:

(a) reduce energy consumption;
(b) improve product quality;
(c) maximise production capacity utilisation;
(d) minimise plant and equipment downtime; and
(e) minimise reject rate.

As such, our Group undertakes on-going R&D through:

(a) optimum production scheduling, for example by eliminating or minimising occurrence of "overflow" and "underrun";
(b) continuous evaluation and improvement of existing processes and procedures to optimise work flow;
(c) selection of process flow best practices;
(d) ensuring that plant and machinery are properly maintained to eliminate or minimise unscheduled downtime; and
(e) application of innovative and new technologies.

7.12.3 R&D facilities and personnel

Our R&D facilities are located in Kemaman, Terengganu. As at the Latest Practicable Date, we have a dedicated R&D team comprising 8 personnel.

Our Group has in-house R&D facilities, which enables the Group to carry out in-house R&D as well as QA activities. The major R&D and QA equipment currently in use by our Group includes:

R&D and Q&A equipment	Function
Optical microscope	Microstructure analysis, to measure inclusion rating.
Microhardness tester	To measure hardness of phase and structure in steel.
Macrostructure apparatus	To measure solidification of macrostructure, and internal soundness of cast products.
Sulfur print apparatus	To measure the distribution of sulfur in cast products.
Reductibility tester	To determine the reduction rate of iron ore.
Sticking tester	To determine the sticking tendency of pellets.
Low Temperature Disintegration tester	To indicate the tendency of fines generation during the reduction process.
Compression strength tester	To check iron ore compression strength.
Tumbler	To test the tumble strength of iron ore.
Automatic screen	To check iron ore size distribution.
Electric oven	To analyse moisture content of iron ore.
Carbon and sulfur analyzer	To analyse carbon and sulfur content in DRI and iron ore.

R&D and Q&A equipment	Function
Atomic absorption spectrophotometer	To carry out elementary analysis.
Gas chromatography	To analyse the gas composition of natural gas and reformed gas (i.e. reducing agents).
Electric furnace	Sample fusion ignition and silicon dioxide analysis.
Ultraviolet spectrophotometer	To analyse phosphorus content in DRI and iron ore.
Emission optical spectrometer	To analyse steel chemical composition.
X-ray fluorescence spectrometer	To analyse slag chemistry.
Nitrogen analyser	To analyse nitrogen content in steel.

7.12.4 R&D expenses

We did not recognise any expenditure that is specific to R&D activities for the past 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008, as our Group was mainly actively engaged in R&D activities related to our process improvement.

7.13 LICENCES, PATENTS, TRADE MARKS, BRAND NAMES, TECHNICAL ASSISTANCE AGREEMENTS, FRANCHISES AND OTHER INTELLECTUAL PROPERTY RIGHTS

Save as disclosed below and in Section 7.16, our Group does not have any other licences, patents, trademarks, brand names, technical assistance agreements, franchises and other intellectual property rights.

Technical Services Agreement dated 28 February 2008 between PSSB and HYL Technologies S.A. de C.V. ("HYL") whereby HYL will provide technical assistance services, including engineering, know-how transfer, training and technical assistance for the proper operation and maintenance of the DRI plant and meltshop ("Services"). As consideration for the Services, each of HYL's personnel of assigned to PSSB's DRI Plant will be paid a fee in the range of USD17,000 to USD19,000.00 and monthly living allowances.

This agreement shall be effective at the date HYL receives a guarantee deposit, the amount corresponding to three (3) months if services provided by HYL and when a letter of credit facility has been opened to HYL's satisfaction, and shall be valid for a period of 24 months.

7.14 MAJOR CUSTOMERS

Our customers are predominantly involved in the manufacture of finished or secondary long steel products.

7. BUSINESS OVERVIEW *(Cont'd)*

The customers that account for 10% or more of our Group's total revenue for the past 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008 are provided below:

	FYE 31 December 2005	FYE 31 December 2006	FYE 31 December 2007	4 month period ended 2008	
Customer	**Percentage of our total Group revenue (%)**				**Length of relationship (years)**
Kinsteel	24.5	42.9	31.9	44.7	14
Megasteel Sdn Bhd	1.5	11.1	2.6	-	6
Southern Steel Berhad	14.2	10.1	4.5	1.7	5
Daewoo International Corporation	5.4	-	2.0	3.2	5
Perfect Channel Sdn Bhd	-	8.0	20.8	19.2	2
Cargill International Trading Pte Ltd	-	1.2	17.5	20.4	5

For the FYE 31 December 2007, 3 of our Group's principal customers, Kinsteel, Perfect Channel Sdn Bhd and Cargill International Trading Pte Ltd, contributed approximately 31.9%, 20.8% and 17.5% to our Group's total sales, respectively.

For the 4-month period ended 30 April 2008, 3 of our Group's principal customers, Kinsteel, Cargill International Trading Pte Ltd and Perfect Channel Sdn Bhd contributed approximately 44.7%, 20.4% and 19.2% to our Group's total sales, respectively.

Perfect Channel Sdn Bhd is a 51% subsidiary of Kinsteel while Kinsteel in turn is the largest shareholder of our Company. Accordingly, we believe that this will provide the basis for a continuing business relationship between our Group with Perfect Channel Sdn Bhd and Kinsteel. As such, we also believe that it is unlikely that our Group would lose all of the business generated by Perfect Channel Sdn Bhd and Kinsteel.

DRI and semi-finished long products produced by our Group are commodities, and can be sold to other buyers.

As at the Latest Practicable Date, we have 15 customers. We enjoy a close and long-standing business relationship with our customers and place significant emphasis on developing and maintaining customer satisfaction, goodwill and rapport. This is reflected by the fact that approximately 50% of our Group's top 10 customers have been dealing with our Group for 4 years or more.

7. BUSINESS OVERVIEW *(Cont'd)*

7.15 MAJOR SUPPLIERS

The suppliers that account for 10% or more of our Group's total purchases for the past 3 FYE 31 December 2007 and the 4 month period ended 30 April 2008 are provided below:

	FYE 31 December 2005	FYE 31 December 2006	FYE 31 December 2007	4 month period ended 2008	
Supplier	**Percentage of our total Group purchases (%)**				**Length of relationship (years)**
Compania Minera Del Pacifico	20.5	27.8	15.8	10.0	14
Gulf Industrial Investment Co.	15.9	15.1	7.2	5.9	13
PKK	8.1	11.0	19.7	21.5	22
TNB	15.5	10.5	11.4	9.3	23
Hylsamex, S.A.	-	10.3	9.8	-	2
MBR Overseas Ltd	10.3	7.2	1.7	-	15
CVRD International S.A	-	-	-	15.1	1
Cargill International Trading Pte Ltd	-	-	1.4	12.8	2

For the FYE 31 December 2007, we are dependent on our top 3 suppliers, PKK, Compania Minera Del Pacifico and TNB which accounted for 19.7%, 15.8% and 11.4% of our Group's total purchases respectively. PKK supplies scrap iron, TNB supplies electricity whilst Compania Minera Del Pacifico supplies iron ore.

For the 4 month period ended 30 April 2008, we are dependent on our top 4 suppliers, PKK, CVRD International S.A, Cargill International Trading Pte Ltd and Compania Minera Del Pacifico which accounted for 21.5%, 15.1%, 12.8% and 10.0% of our Group's total purchases respectively. PKK supplies scrap iron, CVRD International S.A and Compania Minera Del Pacifico supply iron ore, and Cargill International Trading Pte Ltd supplies pig iron.

Our Directors are of the view that we will not face any problems in sourcing our raw materials from the said suppliers due to the following reasons:

(i) We have a long-term and stable business relationship with PKK and Compania Minera Del Pacifico and have been dealing with them for 14 years or more. Our Directors believe that this continuing business relationship will provide a basis for reliable and continuous support from them.

(ii) We have entered into long-term supply contracts for iron ore with some of our suppliers. Under the terms of these contracts, our Group has the right to purchase a specified quantity of iron ore from the supplier each year, at a price to be determined periodically. Our Group's long-term supply contracts provide us with assurance that we will be able to secure iron ore to help mitigate any disruptions to our operations due to insufficient supply of iron ore.

(iii) Apart from Compania Minera Del Pacifico, our Group will be able to source iron ore from other suppliers at anytime. As iron ore and scrap iron are commodities, it is readily available in the world market and can be easily sourced from overseas countries.

To date, our Group has not experienced any major supply interruptions or shortages for any of the raw materials we use since the completion of the Strategic Alliance.

7.16 MAJOR LICENCES, PERMITS AND APPROVALS

The major licences, permits and approvals of PSSB, together with the conditions attached and status of compliance, are as follows:

Approving Authority	Type of licence/ permit/approval/service	Date of issuance/ validity	Equity and other major terms and conditions imposed	Status of compliance
MITI	Manufacturing licence no. A008077 for products such as sponge iron, hot briquette iron and steel billets effective from 1 October 1991.	30.09.2004	- the approved place of manufacture shall be Kawasan Perindustrian Telok Kalong, Kemaman, Terengganu subject to approval from the State Authority and the Department of Environment; - At least 70% of the share capital of the company shall be held by Malaysian citizens with a minimum of 30% being reserved for Bumiputeras; and - the company shall install machinery and equipment for the production of sponge iron and hot briquette iron in a capacity not exceeding 1,200,000 metric tonnes per annum. However, pursuant to MITI's letter dated 15 July 2005, approval was granted for the increase in production capacity of sponge iron and hot briquette iron from 1,200,000 metric tonnes per annum to 1,800,000 metric tonnes per annum under the existing licence; and - the company shall install machinery and equipment for the production of steel billets in a capacity not exceeding 1,200,000 metric tonnes per annum.	Complied

7. BUSINESS OVERVIEW *(Cont'd)*

Approving Authority	Type of licence/ permit/approval/service	Date of issuance/ validity	Equity and other major terms and conditions imposed	Status of compliance
MITI	Manufacturing licence no. A014774 for products such as blooms and beam blanks effective from 30 October 2004.	22.12.2004	- the approved place of manufacture shall be Kawasan Perindustrian Telok Kalong, Kemaman, Terengganu subject to approval from the State Authority and the Department of Environment;	Complied
			- At least 70% of the share capital of the company shall be held by Malaysian citizens with a minimum of 30% being reserved for Bumiputeras; and	
			- the company shall carry out environmental impact assessments and submit the report of such assessments to the Director of the Department of Environment for approval prior to commencing the project.	Complied
MITI	Manufacturing licence no. A008077 for products such as pig iron effective from 4 February 2008	08.04.2008	- the approved place of manufacture shall be Kawasan Perindustrian Telok Kalong, Kemaman, Terengganu subject to approval from the State Authority and the Department of Environment; and	Complied
			- at least 70% of the share capital of the company shall be held by Malaysian citizens with a minimum of 30% being reserved for Bumiputeras.	
Jabatan Alam Sekitar[1]	Letter of approval in respect of the DRI Plant project	20.09.1993	- PSSB to prepare the emergency response plan for on-site and off-site, both of which have to be evaluated and amended as and when the necessity arises.	Complied
			- PSSB shall install an effective air-quality system.	

7. BUSINESS OVERVIEW *(Cont'd)*

Approving Authority	Type of licence/ permit/approval/service	Date of issuance/ validity	Equity and other major terms and conditions imposed	Status of compliance
			- any emanation of gases and air particles have to be controlled in accordance with the stipulated Rules. - open burning of solid waste is not permitted. - effluent has to be processed before being released into Sungai Ruang. - the noise level shall be controlled so as to not exceed 65 A-weighted decibel ("dbA") at all times, which is to be gauged at PSSB's plant boundary. - PSSB shall take samples of particle release from the chimney-shaft from time to time (frequency to be decided by the Department of Environment). - PSSB shall give a written notice to the Department of Environment the actual date of project commencement within 14 days after it was commenced. Any change in the management has to be informed to the Department of Environment in Terengganu and Kelantan.	
Jabatan Alam Sekitar[1]	Letter of approval in respect of steel making plant project	02.08.1994	- PSSB to prepare the emergency response plan for on-site and off-site, both of which have to be evaluated and amended as and when the necessity arises. - PSSB shall install an effective air-quality system. - any emanation of gases and air particles have to be controlled in accordance with the stipulated Rules. - open burning of solid waste is not permitted.	Complied

7. BUSINESS OVERVIEW *(Cont'd)*

Approving Authority	Type of licence/ permit/approval/service	Date of issuance/ validity	Equity and other major terms and conditions imposed	Status of compliance
			- effluent has to be processed before being released into Sungai Ruang. - the noise level shall be controlled so as to not exceed 65 dbA at all times, which is to be gauged at the PSSB's plant boundary. - PSSB shall take samples of particle release from the chimney-shaft from time to time (frequency to be decided by the Department of Environment). - PSSB shall give a written notice to the Department of Environment the actual date of project commencement within 14 days after it was commenced. Any change in the management has to be informed to the Department of Environment in Terengganu and Kelantan.	
Atomic Energy Licensing Board	Licence (Classes A&C) No. LPTA/A/014 Serial No.: 007962	01.03.2008 till 28.02.2011	Amongst others, the main terms and conditions of the licence are as follows: - licencee's activities shall be limited to the licence class, purpose of the licence, type and quantity of irradiating apparatus, and validity of the licence; and - permitted purposes of licence is purchasing, owning, possessing, using, operating, storing, transporting and importing/ exporting radioactive materials and irradiating apparatus.	Complied
Pengarah Kesihatan Negeri Terengganu	Wholesaler's Poison Licence (Type B Licence) No. 018341[2]	15.02.2008/ 15.02.2008 till 14.02.2009	None.	Not applicable

7. BUSINESS OVERVIEW *(Cont'd)*

Notes:

1. *The Department of Environment has issued compounds to PSSB with offences related to oil spillage and dust pollution. PSSB has successfully appealed for a reduction of the compound of RM4,000 for both offences and settled the compound in full on 8 October 2007.*

   PSSB has taken several measures to address the oil spillage and dust pollution in consultation with the Department of Environment. The Group has constructed a new facility to treat waste oil before sending them to third party. Further PSSB will install a continuous air quality monitoring system at its production site once specific guidelines on air quality monitoring system from the Department of Environment is available.

2. *The Wholesaler's Poisons Licence was issued to an individual/staff of PSSB on behalf of PSSB.*

Save as disclosed above, we have no other major licences, permits or approvals as at the date of this Prospectus.

7.17 SEASONALITY

Our Group does not experience any material seasonality in our business, as our Group's business operations are relatively stable throughout the year, with the exception of minor slowdown in business activity during the festive seasons at the beginning and end of each calendar year.

7.18 INTERRUPTIONS TO BUSINESS

We have not experienced any interruptions in our business, which had significant effects on the operations of our Group for the past 12 months prior to the date of this Prospectus.

7.19 DEPENDENCY ON CONTRACT OR ARRANGEMENT

As at Latest Practicable Date, there are no contract or arrangement that our Group is highly dependent on that could materially affect our business or profitability.

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8. INDUSTRY OVERVIEW

8.1 OVERVIEW AND OUTLOOK OF THE GLOBAL ECONOMY

The world economy is expected to continue expanding for the fifth consecutive year in 2007, albeit at a more moderate pace, amidst high crude oil prices and uncertainties in the economy of the US. While growth is relatively lower than the 2006 performance, it is nonetheless expected to remain strong with further expansion in economic activities, especially in the fast-growing emerging economies, notably China, India and Russia, as well as recovering Europe and Japan. Global inflation remains at manageable levels although it has edged upwards due to high crude oil prices.

For the advanced countries, growth is more balanced across regions with the steady recovery in Europe and Japan partially offsetting the moderation in the US. Developing countries, primarily driven by investment and robust trade, are expected to outperform advanced countries and increasingly contribute to global growth. In this context, China, India and Russia are anticipated to account for more than half of this year's growth. Rapid growth has also led several large developing countries to significantly contribute to outward foreign direct investment ("FDI"), an area where traditionally, developed countries were the main sources.

The more widely-shared growth in 2007 is expected to spill over into 2008, with world trade and investment projected to continue expanding steadily, and against a backdrop of relatively benign inflation. The favourable environment is expected to contribute positively to the Malaysian economy. In addition, Malaysia's continued engagement in regional and multilateral cooperation is set to further deepen its integration with the global economy.

Outlook 2008

Global growth in 2008, expected to be generally more broad-based both across regions and within countries, will continue to spur world trade and investment flows. Growth in world trade volume is projected at 7.4% in 2008 (2007: 7.1%), supported by steady demand-driven expansion in global high-technology industries, commodities and services. With regard to investment, global FDI is expected to remain strong, driven by rising merger and acquisition activities, sustained economic growth and an increase in fixed capital spending. Leading FDI recipients among the developed countries would be the US, Belgium, Luxembourg, France and the United Kingdom, while China, Hong Kong, Singapore and India are expected to be the top four among newly-industrialised and emerging economies.

The positive outlook, however, could be affected by a fallout of the US subprime mortgage crisis, impacting on the real economy in the US and the global economy. The ensuing credit crunch prompted central bank intervention in early August to ease pressures on the global financial system, but the effectiveness of the measures has yet to be determined. Other near-term risks include the possibility of a disorderly unwinding of global imbalances, and global inflationary pressures arising from higher crude oil prices.

In the longer term, risks that could undermine growth encompass trends such as aging population and rising protectionist sentiments, as well as environmental consequences of rapid development. These issues will continue to be discussed at various regional and multilateral fora with a view to ensuring economic stability and sustainable development. Notwithstanding these risks, the global economy is anticipated to continue expanding at 5.2% in 2008 (2007: 5.2%) with Japan, Europe and emerging Asia, in particular China and India, counterbalancing a possible moderation of the US economy. Malaysia is well positioned to take advantage of the growing external market as well as the increasing trade and investment opportunities, supported by continuous efforts to enhance national competitiveness and resilience.

(Source: Economic Report 2007/2008)

8. INDUSTRY OVERVIEW *(Cont'd)*

8.2 OVERVIEW AND OUTLOOK OF THE MALAYSIAN ECONOMY

Growth prospects for the Malaysian economy remain favourable in 2007, despite uncertainty in the global economic environment. Strong domestic economic fundamentals will enable the economy to grow at 6.0% in 2007 (2006: 5.9%). On the supply side, output growth is supported by expansion in all sectors of the economy. The services sector is envisaged to contribute significantly to real GDP growth, led by robust household spending and buoyant business activity. The manufacturing sector is expected to pick up in the second half of the year on the back of an anticipated recovery in global electronics demand. The agriculture sector will continue to expand, supported by higher output of food commodities. The scheduled implementation of Ninth Malaysia Plan (9MP) projects and improvement in the property market will further boost the construction sector. Output growth of the mining sector is envisaged to turn positive, with increased crude oil production in the second half of the year. On the demand side, growth will be driven by resilient domestic demand of both private and public sectors, largely due to stronger consumer sentiment and business confidence as well as higher Government spending.

On the external front, Malaysia is expected to record a smaller trade surplus, as import growth picks up momentum in line with increased domestic economic activity. Supported by the increase in inflows of FDI, higher tourist arrivals and sustained export earnings, the overall balance of payments position is expected to remain strong. Per capita income is envisaged to grow by 7.2% to RM22,345 (2006: 9.9%; RM20,841), while per capita income in terms of purchasing power parity ("PPP"), is expected to increase by 13.9% to USD13,289 in 2007 (2006: 13.0%; USD11,663).

Outlook 2008

The Malaysian economy is anticipated to strengthen further to 6.0-6.5% in 2008 (2007: 6.0%) with positive contribution from all sectors of the economy. Domestic demand will be the main driver of the economy, while external demand is expected to pick up in tandem with improved prospects in world trade. Private investment and consumption spending are expected to remain robust, while public expenditure continues to expand. Inflation is anticipated to remain low despite strong expansion in the economy as output growth is still below potential level. Coupled with increased productivity, the economy would be able to absorb higher demand expenditure. In line with higher output and firm commodity prices, nominal gross national product per capita is expected to rise 6.8% to RM23,864 in 2008 (2007: 7.2%; RM22,345). In terms of PPP, per capita income is expected to increase 6.9% to reach USD14,206 (2007: 13.9%; USD13,289), reflecting improved quality of life of the *rakyat*.

(Source: Economic Report 2007/2008)

The information ensuing in Sections 8.3 to 8.9 are extracted from the Vital Factor Report unless otherwise indicated.

8.3 OVERVIEW OF THE IRON AND STEEL INDUSTRY

The iron and steel industry plays a key role in the growth and development of the Malaysian economy and this is substantiated by the following:

(i) Iron and steel are the basic raw materials for many industries including, among others, the overall manufacturing industry, building and construction industry, infrastructure, machinery, electrical and electronics, oil and gas, and other fabricated metal industries.

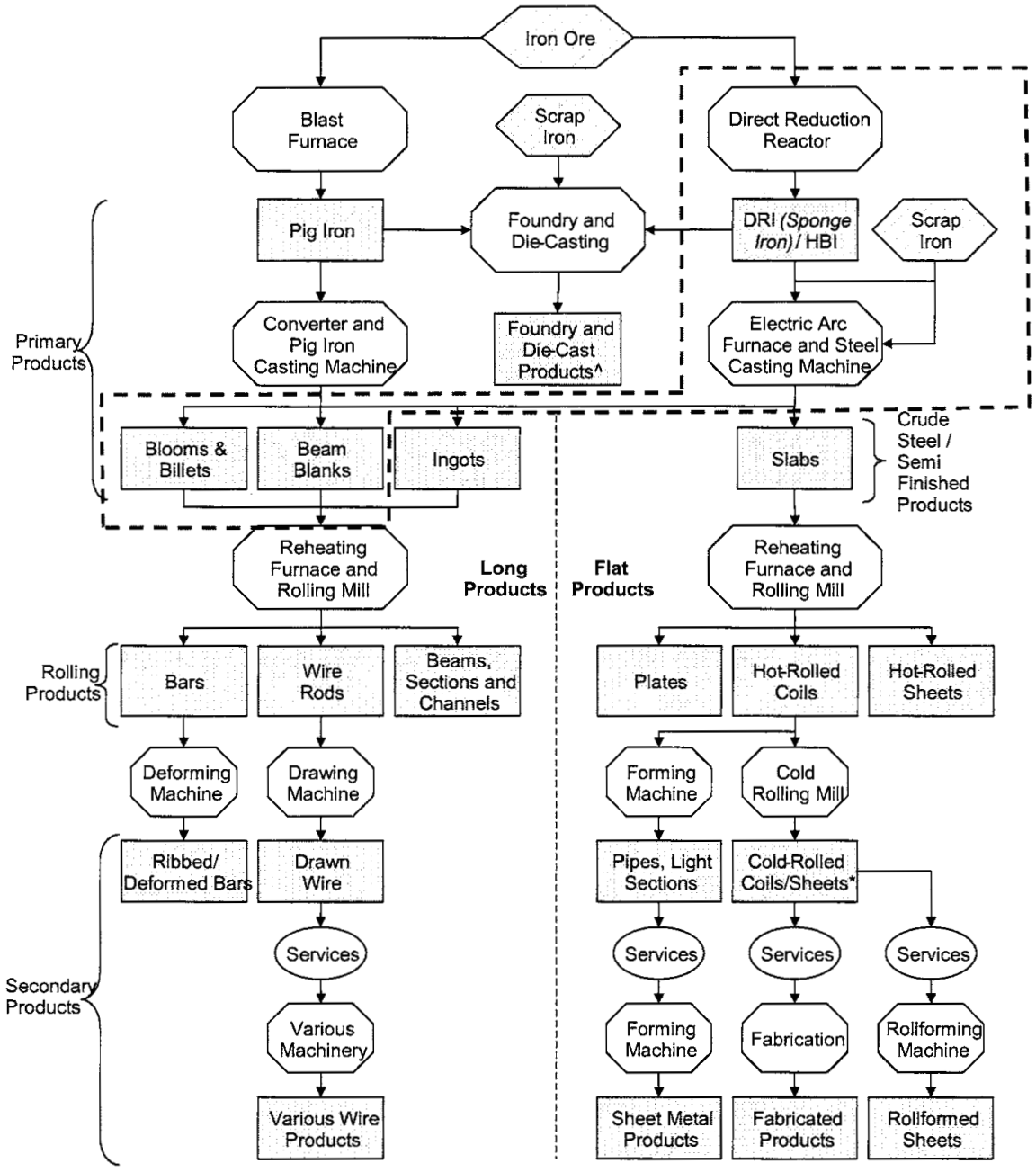
(ii) The iron and steel industry is also a major contributor of export earnings for Malaysia. In 2007, the value of exports increased by 12.2% to reach RM10.4 billion.

(iii) Between 2004 and 2007, the sales value of the manufacture of basic iron and steel products increased at an average annual rate of 19.1% to reach RM23.0 billion.

8. INDUSTRY OVERVIEW *(Cont'd)*

8.4 IRON AND STEEL INDUSTRY OVERALL STRUCTURE

The iron and steel industry overall structure is as follows:



8. INDUSTRY OVERVIEW *(Cont'd)*

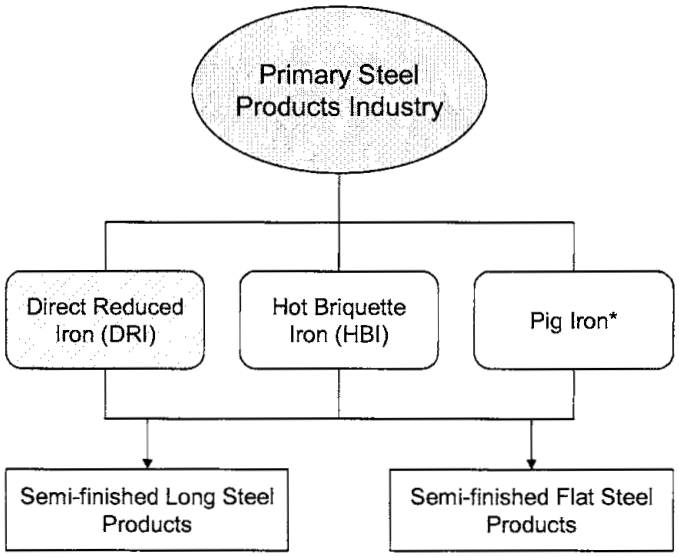
As we are involved in the production of DRI and semi-finished long steel products, we will focus our discussion mainly on the primary steel products industry.

8.5 OVERVIEW OF THE PRIMARY STEEL PRODUCTS INDUSTRY

8.5.1 Primary steel products industry overview

The primary steel products industry plays an important role as the producer of feedstock for the further downstream processing and manufacturing of semi-finished and finished iron and steel products. This is reflected by local production of primary steel products, which amounted to approximately 10.1 million tonnes in 2007.

The overall primary steel products industry can be broadly categorised as follows:



**There is no local production of Pig Iron.*

Primary steel products such as DRI, HBI and pig iron, as well as scrap iron are used as raw materials or feedstock to make semi-finished steel (as well as foundry and die-casting products). Semi-finished steel is melted scrap iron and/or DRI, HBI and pig iron cast into various shapes, including semi-finished long steel products (comprising blooms, billets and beam blanks) and semi-finished flat steel products (comprising slabs).

Our Group is currently engaged in the production of DRI and semi-finished long steel products.

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