Suruhanjaya Sekuriti
Securities Commission
Malaysia

SC CORPORATE CASE STUDY SERIES

Kinsteel Berhad's Acquisition of Perwaja Steel Sdn Bhd

Written by,
Saw Teng Lam

13 March 2013

DISCLAIMER

A Case Study on the Kinsteel Berhad's Acquisition of Perwaja Steel Sdn Bhd

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Exhibit 1

Circular to Kinsteel Berhad's Shareholders on the Strategic Alliance Agreement with Perwaja Vendors

KINSTEEL BERHAD
(Company No.: 210470-M)
(Incorporated in Malaysia)

Registered Office:

B-38 1st Floor
Lorong Sri Teruntum 139
Off Jalan Bukit Ubi
25200 Kuantan
Pahang Darul Makmur

27 July 2006

Board of Directors:

Dato' Md Sharif bin Shamsuddin *(Non-Independent Non-Executive Chairman)*
Tan Sri Dato' Pheng Yin Huah *(Managing Director)*
Henry Pheng Chin Guan *(Chief Executive Officer)*
Hong Thian Hock *(Executive Director)*
Lew Choon *(Executive Director)*
Hong Cheng Guat *(Executive Director)*
Pheng Chin Kiat *(Executive Director)*
Dato' Kan Tong Leong *(Executive Director)*
Kamaruddin bin Koskani Abdul Hamid *(Independent Non-Executive Director)*
Pheng Chin Huat *(Non-Independent Non-Executive Director)*
Dato' Rahadian Mahmud bin Mohammad Khalil *(Independent Non-Executive Director)*
Shamsudin @ Samad bin Kassim *(Independent Non-Executive Director)*
Chong Hoi Sheong @ Chong Hoi Cheong *(Independent Non-Executive Director)*
Pheng Chin Shiun *(Alternate Director to Hong Cheng Guat)*

To: The shareholders of Kinsteel Berhad

Dear Sir/Madam,

(i) Proposed PSSB Acquisition;
(ii) Proposed Gurun Assets Acquistion;
(iii) Proposed ECSB Exemption; and
(iv) Proposed Increase in Authorised Share Capital.

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1. INTRODUCTION

1.1 On 7 October 2005, RHB Sakura, on behalf of your Board, announced that Kinsteel had on the same date entered into a conditional strategic alliance agreement with the Perwaja Vendors that will provide the parties with a platform for future growth in the steel industry.

The Proposed Strategic Alliance shall be achieved through the following proposals:

(i) proposed acquisition by Kinsteel from ECSB, a wholly-owned subsidiary of Maju, of 620,252,159 PSSB Shares representing 51% equity interest in PSSB for a purchase consideration of RM197,600,000; and

(ii) proposed acquisition by Kinsteel from the Gurun Assets Vendors of 51% interest in the following assets for a purchase consideration of RM100,000,000 via PCSB:

(a) the Beam & Section Mill currently owned by PRMD, a wholly-owned subsidiary of Maju;

(b) the Bar & Wire Rod Mill currently owned by PRMD, MSCSB and MRCSB, all wholly-owned subsidiaries of Maju; and

(c) the Vacant Land currently owned by PRMD and PSWSB, all wholly-owned subsidiaries of Maju.

1.2 On 19 April 2006, your Board announced that the MITI has, vide its letter dated 19 April 2006 stated that it has no objection to the implementation of the Proposed Strategic Alliance by Kinsteel, subject to the approval of the SC being obtained and compliance with the FIC's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests for the Proposed Strategic Alliance.

1.3 On 5 May 2006, your Board further announced that the SC has, vide its letter dated 3 May 2006 informed that:

(i) the Proposed Kinsteel Exemption and Proposed Gurun Assets Vendors Exemption under Practice Note 2.9.6 of the Code has been approved; and

(ii) the SC will consider the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code after the conditions as set out in Section 9.3 of this Circular have been fulfilled.

1.4 Subsequently, on 6 June 2006, your Board announced that the SC has, vide its letter dated 5 June 2006 approved the Proposed Strategic Alliance subject to the conditions set out in Section 9.2 of this Circular.

Your Board also announced that the SC in the aforesaid letter approved the Proposed Strategic Alliance pursuant to the FIC Guidelines on Acquisition of Interests, Mergers and Takeovers by Local and Foreign Interests and Guidelines on the Acquisition of Properties by Local and Foreign Interests.

1.5 The purpose of this Circular is to provide you with relevant details of the Proposals and to seek your approval for the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM. The notice of the EGM is set out in this Circular.

SHAREHOLDERS ARE ADVISED TO READ THIS CIRCULAR CAREFULLY BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS.

2. DETAILS OF THE PROPOSED STRATEGIC ALLIANCE

2.1 Proposed PSSB Acquisition

The Proposed PSSB Acquisition involves the proposed acquisition by Kinsteel from ECSB of 620,252,159 PSSB Shares, representing 51% equity interest in PSSB, for a purchase consideration of RM197,600,000 to be satisfied in the following manner:

(a) an issuance of 60,000,000 new Kinsteel Shares at an issue price of RM1.36 per Kinsteel Share; and

(b) cash settlement for the remaining balance of RM116,000,000 payable in 67 equal monthly instalments of RM1,705,883 each and 1 final instalment of RM1,705,839, commencing upon the completion of the Proposed Strategic Alliance.

There are no liabilities to be assumed by Kinsteel pursuant to the Proposed PSSB Acquisition other than those arising from the consolidation of PSSB as a subsidiary of Kinsteel.

2.1.1 Information on PSSB

PSSB was incorporated in Malaysia on 11 October 1989 under the Act as a private limited company. The authorised share capital of PSSB as at 30 June 2006 is RM2,000,000,000 divided into 1,500,000,000 ordinary shares of RM1.00 each and 500,000,000 preference shares of RM1.00 each, of which 1,216,180,704 ordinary shares of RM1.00 each are issued and paid-up. PSSB is principally involved in the manufacturing and trading of DRI, steel billets, beam-blanks and blooms.

PSSB's original steel facility was commissioned in 1985 at the cost of RM1.2 billion and upgraded in 1990 with a further RM700 million invested in a new DR plant, which produces DRI. The new DR plant was commissioned in 1993. PSSB is currently the sole producer of DRI, beam-blanks and blooms in Malaysia.

The substantial shareholders and their shareholdings in PSSB as at 30 June 2006 are as follows:

		Direct		Indirect	
	Nationality/ Country of incorporation	No. of ordinary shares	%	No. of ordinary shares	%
ECSB	Malaysia	1,155,371,669	95.00	-	-
Maju	Malaysia	60,809,035	5.00	1,155,371,669[1]	95.00
Tan Sri Abu Sahid bin Mohamed	Malaysian	-	-	1,216,180,704[2]	100.00

Notes:

1 Deemed interest by virtue of its 100% direct interest in ECSB

2 Deemed interest by virtue of his 91% direct interest in Maju which in turn owns 100% direct interest in ECSB

The directors and their respective shareholdings in PSSB based on the Register of Directors' Shareholdings as at 30 June 2006 are as follows:

		Direct		Indirect	
	Nationality	No. of ordinary shares	%	No. of ordinary shares	%
Tan Sri Abu Sahid bin Mohamed	Malaysian	-	-	1,216,180,704[1]	100.00
Dato' Abu Talib bin Mohamed	Malaysian	-	-	-	-
Dato' Mohamed Fuad bin Yon	Malaysian	-	-	-	-
Mohd Fauzi bin Yon	Malaysian	-	-	-	-

Note:

1 Deemed interest by virtue of his 91% direct interest in Maju which in turn owns 100% direct interest in ECSB

Further information on PSSB is set out in Appendix I of this Circular.

2.1.2 Basis of arriving at the purchase consideration

The purchase consideration of RM197,600,000 for 51% equity interest in PSSB pursuant to the Proposed PSSB Acquisition was arrived at based on a willing buyer-willing seller basis, after taking into consideration the prospects, future earnings potential of PSSB and unaudited book value of PSSB as at 31 December 2004 of RM701.5 million.

2.1.3 *Rights attached to the PSSB Shares*

The PSSB Shares will be acquired by Kinsteel free from all claims, charges, liens, pledges, trust and other encumbrances and with all rights, benefits and entitlements now or thereafter attaching thereto.

2.1.4 *Basis of arriving at the issue price of the new Kinsteel Shares*

The issue price of the new Kinsteel Shares to be issued as consideration for the Proposed PSSB Acquisition of RM1.36 per Kinsteel Share was arrived at based on a willing buyer-willing seller basis after taking into consideration, amongst others, the market price, earnings, prospects and adjusted audited net tangible assets per share of the Kinsteel Group as at 31 December 2004 of RM1.74.

The issue price of RM1.36 per Kinsteel Share represents a premium of RM0.32 or 30.8% over the 5-day weighted average market price of Kinsteel Shares up to and including 6 October 2005 (being the last full trading day of Kinsteel Shares prior to the announcement of the Proposed Strategic Alliance on 7 October 2005) of RM1.04.

2.1.5 *Ranking of the new Kinsteel Shares*

The new Kinsteel Shares to be issued pursuant to the Proposed PSSB Acquisition will upon allotment and issuance rank *pari passu* in all respects with the existing issued and paid-up share capital of Kinsteel except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the respective dates of allotment of the said new Kinsteel Shares.

2.1.6 *Original cost of investment of the PSSB Shares*

ECSB's cost of investment in the PSSB Shares (representing 51% equity interest therein) amounts to RM379,363,399.61 which was incurred on 1 July 1999.

[The rest of this page is intentionally left blank]

2.1.7 Outstanding major liabilities of PSSB

As at 30 June 2006, PSSB's outstanding major liabilities and their proposed plan of settlement are set out below:

<table>
<tr><th>Name of creditor</th><th>Debt outstanding RM</th><th>Proposed settlement plan</th></tr>
<tr><td>TNB</td><td>342,674,488</td><td>TNB and PSSB have agreed on the following debt settlement plan to address the amount owing by PSSB to TNB up to 30 April 2006:

<table>
<tr><th></th><th>RM</th></tr>
<tr><td>Total amount subject to settlement as at 30.04.06</td><td>254,331,476.55</td></tr>
<tr><td>Less: Rebate</td><td>55,445,427.65</td></tr>
<tr><td>Settlement sum</td><td>198,886,048.90</td></tr>
<tr><td>Total first instalment payment on or before September 2006</td><td>75,000,000.00</td></tr>
<tr><td>Balance settlement sum*</td><td>123,886,048.90</td></tr>
</table>

* To be settled via a monthly repayment of RM6,882,558.27 over an 18 month period

The aforesaid debt settlement plan is subject to the signing of a deed of settlement between TNB and PSSB.

Further, as at 30 April 2006, the penalty interest owing by PSSB to TNB amounted to approximately RM69.38 million. In this regard, TNB will only consider waiving the penalty interest after PSSB has fully settled the aforesaid amount owing to TNB.

Barring any unforeseen circumstances, PSSB is expected to settle the entire aforesaid amount owing to TNB by March 2008.</td></tr>
<tr><td>Alliance Merchant Bank Berhad

Alliance Bank Malaysia Berhad</td><td>56,847,379

160,000,000</td><td>PSSB will settle the entire amount owing to Alliance Merchant Bank Berhad and Alliance Bank Malaysia Berhad with the proceeds to be raised from the MTNs, details of which are set out in Section 2.5 of this Circular.

Barring any unforeseen circumstances, PSSB is expected to settle the entire amount owing to Alliance Merchant Bank Berhad and Alliance Bank Malaysia Berhad by September 2006.</td></tr>
</table>

Name of creditor	Debt outstanding RM	Proposed settlement plan
Government of Malaysia ECSB (Advance from Government of Malaysia via ECSB)	148,613,961 106,864,253	On 27 January 2006, the following debt settlement plan was proposed by PSSB to the Government of Malaysia: (a) 2 years moratorium from having to repay any outstanding amount; and (b) upon expiry of the 2 years moratorium period as stated in (a) above, RM50 million will be paid to the Government of Malaysia annually for the next 5 years towards the full settlement of the advance from the Government of Malaysia. The debt settlement plan with the Government of Malaysia is presently still pending acceptance.
TOTAL	**815,000,081**	

As part of the terms of the Strategic Alliance Agreement, the completion of the Proposed Strategic Alliance is conditional upon the aforesaid liabilities of PSSB being addressed to the mutual satisfaction of Kinsteel and ECSB.

2.2 Proposed Gurun Assets Acquisition

The Proposed Gurun Assets Acquisition involves the proposed acquisition by Kinsteel from the Gurun Assets Vendors of 51% interest in the Gurun Assets for RM100,000,000 cash via PCSB through the following scheme:

(i) To facilitate the Proposed Gurun Assets Acquisition, a private limited company, namely PCSB, was incorporated in Malaysia on 16 December 2005 as a wholly-owned subsidiary of Kinsteel, with an issued and paid-up share capital of RM2.00 comprising 2 PCSB Shares.

Presently, PCSB is dormant. The directors of PCSB as at 30 June 2006 are Tan Sri Dato' Pheng Yin Huah and Pheng Chin Guan. Further information on PCSB is set out in Appendix II of this Circular.

(ii) Kinsteel shall subscribe to 101,998 new PCSB Shares for RM100,000,000 cash or at an issue price of RM980.411 per PCSB Share (being the cash subscription of RM100,000,000 over the 101,998 new PCSB Shares).

(iii) Thereafter, PCSB shall acquire the Gurun Assets from the Gurun Assets Vendors for a total purchase consideration of RM688,804,000 (being the revised depreciated replacement costs as appraised by Henry Butcher on 31 December 2005) which shall be satisfied in the following manner:

(a) cash settlement of RM100,000,000 payable upon completion of the Proposed Strategic Alliance; and

(b) the remaining balance of the purchase consideration of RM588,804,000 shall be payable via an issuance of 98,000 new PCSB Shares at an issue price of RM6,008.20 per PCSB Share (being the purchase consideration of RM588,804,000 over the 98,000 new PCSB Shares) after the cash settlement in (a) above.

(iv) Upon completion of the Proposed Gurun Assets Acquisition, Kinsteel will own 51% equity interest in PCSB, whilst the remaining 49% equity interest will be held by the Gurun Assets Vendors.

There are no liabilities to be assumed by PCSB pursuant to the Proposed Gurun Assets Acquisition.

The valuation certificates from Henry Butcher dated 26 July 2006 relating to the aforesaid valuation of the Gurun Assets is enclosed in Appendix VI of this Circular.

2.2.1 *Information on the Gurun Assets*

The Gurun Assets comprise the following:

(i) Beam & Section Mill

The Beam & Section Mill consists of the following:

(a) 2 adjoining freehold industrial lots identified as Lots 8071 (PT 1813) and 8070 (PT 1814) in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman, measuring approximately 167 acres; and

(b) an industrial building which houses the beam & section mill production line.

The Beam & Section Mill was purchased and installed with a built-up area of 582,944 square feet for the manufacturing of steel beams and sections. The industrial building which houses the Beam & Section Mill production line is approximately 10 years old. The Beam & Section Mill, completed and commissioned in 1996, produces, amongst others, I-beams, H-beams, channels and angles. Beams and sections are long rolling/finished products, which are produced through the rolling of blooms, billets or ingots. Beams and sections are typically used in the construction of high rise buildings, steel bridges, factories / warehouses, and other general engineering works.

The main sections of the Beam & Section Mill include a reheating furnace, breakdown mill, rougher mill, finishing mill, cooling bed, roller strengthening machine, collecting bed, cold saw, inspection bed, piling bed and shipping bed.

The main raw materials for the production of steel beams and sections are steel billets, beam-blanks and blooms. Presently, all the steel billets, beam-blanks and blooms used by the Beam & Section Mill are sourced from PSSB.

The past production capacity and output of the Beam & Section Mill since its commissioning in 1996 are as follows:

Year	Annual Capacity (mt)	Production output (mt)
1996	700,000	17,674
1997	700,000	96,992
1998	700,000	55,036
1999	700,000	50,806
2000	700,000	117,372
2001	700,000	55,329

Since 2001, the Beam & Section Mill has not been operational (save for ad-hoc orders) due to unfavourable market conditions.

The Beam & Section Mill started partial operations in April 2006 and is currently running on one shift with a production output of approximately 10,000 mt per month. The management of Kinsteel anticipates that full operations of the Beam & Section Mill will begin by the first half of 2007 with a production output of approximately 25,000 mt per month. Presently, the H-/I-beams are marketed and sold by Kin Kee Marketing Sdn Bhd (a wholly owned subsidiary of Kinsteel) solely to the Malaysian market.

(ii) Bar & Wire Rod Mill

The Bar & Wire Rod Mill consists of the following:

(a) 2 contiguous parcels of freehold industrial land identified as Lots 8067 (PT 1810) and 8068 (PT 1811) in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman, measuring approximately 123.75 acres; and

(b) the specialised and general purpose industrial buildings, and includes, amongst others, the Bar & Wire Rod Mill factory which houses the rolling mill production lines, the two-storey Bar & Wire Rod Mill office building, wire conditioning factory, nail manufacturing factory and wire mesh manufacturing factory.

The Bar & Wire Rod Mill was purchased and installed with a built-up area of 1,289,679 square feet for the manufacturing of steel bar and wire rods. The specialised and general purpose industrial buildings described in paragraph (b) above are approximately 13 years old. The Bar & Wire Rod Mill, completed and commissioned in 1993, produces, amongst others, wire rods, round bars, stainless steel bars and deformed bars. Bars and wire rods are a type of long rolling/finished product, produced through the rolling of blooms, billets or ingots. Bars, which consist of round/deformed bars and small sections, are often used in the construction industry and for the production of fabricated parts. Wire rods, on the other hand are further processed to produce *inter-alia*, steel wires and wire products such as steel fasteners, steel mesh, nuts and bolts, nails and polished shafts.

The main sections of the Bar & Wire Rod Mill include a billet reconditioning facility, reheating furnace, roughing mill, intermediate mill, finishing mill and the bar and wire rod lines.

The main raw material for the production of steel bar and wire rods is steel billets. Presently, all the steel billets used by the Bar & Wire Rod Mill are sourced from PSSB.

The past production capacity and output of the Bar & Wire Rod Mill since its commissioning in 1993 are as follows:

Year	Annual Capacity (mt)	Production output (mt)
1993	450,000	37,737
1994	450,000	357,326
1995	450,000	437,643
1996	450,000	466,656
1997	450,000	498,038
1998	450,000	203,534
1999	450,000	188,378
2000	450,000	221,961
2001	450,000	139,104
2002	450,000	58,201

Between 2002 and October 2005, the Bar & Wire Rod Mill was not operational (save for ad-hoc orders) due to unfavourable market conditions.

The Bar & Wire Rod Mill resumed production of high grade wire rods in November 2005 and is currently running on one shift with a production output of approximately 10,000 to 15,000 mt per month. Presently, the wire rods are marketed and sold by Kin Kee Marketing Sdn Bhd solely to the Malaysian market.

(iii) Vacant Land

The Vacant Land consists of the following:

(a) a parcel of vacant freehold industrial lot identified as Lot 8072 (PT 1815), measuring approximately 97 acres; and

(b) a parcel of vacant freehold industrial lot identified as Lot 8069 (PT 1812), measuring approximately 49.10 acres,

both in the Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman.

The lands above are adjoining and may be used for expansion purposes in the future. However, there are currently no specific plans for the Vacant Land.

2.2.2 Basis of arriving at the subscription consideration

The consideration of RM100,000,000 for the 101,998 new PCSB Shares to be subscribed by Kinsteel representing 51% of the enlarged issued and paid-up share capital of PCSB after the Proposed Gurun Assets Acquisition was arrived at based on a willing buyer-willing seller basis, after taking into consideration of the market value and future earnings potential of the Gurun Assets.

2.2.3 Rights attached to the Gurun Assets

The Gurun Assets are to be acquired by PCSB free and clear of any claims, charges, liens, pledges, trusts and other encumbrances of any kind but with all rights, titles and interests attached thereto.

2.2.4 Ranking of the new PCSB Shares

The new PCSB Shares to be issued pursuant to the Proposed Gurun Assets Acquisition will upon allotment and issuance rank *pari passu* in all respects with the existing issued and paid-up share capital of PCSB except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the respective dates of allotment of the said new PCSB Shares.

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2.2.5 *Original cost of investment of the Gurun Assets*

The original costs of investment/acquisition of the Gurun Assets incurred by the respective Gurun Vendors are set out below:

Title / Location of Gurun Assets	Registered / Beneficial owner	Date of acquisition	Cost of investment / acquisition RM'000	Net book value as at 31.12.2005 RM'000
Beam & Section Mill				
Freehold land Lot 8070/PT1814 in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman	PRMD	21.03.1993	176	176
Freehold land Lot 8071/PT1813 in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman	PRMD	21.03.1993	4,731	4,731
The beam and section mill including the plants, structures, fittings, fixtures and buildings erected on such land	PRMD	1993*	1,160,271	321,204
Bar & Wire Rod Mill				
Freehold land Lot 8067/PT1810 in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman	PRMD	21.03.1993	2,762	2,762
Freehold land Lot 8068/PT1811 in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman	PRMD	21.03.1993	874	874
The bar and wire rod rolling mill together with the wire conditioning, nail processing and wire mesh factories including the structures, fittings, fixtures and buildings erected on such land	MSCSB	1993*	65,000	62,319
The wire conditioning, nail processing and wire mesh machinery	PRMD	1993*	43,831	12,207
Plant and machinery	MRCSB	1993*	252,000	235,200
Vacant Land				
Freehold land Lot 8072/PT1815 in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman	PSWSB	04.05.1993	8,136	8,136
Freehold land Lot 8069/PT1812 in Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman	PRMD	21.03.1993	1,443	1,443
Total			**1,539,224**	**649,052**

* *The exact dates of acquisition of the assets are not available.*

2.3 Salient terms and conditions of the Strategic Alliance Agreement

The salient terms of the Strategic Alliance Agreement are, *inter-alia*, as follows:

(i) The obligations of Kinsteel and PCSB (collectively referred to as the "Purchasers") and the Perwaja Vendors to complete the Proposed Strategic Alliance are conditional upon:

(a) the Purchasers being satisfied with the results of their due diligence investigations into:

(aa) ECSB's title to the PSSB Shares, the financial, legal, contractual, technical and tax position and prospects of PSSB and PSSB's title to its assets being satisfactory to Kinsteel; and

(bb) the Gurun Assets Vendors' respective titles to the Gurun Assets and the condition of the Gurun Assets being satisfactory to PCSB;

such due diligence investigations to be completed within 2 months from the date of receipt by the Purchasers of the letter to be given within 1 month from the execution of the Strategic Alliance Agreement by the Perwaja Vendors and upon terms acceptable by the Purchasers ("First Disclosure Letter"),

provided always that the obligations of the Purchasers to complete the Proposed Strategic Alliance is conditional upon the contents of the letter to be given on the completion date being satisfactory to the Purchasers ("Second Disclosure Letter");

(b) the existing identified major liabilities of PSSB amounting to approximately RM762,000,000 (as at the date of the Strategic Alliance Agreement) being addressed to the mutual satisfaction of Kinsteel and ECSB;

(c) PCSB obtaining all such approvals, permits, licences and consents whatsoever as may be necessary to own and operate the Gurun Assets;

(d) subject to Clause (ii) below, the approvals of the SC, FIC and MITI (to be applied for by the Purchasers) being granted for the transactions described in the Strategic Alliance Agreement and not withdrawn or revoked and if such consents or approvals are granted subject to any conditions, such conditions being acceptable to (i) the Purchasers or, if the Purchasers elect to appeal the imposition of any such conditions, the revised terms of such conditions being acceptable to the Purchasers, and (ii) if any such conditions are adverse to any of the Perwaja Vendors, and such Perwaja Vendor(s) elects to appeal the imposition of any such conditions, the revised terms of such conditions being acceptable to the Perwaja Vendor(s), provided always that the Purchasers shall submit the application to the SC within 3 months from the date of receipt of the First Disclosure Letter and the approval of the SC shall be obtained within 5 months from the date of the submission to SC subject to any mutually agreed extension(s);

(e) the grant by the SC to the respective parties of an exemption from the obligation to make a mandatory offer for the voting shares in the respective companies pursuant to the Code, such application to be prepared and submitted by the Purchasers' advisers as duly authorised by the Perwaja Vendors;

(f) subject to Clause (ii) below, the approval-in-principle of Bursa Securities for the listing and quotation of the new Kinsteel Shares on the Main Board of Bursa Securities being granted and not withdrawn or revoked;

(g) the approvals of the shareholders of Kinsteel and the Perwaja Vendors respectively, of the Proposed Strategic Alliance and the Proposed Exemptions, including authorising their directors to take all steps necessary to complete the Strategic Alliance Agreement including without limitation granting all necessary authority to allot and issue shares under the Act;

(h) subject to Clause (ii) below, such other consents or approvals (if any) as may be necessary from any governmental or regulatory body or relevant competent authority having jurisdiction over the transactions contemplated under the Strategic Alliance Agreement being granted or obtained and not withdrawn or revoked;

(i) the due execution by the appointed auditors of PSSB of the audited accounts of PSSB for the FYEs 31 December 2003 and 31 December 2004 within 1 month from the date of the Strategic Alliance Agreement; and

(j) the completion of a closing audit on PSSB for the period up to and including 30 September 2005 and the contents thereof being satisfactory to the Purchaser.

(hereinafter collectively referred to as "Conditions Precedent" and individually referred to as a "Condition Precedent"),

(ii) If any of such consents or approvals under Clauses (i) (c), (d), (e), (f), (g) and (h) above are given subject to any conditions, any party adversely affected may if it desires, appeal for the removal or revision of such condition within the prescribed timeframe stipulated in the Strategic Alliance Agreement, failing which such condition shall be deemed accepted. Any party adversely affected by the revised terms may decline to accept the revised terms in which event the relevant Condition Precedent shall be deemed not to have been fulfilled, and must notify the other party in writing of their decision whether to accept the revised terms of consent or approval within the prescribed timeframe stipulated in the Strategic Alliance Agreement, failing which such revised terms shall be deemed to be accepted; and

(iii) Unless specifically waived by the Purchasers under the provisions of Clause (ii) above, if any of the Conditions Precedent (except the Condition Precedent set out in Clauses (i)(d), (e), (f), (g) and (h) above) is or are not fulfilled by the date falling 8 months from the date of the First Disclosure Letter or such later date as both parties may mutually agree in writing, the Strategic Alliance Agreement shall ipso facto cease and determine and all obligations and liabilities of both parties hereunder shall cease to have effect and (save in respect of any breach of the clause relating to the Conditions Precedent or the clause on Perwaja Vendors' warranties and undertakings) none of both parties shall have any claim against the other for costs, damages, compensation or otherwise.

2.4 Management of the Perwaja Assets

As part of the terms of the Strategic Alliance Agreement, with effect from the date of the Strategic Alliance Agreement until the completion of the Proposed Strategic Alliance, Kinsteel shall manage the day-to-day operations of the Perwaja Assets, with the exception of major decisions which will be under the purview of an executive committee. The executive committee consists of 5 representatives from Kinsteel and 4 representatives from ECSB.

2.5 Sources of funding

The cash consideration for the Proposed Strategic Alliance will be funded by Kinsteel via a combination of internally generated funds and borrowings, the proportion of which will be determined at a later date.

Further, PSSB is presently in the midst of securing the following additional financing facilities:

(i) trade financing facilities of up to RM400 million for the working capital of PSSB and PCSB; and

(ii) MTNs up to RM400 million in nominal value to be utilised for the following:

(a) up to RM217.0 million for the refinancing of PSSB's existing bank borrowings from Alliance Bank Malaysia Berhad and Alliance Merchant Bank Berhad;
(b) up to RM160.0 million for part payment of amount owing to TNB; and
(c) the balance for the funding of the finance service reserve account of the MTN, working capital and general funding requirements of PSSB that comply with Syariah principles.

The aforesaid trade financing facilities and MTNs will only be in place after the completion of the Proposed Strategic Alliance.

2.6 Information on Perwaja Vendors

2.6.1 Maju

Maju was incorporated in Malaysia on 6 July 1978 under the Act as a private limited company under the name of Pembangunan Swasta Sdn Bhd and later assumed its present name on 17 April 1981. The authorised and issued and paid-up share capital of Maju as at 30 June 2006 is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each. Its principal activities are investment holding, management consultancy and building construction.

The substantial shareholders of Maju as at 30 June 2006 are Tan Sri Abu Sahid bin Mohamed and Dato' Abu Talib bin Mohamed who holds 91,000,000 ordinary shares of RM1.00 each (representing 91% equity interest) and 9,000,000 ordinary shares of RM1.00 each (representing 9% equity interest) in Maju respectively. The directors of Maju as at 30 June 2006 are Tan Sri Abu Sahid bin Mohamed, Dato' Abu Talib bin Mohamed, Mohd Fauzi bin Yon, Dato' Mohamed Fuad bin Yon and Datuk Sri Iskandar Dzakurnain bin Badarudin.

2.6.2 Information on ECSB

ECSB was incorporated in Malaysia on 23 November 1992 under the Act. The authorised and issued and paid-up share capital of ECSB as at 30 June 2006 is RM5,000,000,001 comprising 5,000,000,000 ordinary shares of RM1.00 each and 1 Class A share of RM1.00 each, of which 2,000,100,000 ordinary shares of RM1.00 each and 1 Class A share are issued and paid-up. Its principal activity is investment holding.

ECSB is a wholly-owned subsidiary of Maju. The directors of ECSB as at 30 June 2006 are Tan Sri Abu Sahid bin Mohamed, Dato' Abu Talib bin Mohamed, Mohd Yunus bin Alias and Datuk Sri Iskandar Dzakurnain bin Badarudin.

2.6.3 Information on PRMD

PRMD was incorporated in Malaysia on 6 March 1990 under the Act as a private limited company under the name of Perwaja Realty Sdn Bhd and later assumed its present name on 22 December 1990. The authorised share capital of PRMD as at 30 June 2006 is RM1,000,000,000 comprising 1,000,000,000 ordinary shares of RM1.00 each of which 125,000,002 ordinary shares of RM1.00 each are issued and paid-up. PRMD is principally engaged in construction activities and manufacturing and trading of steel beams, sections, wire rods, bars, nails, stretched wire and wire mesh.

PRMD is a wholly-owned subsidiary of ECSB. The directors of PRMD as at 30 June 2006 are Tan Sri Abu Sahid bin Mohamed, Dato' Abu Talib bin Mohamed, Mohd Fauzi bin Yon and Datuk Sri Iskandar Dzakurnain bin Badarudin.

2.6.4 Information on MSCSB

MSCSB was incorporated in Malaysia on 1 August 1996 under the Act. The authorised share capital of MSCSB as at 30 June 2006 is RM100,000 comprising 100,000 ordinary shares of RM1.00 each of which 2 ordinary shares of RM1.00 are issued and fully paid-up. MSCSB is currently dormant. The intended principal activities of MSCSB are to carry on the trades or business of iron masters, steel makers, steel converters, boilery proprietors, coke manufacturers, wire rod manufacturers, miners, smelters, engineers, tinplate makers and iron founders.

MSCSB is a wholly-owned subsidiary of Maju. The directors of MSCSB as at 30 June 2006 are Riza Selahettin bin Khuddus and Ong Wann Yi.

2.6.5 Information on MRCSB

MRCSB was incorporated in Malaysia on 11 June 1996 under the Act. The authorised share capital of MRCSB as at 30 June 2006 is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 are issued and fully paid-up.

MRCSB is currently dormant. The intended principal activities of MRCSB are to carry on the trade or business of iron masters, steel makers, steel coatings, steel converters, boilery proprietors, wire rod manufacturers, miners, smelters, engineers, tinplate makers and iron founders.

MRCSB is a wholly-owned subsidiary of Maju. The directors of MRCSB as at 30 June 2006 are Riza Selahettin bin Khuddus and Ong Wann Yi.

2.6.6 Information on PSWSB

PSWSB was incorporated in Malaysia on 9 July 1992 under the Act under the name of Specizillion (M) Sdn Bhd and its name was subsequently changed to Perwaja Manufacturing Sdn Bhd on 20 October 1992. On 23 April 2001, PSWSB assumed its present name. The authorised share capital of PSWSB as at 30 June 2006 is RM1,000,000,000 comprising 1,000,000,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 are issued and fully paid-up. Its principal activity is the provision of water supply.

PSWSB is a wholly-owned subsidiary of ECSB. The directors of PSWSB as at 30 June 2006 are Tuan Ngah @ Syed Ahmad bin Tuan Baru, Ahmadzon bin Abdullah, Mohd Yunus bin Alias and Abdul Malek bin Omar.

3. DETAILS OF THE PROPOSED EXEMPTIONS

3.1 Proposed ECSB Exemption

Upon completion of the Proposed PSSB Acquisition, ECSB will own approximately 35.3% equity interest in Kinsteel (before exercise of any outstanding warrants). As such, pursuant to Part II of the Code, ECSB and the Persons Acting In Concert will trigger an obligation to undertake a mandatory offer for the remaining Kinsteel Shares not held by ECSB and the Persons Acting In Concert upon completion of the Proposed PSSB Acquisition.

An application was made by Kinsteel to the SC on behalf of ECSB for an exemption from the obligation to undertake a mandatory offer for the remaining Kinsteel Shares not held by ECSB and the Persons Acting In Concert under Practice Note 2.9.1 of the Code. The SC has, vide its letter dated 3 May 2006 informed that they will consider the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code after the conditions set out in Section 9.3 of this Circular have been fulfilled.

3.2 Proposed Kinsteel Exemption

Pursuant to the Proposed PSSB Acquisition, Kinsteel will own 51% equity interest in PSSB. As such, pursuant to Part II of the Code, Kinsteel will trigger an obligation to undertake a mandatory offer for the remaining PSSB Shares not held by Kinsteel upon completion of the Proposed PSSB Acquisition.

An application was made by Kinsteel to the SC for an exemption from the obligation to undertake a mandatory offer for the remaining PSSB Shares not held by Kinsteel under Practice Note 2.9.6 of the Code. On 3 May 2006, the SC approved the Proposed Kinsteel Exemption.

3.3 Proposed Gurun Assets Vendors Exemption

Upon completion of the Proposed Gurun Assets Acquisitions, the Gurun Assets Vendors will collectively own 49% equity interest in PCSB. As such, pursuant to Part II of the Code, the Gurun Assets Vendors will trigger an obligation to undertake a mandatory offer for the remaining PCSB Shares not held by the Gurun Assets Vendors upon completion of the Proposed Gurun Assets Acquisitions.

An application was made by Kinsteel to the SC on behalf of the Gurun Assets Vendors for an exemption from the obligation to undertake a mandatory offer for the remaining PCSB Shares not held by the Gurun Assets Vendors under Practice Note 2.9.6 of the Code. On 3 May 2006, the SC approved the Proposed Gurun Assets Vendors Exemption.

4. DETAILS OF THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The present authorised share capital of the Company is RM200,000,000 comprising 200,000,000 Kinsteel Shares. In order to accommodate the increase in issued and paid-up share capital of the Company pursuant to the Proposed PSSB Acquisition and to provide for any future issue of new Kinsteel Shares, your Board has proposed that the authorised share capital of Kinsteel be increased to RM300,000,000 comprising 300,000,000 Kinsteel Shares.

The Memorandum and Articles of Association of the Company will be duly amended to reflect the Proposed Increase In Authorised Share Capital.

5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

5.1 Overview of the Steel Industry in ASEAN

APPARENT STEEL CONSUMPTION, 1998-2004 ('000 mt)

	1998	1999	2000	2001	2002	2003	2004
World total	692,600	705,300	758,800	765,000	819,000	854,000	949,000
ASEAN total	18,558	24,121	26,364	29,742	33,321	34,275	37,848
% change to world total	2.6	3.4	3.5	3.9	4.0	4.0	3.9
Indonesia	2,839	3,199	4,500	5,023	4,912	4,688	5,390
Malaysia	3,547	6,068	6,855	7,322	6,862	6,674	7,758
Philippines	2,977	3,300	3,041	3,343	3,735	3,462	3,111
Singapore	3,245	3,022	2,873	2,752	2,925	3,047	3,169
Thailand	3,800	6,331	6,595	7,535	9,987	11,004	12,700
Vietnam	2,150	2,300	2,500	3,767	4,900	5,400	5,720
% change in ASEAN	-42.5	20.0	9.0	11.0	12.0	2.8	10.4

In tandem with the economic growth in the region, the 1990s was a period of high growth for steel production and consumption among the ASEAN countries. During that time, not only did production increase for all countries, but imports of hot-rolled ("HR") sheets and strips, cold-rolled ("CR") sheets and coils, and electro-galvanized ("EG") plates grew rapidly to satisfy the demands of the manufacturing sector.

In fact, steel consumption of the ASEAN-6 (i.e. Thailand, Malaysia, Singapore, Indonesia, Philippines and Vietnam) peaked at 33.4 million mt in 1996, but took a sharp drop to 18.6 million mt in 1998 as a direct result of the Asian crisis. However, apparent steel consumption ("ASC") has since improved, growing at an average rate of 3.7% yearly from 24.1 million mt in 1999 to 34.3 million mt in 2003. In 2004, steel consumption of the ASEAN-6 breached the pre-crisis high of 1996 to reach 37.8 million mt. Consumption grew in all the countries, particularly in Thailand and Vietnam.

The consumption of steel products in the ASEAN-6 countries grew at an average annual rate of 9.0%, from 26.4 million mt in 2000 to 37.8 million mt in 2004. From 2001 onwards, Thailand overtook Malaysia as the largest consumer of steel products in ASEAN. Thailand's ASC grew by more than 90% between 2000 and 2004, from 6.6 million mt in 2000 to a high of 12.7 million mt in 2004. Similarly, Vietnam also registered strong growth in ASC, from 2.5 million mt in 2000 to 5.7 million mt in 2004. Vietnam expects its ASC to increase to 10.0 million mt by 2010.

ASC in the other ASEAN countries, namely, Indonesia, Malaysia, Philippines and Singapore grew marginally between 2000 and 2004. In the case of Malaysia, the ASC grew to 7.3 million mt in 2001 but declined in the following two years. In 2004, however, the ASC recorded 7.8 million mt, a hike of 16% over 2003.

As seen in the table above the aggregated steel consumption of ASEAN is generally below 5% of the total world steel consumption. Consumption of regional countries fell sharply in 1998 as a direct consequence of the Asian financial crisis. Following a recovery in subsequent years, overall steel consumption improved steadily to 26.4 million mt in 2000 and 29.7 million mt in 2001. Consumption continued to improve in recent years to register 37.8 million mt in 2004, a 10.4% increase over the 34.3 million mt in 2003.

As a whole, the ASC in ASEAN is expected to grow further in the coming years with continuing development in the region. As it stands, ASEAN as a region has a combined population of 500 million, gross domestic product ("GDP") of USD737 billion and total trade of USD720 billion. In 2005, ASEAN as a whole is expected to have a real GDP growth 5.0 – 5.9%. In addition, the ASC in ASEAN is expected to be further boosted with the rebuilding of Acheh in Indonesia, following the devastation left by the tsunami in December 2004.

(Source: The 7th Report of the Malaysian Iron & Steel Industry, 2005)

5.2 Overview of the Steel Industry in Malaysia

The steel consumption growth rate of the steel industry for the years 1996 to 2005 is summarised as follows:

Growth rate (%)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
GDP	8.6	7.7	-7.4	5.8	8.3	0.4	4.1	5.3	7.1	5.0-6.0
Construction	14.2	9.5	-23.0	-5.6	1.0	2.3	2.3	1.9	-1.9	-1.0
Manufacturing	12.3	12.5	-13.4	13.5	19.1	-6.2	4.1	8.3	9.8	4.5
Steel Consumption Growth Rate	10	2	-45	33	13	7	-6	-3	16	Not available

The consumption of steel in Malaysia grew rapidly from the late-1980s to mid-1990s, with local demand fuelled by strong growth in both the construction and manufacturing sectors. Steel consumption peaked in 1997 at 8.3 million mt, driven largely by public and private sector infrastructure projects.

The economic crisis of 1997-98 put a halt to the growth in steel consumption and the full effects of the crisis were felt in 1998 as the construction sector contracted by 23.0% and the manufacturing sector declined by 13.4%. As a consequence, the consumption of steel fell sharply by 45% to 4.6 million mt in 1998.

However, a turnaround in the economy helped improve consumption of steel products in subsequent years. In 1999, there was a dramatic improvement as steel consumption grew a strong 33% to register 6.1 million mt. Growth was more gradual in the subsequent two years, with hikes of 13% in 2000 and 7% in 2001. In 2002, steel consumption contracted 6% to 6.9 million mt, due primarily to a drop in the consumption of flats which fell 21%.

In 2003, steel consumption fell a further 3%, and this time around, the negative growth was due to a drop in the consumption of long products which fell 8%. The decline in steel consumption followed a drop in domestic demand as the Government began to trim public expenditure, especially on large civil and engineering projects.

In 2004, steel consumption in Malaysia rebounded strongly with a 16% growth to register 7.8 million mt. This was mainly due to the build up of inventory by users and stockists after a quiet spell of not-buying due to high prices.

Steel consumption is, however, expected to be weak in 2005 due to moderate growth of the manufacturing sector and a further contraction of the construction sector.

Consumption is anticipated to improve marginally in 2006 before picking up steam from 2007-2009, in tandem with the implementation of infrastructure development projects under the 9th Malaysia Plan (2006-2010) and industrial activities of the 3rd Industrial Master Plan (2006-2020).

Overall, growth of the Malaysian steel industry for the six-year period (2005-2010) is expected to be lower but more sustainable, at 10% average annual growth, compared to the 20-30% experienced during the heydays of industry in the mid-1990s.

(Source: The 7th Report of the Malaysian Iron & Steel Industry, 2005)

5.3 Overview of the Construction and Manufacturing Industries

Products from the steel industry play a key role in supporting the construction and manufacturing sectors and hence, any future growth in the steel industry will be closely linked to the growth cycles of the aforesaid sectors.

In view of the above, the following discussion on the prospects of the construction and manufacturing sectors are not intended to be exhaustive but reflects some of the factors which are relevant to understand the prospects of the steel industry based on prevailing local economic trends and developments.

5.3.1 The Construction Industry

The construction sector contracted by 2.2% during the first half of 2005 (January-June 2004: -0.3%) mainly due to lower civil engineering activity. The residential sub-sector, however, remained active while the non-residential sub-sector improved further during the period as business confidence and consumer sentiment remained strong. For year 2005 as a whole, the construction sector is envisaged to register a smaller contraction of 1.1% (2004:-1.5%) on account of some improvement in civil engineering activity in the second half.

In terms of outlook, the construction sector is set to stage a turnaround in 2006. Growth is expected to increase by 3% (2005: -1.1%), spurred by a turnaround in the civil-engineering sub-sector, following the implementation of new infrastructure projects under the 9th Malaysian Plan. Likewise, activities in the residential and non-residential sub-sectors are also envisaged to remain active, supported by sustained demand for houses and purpose built offices.

5.3.2 The Manufacturing Industry

Output of the manufacturing sector grew moderately during the first 7 months of 2005 resulting from the slowdown in global economy, led by softer demand for semiconductors. The steel industry, as well as other construction related industries as a whole recorded a decline of 5.1% in the first 7 months of 2005 (January – July 2004: 11.5%), affected by contraction in output of iron and steel and non-metallic minerals such as cement and ready mixed concrete. Production of iron steel bars and rods, galvanized iron sheets as well as welded iron and steel pipes registered slower growth in tandem with the slowdown in the construction sector. However, these industries recorded an upsurge in sales value of 58% (January-July 2004: 61.3%) largely due to higher prices.

The manufacturing sector is anticipated to grow by 4.9% in 2006 (2005:4.8%), following a recovery in global electronics demand. The landscape of the manufacturing sector is expected to change in tandem with new developments and the shift towards technology-driven manufacturing processes with more research and development activities. New developments including advanced technologies such as nanotechnology, biotechnology and advanced manufacturing practices are expected to contribute positively to growth of the manufacturing sector.

(Source: Economic Report 2005/2006, Ministry of Finance)

5.4 Future Prospects of the New Kinsteel Group

The Directors of Kinsteel believe the New Kinsteel Group is expected to have a viable business with good prospects, for the following reasons:

(i) According to the 7th Report of the Malaysian Iron & Steel Industry, 2005, growth of the Malaysian steel industry for the six-year period (2005-2010) is expected to be sustainable at 10% average annual growth.

(ii) With their vast experience in the steel industry, the management of Kinsteel possess the necessary skills, expertise and experience to manage the Perwaja Assets. Following the Proposed Strategic Alliance, the management of Kinsteel have implemented various business strategies to improve *inter-alia*, the operations, production efficiency and cost, profit margins, as well as product distribution of the Perwaja Assets.

(iii) Kin Kee Marketing Sdn Bhd, the marketing arm of Kinsteel Group, has a network of over 300 hardware dealers and traders spread out over the country, supplying in turn to a plethora of small, medium and large projects through small to large contractors and other end users. Kinsteel has also appointed several overseas agents to distribute its products. Hence, the Kinsteel Group is well positioned to market and sell the Perwaja Assets' products through its wide network of hardware dealers and appointed overseas agents, which in turn service a wide and diversified customer base.

(iv) The financial position of PSSB is expected to improve after the outstanding major liabilities of PSSB are addressed in accordance with the proposed debt settlement plans set out in Section 2.1.7 above. Further, Kinsteel has a solid track record of more than 15 years in the steel industry as an established long products player, consistently recording a turnover of over RM300 million for the past 3 financial years ended 31 December 2005. With its track record, Kinsteel is well positioned to secure the necessary funding for the expansion of the New Kinsteel Group's business in the future.

(v) The combined entity of Kinsteel, PSSB and PCSB, which will be one of the largest fully integrated steel players in Malaysia, is expected to emerge as a stronger, more competitive and more resilient entity, with overall control over its supply chain, and capable of competing in the global and domestic steel market after the Proposed Strategic Alliance. The combined entity will also be the only producer of structural steel in the form of H-beam and I-beam in Malaysia.

6. RISK FACTORS

Shareholders should carefully consider the risks as set out below (which may not be exhaustive) in addition to the other information contained elsewhere in this Circular before voting on the resolution pertaining to the Proposed Strategic Alliance.

6.1 Business risks

The business of the Perwaja Assets are subject to certain risks inherent in the steel and manufacturing industry. These encompass, labour and raw material shortages, increases in the costs of both these inputs, and changes to general economic, socio-political, business and credit conditions. Even though the Kinsteel Group may seek to limit these risks through, *inter-alia,* its wide experience in the steel industry, prudent management policies and maintaining good business relationship with customers and suppliers, no assurance can be given that any change to these factors will not have a material adverse effect on the business of the New Kinsteel Group.

6.2 Competition

Competition exists in all the steel segments which PSSB/PCSB are involved in (except for the sales of DRI, beam-blanks, blooms and heavy sections) in the Malaysian market. However, the Proposed Strategic Alliance is expected to generate synergistic benefits such as costs reduction, production efficiency, better management of supply chain and management process and greater marketing reach which will enable the New Kinsteel Group to strengthen its competitiveness.

Nevertheless, there can be no assurance that the New Kinsteel Group will be able to increase or maintain its market share amidst competition from existing players and/or potential new entrants to this industry.

6.3 Dependence on key personnel

The success of the businesses of the Perwaja Assets depends to a certain extent, upon the abilities and continued efforts of the existing management team of Kinsteel and the Perwaja Assets. Kinsteel believes that it has the necessary personnel or can employ and/or retain the necessary personnel to successfully manage the Perwaja Assets.

However, no assurance can be given that the New Kinsteel Group will be able to attract suitably qualified personnel or that the loss of any of the key management relating to the Perwaja Assets will not have an adverse material effect on the performance of the New Kinsteel Group.

6.4 Cyclicality of the industry

The Malaysian steel industry is cyclical in nature and its performance runs concurrent with the presiding economic conditions. This is due in part to the fact that demand for steel products primarily originates from the construction, manufacturing and infrastructure sectors, and these sectors in turn are growth drivers for the economy. The Perwaja Assets' customers are primarily engaged in the manufacture of steel products used in industries which are cyclical in nature including the construction and manufacturing industries.

Hence, demand for steel products is sensitive to general economic conditions in Malaysia, which are driven by forces beyond the New Kinsteel Group's control. Any future slowdown and downturn in the Malaysian economy or in any of the abovementioned industries could reduce sales volume and prices, thereby adversely affecting the New Kinsteel Group's operating results. However, the negative effects of future slowdowns and downturns in the Malaysian economy may be reduced through PSSB's plans to export DRI to countries where there is demand for steel.

There can be no assurance that a global, regional or domestic economic downturn will not adversely affect the financial performance of the New Kinsteel Group.

6.5 Dependence on the domestic manufacturing and construction industries

PSSB produces DRI, steel billets, steel beam-blanks and blooms which are iron and primary steel products. These products are used to manufacture a range of steel products, the demand for which is determined by the domestic construction and manufacturing industries, as well as being affected by the global economic climate. The Beam & Section Mill and Bar & Wire Rod Mill produces mid stream products such as H- and I- beams, channels, angles, wire rods, round, stainless steel and deformed bars, which are also mainly used in the domestic manufacturing and construction industries. As such, the New Kinsteel Group's performance is influenced, *inter-alia*, by the prospects and performance of these sectors.

The construction and manufacturing sectors are affected by general economic factors, which affect the markets for the New Kinsteel Group's steel products. Many of these factors, such as the availability of financing for construction and infrastructure projects, fluctuations in interest rates, imposition of more stringent requirements by relevant authorities, increase in the cost of labour and raw material, and shortage of labour and raw material, are beyond the New Kinsteel Group's control and may have a material adverse affect on the New Kinsteel Group.

However, the New Kinsteel Group seeks to minimise its dependence on the domestic construction and manufacturing industries by exporting to the international market.

6.6 Insurance risks

The Perwaja Assets' operations may be affected by events of emergency such as, *inter-alia*, explosion, fire, flooding and energy crisis. Possible adverse consequences arising from the realisation of these risks include, but are not limited to, interruptions to its business, and consequently negative effects on its business operations. To mitigate the effects of these potential events, PSSB has obtained insurance coverage for certain aspects of its operations.

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 events of emergency occur.

6.7 Foreign exchange risk

PSSB is dependant on raw materials such as iron ore which are not available locally and as such are imported. Purchases of certain imported raw materials such as iron ore, electrodes, refractories and ferro-alloys are often transacted in USD. Further, PSSB's products are presently also sold in overseas markets, primarily within ASEAN. Sales to these markets are often transacted in USD, and any expenditure incurred by PSSB in the generation of sales to these markets may be in local currencies.

In such instances, PSSB will be exposed to foreign exchange fluctuations. Fluctuations in the conversion rate of RM against USD may have material financial impact on the New Kinsteel Group's financial performance. The risk of foreign exchange fluctuation is mitigated by the managed float mechanism by the Bank Negara Malaysia adopted since 21 July 2005 on the RM-USD conversion rate which may prevent extreme exchange rate fluctuation. However, 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 the New Kinsteel Group.

6.8 Competition from China

Over the past decade, China has been the largest producer and consumer of steel products in the world. In 2003, China accounted for 232 million mt of steel in 2003 out of 863 million mt of global apparent steel consumption and produced 22.8% of world steel production. Further, the developments in China have the capability to influence international steel prices as well as supply of materials. *(Source: The 7th Report of the Malaysian Iron & Steel Industry, 2005)*

Malaysia has been facing greater competition from China since early 2005 as China began to actively export steel products. The implication for Malaysia is that in time, steel exports from China can be a threat to Malaysia as China has the advantage of economies of scale. In contrast, Malaysia is only a small exporter of steel since production is meant primarily to meet domestic demand. Therefore, no assurance can be given that competition from China will not have an adverse effect on the financial performance on the New Kinsteel Group.

However, the business synergies and production efficiencies expected from the Proposed Strategic Alliance is intended to increase Kinsteel's competitiveness in light of competition from China.

6.9 Dependence on certain suppliers

PSSB is dependent on certain suppliers, which include the suppliers of natural gas and oxygen, Petronas Gas Berhad and Malaysian Oxygen Berhad. As both suppliers are natural gas and oxygen incumbents respectively and are the only suppliers of such materials, any withdrawal of their services may have a material effect on the operations of PSSB.

To mitigate this risk, PSSB has fostered good relationships over the years with these suppliers including prompt payment of billings, and entering into renewable agreements. PSSB's current contract with Petronas Gas Berhad for natural gas is due to expire on 31 December 2006. There can be no assurance that the New Kinsteel Group will be able to negotiate terms for continued supply on a favourable basis upon price renegotiations and/or after expiry of existing agreements.

6.10 Outstanding liabilities of PSSB

As at 30 June 2006, PSSB has substantial outstanding major liabilities of approximately RM815.0 million which consists of bank borrowings (of approximately RM216.8 million) and amount owing to other third party creditors (of approximately RM598.2 million) as well as other liabilities incurred in conjunction with PSSB's business. For the FYE 31 December 2005, PSSB's interest expense amounted to RM54.7 million.

As part of the terms of the Strategic Alliance Agreement, the existing liabilities of PSSB are to be addressed to the mutual satisfaction of the parties prior to the completion of the Proposed Strategic Alliance, details of which are set out in Sections 2.1.7 and 2.3 above. Upon completion of the Proposed Strategic Alliance, the management of PSSB expects the interest expense of PSSB for FYE 31 December 2006 to remain relatively unchanged at RM54.8 million (assuming none of the penalty interest owing to TNB as set out in Section 2.1.7 above is waived).

There can be no assurance that the New Kinsteel Group will be able to generate sufficient funds to repay its existing liabilities and interest expense by the time such obligations are due, even after the aforesaid liabilities have been restructured. Further, any significant fluctuation in interest rates may increase the cost of borrowings for the New Kinsteel Group. There is no assurance that the financial performance of the New Kinsteel Group will not be affected in the event that such changes occur.

6.11 Risk of explosion

PSSB utilises DR reactors in its steel production operations, which are used to reduce iron ore into DRI. These DR 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.

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

6.12 Government controlled pricing

The selling price of steel billets and deformed bars in Malaysia are presently capped by MDTCA.

The price of steel billets and deformed bars are not expected to change significantly unless MDTCA revises the ceiling price of steel billets and deformed bars which has only occurred three times in the past 10 years.

As a mitigating factor, PSSB's total sales include a portion of export sales. This acts as an avenue for PSSB to sell its products without any restrictions on the selling price. However, PSSB adheres to local regulation governing exports of steel products. In addition, PSSB intends to develop higher-grade steel products, the market for which is currently less regulated.

However, there can be no assurance that prices for and the volumes of steel products sold by the New Kinsteel Group will not decline in the future or that such declines will not have a material adverse effect on its financial condition. Further, any change in the price of steel billets and deformed bars would also directly affect the New Kinsteel Group.

6.13 Risk associated with borrowings

As set out in Section 2.5 above, PSSB will be obtaining trade financing facilities of up to RM400 million. In addition, PSSB will be issuing MTNs of up to RM400 million in nominal value to be utilised for, *inter-alia*, the refinancing of PSSB's existing bank borrowings from Alliance Bank Malaysia Berhad and Alliance Merchant Bank Berhad and part payment of amount owing to TNB.

The agreements governing the trade financing facilities and MTN may contain, *inter-alia*, covenants which may limit the New Kinsteel Group's operating and financial flexibility. Any act by the New Kinsteel Group falling within the ambit and scope of such covenants may require the consent of the MTN holders or relevant financial institutions. Breach of such covenants may give rise to a right by the relevant 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 the New Kinsteel Group will take all reasonable efforts to observe such covenants at all times, there can be no assurance that the financial performance of the New Kinsteel Group will not be affected should any breach occur.

6.14 Certificate of Fitness ("CF") of the Buildings

All the buildings under the Perwaja Assets have been granted CF except for certain buildings under the Bar & Wire Rod Mill. In this regard, the CF application for the steel rolling mill, 2-storey office, training centre and Wisma Waja, which form part of the Bar & Wire Rod Mill, was approved by Majlis Perbandaran Sungai Petani but subject to the settlement of outstanding general drainage contribution. The CF application for the remaining ancillary buildings, which form part of the Bar & Wire Rod Mill, has been submitted to Majlis Perbandaran Sungai Petani and Jabatan Bomba and Penyelamat Malaysia but pending the said authorities' approval. Therefore, the inability of the aforesaid buildings to obtain CF may cause interruptions to the operations of the Bar & Wire Rod Mill. PSSB is currently in the midst of resolving the said CF issues and Kinsteel has been granted 6 months from the date of the SC's approval to obtain the CF.

6.15 Forward looking statements

This Circular includes forward-looking statements. All statements other than statements of historical facts included in this Circular, including, without limitation, those regarding Kinsteel/PSSB's financial position, business strategy, plans and objectives of 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 the New Kinsteel Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Further, such forward-looking statements are based on numerous assumptions regarding the New Kinsteel Group's present and future business strategies and the environment in which the New Kinsteel Group will operate in the future. Such forward-looking statements reflect the management of the New Kinsteel Group's current views with respect to future events and are not a guarantee of future performance. There can be no assurance that actual results will not differ materially from information contained in such forward-looking statements as a result of a number of factors, including, without limitation, the risk factors discussed in this section.

7. RATIONALE FOR THE PROPOSALS

7.1 Proposed Strategic Alliance

In line with the Government's call for Malaysian companies to merge in order to expand and compete globally, Kinsteel proposes to enter into a strategic alliance arrangement with Maju to be undertaken via the Proposed Strategic Alliance.

The Proposed Strategic Alliance will enable Kinsteel to further strengthen its presence in the steel industry by transforming itself into one of the largest integrated steel manufacturers in the country through upstream (manufacturing of DRI and billets), midstream (manufacturing of H-beam and I-beam) and downstream (manufacturing of wire rod, wire mesh, wire conditioning and nails) diversification. Being a fully integrated steel player will enable Kinsteel to better manage its supply chain and increase its competitiveness. The strategic alliance will also provide Kinsteel with a platform to expand its product range and increase its market penetration both locally and overseas. With the Proposed Strategic Alliance, Kinsteel will also further consolidate its niche position by becoming the only H-beam and I-beam manufacturer in Malaysia.

Kinsteel and its related companies have been major trading partners of PSSB for more than 20 years whereby it sources its raw materials, billets, from PSSB. Steel billets form a major cost component in Kinsteel's costs of production. Therefore, this opportunity to enter into a strategic alliance with Maju is a familiar partnership that will not only offer synergistic and complementary benefit to Kinsteel but is in line with both Kinsteel's and PSSB's vision and strategic direction moving forward. Kinsteel anticipates potential benefits such as costs reduction, enhanced production efficiency, better management of supply chain and manufacturing process, and correspondingly strengthening the profits of the operations which will benefit the parties of the strategic alliance.

At the same time, the strategic alliance will also benefit by leveraging the depth and breadth of Kinsteel's marketing reach. It is the intention of the parties of the strategic alliance to capitalise on each other's infrastructure and strengths in their respective steel segments to create a stronger steel company that will transform Kinsteel into a major steel player.

7.2 Proposed ECSB Exemption

ECSB and the Persons Acting In Concert do not intend to undertake a mandatory offer for all the remaining Kinsteel Shares not already owned by them upon completion of the Proposed PSSB Acquisition. Therefore, the Proposed ECSB Exemption will relieve ECSB and the Persons Acting In Concert from the obligation to undertake a mandatory offer for all the remaining Kinsteel Shares not already owned by them upon completion of the Proposed PSSB Acquisition.

7.3 Proposed Increase in Authorised Share Capital

The Proposed Increase in Authorised Share Capital is required to cater for the new Kinsteel Shares to be issued pursuant to the Proposed PSSB Acquisition and to provide for any future issues of new Kinsteel Shares.

8. EFFECTS OF THE PROPOSALS

8.1 Share Capital

The Proposed Strategic Alliance will increase the issued and paid-up share capital of Kinsteel as follows:

	RM
Existing issued and paid-up share capital as at 30 June 2006	110,000,000
To be issued pursuant to the Proposed Strategic Alliance	60,000,000
Assuming full exercise of outstanding warrants*	40,000,000
Enlarged issued share capital	210,000,000

Note:
* *Assuming Kinsteel's 40,000,000 warrants outstanding are exercised in full*

The Proposed ECSB Exemption and Proposed Increase in Authorised Share Capital will not have any effect on the issued and paid-up share capital of Kinsteel.

8.2 Earnings

The Proposed Strategic Alliance is expected to complete by 3rd quarter of 2006 and barring any unforeseen circumstances, is expected to contribute positively to the earnings of the Kinsteel Group for the FYE 31 December 2006 and the future.

The Proposed ECSB Exemption and Proposed Increase in Authorised Share Capital will not have any effect on the earnings of the Kinsteel Group for the FYE 31 December 2006.

8.3 NA, gearing and current ratio

For illustrative purposes, the proforma effects of the Proposed Strategic Alliance on the NA, gearing and current ratio of the Kinsteel Group, based on the audited financial statements of Kinsteel Group and PSSB as at 31 December 2005 are as follows:

	Audited as at 31 December 2005 RM'000	(I) After the Proposed Strategic Alliance RM'000	(II) After (I) and full exercise of warrants[3] RM'000
Share capital	110,000	170,000	210,000
Retained profits	72,676	426,618	426,618
Share premium	23,213	36,113[2]	36,113
Shareholders' equity	205,889	632,731	672,731
Minority interest	-	625,991	625,991
NA	205,889	1,258,722	1,298,722
No. of shares in issue ('000)	110,000	170,000	210,000
NA per share (RM)[5]	1.87	3.72	3.20
Borrowings (RM'000)	356,489	683,969[4]	643,969
Gearing[1] (times)	1.73	1.08	0.96
Current ratio (times)	1.20	0.42	0.43

Notes:
1. *Gearing ratio is calculated as total interest bearing borrowings divided by shareholders' funds*
2. *Estimated expenses of RM8.7 million arising from the Proposals will be set off against the share premium account*
3. *Assuming 40,000,000 warrants outstanding are exercised in full at an exercise price of RM1.00 each. The proceeds from the exercise of the warrants will be used for repayment of borrowings*

4 *Includes bank borrowings of PSSB as at 31 December 2005 of approximately RM227.5 million and assuming the Proposed Strategic Alliance is financed via borrowings of RM100 million*
5 *Minority interest is excluded in the computation of NA per share*

The proforma consolidated balance sheets of Kinsteel as at 31 December 2005 together with the Reporting Accountants' letter thereto are set out in Appendix IV of this Circular.

The Proposed ECSB Exemption and Proposed Increase in Authorised Share Capital will not have any effect on the NA, gearing and current ratio of the Kinsteel Group.

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8.4 Substantial Shareholdings

The effects of the Proposed Strategic Alliance on the shareholdings of major shareholders of Kinsteel based on their shareholdings as at 30 June 2006 are as follows:

Shareholders	Existing as at 30 June 2006				(I) After the Proposed Strategic Alliance				(II) After (I) and full exercise of warrants[6]			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of ordinary shares '000	%	No. of ordinary shares '000	%	No. of ordinary shares '000	%	No. of ordinary shares '000	%	No. of ordinary shares '000	%	No. of ordinary shares '000	%
Kin Kee Holdings Sdn Bhd	58,658	53.33	-	-	58,658	34.50	-	-	79,989	38.09	-	-
PKKSB	-	-	58,658[1]	53.33	-	-	58,658[1]	34.50	-	-	79,989[1]	38.09
Tan Sri Dato' Pheng Yin Huah	3,547	3.22	63,558[2]	57.78	3,547	2.09	63,558[2]	37.39	4,837	2.30	86,489[2]	41.19
Hong Thian Hock	158	0.14	59,259[3]	53.87	158	0.09	59,259[3]	34.86	178	0.08	80,590[3]	38.38
ECSB	-	-	-	-	60,000	35.29	-	-	60,000	28.57	-	-
Maju	-	-	-	-	-	-	60,000[4]	35.29	-	-	60,000[4]	28.57
Tan Sri Abu Sahid bin Mohamed	-	-	-	-	-	-	60,000[5]	35.29	-	-	60,000[5]	28.57

Notes:

1. *Deemed interest by virtue of its 60.6% direct interest in Kin Kee Holdings Sdn Bhd, the immediate holding company of Kinsteel*
2. *Deemed interest by virtue of his 57.6% direct interest in PKKSB, which owns 60.6% direct interest in Kin Kee Holdings Sdn Bhd, his 17.5% direct interest in Kin Kee Hardware Sdn Bhd which in turn owns 4.0% direct interest in Kinsteel, his 30.6% direct interest in Kin Kee Metal Sdn Bhd which in turn owns 0.5% direct interest in Kinsteel and also his 17.7% direct interest in Kin Kee Holdings Sdn Bhd*
3. *Deemed interest by virtue of his 31.6% direct interest in PKKSB, which owns 60.6% direct interest in Kin Kee Holdings Sdn Bhd and his 30.6% direct interest in Kin Kee Metal Sdn Bhd which in turn owns 0.5% direct interest in Kinsteel and his 0.1% indirect interest in Kinsteel held through his son*
4. *Deemed interest by virtue of its 100% direct interest in ECSB*
5. *Deemed interest by virtue of his 91% direct interest in Maju which owns 100% direct interest in ECSB*
6. *Assuming full exercise of Kinsteel's 40.0 million outstanding warrants*

The Proposed ECSB Exemption and Proposed Increase in Authorised Share Capital will not have any effect on the shareholdings of substantial shareholders of Kinsteel.

8.5 Dividend

For the FYE 31 December 2005, your Board has declared a tax-exempt dividend of 5%. The level of dividends to be declared in the future shall be determined by your Board after taking into consideration the performance and cash reserves of the New Kinsteel Group.

9. CONDITIONS OF THE PROPOSALS

9.1 The Proposed Strategic Alliance is subject to and conditional upon approvals being obtained from the following:

(i) the SC under the SC Guidelines for the Proposed Strategic Alliance and the issuance, listing of and quotation for the new Kinsteel Shares to be issued pursuant to the Proposed PSSB Acquisition on the Main Board of Bursa Securities, approval of which was obtained on 5 June 2006;

(ii) the Equity Compliance Unit of the SC under the FIC Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests for the Proposed Strategic Alliance, approval of which was obtained on 5 June 2006;

(iii) the SC for the Proposed Kinsteel Exemption and Proposed Gurun Assets Vendors Exemption, approval of which was obtained on 3 May 2006;

(iv) the SC for the Proposed ECSB Exemption, of which the SC has, vide its letter dated 3 May 2006 informed that they will consider the Proposed ECSB Exemption after the conditions as set out in Section 9.3 of this Circular have been fulfilled;

(v) the MITI for the Proposed Strategic Alliance, approval of which was obtained on 19 April 2006;

(vi) Bursa Securities for the listing of and quotation for the new Kinsteel Shares to be issued pursuant to the Proposed PSSB Acquisition on the Main Board of Bursa Securities;

(vii) the shareholders of Kinsteel at the forthcoming EGM for the Proposed Strategic Alliance;

(viii) the shareholders of the Perwaja Vendors at their respective EGMs for the Proposed Strategic Alliance, approval of which was obtained on 7 October 2005;and

(ix) any other relevant authorities, if necessary.

The Proposed Strategic Alliance is also conditional upon the fulfilment and/or the satisfaction of other conditions precedent contained in the Strategic Alliance Agreement (as set out in Section 2.3 of this Circular).

The Proposed ECSB Exemption is conditional upon approvals being obtained from the following:

(i) the SC, of which the SC has, vide its letter dated 3 May 2006 informed that they will consider the Proposed ECSB Exemption after the conditions set out in Section 9.3 of this Circular have been fulfilled; and

(ii) the shareholders of Kinsteel at the forthcoming EGM.

The Proposed Increase in Authorised Share Capital is conditional upon approval being obtained from the shareholders of the Company at the forthcoming EGM.

The Proposed Strategic Alliance and Proposed ECSB Exemption are inter-conditional. The Proposed Increase in Authorised Share Capital is not conditional upon the Proposed Strategic Alliance and Proposed ECSB Exemption and *vice versa*.

Barring any unforeseen circumstances, the Proposals are expected to be completed by the 3rd quarter of 2006.

9.2 Conditions imposed by the SC (Securities Issues Department)

The conditions imposed by the SC vide their letter dated 5 June 2006 with respect to the Proposed Strategic Alliance are as follows:

	Conditions imposed	Status of compliance
(i)	RHB Sakura/ Kinsteel to make full disclosure in the circular to the shareholders of Kinsteel on the following:	
	(a) rationale for the Proposed Strategic Alliance;	Complied. Please refer to Section 7 of this Circular.
	(b) basis and justification of the purchase consideration;	Complied. Please refer to Sections 2.1.2 and 2.2.2 of this Circular.
	(c) risks relating to the Proposed Strategic Alliance and the mitigating factors thereof;	Complied. Please refer to Section 6 of this Circular.
	(d) detailed effects of the Proposed Strategic Alliance, including but not limited to, the effects on liabilities, interest expense, current ratio and gearing of Kinsteel;	Complied. Please refer to Sections 6.10 and 8 as well as Appendix IV of this Circular.
	(e) the detailed plan for the settlement of the major liabilities; and	Complied. Please refer to Section 2.1.7 of this Circular.
	(f) the funding requirements and the expected sources of such funding.	Complied. Please refer to Section 2.5 of this Circular.
(ii)	In relation to the properties located in Lot 8067 to 8072, Gurun, Kedah, Kinsteel is required to obtain the certificate of fitness from the relevant authority within 6 months from the date of the SC's approval.	To be complied with.
(iii)	Approval should be sought by Kinsteel under the FIC Guidelines on "Acquisition of Properties by Local and Foreign Interests", for any changes in the usage of the Gurun Assets.	Noted.
(iv)	Companies which have been imposed with the equity conditions by MITI including PSSB, should comply with the equity conditions accordingly, unless exemption has been granted by MITI.	Complied.
(v)	Maju Holdings Sdn Bhd to submit an application to Kementerian Pembangunan Usahawan dan Koperasi ("KPUK") for the Proposed Strategic Alliance.	Complied. An application was made to the KPUK for the Proposed Strategic Alliance on 9 June 2006. Subsequently, KPUK had, *vide* their letter dated 22 June 2006, confirmed that the Proposed Strategic Alliance will not affect the Pusat Khidmat Kontraktor licence that has been awarded to Maju, subject to no changes on the equity structure of Maju.

	Conditions imposed	Status of compliance
(vi)	RHB Sakura/ Kinsteel to ensure that all licences, including those issued by MITI for the operations in PSSB, Beam & Section Mill and Bar & Wire Rod Mill, will continue to be valid after the Proposed Strategic Alliance.	To be complied with.
(vii)	RHB Sakura/ Kinsteel to ensure that the outstanding major liabilities of PSSB amounting to RM765,746,258 as identified in the Proposed Strategic Alliance will be addressed in accordance with PSSB's proposed settlement scheme prior to the completion of the Proposed Strategic Alliance.	To be complied with.
(viii)	RHB Sakura/ Kinsteel to ensure that PSSB settles all the outstanding amount payable to Employees Provident Fund and the Inland Revenue Board pursuant to the Scheduled Tax Deduction on behalf of the employees prior to the completion of the Proposed Strategic Alliance.	To be complied with.
(ix)	RHB Sakura/ Kinsteel to inform the SC upon completion of the Proposed Strategic Alliance.	To be complied with.
(x)	RHB Sakura/ Kinsteel to comply with the other relevant requirements of the SC Guidelines in relation to Proposed Strategic Alliance.	Noted.
(xi)	The controlling shareholder of Kinsteel, i.e. Kin Kee Holdings Sdn Bhd, and its related parties to abstain from voting at Kinsteel's general meeting on any resolution pertaining to the Proposed PSSB Acquisition and Proposed Gurun Assets Acquisition.	To be complied with.

9.3 Conditions imposed by the SC (Take-Overs and Mergers Department)

The conditions imposed by the SC vide their letter dated 3 May 2006 with respect to the Proposed ECSB Exemption are as follows:

	Conditions imposed	Status of compliance
(i)	Approval for the Proposed ECSB Exemption is obtained from the independent shareholders of Kinsteel, on a poll in a general meeting in which the interested parties are to abstain from voting. The result of the poll has to be confirmed by an independent auditor.	To be complied with.
(ii)	Provision is made for the shareholders of Kinsteel for competent independent advice regarding the Proposed ECSB Exemption. The appointment of the independent adviser and the independent adviser's circular to the shareholders are to be first approved and consented by the SC respectively.	The appointment of PM Securities as the independent adviser for the Proposed ECSB Exemption was approved by the SC on 29 May 2006. The SC had subsequently on 26 July 2006 given its consent to despatch the Independent Advice Circular

10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or major shareholders of the Company or persons connected to them have any interest, direct or indirect, in the Proposals.

Although none of the Directors and/or major shareholders of the Company or persons connected to them have any interest in the Proposals, in compliance with the conditions imposed by the SC with respect to the Proposed Strategic Alliance set out in Section 9.2 (xi) above, Kin Kee Holdings Sdn Bhd (the controlling shareholder of Kinsteel) and its related parties will abstain from voting on the resolution pertaining to the Proposed Strategic Alliance at the forthcoming EGM.

11. INDEPENDENT ADVISER

In view of the Proposed ECSB Exemption, PM Securities has been appointed as independent adviser to advise the non-interested shareholders of Kinsteel in relation to the Proposed ECSB Exemption. The appointment of PM Securities as the independent adviser for the Proposed ECSB Exemption was approved by the SC on 29 May 2006.

The Independent Advice Circular containing PM Securities' evaluation and recommendation on the Proposed ECSB Exemption will be issued and despatched to all shareholders. **Shareholders are advised to read both this Circular and Independent Advice Circular carefully before voting on the resolution pertaining to the Proposed ECSB Exemption to be tabled at the forthcoming EGM.**

12. DIRECTORS' RECOMMENDATION

After due consideration of the terms of the Proposals, your Board is of the opinion that the terms of the Proposals are fair and reasonable and are in the best interest of the Company and its shareholders.

Accordingly, your Board recommends that you vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

13. EGM

The EGM, the notice of which is enclosed together with this Circular, will be held at Meranti Ballroom, Hyatt Regency Kuantan Resort, Telok Chempedak, 25050 Kuantan, Pahang Darul Makmur on Friday, 11 August 2006 at 9.30 a.m. or any adjournment thereof, for the purpose of considering and if thought fit, passing the resolutions to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, you should complete and return the enclosed Form of Proxy in accordance with the instructions therein as soon as possible so as to arrive at the registered office of the Company at B-38 1st Floor, Lorong Sri Teruntum 139, Off Jalan Bukit Ubi, 25200 Kuantan, Pahang Darul Makmur, not later than 48 hours before the time set for the EGM or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

14. FURTHER INFORMATION

Shareholders are requested to refer to the attached appendices for further information.

Yours faithfully,
For and on behalf of the Board of Directors
KINSTEEL BERHAD

Dato' Md Sharif bin Shamsuddin
Non-Independent Non-Executive Chairman

Exhibit 2
Independent Advice Circular by PM Securities Sdn Bhd on Kinsteel Berhad's Strategic Alliance Agreement

EXECUTIVE SUMMARY

We have prepared this IAC as your Independent Adviser to provide you with an independent evaluation of the Proposed ECSB Exemption and to express our recommendation thereon. This executive summary is intended to be only a brief summary of the IAC. We advise you to read both this IAC together with the Circular and to consider carefully the recommendation contained herein before voting on the resolution pertaining to the Proposed ECSB Exemption at the coming EGM of Kinsteel.

1. Introduction

On 7 October 2005, RHB Sakura, on behalf of your Board, announced that Kinsteel had on the same date entered into a conditional strategic alliance agreement with the Perwaja Vendors, for the Proposed Strategic Alliance. The Proposed Strategic Alliance involves the Proposed PSSB Acquisition and Proposed Gurun Assets Acquisition.

Upon the completion of the Proposed PSSB Acquisition, ECSB, who presently does not have any shareholding in Kinsteel, will own 60,000,000 Kinsteel Shares representing approximately 35.3% equity interest in Kinsteel (before exercise of any outstanding warrants). As such, pursuant to Part II of the Code, ECSB and the parties acting in concert with it namely, Maju, Tan Sri Abu Sahid bin Mohamed and Dato' Abu Talib bin Mohamed (**"Parties Acting In Concert"**) will trigger an obligation to undertake a mandatory offer for the remaining Kinsteel Shares not held by ECSB and the Parties Acting In Concert upon completion of the Proposed PSSB Acquisition.

2. The Proposed ECSB Exemption

An application was made by Kinsteel to the SC on behalf of ECSB for the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code. The SC had via its letter dated 3 May 2006 informed that it will consider the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code after the conditions set out in Section 4 of this IAC have been fulfilled. Further information in respect of the Proposed ECSB Exemption is set out in Section 4 of this IAC.

In compliance with Practice Note 2.9.1 of the Code, we have been appointed by your Board as the Independent Adviser of Kinsteel on 11 May 2006, to advise you in relation to the Proposed ECSB Exemption. The SC approved our appointment as the Independent Adviser in relation to the Proposed ECSB Exemption via its letter dated 29 May 2006. The SC had also on 26 July 2006 given its consent to the despatch of this IAC. However, the consent of the SC for the despatch of this IAC does not imply that the SC concurs with our views and recommendation, but only means that this IAC has been prepared in compliance with the provisions of the Code.

3. Our evaluation

In our evaluation of the Proposed ECSB Exemption as set out in Section 5 of this IAC, we have as a whole considered the following:

(i) Rationale for the Proposed Strategic Alliance and Proposed ECSB Exemption;
(ii) Dilution impact on existing shareholders;
(iii) Position of controlling shareholders;
(iv) Net book value;
(v) Basis of the PSSB Purchase Consideration (as defined herein);
(vi) Issue price of the Consideration Shares (as defined herein);
(vii) Financial effects of the Proposed Strategic Alliance;
(viii) Implication of the Proposed ECSB Exemption; and
(ix) Industry outlook and prospects of the Kinsteel Group.

4. Our recommendation

In arriving at our recommendation, we have taken into account as a whole, amongst others, the following key factors (details of which are set out in Section 5 of this IAC):

(i) The approval of the Proposed ECSB Exemption is necessary for the implementation of the Proposed Strategic Alliance, as the Proposed Strategic Alliance is conditional on, amongst others, the Proposed ECSB Exemption. We note that your Board represented that the Proposed Strategic Alliance would benefit Kinsteel as it would enable Kinsteel to further strengthen its presence in the steel industry by transforming itself into an integrated steel manufacturer, expand its product range, increase its plant capacity, increase its market penetration and leveraging on the marketing reach of Kinsteel, better management of its supply chain and consolidate its niche position.

(ii) The completion of the Proposed Strategic Alliance will result in a dilution of the shareholdings of existing shareholders of Kinsteel, including the current controlling shareholders.

(iii) Despite the dilution stated in (ii) above, there will be no change in the largest controlling shareholders of Kinsteel pursuant to the Proposed PSSB Acquisition. Therefore, the direction of Kinsteel would still be dependent on that set by the current controlling shareholders.

(iv) The Proposed Strategic Alliance is expected to contribute positively to the earnings of the New Kinsteel Group.

(v) If you vote in favour of the Proposed ECSB Exemption at the coming EGM, the SC may consider the application for the Proposed ECSB Exemption. If the SC approves the Proposed ECSB Exemption, this would facilitate the implementation of the Proposed Strategic Alliance.

(vi) If you vote against the Proposed ECSB Exemption at the coming EGM, the SC would not consider the application for the Proposed ECSB Exemption. Consequently, the Proposed Strategic Alliance will be aborted.

(vii) Barring unforeseen circumstances and subject to the inherent risks of the industry that Kinsteel is operating in, the Proposed Strategic Alliance is expected to enable the New Kinsteel Group to strengthen its presence in the steel industry by transforming itself into one of the largest integrated steel manufacturers in Malaysia, and take advantage of the favourable prospects of the steel industry.

Based on our evaluation of the Proposed ECSB Exemption, we recommend that you vote in favour of the ordinary resolution relating to the Proposed ECSB Exemption to be tabled at the Company's coming EGM.

Registered Office:

5th Floor, Menara PMI
No. 2, Jalan Changkat Ceylon
50200 Kuala Lumpur

3 August 2006

To: The non-interested shareholders of Kinsteel Berhad

Dear Sir/Madam,

KINSTEEL BERHAD
Independent advice in relation to the Proposed ECSB Exemption

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1. INTRODUCTION

On 7 October 2005 ("**Announcement Date**"), RHB Sakura, on behalf of your Board, announced that Kinsteel had on the same date entered into a conditional strategic alliance agreement with the Perwaja Vendors, for the Proposed Strategic Alliance. The Proposed Strategic Alliance involves the Proposed PSSB Acquisition and Proposed Gurun Assets Acquisition.

On 19 April 2006, RHB Sakura announced on behalf of your Board, that the Ministry of International Trade and Industry has via its letter dated 19 April 2006, stated that it has no objection to the implementation of the Proposed Strategic Alliance by Kinsteel, subject to the approval of the SC being obtained and the compliance with the Foreign Investment Committee's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests for the Proposed Strategic Alliance.

On 6 June 2006, RHB Sakura announced on behalf of your Board that the SC has via its letter dated 5 June 2006 approved the Proposed Strategic Alliance, subject to the conditions set out in Section 9.2 of the Circular. Your Board has also announced that the SC had in the aforesaid letter, approved the Proposed Strategic Alliance pursuant to the Foreign Investment Committee's Guidelines on Acquisition of Interests, Mergers and Takeovers by Local and Foreign Interests and Guidelines on the Acquisition of Properties by Local and Foreign Interests.

Upon the completion of the Proposed PSSB Acquisition, ECSB, who presently does not have any shareholding in Kinsteel, will own 60,000,000 Kinsteel Shares representing approximately 35.3% equity interest in Kinsteel (before exercise of any outstanding warrants). As such, pursuant to Part II of the Code, ECSB and the Parties Acting In Concert will trigger an obligation to undertake a mandatory offer for the remaining Kinsteel Shares not held by ECSB and the Parties Acting In Concert upon completion of the Proposed PSSB Acquisition.

An application was made by Kinsteel to the SC on behalf of ECSB for the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code. Further information in respect of the Proposed ECSB Exemption is set out in Section 4 of this IAC.

In compliance with Practice Note 2.9.1 of the Code, we have been appointed by your Board as the Independent Adviser of Kinsteel on 11 May 2006, to advise you in relation to the Proposed ECSB Exemption. The SC approved our appointment as the Independent Adviser in relation to the Proposed ECSB Exemption via its letter dated 29 May 2006. The SC had also on 26 July 2006 given its consent to the despatch of this IAC. However, the consent of the SC for the despatch of this IAC does not imply that the SC concurs with our views and recommendation, but only means that this IAC has been prepared in compliance with the provisions of the Code.

The purpose of this IAC is to provide you with the relevant information on the Proposed ECSB Exemption, our independent evaluation of the Proposed ECSB Exemption and our views and recommendation subject to the scope of our role and evaluation specified herein.

We advise you to read both this IAC together with the Circular and to consider carefully our recommendation as contained herein before voting on the ordinary resolution pertaining to the Proposed ECSB Exemption at the coming EGM of Kinsteel.

2. LIMITATIONS TO OUR EVALUATION OF THE PROPOSED ECSB EXEMPTION

We have been appointed by the Company to advise you in respect of the Proposed ECSB Exemption. We were not a party to the negotiations entered into by the Company in relation to the Proposed Strategic Alliance and we were not involved in the deliberations leading up to the decision on the part of the Directors to enter into the Proposed Strategic Alliance. We do not advise on the merits of the Proposed Strategic Alliance or whether the financial terms of the Proposed Strategic Alliance are on normal commercial terms. We have not taken into account whether the Proposed Strategic Alliance is commercially desirable or justifiable. Our terms of reference do not require us to evaluate or comment on the strategic merits, long term or otherwise, and/or on the commercial/financial merits and/or risks (if any) of the Proposed Strategic Alliance. Such evaluations or comments remain the sole responsibility of the Directors and management of the Company although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion. Further, in arriving at our opinion, we have not considered the legal and tax implications arising from the Proposed Strategic Alliance.

In our evaluation, we have not given consideration to the specific investment objective, financial situation, tax position, risk profiles and particular need of any individual non-interested shareholder, or any specific group of non-interested shareholders. Our evaluation is rendered solely for the benefit of the non-interested shareholders of Kinsteel as a whole. We recommend that any individual shareholder or group of shareholders who is in doubt as to the action to be taken or requires advice in relation to the Proposed ECSB Exemption in the context of their individual or group objective, financial situation, tax position, risk profiles or particular need, to consult their respective stockbrokers, bankers, solicitors, accountants, tax advisers or other professional advisers.

In performing our evaluation, we have relied mainly on the following sources of information/ documents:

(i) information contained in the Circular and the appendices enclosed therein;

(ii) discussions with and confirmation by the Directors and senior management of Kinsteel, other relevant documents and information furnished to us by the Directors and management of Kinsteel and/or their advisers; and

(iii) other publicly available information.

We have not independently verified the abovementioned information and documents for its accuracy, validity and/or completeness and express no opinion on any such information/ documents nor have we undertaken any independent investigation into the business of Kinsteel. In formulating our recommendation, we have also relied on the reasonableness, accuracy and completeness of the information/documents provided to us by Kinsteel.

Nonetheless, we have obtained written confirmation from the Board that it collectively and individually accepts full responsibility for the accuracy of the information given to us and confirms that, to the best of its knowledge and belief, all material facts and information required for the purpose of our evaluation of and formulation of our recommendation on the Proposed ECSB Exemption have been disclosed to us accurately and that there are no facts and/or statements and/or information, the omission of which would make any information supplied to us to be false or misleading.

3. PROPOSED STRATEGIC ALLIANCE

The Proposed Strategic Alliance involves the Proposed PSSB Acquisition and Proposed Gurun Assets Acquisition.

3.1 Proposed PSSB Acquisition

The Proposed PSSB Acquisition involves the proposed acquisition by Kinsteel from ECSB of 620,252,159 PSSB Shares, representing 51% equity interest in PSSB, for a purchase consideration of RM197,600,000 ("**PSSB Purchase Consideration**") to be satisfied in the following manner:

(i) RM81,600,000 via an issuance of 60,000,000 new Kinsteel Shares ("**Consideration Shares**") at an issue price of RM1.36 per Kinsteel Share; and

(ii) cash settlement for the remaining balance of RM116,000,000 payable in 67 equal monthly instalments of RM1,705,883 each and 1 final instalment of RM1,705,839, commencing upon the completion of the Proposed Strategic Alliance.

Please refer to Section 2.1 of the Circular for further information on the Proposed PSSB Acquisition and Section 2.1.1 of the Circular for further information on PSSB.

3.2 Proposed Gurun Assets Acquisition

The Proposed Gurun Assets Acquisition involves the proposed acquisition by Kinsteel from the Gurun Assets Vendors of 51% interest in the Gurun Assets for RM100,000,000 cash via PCSB.

Please refer to Section 2.2 of the Circular for further information on the Proposed Gurun Assets Acquisition and Section 2.2.1 of the Circular for further information on the Gurun Assets.

4. PROPOSED ECSB EXEMPTION

As shown in Section 5.2 of this IAC, immediately upon the completion of the Proposed PSSB Acquisition, ECSB, who presently does not have any shareholding in Kinsteel, will own 60,000,000 Kinsteel Shares representing approximately 35.3% equity interest in Kinsteel (before exercise of any outstanding warrants), making ECSB the second largest shareholder in Kinsteel. In the event the entire outstanding warrants in Kinsteel are fully exercised after the completion of the Proposed PSSB Acquisition, ECSB's shareholdings in Kinsteel will be diluted to approximately 28.6%.

Pursuant to Part II of the Code, ECSB and the Parties Acting In Concert will trigger an obligation to undertake a mandatory offer for all the remaining Kinsteel Shares not already owned by them upon completion of the Proposed PSSB Acquisition, at the same price as the issue price of the Consideration Shares of RM1.36 per Share. However, Practice Note 2.9.1 of the Code allows for an exemption from the obligation to undertake a mandatory offer that arises as a result of the issue of new securities as a consideration for an acquisition.

As such, an application was made to the SC by Kinsteel on behalf of ECSB for the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code. The SC had via its letter dated 3 May 2006 informed that it will consider the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code after the following conditions have been fulfilled:

No.	Terms and conditions of the SC	Compliance
(i)	Approval for the Proposed ECSB Exemption is obtained from the independent shareholders of Kinsteel, on a poll in a general meeting in which the interested parties are to abstain from voting. The result of the poll has to be confirmed by an independent auditor.	Your approval for the Proposed ECSB Exemption by way of a poll will be sought at the EGM of the Company on 11 August 2006.
(ii)	Provision is made for the shareholders of Kinsteel for competent independent advice regarding the Proposed ECSB Exemption. The appointment of the independent adviser and the independent adviser's circular to the shareholders are to be first approved and consented by the SC respectively.	We have been appointed as the Independent Adviser on 11 May 2006, to advise you in relation to the Proposed ECSB Exemption. The SC has approved our appointment as the Independent Adviser via its letter dated 29 May 2006 and given its consent to the despatch of this IAC on 26 July 2006.

5. OUR EVALUATION OF THE PROPOSED ECSB EXEMPTION

The Proposed Strategic Alliance itself is not a related party transaction and does not require an independent advice review. We however, note that there are certain safeguards provisions in the Strategic Alliance Agreement to ensure due diligence enquiries are undertaken to the satisfaction of Kinsteel.

We also note the risk factors associated with the Proposed Strategic Alliance as set out in Section 6 of the Circular and we are of the opinion that it is important that you read the rationale for the Proposed Strategic Alliance in conjunction with the risk factors. It should be noted that the risk factors might not be an exhaustive list of elaboration of the risk profile of the operations and businesses of PSSB.

In our evaluation of the Proposed ECSB Exemption, we have as a whole taken into consideration the following areas:

5.1 Rationale for the Proposed Strategic Alliance and Proposed ECSB Exemption;
5.2 Dilution impact on existing shareholders;
5.3 Position of controlling shareholders;
5.4 Net book value;
5.5 Basis of the PSSB Purchase Consideration;
5.6 Issue price of the Consideration Shares;
5.7 Financial effects of the Proposed Strategic Alliance;
5.8 Implication of the Proposed ECSB Exemption; and
5.9 Industry outlook and prospects of the Kinsteel Group.

5.1 Rationale for the Proposed Strategic Alliance and Proposed ECSB Exemption

Please refer to the rationale for the Proposed Strategic Alliance and Proposed ECSB Exemption set out in Sections 7.1 and 7.2 of the Circular.

We take note that your Board represented that the Proposed Strategic Alliance would benefit Kinsteel as follows:

(i) Transform into a fully integrated steel manufacturer

Kinsteel is presently a midstream steel manufacturer principally involved in manufacturing and trading of steel bars and related products and investment holding. Its subsidiaries are principally involved in the trading of steel bars and related steel products and property investment holding.

PSSB is presently an upstream steel manufacturer principally involved in manufacturing and trading of DRI, steel billets, beam-blanks and blooms. Upon completion of the Proposed Gurun Assets Acquisition by PCSB, PCSB will be principally a midstream and downstream steel manufacturer.

The consolidation of the 2 steel makers would result in:

(a) a fully integrated steel entity;

(b) an enlarged steel maker who would be one of the largest steel billet maker and as at the Latest Practicable Date, the only DRI, beam-blanks and blooms producer in Malaysia; and

(c) economies of scale from the combined Kinsteel, PSSB and PCSB.

We note from the Prospectus of Kinsteel dated 30 September 2002 that, the Directors of Kinsteel had planned to further strengthen the Group's presence in the steel industry by transforming Kinsteel into an integrated steel manufacturer through diversification into upstream activities. Kinsteel had planned to construct its own steel billet plant in year 2005. However, with the Proposed Strategic Alliance, Kinsteel has decided to abort this as PSSB has billet manufacturing capabilities. The integration with PSSB coupled with the acquisition of the Gurun Assets, will enable Kinsteel to become a fully integrated steel entity. This will not only offer synergistic and complementary benefit to Kinsteel but is also in line with Kinsteel's vision and strategic direction moving forward. This will enable Kinsteel to further strengthen its presence in the steel industry.

(ii) Expand product range

Kinsteel presently manufactures only long steel products, comprising mild steel round bars, high tensile deformed bars, angle bars, flat bars and U-channel bars. Upon completion of the construction of its bar and wire rod plant, the plant would produce mild steel round bars, high tensile deformed bars, flat bars, angle bars and wire rods. The Proposed Strategic Alliance is an opportunity for Kinsteel to enter into new market segments. PSSB is currently the sole producer of DRI, beam-blanks and blooms in Malaysia. The management of Kinsteel is confident that the entry into these new market segments should bring better financial prospects to the New Kinsteel Group. Kinsteel's product range after the completion of the Proposed Strategic Alliance will be expanded to include those produced by PSSB and PCSB via the Gurun Assets as follows:

Kinsteel	PSSB	Gurun Assets
Midstream products consisting:	Upstream products consisting:	Midstream and downstream products consisting:
• Mild steel round bars	• DRI *	• H-section *
• High tensile deformed bars	• Steel billets *	• I-section *
• Angle bars	• Beam-blanks *	• C-channel *
• Flat bars	• Blooms *	• Angle *
• U-channel		• Wire rods
• Wire rods		• Mild steel round bars
		• Stainless steel bars *
		• High tensile deformed bars
		• Bolts and nuts *
		• Wire conditioning *
		• Wire mesh *

Note:

* *New products offering for the New Kinsteel Group or products not currently manufactured by Kinsteel*

(iii) Increase plant capacity

Kinsteel presently has 7 rolling mills with a total annual capacity of 500,000 mt. It is also constructing a bar and wire rod plant with expected annual capacity of 300,000 mt, which is expected to commence commercial production by 4th quarter of 2006. Upon completion of the Proposed Strategic Alliance, the New Kinsteel Group would have the capacity to produce upstream as well as downstream products via the following production facilities:

Company	Location	Steel mill	Products	Annual capacity mt
Kinsteel	Gebeng Industrial Estate, Kuantan	Steel production plant consisting 7 rolling mills	Mild steel round bars, high tensile deformed bars, flat bars, angle bars and U-channel bars	500,000
		Bar and wire rod plant	Mild steel round bars, high tensile deformed bars, flat bars, angle bars and wire rods	300,000
			Total capacity	**800,000**
PSSB	Kemaman, Terengganu	Direct reduction plant	DRI	1,200,000
		Steel making plant	Steel billets, beam-blanks and blooms	1,300,000
			Total capacity	**2,500,000**
PCSB	Gurun, Kedah	Bar & Wire Rod Mill	Wire rods, mild steel round bars, stainless steel bars, high tensile deformed bars, wire conditioning	450,000
		Beam & Section Mill	H-section, I-section, C-channel, angle	700,000
			Total capacity	**1,150,000**

(Source: Company data)

Notes:

na *Not available*
(1) *The bar and wire rod plant is being constructed and is expected to commence commercial production by 4th quarter of 2006*
(2) *The Bar & Wire Rod Mill has not been operational (save for ad-hoc orders) from 2002 until November 2005, when it resumed production under the management of Kinsteel*
(3) *The Beam & Section Mill has not been operational (save for ad-hoc orders) from 2001 until April 2006, when it resumed production under the management of Kinsteel*

Upon entering into the Strategic Alliance Agreement, the management of Kinsteel has in October 2005, taken over the management of the operations of PSSB to better understand the operations, begin the operational integration and implement operational improvements. The management has also in November 2005 re-commissioned the Bar & Wire Rod Mill and resumed the production of the Beam & Section Mill in April 2006. This would expedite the integration of the 2 entities as, once the Proposed Strategic Alliance is completed, the facilities of the New Kinsteel Group would be fully operational.

(iv) Increase market penetration and leveraging marketing reach

Majority of Kinsteel's sales presently is to the local market. With higher reach of PSSB's export market, the Proposed Strategic Alliance would enable the Kinsteel Group to expand its market penetration both locally and overseas.

The New Kinsteel Group is also able to derive synergistic benefits from this strategic alliance as Kinsteel is presently more trading based whereas PSSB is mainly a steel manufacturer. Kinsteel has access to the end-users of its steel products via its marketing arm, Kin Kee Marketing Sdn Bhd, which is responsible for the marketing and distribution activities of Kinsteel. Kin Kee Marketing Sdn Bhd, a wholly-owned subsidiary of Kinsteel, has built up a distribution network of customers of more than 300 dealers, comprising hardware dealers and trading companies, spread over cities/ towns throughout Malaysia. The strategic alliance will benefit the New Kinsteel Group through leveraging on Kinsteel's existing marketing reach.

(v) Better management of supply chain

Kinsteel is highly dependent on steel billets as a source of raw material. For the financial year ended 31 December 2005, the cost of steel billets constitutes approximately 90% of Kinsteel's total cost of production. The steel billets were sourced locally, of which 70% were purchased from PSSB.

The Group had earlier planned to construct its own steel billet plant to lower its production cost in order to increase competitiveness, and also to reduce its dependence on external parties for the supply of billets. Following the Proposed Strategic Alliance, the Group will no longer construct its own steel billet plant as PSSB owns, amongst others, a steel billet making plant. With this, Kinsteel would be able to reduce its dependency on external steel billet suppliers and improve its production costs. Kinsteel would also be able to reduce the holding costs for billets as it would be able to manage the timely and efficient supply of billets from PSSB to Kinsteel. These benefits are expected to improve the competitiveness of the Kinsteel Group.

PSSB is currently already a major supplier of steel billets to Kinsteel and has been a major trading partner of Kinsteel for more than 15 years. With the Proposed Strategic Alliance, Kinsteel will have majority interest in PSSB, and thus will be in a position to better control and manage the supply chain with the reliable and ready supply of billets from PSSB.

(vi) Consolidate its niche position

Kinsteel currently distinguishes itself by being the only U-channel bar manufacturer in Malaysia. Upon completion of the Proposed Strategic Alliance, the Kinsteel Group will be able to consolidate its niche position by becoming the only DRI, beam-blanks, blooms, U-channel bar, H-beams and I-beams manufacturer in Malaysia.

We note from the above that the Proposed Strategic Alliance has been entered into with a view to increase competitiveness of the Kinsteel Group. Your Directors believe that the benefits from the Proposed Strategic Alliance are expected to strengthen the Kinsteel Group's operating profits.

We note from Section 7.2 of the Circular that ECSB and the Parties Acting In Concert do not intend to undertake a mandatory offer for all the remaining Kinsteel Shares not already owned by them upon completion of the Proposed PSSB Acquisition. Therefore, the Proposed ECSB Exemption will relieve ECSB and the Parties Acting In Concert from the obligation to undertake a mandatory offer for all the remaining Kinsteel Shares not already owned by them upon completion of the Proposed PSSB Acquisition. In addition, the Proposed Strategic Alliance is conditional upon, amongst others, your approval for the Proposed ECSB Exemption at the coming EGM. As such, the Proposed ECSB Exemption is necessary to enable the Proposed Strategic Alliance to be completed.

5.2 Dilution impact on existing shareholders

It would be pertinent to note that pursuant to the Proposed PSSB Acquisition, the shareholding structure of Kinsteel would change significantly and existing shareholders will be diluted following the issue of the Consideration Shares.

Based on the issued share capital of Kinsteel as at 30 June 2006, the impact on the direct percentage shareholdings of the existing shareholders of Kinsteel pursuant to the Proposed PSSB Acquisition is as follows:

	Existing as at 30 June 2006		**After the Proposed PSSB Acquisition**		**After full exercise of warrants[3]**	
Shareholders of Kinsteel	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
Major shareholders[1]	62,363,468	56.69	122,363,468	71.98	145,003,650	69.05
Directors[2]	1,535,700	1.40	1,535,700	0.90	2,317,200	1.10
Other shareholders	46,100,832	41.91	46,100,832	27.12	62,679,150	29.85
Total	110,000,000	100.00	170,000,000	100.00	210,000,000	100.00

Notes:

(1) The existing major shareholders of Kinsteel are Kin Kee Holdings Sdn Bhd, PKKSB, Tan Sri Dato' Pheng Yin Huah and Hong Thian Hock. After the Proposed PSSB Acquisition, ECSB, Maju and Tan Sri Abu Sahid bin Mohamed will also be the major shareholders of Kinsteel. Please refer to Section 5.3 of this IAC for shareholdings of the major shareholders

(2) Shareholdings of all existing Directors of Kinsteel except for Tan Sri Dato' Pheng Yin Huah and Hong Thian Hock, who are also major shareholders of Kinsteel. Please refer to Section 4 of Appendix I of this IAC for shareholdings of the Directors of Kinsteel

(3) Assuming full exercise of the 40.0 million outstanding warrants

5.3 Position of controlling shareholders

The major shareholders of Kinsteel and their respective shareholdings in Kinsteel upon completion of the Proposed PSSB Acquisition are as follows:

	Existing as at 30 June 2006				After the Proposed PSSB Acquisition				After full exercise of warrants[6]			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
Major shareholders	**No. of Shares '000**	**%**	**No. of Shares '000**	**%**	**No. of Shares '000**	**%**	**No. of Shares '000**	**%**	**No. of Shares '000**	**%**	**No. of Shares '000**	**%**
Kin Kee Holdings Sdn Bhd	58,658	53.33	-	-	58,658	34.50	-	-	79,989	38.09	-	-
PKKSB	-	-	58,658[1]	53.33	-	-	58,658[1]	34.50	-	-	79,989[1]	38.09
Tan Sri Dato' Pheng Yin Huah	3,547	3.22	63,558[2]	57.78	3,547	2.09	63,558[2]	37.39	4,837	2.30	86,489[2]	41.19
Hong Thian Hock	158	0.14	59,259[3]	53.87	158	0.09	59,259[3]	34.86	178	0.08	80,590[3]	38.38
ECSB	-	-	-	-	60,000	35.29	-	-	60,000	28.57	-	-
Maju	-	-	-	-	-	-	60,000[4]	35.29	-	-	60,000[4]	28.57
Tan Sri Abu Sahid bin Mohamed	-	-	-	-	-	-	60,000[5]	35.29	-	-	60,000[5]	28.57

Notes:

(1) Deemed interest by virtue of its 60.6% direct interest in Kin Kee Holdings Sdn Bhd, the immediate holding company of Kinsteel

(2) Deemed interest by virtue of his 57.6% direct interest in PKKSB, which in turn owns 60.6% direct interest in Kin Kee Holdings Sdn Bhd, his 17.5% direct interest in Kin Kee Hardware Sdn Bhd which in turn owns 4.0% direct interest in Kinsteel, his 30.6% direct interest in Kin Kee Metal Sdn Bhd which in turn owns 0.5% direct interest in Kinsteel and also his 17.7% direct interest in Kin Kee Holdings Sdn Bhd

(3) Deemed interest by virtue of his 31.6% direct interest in PKKSB, which in turn owns 60.6% direct interest in Kin Kee Holdings Sdn Bhd and his 30.6% direct interest in Kin Kee Metal Sdn Bhd which in turn owns 0.5% direct interest in Kinsteel and his 0.1% indirect interest in Kinsteel held through his son

(4) Deemed interest by virtue of its 100.0% direct interest in ECSB

(5) Deemed interest by virtue of his 91.0% direct interest in Maju which in turn owns 100% direct interest in ECSB

(6) Assuming full exercise of the 40.0 million outstanding warrants

Upon completion of the Proposed PSSB Acquisition, the shareholdings of the existing controlling shareholders of Kinsteel, namely Kin Kee Holdings Sdn Bhd, PKKSB, Tan Sri Dato' Pheng Yin Huah and Hong Thian Hock, who collectively hold 61.2% equity interest in Kinsteel, will be diluted to 39.6%. ECSB will become a major shareholder of Kinsteel holding 35.3% equity interest. The existing controlling shareholders of Kinsteel will collectively remain the largest controlling shareholders of Kinsteel holding 39.6% equity interest. Assuming the outstanding warrants of Kinsteel are fully exercised, the shareholdings of the existing controlling shareholders of Kinsteel will increase to 43.6% and ECSB's equity interest in Kinsteel will be diluted to 28.6%.

The new major shareholders of Kinsteel namely, ECSB and the Parties Acting In Concert, pursuant to the Proposed PSSB Acquisition, have declared that they will not be the largest controlling shareholders of the Kinsteel Group, hence they do not intend to effect any changes to the following, for a period of 12 months from the completion of the Proposed PSSB Acquisition:

(i) continuation of the business of the Kinsteel Group;

(ii) business, including any plans to liquidate Kinsteel, sell its assets or re-deploy its fixed assets or make any other major change in the structure of the Kinsteel Group, unless it is required to rationalise and/or improve the operational and financial position of the Kinsteel Group; and

(iii) continued employment of the employees or employment policies of the Kinsteel Group, except where such re-deployment of employees may be effected to rationalise and/or improve the efficiency of the Kinsteel Group's operations.

In any case, as ECSB and the Parties Acting In Concert will not be the largest controlling shareholders of the Kinsteel Group, they cannot effect any changes to the above unless these changes have also been agreed upon by the current and eventual controlling shareholders other than themselves.

Therefore, the Proposed ECSB Exemption will not result in a change in the controlling shareholders of Kinsteel upon completion of the Proposed Strategic Alliance. The direction of Kinsteel would still be dependent on that set by the current controlling shareholders of Kinsteel. We have also taken note that the existing controlling shareholders will be the main drivers of the Proposed Strategic Alliance. In view of the dilution of about 21% in the shareholdings of the current controlling shareholders of Kinsteel, it would be reasonable to expect them to take the necessary steps to maintain or improve the performance of the Kinsteel Group through the benefits set out in Section 5.1 of this IAC, subsequent to the Proposed Strategic Alliance in order to safeguard the value of their investment in Kinsteel.

5.4 Net book value

We note that the purchase considerations for the 51% interests in PSSB and the Gurun Assets represent a significant discount from the latest audited NTA of PSSB and the market value of the Gurun Assets respectively, as set out below:

	PSSB RM'000	Gurun Assets RM'000
Purchase consideration	197,600	100,000
NTA/ market value (representing 51% interests)	300,252[(1)]	351,290[(2)]
Discount of purchase consideration to NTA/ market value	102,652	251,290
% discount of purchase consideration to NTA/ market value	34.19%	71.53%

Notes:

(1) Based on the audited financial statement of PSSB for the FYE 31 December 2005

(2) Based on the valuation undertaken by Messrs Henry Butcher Malaysia Sdn Bhd. Please refer to Appendix VI of the Circular for the valuation certificates from Messrs Henry Butcher Malaysia Sdn Bhd

According to the management of Kinsteel, the costs of setting up the same production lines as the above would be much higher than the acquisition costs.

5.5 Basis of the PSSB Purchase Consideration

The PSSB Purchase Consideration of RM197,600,000 for 51% equity interest in PSSB pursuant to the Proposed PSSB Acquisition was arrived at based on a willing buyer-willing seller basis, after taking into consideration the prospects, future earnings potential of PSSB and unaudited book value of PSSB as at 31 December 2004 of RM701.5 million.

As the business of PSSB is principally involved in the manufacturing and trading of DRI, steel billets, beam-blanks and blooms, we have identified several companies listed on Bursa Securities whose activities are broadly comparable to the business of PSSB ("**Comparable Companies**"). We have reviewed the price-to-book ratios ("**PBR**") of the Comparable Companies implied by their respective closing market prices as at the Latest Practicable Date with the historical PBR of PSSB implied by the PSSB Purchase Consideration. Based on discussions with the management of Kinsteel, the historical price-earnings ratio of PSSB was not taken into consideration in arriving at the PSSB Purchase Consideration, but rather the future earnings potential.

Comparable Companies	Description of business activities	FYE	Market capitalisation as at the Latest Practicable Date[(1)] RM'000
PSSB	**Manufacturing and trading of DRI, steel billets, beam-blanks and blooms.**	**31/12/05**	-
Kinsteel	Kinsteel is principally involved in investment holdings, manufacturing and trading of steel bars and related products. Its subsidiaries are principally involved in trading of steel bars and related products, and property investment holding.	31/12/05	117,700
Lion Industries Corporation Berhad	Lion Industries Corporation Berhad is principally involved in investment holding and property development. Its subsidiaries are principally involved in manufacture, market and sale of steel bars, wire rods and hot briquetted iron and steel related products; property development; manufacture of industrial chemicals and related products; provision of educational services; integrated wood-based activities and pulp and paper mill operations; manufacture, trading and distribution of petroleum products; and beer brewing.	30/6/05	595,983
Southern Steel Berhad	Southern Steel Berhad is principally involved in the manufacturing of, sales and trading in billets, steel bars and wire rods. Its subsidiaries are principally involved in manufacture and marketing of steel wire mesh and concrete wires; manufacture and sale of all types of fine steel wire, steel wire, wire ropes, tyre bead wire and welding wire, galvanised wire and strand, steel pipes, pre-stressed concrete strands and wires; manufacture of staples and related products; investment holding; trading in iron and steel products and providing transportation services; supply of labour and contract labour; and rental of properties.	31/12/05	372,633
Malayawata Steel Berhad[(3)] ("**MSB**")	MSB is principally involved in the operation of an integrated steel mill, and property investment holding. Its subsidiaries' are principally involved in sales and marketing of steel related products, renting out of machinery and property investment holding, cultivation of oil palm, and sale of oil palm produce.	31/3/05	245,932[(2)]
Malaysia Steel Works (KL) Bhd	Malaysia Steel Works (KL) Bhd is principally involved in manufacturing of steel bars and steel billets.	31/12/05	102,410
Leader Steel Holdings Berhad	Leader Steel Holdings Berhad is principally an investment holding company. Its subsidiaries are principally involved in manufacturing, trading and sales of steel products and steel product making machinery.	31/12/05	54,146[(2)]
Ann Joo Resources Berhad ("**AJRB**")	AJRB is principally involved in investment holding and property management. Its subsidiaries are principally involved in trading of steel, iron and metal products, hardware, and building and construction materials; manufacture and sale of cast irons products, sluice valves, precision press parts and other steel and iron products; operation of steel service centres; and property management.	31/12/05	297,980

(Source: Bloomberg and Comparable Companies' latest annual reports)

Notes:

(1) Based on number of ordinary share capital as at the latest quarterly announcement, i.e. as at 31 March 2006

(2) Based on closing price as at 17 July 2006

(3) Following the completion of the conditional voluntary offer by AJRB to acquire all the remaining ordinary shares of RM1.00 each in MSB which are not held directly or indirectly by AJRB and the parties acting in concert with it for a cash consideration of RM1.50 per share on 27 January 2006, MSB is now a 67.67% subsidiary of AJRB

We recognise that there is no company listed on any relevant stock exchange which may be considered identical to PSSB in terms of composition of business activities, scale of operations, asset base, risk profile, geographical spread of activities, track record, future prospects and other relevant criteria. As such, any comparison merely serves as an illustrative guide to shareholders.

The valuation statistics were computed on historical bases using financial data obtained from the respective companies' latest annual reports. The companies have different financial year end and hence, care must be taken in comparing the historical data among the various companies. Accordingly, comparative analysis and observation made are purely for illustrations purposes.

PBR comparison

The NTA reflects only the net tangible assets of a company in accounting terms and is meaningful insofar as it shows the extent to which the value of each share is backed by tangible assets. It does not necessarily reflect the value of the company as a going concern. The NTA bases (or comparison thereof) in valuing a company or providing an indication of the relative value of a company, may provide an estimate of the value of a company assuming the hypothetical sale of the assets used in the computation of the NTA, the proceeds of which are used to repay the liabilities of the company. As such, the review outlined here is only meant for illustrative purposes as the comparability of historical PBRs between PSSB and the Comparable Companies is necessarily limited.

We list below the PBRs of the Comparable Companies based on their share prices as at the Latest Practicable Date and historical NTA per share.

Comparable Companies	**Share price as at the Latest Practicable Date[1] RM**	**NTA per share[2] RM**	**Historical PBR times**
Kinsteel[3]	1.07	1.87	0.57
Lion Industries Corporation Berhad	0.86	2.75	0.31
Southern Steel Berhad	1.03	1.35	0.76
Malayawata Steel Berhad[5]	1.22[4]	2.59	0.47
Malaysia Steel Works (KL) Bhd	0.77	2.05	0.38
Leader Steel Holdings Berhad	0.43[4]	0.63	0.68
Ann Joo Resources Berhad	1.09	1.65	0.66
Simple average			0.55
PSSB	**0.32[6]**	**0.48**	**0.67**

(Source: Bloomberg)

Notes:

(1) Based on closing price of the respective companies shares as at the Latest Practicable Date

(2) Historical NTA for the latest financial year of the Comparable Companies as obtained from their respective audited financial statements and/or annual reports

(3) The historical PBR of Kinsteel based on the issue price per Consideration Share of RM1.36 is 0.73 times

(4) Based on closing price as at 17 July 2006

(5) Following the completion of the conditional voluntary offer by AJRB to acquire all the remaining ordinary shares of RM1.00 each in MSB which are not held directly or indirectly by AJRB and the parties acting in concert with it for a cash consideration of RM1.50 per share on 27 January 2006, MSB is now a 67.67% subsidiary of AJRB

(6) Based on PSSB Purchase Consideration divided by 620,252,159 PSSB Shares

In summary, based on our above observations, it appears that the PBR implied by the PSSB Purchase Consideration of 0.67 is:

(i) within the range of PBRs of the Comparable Companies from 0.31 times to 0.76 times;

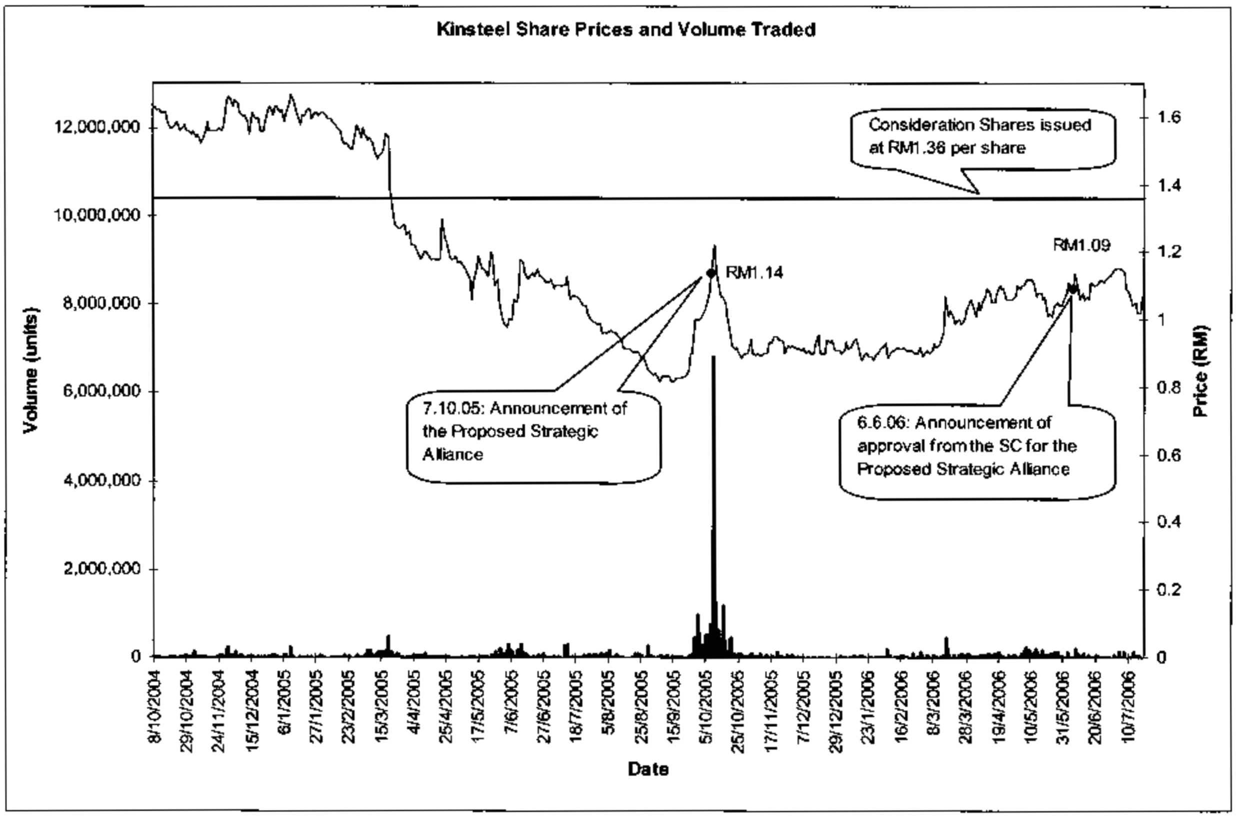
(ii) higher than the simple average PBR of the Comparable Companies of 0.55 times; and

(iii) lower than the historical PBR of Kinsteel of 0.73 times, based on the issue price for the Consideration Shares.

5.6 Issue price of the Consideration Shares

The PSSB Purchase Consideration will be partly satisfied by the allotment and issuance of the Consideration Shares to ECSB at the issue price of RM1.36 per Kinsteel Share, which was arrived at based on a willing buyer-willing seller basis after taking into consideration, amongst others, the market price, earnings, prospects and adjusted audited NTA per share of the Kinsteel Group as at 31 December 2004 of RM1.74.

We set out below the historical share price and volume chart of Kinsteel for the 12 months period prior to the Announcement Date up to the Latest Practicable Date.



(Source: Bloomberg)

Note:

(1) The prices for the Kinsteel Shares from 8 October 2004 to 18 March 2005 have been adjusted for the rights issue exercise undertaken by Kinsteel in 2005

The trading statistics of the Kinsteel Shares during the 12 months period prior to Announcement Date up to the Latest Practicable Date are set out below.

	Price per Kinsteel Share	Premium/ (Discount) of the issue price to the market price	
	RM	RM	%
Before announcement			
High (11 January 2005)	1.67	(0.31)	(18.56)
Low (15 September 2005)	0.82	0.54	65.85
12 months VWAP up to 7 October 2005	1.28	0.08	6.25
6 months VWAP up to 7 October 2005	1.04	0.32	30.77
1 month VWAP up to 7 October 2005	0.91	0.45	49.45
5 days VWAP up to 7 October 2005	1.06	0.30	28.30
Last transacted price on 7 October 2005	1.14	0.22	19.30
After announcement			
1 month VWAP up to the Latest Practicable Date	1.10	0.26	23.64
5 days VWAP up to the Latest Practicable Date	1.04	0.32	30.77
Latest Practicable Date	1.07	0.29	27.10

(Source: Bloomberg)

The issue price of RM1.36 per Consideration Share represents:

(i) a premium of 6.25% over the VWAP of the Kinsteel Shares of RM1.28 for the 12 months period to the last trading day on the Announcement Date;

(ii) a premium of 30.77% over the VWAP of the Kinsteel Shares of RM1.04 for the 6 months period to the last trading day on the Announcement Date;

(iii) a premium of 49.45% over the VWAP of the Kinsteel Shares of RM0.91 for the one month period to the last trading day on the Announcement Date;

(iv) a premium of 28.30% over the VWAP of the Kinsteel Shares of RM1.06 for the 5 days period to the last trading day on the Announcement Date;

(v) a premium of 19.30% to the last transacted price of the Kinsteel Shares of RM1.14 on the Announcement Date;

(vi) a premium of 23.64% over the VWAP of the Kinsteel Shares of RM1.10 for the one month period to the Latest Practicable Date;

(vii) a premium of 30.77% over the VWAP of the Kinsteel Shares of RM1.04 for the 5 days period prior to the Latest Practicable Date; and

(viii) a premium of 27.10% over Kinsteel Share of RM1.07 for the Latest Practicable Date.

The issuance of the Consideration Shares at a premium means less Kinsteel Shares would be issued for the Proposed Strategic Alliance which in turn means less dilution of existing shareholders' shareholdings.

5.7 Financial effects of the Proposed Strategic Alliance

The Proposed ECSB Exemption will not have any effect on the share capital, earnings, NA, gearing and current ratio of the Kinsteel Group. However, as shown in Section 5.3 above, the Proposed ECSB Exemption may result in ECSB and the Parties Acting In Concert becoming major shareholders of Kinsteel holding 35.3% (after the Proposed Strategic Alliance but before full exercise of the outstanding warrants of Kinsteel) without having the obligation to extend the mandatory offer for the remaining Kinsteel Shares not already owned by them.

The financial effects on the share capital, earnings, NA, gearing and current ratio of the Kinsteel Group pursuant to the Proposed Strategic Alliance are as follows:

5.7.1 Share capital

Based on the proforma effects set out in Section 8.1 of the Circular, the Proposed Strategic Alliance will increase the issued and paid-up share capital of Kinsteel as follows:

	RM
Existing issued and paid-up share capital as at 30 June 2006	110,000,000
To be issued pursuant to the Proposed Strategic Alliance	60,000,000
Assuming full exercise of outstanding warrants[1]	40,000,000
Enlarged issued share capital	210,000,000

Note:

(1) Assuming Kinsteel's 40,000,000 warrants outstanding are exercised in full

5.7.2 Earnings

As stated in Section 8.2 of the Circular, the Proposed Strategic Alliance is expected to complete by 3rd quarter of 2006 and barring any unforeseen circumstances, is expected to contribute positively to the earnings of the Kinsteel Group for the FYE 31 December 2006 and the future.

5.7.3 NA, gearing and current ratio

As set out in Section 8.3 of the Circular, for illustrative purposes, the proforma effects of the Proposed Strategic Alliance on the NA, gearing and current ratio of the Kinsteel Group, based on the audited financial statements of the Kinsteel Group and PSSB as at 31 December 2005 are as follows:

	Audited as at 31 December 2005 RM'000	(I) After the Proposed Strategic Alliance RM'000	(II) After (I) and full exercise of warrants[1] RM'000
Share capital	110,000	170,000	210,000
Retained profits	72,676	426,618	426,618
Share premium	23,213	36,113[2]	36,113
Shareholders' equity	205,889	632,731	672,731
Minority interest	-	625,991	625,991
NA	205,889	1,258,722	1,298,722
No. of shares in issue ('000)	110,000	170,000	210,000
NA per share (RM)[3]	1.87	3.72	3.20
Borrowings (RM'000)	356,489	683,969[4]	643,969
Gearing[5] (times)	1.73	1.08	0.96
Current ratio (times)	1.20	0.42	0.43

Notes:

(1) *Assuming 40,000,000 warrants outstanding are exercised in full at an exercise price of RM1.00 each. The proceeds from the exercise of the warrants will be used for repayment of borrowings*

(2) *Estimated expenses of RM8.7 million arising from the Proposals will be set-off against the share premium account*

(3) *Minority interest is excluded in the computation of NA per share*

(4) *Includes bank borrowings of PSSB as at 31 December 2005 of approximately RM227.5 million and assuming the Proposed Strategic Alliance is financed via borrowings of RM100.0 million*

(5) *Gearing ratio is calculated as total interest bearing borrowings divided by shareholders' funds*

Based on the above, we noted that although the gearing of the Kinsteel Group is expected to fall from 1.73 times to 1.08 times following the Proposed Strategic Alliance, the consolidated borrowings of the Group will increase by about 91.9% from RM356.5 million to RM684.0 million. The Company's current short-term borrowings of RM356.5 million (minimal long-term borrowings of RM5.4 million) are mainly trade related.

The substantial increase in the borrowings of the Group is due to the following:

(i) Increase in the Group's borrowings to part finance the Proposed Strategic Alliance. Out of the purchase considerations of RM297.6 million, the bulk of it is to be paid over 68 months and through the issuance of new Kinsteel Shares. Only RM100.0 million is to be paid upon completion of the Proposed Strategic Alliance, which benefits Kinsteel by not stretching its gearing further. For illustrative purpose, the above proforma net effect assumes that the said RM100.0 million is financed via borrowings; and

(ii) Consolidation of PSSB's borrowings of approximately RM227.5 million as at 31 December 2005. The proposed plan of settlement for the outstanding major liabilities of PSSB as at 30 June 2006 amounting to RM815.0 million is set out in Section 2.1.7 of the Circular. PSSB is in the midst of securing financing facilities for the settlement plan and also trade financing facilities for the working capital of PSSB and PCSB, details of which are set out in Section 2.5 of the Circular. As part of the terms of the Strategic Alliance Agreement, the completion of the Proposed Strategic Alliance is conditional upon the liabilities of PSSB being addressed to the mutual satisfaction of Kinsteel and ECSB.

Although the Proposed Strategic Alliance would result in Kinsteel having to manage a group with higher liabilities, your Board expects the increase in the Group's total borrowings to be manageable.

Whilst the current ratio of the Kinsteel Group is expected to decrease substantially from 1.20 times to 0.42 times after the Proposed Strategic Alliance due to the increase in the Kinsteel Group's consolidated borrowings, the NA of the Kinsteel Group would improve substantially from 1.87 times to 3.72 times upon completion of the Proposed Strategic Alliance mainly due to the acquisitions of PSSB and the Gurun Assets at steep discounts, as shown in Section 5.4.

5.8 Implication of the Proposed ECSB Exemption

You should take note that the SC would only consider the application for the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code if your approval for the Proposed ECSB Exemption is obtained, by way of a poll, at an EGM.

If you vote <u>in favour</u> of the Proposed ECSB Exemption

If you vote in favour of the Proposed ECSB Exemption at the coming EGM, the SC may consider the application for the Proposed ECSB Exemption by ECSB. If the SC approves the Proposed ECSB Exemption, this would facilitate the implementation of the Proposed Strategic Alliance, as **the Proposed Strategic Alliance is conditional upon, amongst others, the Proposed ECSB Exemption** being approved by the SC. The Proposed ECSB Exemption will relieve ECSB and the Parties Acting In Concert from the obligation of having to undertake a mandatory offer for the remaining Kinsteel Shares not owned by them upon completion of the Proposed Strategic Alliance.

The successful implementation of the Proposed Strategic Alliance would enable Kinsteel to further strengthen its presence in the steel industry by transforming itself into one of the largest integrated steel manufacturers in Malaysia. Your management is confident that this would enable the Kinsteel Group to reduce its costs, enhance production efficiency, improve its management of supply chain and manufacturing process, which would result in an increase in its competitiveness and strengthen its profits of the operations. The Proposed Strategic Alliance would also enable the Group to expand its product range, consolidate its niche position by becoming the only H-beam and I-beam manufacturer in Malaysia and leveraging the depth and breadth of Kinsteel's marketing reach.

If you vote <u>against</u> the Proposed ECSB Exemption

If you vote against the Proposed ECSB Exemption at the coming EGM, the SC would not be able to consider the application for the Proposed ECSB Exemption by ECSB. Consequently, the Proposed Strategic Alliance will be aborted, as the Proposed Strategic Alliance is conditional upon, amongst others, the SC's approval on the Proposed ECSB Exemption. As a result of this, you will not be able to enjoy the expected benefits arising from the Proposed Strategic Alliance represented by your Board, as set out in Section 5.1 of this IAC.

5.9 Industry outlook and prospects of the Kinsteel Group

5.9.1 Overview and outlook of the Malaysian economy

The Malaysian economy remains resilient despite moderation in the growth of global economy amidst high oil prices and less accommodative monetary policy, particularly in the United States ("**US**"). The nation continues to sustain its growth momentum, with strong domestic demand providing the impetus for the expansion in domestic economic activities.

Economic fundamentals have further strengthened while domestic demand continued to be resilient amidst firm consumer spending as well as continued uptrend in private investment activities. These factors, coupled with pro-active measures by the Government to promote economic activities provided the enabling environment for the Malaysian economy to expand favourably, albeit at a lower rate of 4.9% in the first half of 2005, compared with 8.1% during the same period of 2004. Despite sharp increases in oil prices, the Malaysian economy is expected to register 5.1% growth in the second half of 2005 with growth for the year averaging 5%. This projection is premised on a growth of 4.8% in the Leading Index for January-June 2005 which indicates continued expansion in the second half of 2005. Growth is expected to be broad-based with major sectors recording positive growth, backed by recovery in global electronics demand. The continuing build-up in international reserves arising from larger current account surplus and inflows of foreign capital has also strengthened domestic macroeconomic fundamentals. The expansion in the economy is reflected by positive growth in all sectors, except construction. The main drivers of growth are the services, manufacturing and the primary commodity sectors.

The year 2006 will face greater challenges arising from high oil prices, tightening monetary policies especially in the US, widening global imbalances as well as continued geo-political tensions and security concerns. Nevertheless, given the resilience of major economies, the global economy is expected to expand at 4.3% supported by China and the US.

The Malaysian economy is expected to maintain its growth momentum in 2006 in line with sustained private sector activities, favourable external environment and Government's continuing efforts to further diversify the economy through new sources of growth. Growth is expected to be broad-based with expansion in all sectors, driven by private investment spending and strong activities in the services sector. Accordingly, real gross domestic product ("**GDP**") growth is forecast to expand by 5.5% in 2006.

(Source: Economic Report 2005/2006)

The growth momentum of the Malaysian economy was maintained with real GDP rising by 5.3% in the first quarter of 2006 (fourth quarter of 2005: 5.2%). Economic activity continued to be driven by the private sector. The key contributors to the growth were the manufacturing and services sectors, with the strong performance in the agriculture sector lending further support.

(Source: Bank Negara Malaysia's Quarterly Bulletin, First Quarter 2006)

5.9.2 Overview and outlook of the Malaysian steel industry

To a large extent the steel industry in Malaysia is centred on two main sectors – the construction and manufacturing sectors. Steel production is no longer dominated by long products such as bars and wire-rods as the importance of flats and steel sections has increased in recent years with the rapid development of the country and economic prosperity of its population. With continued emphasis on the manufacturing sector as the engine of growth and a slower anticipated growth in construction activity, it is anticipated that Malaysia's consumption pattern for steel would witness a shift from longs to flats in the medium- to long-term, as the per capita income of its population rises.

The steel industry in Malaysia has been grouped into 3 distinct product groups, namely:

Category	Type of products
1. Primary products	• Scrap-substitutes - hot-briquetted iron ("**HBI**") and DRI • Crude steel (semi-finished) – billets, blooms and slabs
2. Rolling/finished products	• Long products - bars, wire rods and sections • Flat products – hot-rolled plates and sheets and cold-rolled coils
3. Secondary products	• Downstream wire and wire products - nails, wire, wire mesh, bolts and nuts, barb wire, etc, • Flat secondary - coated/painted steel, tubes and pipes (seamed), boilers and pressure vessels and other fabricated products

Steel consumption was badly affected by the economic downturn following the Asian financial crisis of 1997-98. However, consumption picked up in the subsequent 3 years to reach 7.3 million mt in 2001. In 2002 and 2003, steel consumption registered a negative growth of -6% and -3% respectively despite a 4.1% and 5.3% expansion in real GDP. The decline can partially be attributed to plummeting domestic demand and a weak global environment, following the 9-11 tragedy in the US.

With better consumption in 2004, especially of long products, steel consumption in Malaysia rebounded strongly in 2004 with a 16% growth to register 7.8 million mt. This was mainly due to the build up of inventory by users and stockists after a quiet spell of not-buying due to high prices. Steel consumption is, however, expected to be weak in 2005 due to moderate growth of the manufacturing sector and a further contraction of the construction sector.

Steel consumption is anticipated to improve marginally in 2006 before picking up steam from 2007 – 2009, in tandem with the implementation of infrastructure development projects under the Ninth Malaysia Plan (2006 – 2010) and industrial activities of the Third Industrial Master Plan (2006 – 2020). Overall, growth of the Malaysian steel industry for the 6-year period (2005 –2010) is expected to be lower but more sustainable, at 10% average annual growth.

Apart from the demand of steel products, the key issues and concerns facing the iron and steel industry in Malaysia are, amongst other, Government Policies relating to price controls. Billets and bars are classified as Essential Items under the classification of the Ministry of Domestic Trade and Consumer Affairs. Hence, the domestic selling prices of these items are determined by the Ministry. Against a situation of escalating scrap prices (especially in the years of 2002-2004), controlled pricing has caused disruptions to the industry and eroded the margins of steel mills. Although Government reviewed prices upwards to RM1,294 for billets and RM1,531 for bars in 2004, steel mills still feel that an Automatic Price Mechanism would be more conducive. However, despite several dialogues and studies, the Government is still enforcing price control on billets and bars.

(Source: The 7th Report: Status and Outlook of the Malaysian Iron and Steel Industry 2005, July 2005)

Overview and outlook of the construction sector

The construction sector contracted by 2.2% during the first half of 2005 (January – June 2004: -0.3%) due mainly to lower civil engineering activity. The residential sub-sector, however, remained active while the non-residential sub-sector improved further during the period as business confidence and consumer sentiment remained strong. For year 2005 as a whole, the construction sector is envisaged to register a smaller contraction of 1.1% (2004: -1.5%) on account of some improvement in civil engineering activity in the second half.

The construction sector is set to recover in 2006. Growth is expected to increase by 3% (2005: -1.1%), spurred by a turnaround in the civil-engineering sub-sector, following implementation of new infrastructure projects under the Ninth Malaysia Plan. Likewise, activities in the residential and non-residential sub-sectors are also envisaged to remain active, supported by sustained demand for houses and purpose-built offices.

(Source: Economic Report 2005/2006)

During the Ninth Malaysia Plan period, the average growth of the construction sector is expected to be 3.5% per annum. The implementations of infrastructure projects as well as residential and commercial development are expected to generate growth for this sector. For housing, among others, Syarikat Perumahan Negara Berhad will continue with its efforts to develop more affordable housing units, particularly for the low income group. Among the new infrastructure projects that will be implemented are construction works on roads, airports, water supply and rail-based transportation.

(Source: Ninth Malaysia Plan 2006 – 2010)

The construction sector remains subdued with activity contracting by 1.8% during the first quarter of 2006 (fourth quarter of 2005: -0.6%). Growth was mainly affected by the weakness in the civil engineering sector as the main players continued to secure projects abroad in the face of excess capacity in the country. Activity in the residential sub-sector showed signs of moderation as developers became cautious in launching new projects amidst the rising costs and softening demand.

(Source: Bank Negara Malaysia's Quarterly Bulletin, First Quarter 2006)

Overview and outlook of the manufacturing sector

Output of the manufacturing sector grew moderately during the first 7 months of 2005 resulting from the slowdown in global economy, led by softer demand for semiconductors. Further growth is anticipated in the second half of 2005, mainly due to increasing demand for convergent products, particularly telecommunication appliances, consumer electronics and personal computers, thus pushing manufacturing to a higher value plane. Construction-related industries recorded a decline of 5.1% in the first 7 months of 2005 (January-July 2004: 11.5%), affected by contraction in output of iron and steel and non-metallic minerals such as cement and ready-mixed concrete. Production of iron and steel bars and rods, galvanised iron sheets as well as welded iron and steel pipes registered slower growth in tandem with the slowdown in the construction sector. However, these industries recorded an upsurge in sales value of 58% (January – July 2004: 61.3%) largely due to higher prices.

Following recovery in global electronics demand in the second half of 2005, growth of the manufacturing sector is anticipated to grow by 4.9% in 2006 (2005: 4.8%). The landscape of the manufacturing sector is expected to change in tandem with new developments and the shift towards technology-driven manufacturing processes with more research and development activities. New developments include advanced technologies such as nanotechnology, biotechnology and advanced manufacturing practices, which encompass high knowledge-content processing technologies. These developments are expected to contribute positively to growth of the manufacturing sector.

(Source: Economic Report 2005/2006)

Value-added growth in the manufacturing sector continued on its upward trend to expand by 8% in the first quarter of 2006 (fourth quarter of 2005: 7.9%) in line with the recovery in the global semiconductor cycle. Growth was also supported by improvement in the domestic-oriented industries.

The domestic-oriented industries registered a growth of 0.7% in the first quarter of 2006 (fourth quarter of 2005: 0.4%), as contraction in the construction-related industries was offset by better performance in the fabricated metal products industry (13.2%; fourth quarter of 2005: -5.7%) and sustained growth in the transport equipment industry (6.5%; fourth quarter of 2005: 6.7%). The iron and steel industry declined at a slower rate of 10.9% (fourth quarter of 2005: -13.4%) reflecting in part the gradual recovery in global steel prices. The non-metallic mineral products industry declined by 5.7% (fourth quarter of 2005: 1.5%) during the first quarter of 2006, partly affected by weak construction activities as well as lower production of glass for the shrinking cathode ray tube-related products market.

(Source: Bank Negara Malaysia's Quarterly Bulletin - First Quarter 2006)

Based on the above, subject to potential disruptions caused by controlled pricing as set out in this section, the anticipated improvement in steel consumption in 2006 due to the expected recovery in the construction sector and prospect of the manufacturing sector augurs well for the Kinsteel Group going forward.

5.9.3 Future prospects of the New Kinsteel Group

We note from Section 5.4 of the Circular that your Directors believe that the New Kinsteel Group is expected to have a viable business with good prospects, for the following reasons:

(i) According to the 7th Report of the Malaysian Iron & Steel Industry, 2005, growth of the Malaysian steel industry for the 6-year period (2005-2010) is expected to be sustainable at 10% average annual growth.

(ii) With their vast experience in the steel industry, the management of Kinsteel possess the necessary skills, expertise and experience to manage the Perwaja Assets. Following the Proposed Strategic Alliance, the management of Kinsteel have implemented various business strategies to improve *inter-alia*, the operations, production efficiency and cost, profit margins, as well as product distribution of the Perwaja Assets.

(iii) Kin Kee Marketing Sdn Bhd, the marketing arm of Kinsteel Group, has a network of over 300 hardware dealers and traders spread out over the country, supplying in turn to a plethora of small, medium and large projects through small to large contractors and other end users. Kinsteel has also appointed several overseas agents to distribute its products. Hence, the Kinsteel Group is well positioned to market and sell the Perwaja Assets' products through its wide network of hardware dealers and appointed overseas agents, which in turn service a wide and diversified customer base.

(iv) The financial position of PSSB is expected to improve after the outstanding major liabilities of PSSB are addressed in accordance with the proposed debt settlement plans set out in Section 2.1.7 of the Circular. Further, Kinsteel has a solid track record of more than 15 years in the steel industry as an established long products player, consistently recording a turnover of over RM300 million for the past 3 financial years ended 31 December 2005. With its track record, Kinsteel is well positioned to secure the necessary funding for the expansion of the New Kinsteel Group's business in the future.

(v) The combined entity of Kinsteel, PSSB and PCSB, which will be one of the largest fully integrated steel players in Malaysia, is expected to emerge as a stronger, more competitive and more resilient entity, with overall control over its supply chain, and capable of competing in the global and domestic steel market after the Proposed Strategic Alliance. The combined entity will also be the only producer of structural steel in the form of H-beam and I-beam in Malaysia.

We note that Kinsteel assumed day-to-day management control of PSSB since it entered into the Strategic Alliance Agreement on 7 October 2005 and has been marketing PSSB's products since then. We note that Kinsteel has also resumed the operations of the Bar & Wire Rod Mill in November 2005 and the Beam & Section Mill in April 2006. Your Directors' optimism on the future prospects of the New Kinsteel Group is supported from the Group's improved results for the 1st quarter of 2006. According to the management of Kinsteel, the improved results was mainly attributable to the margins and volume for marketing of billets, iron ore and products produced from the Bar & Wire Rod Mill and Beam & Section Mill.

Taking into consideration your Board's optimism towards the Proposed Strategic Alliance, the favourable outlook of the steel industry as set out in Section 5.9.2 above and the improved results of the Group for the 1st quarter of 2006, barring unforeseen circumstances and subject to the inherent risks of the industry that Kinsteel is operating in, should the Proposed Strategic Alliance be implemented and completed, the Kinsteel Group would be able to strengthen its presence in the steel industry by transforming itself into one of the largest integrated steel manufacturers in Malaysia, and take advantage of the favourable prospects of the steel industry.

6. FURTHER INFORMATION

We advise you to refer to the accompanying appendices and the Circular for further information.

7. CONCLUSION AND RECOMMENDATION

In arriving at our recommendation, we have taken into account as a whole, amongst others, the following:

(i) The approval of the Proposed ECSB Exemption is necessary for the implementation of the Proposed Strategic Alliance, as the Proposed Strategic Alliance is conditional on, amongst others, the Proposed ECSB Exemption. We note that your Board represented that the Proposed Strategic Alliance would benefit Kinsteel as it would enable Kinsteel to further strengthen its presence in the steel industry by transforming itself into an integrated steel manufacturer, expand its product range, increase its plant capacity, increase its market penetration and leveraging on the marketing reach of Kinsteel, better management of its supply chain and consolidate its niche position.

(ii) The completion of the Proposed Strategic Alliance will result in a dilution of the shareholdings of existing shareholders of Kinsteel, including the current controlling shareholders.

(iii) Despite the dilution stated in (ii) above, there will be no change in the largest controlling shareholders of Kinsteel pursuant to the Proposed PSSB Acquisition. Therefore, the direction of Kinsteel would still be dependent on that set by the current controlling shareholders.

(iv) The Proposed Strategic Alliance is expected to contribute positively to the earnings of the New Kinsteel Group.

(v) If you vote in favour of the Proposed ECSB Exemption at the coming EGM, the SC may consider the application for the Proposed ECSB Exemption. If the SC approves the Proposed ECSB Exemption, this would facilitate the implementation of the Proposed Strategic Alliance.

(vi) If you vote against the Proposed ECSB Exemption at the coming EGM, the SC would not consider the application for the Proposed ECSB Exemption. Consequently, the Proposed Strategic Alliance will be aborted.

(vii) Barring unforeseen circumstances and subject to the inherent risks of the industry that Kinsteel is operating in, the Proposed Strategic Alliance is expected to enable the New Kinsteel Group to strengthen its presence in the steel industry by transforming itself into one of the largest integrated steel manufacturers in Malaysia, and take advantage of the favourable prospects of the steel industry.

Based on our evaluation of the Proposed ECSB Exemption, we recommend that you vote in favour of the ordinary resolution pertaining to the Proposed ECSB Exemption to be tabled at the Company's coming EGM.

Yours faithfully
For and on behalf of
PM SECURITIES SDN BHD

ROBERT TI
Executive Director/
Head of Corporate Finance

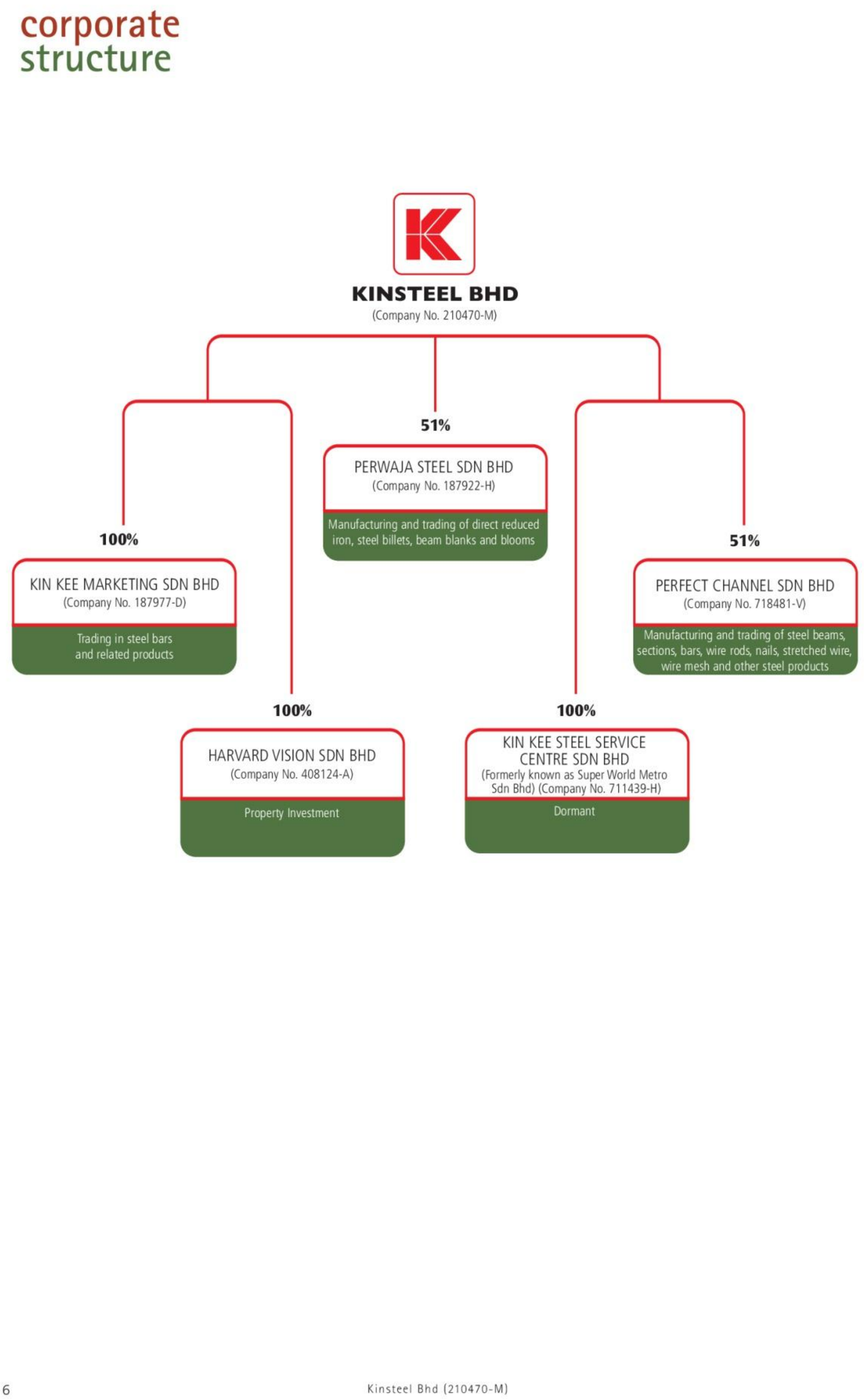
TAN TAI KIM
General Manager
Corporate Finance

Exhibit 3

Corporate Structure of Kinsteel Berhad as at end 2006

Exhibit 3

Corporate Structure of Kinsteel Berhad as at end 2006



Source: Kinsteel Berhad Annual Report 2006

Exhibit 4

Circular to Kinsteel Berhad's Shareholders on the Proposed Listing of Perwaja Steel Sdn Bhd on the Main Board of Bursa Malaysia Securities Berhad

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

The approval of the Securities Commission ("SC"), if given, for the Proposed Flotation (as defined herein) shall not be taken to indicate that the SC recommends the Proposed Flotation. Shareholders should rely on their own evaluation to assess the merits and risks of the Proposed Flotation.

KINSTEEL BHD

(Company No: 210470-M)
(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

PROPOSED LISTING OF PERWAJA STEEL SDN BHD, A 51% OWNED SUBSIDIARY OF KINSTEEL BHD ("KINSTEEL"), VIA PERWAJA HOLDINGS BERHAD, ON THE MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD

Adviser

RHB INVESTMENT BANK BERHAD
(Company No.: 19663-P)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Financial Adviser

ZJ Advisory Sdn Bhd
(Company No.: 645449-V)

Notice of the Extraordinary General Meeting II of the Company, which will be held at Perdana Ballroom, Ground Floor, MS Garden Hotel Kuantan, Lot 5 & 10, Lorong Gambut, Off Jalan Beserah, 25300 Kuantan, Pahang Darul Makmur, on Wednesday, 11 June 2008 at 12.00 p.m. or immediately following the conclusion or adjournment (as the case may be) of the extraordinary general meeting of the Company which will be held at the same venue and on the same day at 11.45 a.m., whichever is later or at any adjournment (as the case may be), together with the Form of Proxy are set out in this Circular.

The Form of Proxy should be completed and returned in accordance with the instructions therein as soon as possible and in any event must be deposited at the registered office of the Company at B-38, 1st Floor, Lorong Sri Teruntum 139, Off Jalan Bukit Ubi, 25200 Kuantan, Pahang Darul Makmur, not less than 48 hours before the time set for the meeting or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

This Circular is dated 27 May 2008

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

Act	:	Companies Act, 1965 and any amendments thereto for the time being in force
BNM	:	Bank Negara Malaysia
Board	:	The Board of Directors of Kinsteel
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
CMSA	:	Capital Markets and Services Act 2007 and any amendments thereto for the time being in force
Code	:	Malaysian Code on Take-Overs and Mergers, 1998 as amended by the Malaysian Code on Take-Overs and Mergers (Amendment) 2004 and any amendments thereto from time to time
Conditional SPA	:	A conditional sale and purchase agreement entered into between PHB and the shareholders of PSSB on 30 January 2008 in relation to the Proposed Acquisition
DRI	:	Direct reduced iron, a derivative iron product made from iron ore pellets or lump ore that is reduced (by removing the oxygen) from the ore at a temperature below the melting point of the iron. DRI is used as feedstock in electric-arc furnaces and other iron and steel making processes to produce crude steel like blooms, billets, beam blanks, ingots and slabs
ECSB	:	Equal Concept Sdn Bhd, a wholly-owned subsidiary company of Maju
EGM	:	Extraordinary general meeting
Entitlement Date	:	The date as at the close of business on which Entitled Shareholders must be registered in the Record of Depositors of Kinsteel with Bursa Depository in order to participate in the Proposed Restricted Offer which will be determined and announced at a later date
Entitled Shareholders	:	Shareholder(s) of Kinsteel (excluding the Promoters and their related parties, and Excluded Parties) who must be registered in the Record of Depositors of Kinsteel on the Entitlement Date
EPS	:	Earnings per share
Excluded Party/(ies)	:	Person(s) who are excluded from the Proposed Restricted Offer as set out in Section 2.3.2 of this Circular
FIC	:	Foreign Investment Committee
FPE	:	Financial period ended / ending
FYE	:	Financial year ended / ending
Gurun Assets	:	Assets located in Gurun, Kedah i.e. a beam and section mill, bar and wire rod mill and a piece of vacant land in Gurun, Kedah that was acquired by Perfect Channel Sdn Bhd, a 51% subsidiary of Kinsteel from Maju pursuant to the Strategic Alliance

ICULS	:	4% irredeemable convertible unsecured loan stocks of RM0.10 each to be issued by PHB pursuant to the Proposed ICULS Placement
IPO	:	Initial public offering
IPO Price	:	Being the issue price payable for each PHB Share under the Proposed Special Offer, Proposed Pink Form Offer and Proposed Retail Offer which is at an indicative price of RM2.90 per PHB Share in this Circular
IPO Share(s)	:	150,000,000 PHB Shares to be made available for application under the Proposed Restricted Offer, Proposed Special Offer, Proposed Pink Form Offer and Proposed Retail Offer
Kin Kee	:	Kin Kee Holdings Sdn Bhd
Kinsteel / Company	:	Kinsteel Bhd
Kinsteel Group / Group	:	Kinsteel and its subsidiary companies
Kinsteel Share(s)	:	Ordinary share(s) of RM0.20 each in Kinsteel
KKH	:	Kin Kee Hardware Sdn Bhd
KKMetal	:	Kin Kee Metal Sdn Bhd
LAT	:	Loss after taxation
LBT	:	Loss before taxation
Listing Requirements	:	Listing Requirements of Bursa Securities
LPS	:	Loss per share
Maju	:	Maju Holdings Sdn Bhd
Minimum Market Cap	:	Minimum market capitalisation of RM1,204.0 million calculated based on the enlarged share capital of 560.0 million PHB Shares upon listing of PHB which translates to approximately RM2.15 per PHB Share
MITI	:	Ministry of International Trade and Industry
MTN	:	Medium term notes
NA	:	Net assets
NTA	:	Net tangible assets
Offerors	:	Kinsteel and ECSB collectively
Offer Shares	:	90,000,000 PHB Shares to be offered for sale by the Offerors pursuant to the Proposed Offer for Sale
PAT	:	Profit after taxation
PBT	:	Profit before taxation
PHB	:	Perwaja Holdings Berhad (formerly known as Vertical Winners Sdn Bhd)
PHB Group	:	PHB and its proposed subsidiary company, PSSB

PHB Share(s)	:	Ordinary share(s) of RM1.00 each in PHB
PKK	:	Perniagaan Kin Kee Sdn Bhd
Promoters	:	Kinsteel, Kin Kee, PKK, ECSB, Maju, Tan Sri Dato' Pheng Yin Huah, Dato' Hong Thian Hock and Tan Sri Abu Sahid bin Mohamed who are the promoters of PHB collectively
Proposed Acquisition	:	Proposed acquisition of the entire equity interests in PSSB by PHB for a total consideration of RM966,253,600 to be satisfied by the issuance of 499,999,998 PHB Shares at an issue price of RM1.93 per PHB Share to be credited as fully paid-up
Proposed Capital Reduction	:	Proposed reduction of PSSB's entire share premium account and part of its issued and paid-up share capital to eliminate its entire accumulated losses
Proposed Exemption	:	Proposed exemption under Part II of the Code to Kinsteel and the parties acting in concert from the obligation to undertake a mandatory offer for the remaining PHB Shares not held by them upon conversion of the ICULS held by Kinsteel
Proposed Flotation	:	Proposed Acquisition, Proposed ICULS Placement, Proposed Public Issue, Proposed Offer for Sale and Proposed Listing collectively
Proposed ICULS Placement	:	Proposed placement of 156,123,000 ICULS by PHB to Kinsteel at an issue price of RM0.10 per ICULS
Proposed IPO	:	Proposed initial public offering of PHB Shares comprising the Proposed Public Issue and the Proposed Offer for Sale collectively
Proposed Listing	:	Proposed listing of and quotation for the entire enlarged issued and paid-up share capital of PHB of RM560,000,000 comprising 560,000,000 PHB Shares on the Main Board of Bursa Securities
Proposed Offer for Sale	:	Proposed offer for sale of 90,000,000 PHB Shares by the Offerors as set out in Section 2.3 of this Circular
Proposed Pink Form Offer	:	Proposed offering of 11,200,000 PHB Shares to the eligible employees and Directors of Kinsteel Group and PHB Group and persons who have contributed to the success of PHB Group as set out in Section 2.3 of this Circular
Proposed Public Issue	:	Proposed issuance of 60,000,000 new PHB Shares by PHB as set out in Section 2.3 of this Circular
Proposed Restricted Offer	:	Proposed renounceable restricted offer of 101,476,000 Restricted Shares to the minority shareholders of Kinsteel in direct proportion to their shareholdings in Kinsteel as at the Entitlement Date as set out in Section 2.3 of this Circular
Proposed Retail Offer	:	Proposed offering of 11,200,000 PHB Shares to the Malaysian public as set out in Section 2.3 of this Circular
Proposed Special Offer	:	Proposed offering of 26,124,000 PHB Shares to investors to be identified by PHB as set out in Section 2.3 of this Circular
PSSB	:	Perwaja Steel Sdn Bhd

PSSB MMTN	:	Up to RM400 million nominal value of 10-year Murabahah MTN programme issued by PSSB
PSSB Shares	:	Ordinary share(s) of RM1.00 each in PSSB
Restricted Offer Price		Being the price payable for each PHB Share under the Proposed Restricted Offer which is at an indicative price of RM2.23 per PHB Share in this Circular
Restricted Share(s)	:	101,476,000 PHB Shares to be offered to the Entitled Shareholders pursuant to the Proposed Restricted Offer
RHB Investment Bank	:	RHB Investment Bank Berhad
RM and sen	:	Ringgit Malaysia and sen, respectively
SC	:	Securities Commission
SC Guidelines	:	Policies and Guidelines on Issue/Offer of Securities issued by the SC and includes any amendments thereto from time to time
Strategic Alliance	:	Strategic alliance between Kinsteel and Maju via the acquisition by Kinsteel of a 51% equity interest in PSSB (for a total consideration of RM197.6 million) as well as 51% interest in a beam and section mill, bar and wire rod mill and a piece of vacant land in Gurun, Kedah that was acquired by Perfect Channel Sdn Bhd, a 51% subsidiary of Kinsteel from Maju as announced by Kinsteel on 7 October 2005 and completed on 6 September 2006
Warrants	:	Outstanding warrants 2005/2011 of Kinsteel, each carrying the right to subscribe for 1 new Share at an exercise price of RM0.20 per Kinsteel Share

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KINSTEEL BHD

(Company No: 210470-M)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

B-38, 1st Floor
Lorong Sri Teruntum 139
Off Jalan Bukit Ubi
25200 Kuantan
Pahang Darul Makmur

27 May 2008

Board of Directors:

Tan Sri Abu Sahid Bin Mohamed *(Non-Independent & Non-Executive Chairman)*
Dato' Md Sharif bin Shamsuddin *(Independent Non-Executive Deputy Chairman)*
Tan Sri Dato' Pheng Yin Huah *(Managing Director)*
Henry Pheng Chin Guan *(Chief Executive Officer)*
Dato' Hong Thian Hock *(Executive Director)*
Dato' Lew Choon *(Executive Director)*
Datin Hong Cheng Guat *(Executive Director)*
Dato' Pheng Chin Kiat *(Executive Director)*
Dato' Abu Talib Bin Mohamed *(Non-Independent & Non-Executive Director)*
Dato' Mohamed Fuad bin Yon *(Non-Independent & Non-Executive Director)*
Kamaruddin bin Koskani Abdul Hamid *(Independent Non-Executive Director)*
Pheng Chin Huat *(Non-Independent Non-Executive Director)*
Dato' Rahadian Mahmud bin Tan Sri Dato' Seri Haji Mohammad Khalil *(Independent Non-Executive Director)*
Shamsudin @ Samad bin Kassim *(Independent Non-Executive Director)*
Chong Hoi Sheong @ Chong Hoi Cheong *(Independent Non-Executive Director)*
Pheng Chin Shiun *(Alternate Director to Datin Hong Cheng Guat)*

To: The Shareholders of Kinsteel Bhd

Dear Sir/Madam,

PROPOSED LISTING OF PSSB, A 51% OWNED SUBSIDIARY OF KINSTEEL, VIA PERWAJA HOLDINGS BERHAD, ON THE MAIN BOARD OF BURSA SECURITIES

1. INTRODUCTION

On 31 January 2008, RHB Investment Bank announced on behalf of our Board that Kinsteel was proposing to list its 51% owned subsidiary, PSSB, on the Main Board of Bursa Securities *via* a newly incorporated company, namely PHB, to be the holding company of PSSB to facilitate the Proposed Flotation.

The proposed flotation scheme as per the announcement dated 31 January 2008 comprise the following proposals:

(i) Proposed Acquisition, details of which are set out in Section 2.1 of this Circular;

(ii) Proposed ICULS Placement, details of which are set out in Section 2.2 of this Circular;

(iii) Proposed IPO which entails the following:

- 101,476,000 PHB Shares representing approximately 18.12% of the enlarged issued paid-up share capital of PHB are proposed to be allocated by way of a renounceable restricted offer to the Entitled Shareholders of Kinsteel on the basis of 1 Restricted Share for every 4 existing Kinsteel Shares held on an entitlement date to be determined;
- Proposed Special Offer, details of which are set out in Section 2.3 of this Circular;
- Proposed Pink Form Offer, details of which are set out in Section 2.3 of this Circular;
- Proposed Retail Offer, details of which are set out in Section 2.3 of this Circular, and

(iv) Proposed Listing, details of which are set out in Section 2.4 of this Circular.

(collectively referred to as the Original Proposed Flotation).

On 2 April 2008, RHB Investment Bank announced on behalf of our Board that the SC has *vide* its letter dated 31 March 2008, approved the Original Proposed Flotation subject to the conditions as set out in Section 10 herein ("Conditions").

Further, on 30 April 2008, our Board had announced that they had deliberated on the Conditions imposed by the SC and will comply with the Conditions save for the condition that requires RHB Investment Bank/ PHB to address the issue of PHB's accumulated losses prior to the issuance of its listing prospectus. In this regard, PSSB had proposed a share capital reduction exercise to address PHB's accumulated losses and submitted an application to the SC for its approval to modify one of its Conditions to allow PSSB to undertake the Proposed Capital Reduction in parallel with the Proposed Flotation and independent of each other. In this respect, an application was submitted to the SC on 30 April 2008 and the decision of the SC is currently pending at this juncture.

On 13 May 2008, RHB Investment Bank announced on behalf of our Board, certain revision to the terms of the Proposed Flotation. The proposed revision is encapsulated in the Proposed Flotation and the details of which as set out in Section 2 below. Subsequent to the above, an application was made to the SC, Equity Compliance Unit of the SC and MITI for the aforesaid proposed revision on 16 May 2008. The decisions of the SC, Equity Compliance Unit of the SC and MITI are currently pending at this juncture.

The purpose of this Circular is to provide you with the relevant details of the Proposed Flotation and to seek your approval for the ordinary resolutions to be tabled at the forthcoming EGM. The Notice of EGM is enclosed in this Circular.

YOU ARE ADVISED TO READ THE CONTENTS OF THIS CIRCULAR CAREFULLY BEFORE VOTING ON THE RESOLUTIONS AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED FLOTATION

2.1 Proposed Acquisition

PHB had on 30 January 2008 entered into a conditional sale and purchase agreement with the shareholders of PSSB to acquire the entire equity interest of PSSB comprising 1,216,180,704 PSSB Shares for a total purchase consideration of RM966,253,600, to be wholly satisfied by the issuance of 499,999,998 new PHB Shares credited as fully paid, at an issue price of RM1.93 per PHB Share. The purchase consideration for the Proposed Acquisition 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.

Upon completion of the Proposed Acquisition, the issued and paid-up share capital of PHB will increase from RM2.00 comprising 2 PHB Shares to RM500,000,000 comprising 500,000,000 PHB Shares pursuant to the issuance of new PHB Shares as consideration for the Proposed Acquisition.

The new PHB Shares to be issued pursuant to the Proposed Acquisition shall rank *pari passu* in all respect with the then existing PHB Shares.

Further details of the Proposed Acquisition are as follows:

Shareholders of PSSB	No. of PSSB Shares to be acquired by PHB	Approximate % of share capital of PSSB	Purchase consideration to be paid by PHB (RM)	No. of new PHB Shares to be issued as consideration
Kinsteel	620,252,159	51.0	492,789,336	254,999,999
ECSB	535,119,510	44.0	425,151,584	219,999,999
Maju	60,809,035	5.0	48,312,680	25,000,000
Total	**1,216,180,704**	**100.0**	**966,253,600**	**499,999,998**

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

The Proposed Acquisition is not expected to have any financial impact on our Company, ECSB or Maju as it is essentially a share swap exercise which will involve a swap of interest in PSSB for a similar interest in PHB which will hold 100% of PSSB.

2.1.1 Salient terms of the Conditional SPA

The salient terms of the Conditional SPA are set out below:

(i) The obligation of the purchaser to complete the sale and purchase of the sale shares under this agreement is conditional upon, amongst others, other consents or approvals as may be required of any third party or governmental, regulatory body or competent authority having jurisdiction over the sale of the sale shares or the transaction contemplated under the agreement.

(ii) Each of the vendors shall sell to the purchaser and the purchaser shall purchase from each of the vendors the number of sale shares as listed in the schedule of the agreement free from all charges, liens, pledges, trust and other encumbrances and with all rights, benefits and entitlements now or thereafter attaching thereto and in accordance with and subject to the terms and conditions of the agreement.

(iii) The purchase price for the purchase of the sale shares shall be the consideration. The consideration shall be wholly satisfied by the purchaser on completion date by the allotment and issue of the consideration shares to the vendors, such allotment and issue of the consideration shares to the vendors to be in the proportion more particularly stated in the agreement and each consideration share to be credited as fully paid up on issue and ranking *pari passu* in all respects with the existing issued ordinary shares of the purchasers.

2.2 Proposed ICULS Placement

After the completion of the Proposed Acquisition, PHB proposes to undertake a placement of 156,123,000 ICULS to Kinsteel at an issue price of RM0.10 per ICULS to raise proceeds amounting to RM15,612,300.

The conversion period of the ICULS ("Conversion Period") shall commence from the 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 (which shall be the same price as the IPO Price subject to such conversion price being not less than the par value of the PHB Shares) ("Conversion Price") by tendering 1 ICULS at nominal amount of RM0.10 and the balance thereof in cash for 1 new PHB Share. Assuming the IPO Price of RM2.90 per PHB Share, 1 ICULS can be converted into 1 new PHB Share by tendering 1 ICULS and paying the balance of RM2.80 in cash to PHB for such conversion. 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 of every 1 new PHB Shares.

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.

The salient terms of the ICULS are set out below:

1.	Issue Size	:	156,123,000 irredeemable convertible unsecured loan stocks of nominal value RM0.10 each.
2.	Issue Price	:	RM0.10 per ICULS.
3.	Form and Denomination	:	The ICULS shall be 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 shall 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 shall be at the same price as the IPO Price, 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 will be constituted by a Trust Deed and other documentation (if any), which shall govern the terms of the ICULS.
16.	Governing Law	:	Laws of Malaysia.

2.3 Proposed IPO

After the completion of the Proposed Acquisition and Proposed ICULS Placement and in conjunction with the proposed flotation of PHB on the Main Board of Bursa Securities, PHB and the Offerors shall undertake the following respectively:

(i) proposed public issue of 60,000,000 new PHB Shares (representing approximately 10.71% of the enlarged issued and paid-up share capital of PHB); and

(ii) proposed offer for sale of 90,000,000 PHB Shares (representing approximately 16.07% of the enlarged issued and paid-up share capital of PHB) by the Offerors as follows:

Offerors	Shareholding in PHB after the Proposed Acquisition	% of shareholdings	No. of PHB Shares under the Proposed Offer for Sale	Shareholding in PHB after the Proposed IPO	% of shareholdings
Kinsteel	255,000,000	51.0	45,900,000	209,100,000	37.34
ECSB	220,000,000	44.0	44,100,000	175,900,000	31.41
Total	**475,000,000**		**90,000,000**	**385,000,000**	

Pursuant to the Proposed IPO, a total of 150,000,000 PHB Shares are to be made available for application as follows:

- **Proposed Restricted Offer**

  101,476,000 Restricted Shares (representing approximately 18.1% of the enlarged issued paid-up share capital of PHB) are proposed to be allocated by way of a renounceable restricted offer to the Entitled Shareholders in direct proportion to their shareholdings in Kinsteel held on the Entitlement Date, at the Restricted Offer Price. Presently, as at 30 April 2008, Kinsteel has 138,030,970 Warrants that may be exercised prior to the Entitlement Date. Hence, the entitlement basis can only be determined later.

  The basis of entitlement and/or the Restricted Offer Price for the Restricted Shares will be determined based on the following criteria:

  (i) the shareholdings of the Entitled Shareholders in Kinsteel prior to the launch of the Prospectus for the Proposed IPO;

  (ii) the market capitalisation of PHB upon listing (subject to PHB achieving the Minimum Market Cap); and

  (iii) Kinsteel and ECSB, being the Offerors, receiving the proceeds of RM193,500,000.

- **Proposed Special Offer**

  26,124,000 PHB Shares representing approximately 4.67% of the enlarged issued and paid-up share capital of PHB will be made available to investors to be identified by PHB, at the IPO Price.

- **Proposed Pink Form Offer**

  11,200,000 PHB Shares representing 2.0% of the enlarged issued and paid-up share capital of PHB will be made available for application by eligible employees and Directors of our Group and PHB Group and persons who have contributed to the success of PHB Group, at the IPO Price.

- **Proposed Retail Offer**

  11,200,000 PHB Shares representing 2.0% of the enlarged issued and paid-up share capital of PHB will be made available to the Malaysian public, namely Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions, at the IPO Price.

2.3.1 Basis of arriving at the IPO Price and Restricted Offer Price

The IPO Price of RM2.90 per PHB Share which has been used throughout this Circular, is for the purposes of illustration only. The IPO Price is subject to change and shall only be determined at a later date after obtaining the approvals from all relevant authorities for the Proposed Flotation and upon signing of the underwriting agreement and placement agreement, which will take place at a time closer to the launch of the Prospectus after taking into consideration, *inter-alia*, the market capitalisation of PHB upon listing, PHB Group's financial position, the PHB Group's prospects and capital market conditions prevailing at the time.

The Restricted Offer Price is to be derived from the IPO Price, based on the formula below:

((RO – OFS + (OFSP / IPO Price)) x IPO Price) / RO = Restricted Offer Price

Whereby:

RO	=	101,476,000 number of Restricted Shares
OFS	=	90,000,000 number of Offer Shares
OFSP	=	Proceeds of RM193,500,000 attributable to the Offerors under the Proposed Offer For Sale

For illustration purposes only, assuming an indicative IPO Price of RM2.90, the indicative Restricted Offer Price would be approximately RM2.23 which is at a discount of RM0.67 or 23.1% below the IPO Price. Based on the formula above, the Restricted Offer Price can be illustrated as follows:

$$\frac{\left[\ 101{,}476{,}000\ -\ 90{,}000{,}000\ +\ \dfrac{193{,}500{,}000}{2.90}\ \right]\ \times\ 2.90}{101{,}476{,}000} = \text{RM}2.23$$

Based on the indicative IPO Price of RM2.90 per Share, PHB's market capitalization upon listing would be RM1,624.0 million.

In the event that the market capitalisation upon listing is based on the Minimum Market Cap and hence at the IPO Price of RM2.15, the Restricted Offer Price will be identical to the IPO Price. In this regard, if the IPO is launched at the Minimum Market Cap there would be no discount in the Restricted Offer Price from the IPO Price.

The indicative Restricted Offer Price of RM2.23 per PHB Share, which has been used throughout this Circular, is for the purposes of illustration only. Once the IPO Price and the Restricted Offer Price have been fixed, an announcement shall be made and the basis of arriving at the issue/offer price shall also be set out in the Prospectus, to be despatched to the shareholders of Kinsteel in due course.

The Minimum Market Cap of RM1,204 million was derived based on mutual agreement between the existing shareholders of PSSB which also translates into 7.3 times price-earnings multiple based on the audited financial statements of PSSB for the FYE 31 December 2007.

The indicative IPO Price of RM2.90 per PHB Share translates into a 10.0 times price-earnings multiple based on the audited financial statements of PSSB for the FYE 31 December 2007 and results in a market capitalisation of RM1,624.0 million.

2.3.2 Excluded party to the Proposed Restricted Offer

The prospectus to be issued in relation to the Proposed IPO, together with the accompanying documents, will not be registered under any applicable securities legislation of any overseas jurisdiction and the Proposed Restricted Offer will not be offered for subscription in any country other than Malaysia. Accordingly, the prospectus and its accompanying documents relating to the Proposed Restricted Offer will not be sent to the foreign shareholders of the Company who do not have a registered address in Malaysia ("Foreign Addressed Shareholders"). Foreign Addressed Shareholders who wish to provide Malaysian addresses should inform their respective stockbrokers, as well as the registrar of the Company, to effect the change of address prior to the Entitlement Date.

The Foreign Addressed Shareholders who do not provide an address in Malaysia or who are not entitled to subscribe to the Proposed Restricted Offer under the laws and jurisdiction to which they are subject to, will have no claims whatsoever against the Company / Offerors and its advisers in respect of their rights entitlements or any net proceeds arising from the Proposed Restricted Offer.

The Restricted Shares are available for application by the Entitled Shareholders, except for excluded parties, being persons who are:

(a) Foreign Addressed Shareholders;

(b) located in jurisdictions outside Malaysia in which acceptance of the entitlement under the Proposed Restricted Offer would result in the contravention of the laws of such jurisdiction (whether in the absence of any necessary consent and/or compliance with any registration of other legal requirements or for any other reason); or

(c) in the opinion of the Directors of PHB (on the advice of their legal counsel), would be necessary or expedient to be excluded from participating in the Proposed Restricted Offer by reason of legal or regulatory requirements.

Notwithstanding the above, any offer or issue of shares in connection with the Proposed Restricted Offer, is made and valid in Malaysia only.

Each Entitled Shareholder accepting all or part of the Restricted Shares offered to him/her will be deemed to have represented that he/she and/or the beneficial owner of those Kinsteel Shares in respect of which the Restricted Shares are accepted, is not an Excluded Party.

2.3.3 Reallocation

Any Restricted Shares not subscribed for by the Entitled Shareholders pursuant to the Proposed Restricted Offer shall first be made available for excess application at the Restricted Offer Price and thereafter any unsubscribed Restricted Shares remaining shall be made available for application by the Malaysian public in the event of an over-subscription under the Proposed Retail Offer at the IPO Price.

The IPO Shares allocated to the eligible Directors and employees of our Group and PHB Group and persons who have contributed to the success of PHB Group shall also be reallocated to the Malaysian public at the IPO Price in the event of an over-subscription under the Proposed Retail Offer and under-subscription under the Proposed Pink Form Offer.

Any Restricted Shares/IPO Shares reallocated to the Proposed Retail Offer not taken up by the Malaysian public shall then be made available for application by the identified investors under the Proposed Special Offer at the IPO Price.

The Directors of PHB reserve the right to allot any unsubscribed IPO Shares in a fair and equitable manner. It is the intention of the Directors to allot excess IPO Shares in such manner that the incidence of odd lots will be minimised and the public shareholding spread requirement is met in accordance with the Listing Requirements. Any IPO Shares not taken up shall be dealt with in a fair and equitable manner in the best interest of PHB.

2.3.4 Underwriting

The Restricted Shares and the new PHB Shares to be issued pursuant to the Proposed Pink Form Offer and Proposed Retail Offer will be fully underwritten. The underwriting commission will be determined upon the signing of the underwriting agreement, which will take place prior to the issuance of the Prospectus. The underwriting commission and managing underwriter fee in respect of the Proposed Pink Form Offer and Proposed Retail Offer will be borne by PHB. The Offerors shall bear all expenses including managing underwriter fee, underwriting commission, brokerage and stamp duty (if any) in relation to the Proposed Offer for Sale.

2.4 Proposed Listing

Thereafter, PHB shall seek admission to the Official List of Bursa Securities for the listing of and quotation for PHB's entire enlarged issued and paid-up share capital of RM560,000,000 comprising 560,000,000 PHB Shares on the Main Board of Bursa Securities.

The Proposed Acquisition is not conditional upon the Proposed ICULS Placement, Proposed IPO and Proposed Listing. However, the Proposed ICULS Placement, Proposed IPO and Proposed Listing are inter-conditional and conditional upon the Proposed Acquisition.

The Prospectus setting out the detailed terms and conditions of the Proposed Flotation shall be despatched to the Entitled Shareholders of Kinsteel in due course. Barring any unforeseen circumstances and on the assumption the SC approves the Proposed Modification (as defined and set out in Section 3 below), the Proposed Flotation is expected to be completed within the third quarter of 2008.

3. DETAILS OF THE PROPOSED CAPITAL REDUCTION

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

Therefore, PHB 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." ("Proposed Modification")

The decision of the SC is still pending at this juncture.

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.

The Proposed Capital Reduction will not have any effect on the earnings, net assets, gearing and cashflow of PSSB or PHB. In addition, the Proposed Capital Reduction will not have any impact to the Proposed Flotation 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.

Nevertheless, if the SC does not allow the Proposed Modification, the completion of the Proposed Flotation may be extended to the first quarter of 2009.

4. DETAILS OF THE PROPOSED EXEMPTION

Pursuant to the Proposed 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 Proposed 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 the persons acting in concert.

Hence, subsequent to the completion of the Proposed Flotation, 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 them under the Code upon conversion of the ICULS, as and when the need arises in the future.

5. BACKGROUND INFORMATION ON THE PHB GROUP

5.1 PHB

PHB was incorporated in Malaysia under the Act as a private limited company on 6 December 2007 under the name of Vertical Winners Sdn Bhd. On 21 December 2007, the company changed its name to Perwaja Holdings Sdn Bhd. The company was subsequently converted into a public limited company on 28 December 2007. PHB was incorporated as an investment holding company to facilitate the Proposed Flotation. PHB is currently dormant.

As at 30 April 2008, the authorised share capital of PHB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each of which 2 ordinary shares have been issued and fully paid-up.

Further information on PHB is set out in Appendix I of this Circular.

5.2 BACKGROUND INFORMATION ON PSSB

PSSB was incorporated in Malaysia under the Act as a private limited company on 11 October 1989 under its current name. PSSB is principally involved in the manufacturing and trading of DRI and semi-finished long products (steel billets, beam blanks and blooms). PSSB commenced operations in 1990 and is currently the only producer of DRI in Malaysia.

As at 30 April 2008, the authorised share capital of PSSB is RM2,000,000,000 comprising 500,000,000 preference shares of RM1.00 each and 1,500,000,000 ordinary shares of RM1.00 each of which 1,216,180,704 ordinary shares have been issued and fully paid-up.

Further information on PSSB is set out in Appendix II of this Circular.

6. PROPOSED UTILISATION OF PROCEEDS

Based on the indicative IPO Price of RM2.90 per PHB Share and the corresponding Restricted Offer Price of RM2.23 per PHB Share, PHB expects to receive gross proceeds of approximately RM173.51 million from the Proposed Flotation (excluding the proceeds from the Proposed ICULS Placement) during the FYE 31 December 2008 and intends to use the proceeds for the purposes as set forth below:

	RM'000
Part repayment of bank borrowings [1]	50,000
Working capital [2]	112,511
Estimated listing expenses [3]	11,000
Total	**173,511**

Notes:

1. *Part repayment of bank borrowings*

PHB intends to use approximately RM50.0 million of the proceeds to repay borrowings. PHB Group expects the repayment of its trade financing facilities to be completed within the fourth quarter of the financial year 2008. Assuming for a period of 12-month and based on a 12-month prevailing interest rate, PHB expects an interest savings of approximately RM4.3 million per annum.

As at 30 April 2008, PSSB has bank borrowings amounting to RM635.4 million. However, the actual amount of borrowings outstanding upon the Proposed Listing may vary as PHB Group continues to service/repay its bank borrowings as and when they fall due and/or to drawdown other short-term facilities in its ordinary course of business. Nonetheless, PHB will use any funds remaining after repayment of its borrowings as working capital.

2. *Working capital*

An aggregate of RM112.5 million of the proceeds from the Proposed Public Issue will be utilised to meet part of the PHB Group's working capital requirements, which will improve the PHB Group's liquidity and fund its operating expenses.

The actual amount of proceeds to be utilised for working capital shall be adjusted accordingly based on the final IPO Price of the PHB Shares and actual listing expenses.

3. *Estimated listing expenses*

PHB will bear the listing expenses and fees incidental to the Proposed Listing of approximately RM11.0 million as follows:

	RM'000
Professional advisory fees	*6,000*
Fees to authorities and issuing house	*590*
Advertising and printing costs	*680*
Brokerage, underwriting fees and placement fee	*3,150*
Issuing house's fees and disbursements	*150*
Other incidental charges	*430*
	11,000

If the actual listing expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted, the excess will be utilised for working capital purposes.

The gross proceeds from the Proposed Offer for Sale amounting to approximately RM193.5 million will be accrued entirely to the Offerors whereby Kinsteel's share of gross proceeds is approximately RM98.7 million. Kinsteel intends to utilise the estimated proceeds of approximately RM96.2 million from the Proposed Offer for Sale (after netting off its portion of the expenses relating to the Proposed Offer for Sale including managing underwriter fee, underwriting commission, brokerage, registration and share transfer and stamp duty (if any)) for working capital purposes.

PHB is proposing to utilise approximately RM15.61 million of the proceeds from the Proposed ICULS Placement for working capital purposes.

7. RATIONALE FOR THE PROPOSED FLOTATION

The main purposes of the Proposed Flotation are as follows:

(i) to achieve listing status for PSSB;

(ii) to enable PSSB to have direct access to the capital market for cost effective capital raising and financial flexibility for future expansion and the continuing growth of our Group;

(iii) to enable Kinsteel to unlock the value of its investment and to provide an opportunity for the investing community, including the Malaysian public, the eligible Directors and employees of our Group and PHB Group and persons who have contributed to the success of the PHB Group to participate in the continuing growth of the PHB Group by way of direct equity participation;

(iv) to reward Kinsteel's minority shareholders who subscribe for the Restricted Shares pursuant to the Proposed Restricted Offer. As illustrated above, if PHB's market capitalisation exceeds the Minimum Market Cap upon listing, the discount element embedded in the Restricted Offer Price allows Kinsteel's minority shareholders to subscribe for more PHB Shares, by capping the proceeds to be raised by Maju and Kinsteel at RM94,815,000 and RM98,685,000 respectively. The result of this in summary, allows for the minority shareholders of Kinsteel the benefit of "free shares" which translates into a discount to the IPO Price; and

(v) Kinsteel to maintain effective equity interest of 51% after the Proposed Flotation (upon full conversion of the ICULS).

8. RISK FACTORS

The Proposed Flotation may not expose our Group to additional category of material risks that are currently faced by our Group. However, you should carefully consider the following risk factors that are relevant to our Group in relation to the Proposed Flotation (which may not be exhaustive), in addition to other information contained in this Circular herein, before voting on the resolutions pertaining to the Proposed Flotation:

(i) No prior market for the PHB Shares

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

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

(ii) Delay or failure in the Proposed Listing

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

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

(b) the Managing Underwriter or Underwriter(s) exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations thereunder; or

(c) PHB being unable to meet the minimum public spread requirements of Bursa Securities at the point of the Proposed Listing; or

(d) any force majeure event(s) which are beyond PHB's control before the Proposed Listing.

(iii) The performance of the PHB Shares are subject to capital market risks

The PHB 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 and trading volume on Bursa Securities, thus adding risk to the performance of the PHB Shares.

(iv) The sale and the possible sale of a substantial number of PHB Shares in the public market following the Proposed IPO could adversely affect the price of the PHB Shares

Based on the enlarged issued and paid-up share capital of PHB upon the Proposed Listing comprising 560,000,000 PHB Shares, PHB will have 150,000,000 PHB Shares (representing up to approximately 26.79% equity interest) which will be publicly held by investors participating in the Proposed IPO and 410,000,000 PHB Shares (representing up to approximately 73.21% equity interest) which will be held by PHB's existing shareholders. PHB Shares offered/issued pursuant to the Proposed IPO will be tradeable on the Main Board of Bursa Securities without restriction following the Proposed Listing. If any existing shareholder sells a substantial number of PHB Shares in the public market, or is perceived as intending to sell, the market price for the PHB Shares may be consequentially affected in an adverse manner.

However, pursuant to the SC Guidelines, certain shareholders are not allowed to sell, transfer or assign their shareholdings in PHB amounting in total to 45% of the issued and paid-up share capital of PHB for a period of one year from the date PHB is listed on Bursa Securities.

(v) Ability to pay dividends

PHB is principally an investment holding company and the core operations of the PHB Group are carried out through its proposed subsidiary, namely, PSSB. Accordingly, an important source of PHB's income, and consequently an important factor in PHB's ability to pay dividends on the PHB Shares, are dividends and other distributions received from PHB's subsidiary. PHB's subsidiary's ability to pay dividends or make other distributions to PHB is subject to 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, and to it having sufficient profits, reserves and/or funds to declare/pay dividends whereby these funds are not needed to fund its operations, other obligations or business plans.

(vi) Dilution of equity interest in PSSB

Presently, PSSB is a 51% owned subsidiary of Kinsteel. Based on the number of PHB Shares to be retained by Kinsteel upon completion of the Proposed Flotation, the direct equity interest held by Kinsteel in PSSB will be reduced from 51% to approximately 37.34%. As a result, Kinsteel has to account for the decrease in the equity interest in PSSB accordingly. Upon completion of the Proposed Flotation, Kinsteel will only consolidate approximately 37.34% of the financial results of PSSB into its financial statements.

It should be noted that the Proposed Flotation which includes, *inter-alia*, the Proposed Restricted Offer provides a direct opportunity to the Entitled Shareholders to participate in the continuing growth of PHB Group. Although the Proposed Flotation will result in the dilution of equity interest in PSSB held by Kinsteel, the shareholders of Kinsteel will be given the opportunity to participate directly in the equity of PHB pursuant to the Proposed Restricted Offer.

9. EFFECTS OF THE PROPOSED FLOTATION

The financial effects of the Proposed Flotation on Kinsteel are set out below:

9.1 Share capital

The Proposed Flotation will not have any effect on our issued and paid-up share capital.

9.2 Earnings

Kinsteel's share of gross proceeds pursuant to the Proposed Offer for Sale amounts to approximately RM98.7 million. Assuming the Proposed Flotation is completed within the third quarter of 2008, our Company is expected to record a gain of approximately RM63.1 million during the FYE 31 December 2008.

The amount of final gain or loss to be recorded by our Group as a result of the dilution of equity interest in PSSB would depend on the final IPO Price and Restricted Offer Price in respect of the PHB Shares and the net assets of the PHB Group at the point of the listing of PHB on Bursa Securities.

For illustrative purposes only, on a proforma basis and assuming the Proposed Flotation is completed on 31 December 2007, based on the audited consolidated financial statements of PSSB for the FYE 31 December 2007, and the indicative IPO Price of RM2.90 per Share and indicative Restricted Offer Price of RM2.23 per Share, our Group is expected to record a loss on dilution of approximately RM8.9 million.

9.3 Net assets and gearing

For illustration purposes and based on the audited consolidated financial statements of Kinsteel Group and PSSB for the FYE 31 December 2007, and the indicative IPO Price of RM2.90 per Share and indicative Restricted Offer Price of RM2.23 per Share, the effect of the Proposed Flotation on the net assets of Kinsteel Group are as follows:

	Audited consolidated as at 31 December 2007 RM'000	After the Proposed Flotation RM'000
Share capital	180,320	180,320
Share premium	30,493	30,493
Retained earnings	568,459	548,659
Shareholders' funds / NA	779,272	759,472
Minority interests	699,494	950,048
Total equity	1,478,766	1,709,520
NA per Share	0.86	0.84
Borrowings	1,489,288	1,439,288[1]
Gearing ratio (times)	1.91	1.90

Note:

1 *After deducting RM50.0 million (being proceeds from Proposed IPO which will be used to repay PSSB's bank borrowings).*

9.4 Substantial Shareholders' Shareholdings

The Proposed Flotation will not have any material effect on the major shareholders' shareholdings of Kinsteel.

9.5 Dividend

The Board had proposed a final tax-exempt dividend of 8.5% for the FYE 31 December 2007, which will be subject to the approval of the shareholders at the forthcoming Annual General Meeting. However, it should be noted that the decision to declare and pay any dividends in the future would depend on amongst others, the performance, cashflow position and the financing requirements of our Kinsteel Group.

10. APPROVALS SOUGHT AND REQUIRED

The Proposed Flotation is conditional upon the approvals of the following:

(i) the SC for the Proposed Flotation, the approval of which was obtained on 31 March 2008 for the Original Proposed Flotation. The submission in respect of the revised terms of the Proposed Flotation (as announced on 13 May 2008) was submitted on 16 May 2008 and the decision is currently pending;

(ii) the Equity Compliance Unit of the SC under the FIC Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests for the Proposed Flotation, the approval of which was obtained on 31 March 2008 for the Original Proposed Flotation. The submission in respect of the revised terms of the Proposed Flotation (as announced on 13 May 2008) was made on 16 May 2008 and the decision is currently pending;

(iii) the Private Debt Securities Unit of the SC under the Guidelines on the Offering of Private Debt Securities for the Proposed ICULS Placement, approval of which was obtained on 31 March 2008;

(iv) MITI, for the Original Proposed Flotation and the recognition of the existing Bumiputera shareholders of PHB and their respective eventual shareholdings in PHB, as approved Bumiputera investors of PHB for purposes of the Proposed Flotation, the approval of which was obtained on 11 April 2008. The submission in respect of the revised terms of the Proposed Flotation (as announced on 13 May 2008) was made on 16 May 2008 and the decision is currently pending;

(v) Bursa Securities, for the admission to the Official List and the listing of and quotation for the entire enlarged issued and paid-up share capital of PHB of RM560,000,000 comprising 560,000,000 PHB Shares upon completion of the Proposed Flotation and the new PHB Shares to be issued pursuant to the conversion of the ICULS, on the Main Board of Bursa Securities;

(vi) the shareholders of Kinsteel for the Proposed Flotation;

(vii) the shareholders of PSSB, namely ECSB and Maju at their respective EGMs for the Proposed Flotation;

(viii) the lenders of PSSB for the Proposed Capital Reduction;

(ix) the sanction of the High Court of Malaya pursuant to the Act for the Proposed Capital Reduction; and

(x) any other approvals, if required.

The Proposed Flotation may not be conditional upon items (viii) and (ix) above in the event that the approval of the SC is obtained for the Proposed Modification, the details of which are set out in Section 3 above.

The conditions imposed by the relevant authorities on the Proposed Flotation and the status of compliance is as follows:

Authority	Condition Imposed	Status of compliance
SC	• PHB should ensure that the debt settlement agreement with the Government of Malaysia is to be executed by both parties prior to the issuance of its listing prospectus;	Complied. The debt settlement agreement with the Government of Malaysia was signed on 12 March 2008.
	• RHB Investment Bank/ PHB should address the issue of PHB's accumulated losses prior to the issuance of its listing prospectus;	An application was made to the SC on 30 April 2008 in respect of the Proposed Modification as stated in Section 3 above. The decision from the SC is still pending at this juncture.

Authority	Condition Imposed	Status of compliance
	• Moratorium on the sale of PHB Shares for 1 year from the listing date of PHB on the Main Board of Bursa Securities is imposed on the following shareholders:	To be complied

Name	Shareholding after the proposed flotation		Shareholding under moratorium	
	No. of PHB shares held	% of enlarged share capital	No. of PHB shares under moratorium	% of enlarged share capital
Kinsteel	209,100,000	37.34	128,520,000	22.95
ECSB	175,900,000	31.41	123,480,000	22.05
Total	385,000,000	68.75	252,000,000	45.00

Authority	Condition Imposed	Status of compliance
	• All future transactions between the PHB Group and other companies related to the substantial shareholders and directors should be on commercial terms and should not be unfavorable to the PHB Group. The Audit Committee of PHB should monitor and the directors should report such transactions in the annual report of PHB;	To be complied
	• All amounts owing to the PHB Group by its substantial shareholders and directors, or parties related to them, should be settled prior to the issuance of the listing prospectus of PHB;	To be complied
	• With regard to the trade debtors, PHB should: (a) Fully disclose in the listing prospectus the debtors position, ageing analysis and comments by its directors on the recoverability of amount owing by trade debtors which have exceeded the credit period; (b) Make full provision for all overdue trade debtors which are in dispute or under legal action, or for amounts which have been outstanding for more than 6 months. The directors of PHB should confirm to the SC that this condition has been complied with prior to the issuance of the prospectus; and (c) Submit a declaration by the directors of PHB to the SC that trade debtors exceeding the credit period which have not been provided for as doubtful debts, excluding those under Paragraph (b) above, are recoverable;	To be complied
	• PHB should comply with the enhanced disclosure with regard to the Management Discussion & Analysis Section under the new Chapter 13 of the Prospectus Guidelines which became effective on 1 February 2008;	To be complied
	• PHB should put the proceeds from the offer for sale in a trust account until the listing of PHB Shares on Bursa Securities;	To be complied
	• PHB should comply with the National Development Policy ("NDP") requirement whereby at least 30% of the enlarged share capital of PHB upon listing is held by Bumiputera shareholders. The existing Bumiputera shareholders of PHB should be recognised by MITI, and the allocation and nomination of new Bumiputera investors should be approved by MITI;	To be complied. The existing Bumiputera shareholders were recognised by MITI *vide* its letter dated 11 April 2008.

Authority	Condition Imposed	Status of compliance
	• PHB and Group should comply with any equity condition imposed by MITI on its manufacturing licences;	To be complied
	• RHB Investment Bank / PHB should inform the SC of the status of compliance with the NDP requirement upon completion of the listing exercise;	To be complied
	• RHB Investment Bank and PHB should obtain the SC's approval should there be any changes to the terms and conditions of the ICULS;	To be complied, if relevant
	• RHB Investment Bank should fully disclose to Kinsteel and relevant parties the following conflict and potential conflict of interest together with relevant mitigating measures: (a) arising from RHB Investment Bank being the principal adviser and lead arranger for the issue of PSSB MMTN in 2006; (b) arising from RHB Investment Bank being the principal adviser and lead arranger for Kinsteel's 7-year Murabahah Commercial Papers/Medium Term Notes Programme of up to RM100 million in nominal value and 10-year Murabahah Medium Term Notes Programme of up to RM100 million in nominal value in 2006; and (c) all other conflict and potential conflict of interest arising from the proposed ICULS issue. RHB Investment Bank should also inform all prospective investors and relevant parties that the Board of Directors of PHB is fully informed of and aware of the conflict of interest situations and is agreeable to proceed with the present arrangement;	To be complied
	• RHB Investment Bank should ensure that the selling restriction imposed on the ICULS are fully disclosed to all prospective investors and relevant parties, including making such information available on the Fully Automated System For Issuing/Tendering ("FAST");	To be complied
	• PHB should obtain all necessary approvals from all relevant parties in relation to the Proposed ICULS Placement and RHB Investment Bank should submit a written confirmation on the same to the SC prior to the issue/drawdown date of the ICULS; and	To be complied
	• RHB Investment Bank is required to remind all relevant parties including PHB of the need to observe and fully comply with all statutory requirements, in particular, those set out in Division 4 of Part VI of the CMSA.	To be complied
MITI	The approval of the SC and compliance with the Guidelines on the Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests issued by the Foreign Investment Committee for the Proposed Flotation.	To be complied as the decision from the SC and ECU on the Proposed Flotation is still pending. The approval from the SC and the ECU of the SC for the Original Proposed Flotation was obtained on 30 March 2008

11. OUTSTANDING CORPORATE PROPOSALS ANNOUNCED BUT PENDING IMPLEMENTATION

Save for the Proposed Flotation, Proposed Capital Reduction, Proposed Modification and Proposed Exemption and as disclosed below, there is no other outstanding corporate proposal announced by the Company, which are pending implementation as at the date of this Circular.

- On 26 February 2008, our Board had announced that the Company proposed to seek the approval of its shareholders for the proposed authorisation to purchase its own shares at the forthcoming general meeting of the Company; and

- On 5 May 2008, our Board had announced that the Company proposed to seek the approval of its shareholders for the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature and new mandate for additional recurrent related party transactions of a revenue or trading nature at the forthcoming general meeting of the Company.

12. DIRECTORS', MAJOR SHAREHOLDERS' AND PERSONS' CONNECTED INTERESTS

Save as disclosed below, none of our Directors and/or Major Shareholders of and/or persons connected has any interest, direct or indirect, in the Proposed Flotation.

All of our Directors are eligible for the allocation of the PHB Shares pursuant to the Proposed Pink Form Offer ("Interested Directors"). Hence, all the Interested Directors are deemed interested in the allocation of the new PHB Shares to be issued pursuant to the Proposed Pink Form Offer. In addition, our Chairman, Managing Director and Executive Director, namely Tan Sri Abu Sahid Bin Mohamed, Tan Sri Dato' Pheng Yin Huah and Dato' Hong Thian Hock respectively ("Interested Major Shareholders") are major shareholders of Kinsteel.

The details of the Interested Directors, Interested Major Shareholders and persons connected to them who are deemed interested in the allocation of the PHB Shares to be issued pursuant to the Proposed Pink Form Offer are as follows:

	Proposed Pink Form Issue	
Allocation to Interested Directors/ Interested Major Shareholder / persons connected	**Maximum allocation '000**	**%** [1]
Interested Directors		
Tan Sri Abu Sahid Bin Mohamed	500,000	4.46
Dato' Md Sharif bin Shamsuddin	150,000	1.34
Tan Sri Dato' Pheng Yin Huah	500,000	4.46
Henry Pheng Chin Guan	300,000	2.68
Dato' Hong Thian Hock	150,000	1.34
Dato' Lew Choon	150,000	1.34
Datin Hong Cheng Guat	150,000	1.34
Dato' Pheng Chin Kiat	150,000	1.34
Dato' Abu Talib Bin Mohamed	150,000	1.34
Dato' Mohamed Fuad bin Yon	150,000	1.34
Kamaruddin bin Koskani Abdul Hamid	150,000	1.34
Pheng Chin Huat	150,000	1.34
Dato' Rahadian Mahmud bin Tan Sri Dato' Seri Haji Mohammad Khalil	150,000	1.34
Shamsudin @ Samad bin Kassim	150,000	1.34
Chong Hoi Sheong @ Chong Hoi Cheong	150,000	1.34
Pheng Chin Shiun	150,000	1.34
Interested Major Shareholders		
PKK [2]	30,000	0.27
Tan Sri Dato' Pheng Yin Huah	500,000	4.46
Dato' Hong Thian Hock	150,000	1.34
Tan Sri Abu Sahid Bin Mohamed	500,000	4.46
Persons connected		
Hong Chye Lai [3]	11,000	0.10
Lew Pei Boon [4]	11,000	0.10
Lew Weng Chen [4]	23,000	0.21
KKMetal [5]	30,000	0.27
Kin Kee Transport Sdn Bhd [10]	10,000	0.09
Kuantan Metal & Machinery Sdn Bhd [11]	5,000	0.04
Ipmuda Berhad [6]	30,000	0.27
Edaran Maju-Muda Sdn Bhd [6]	30,000	0.27
MH Consultancy Services Sdn Bhd [7]	30,000	0.27
Module Tech Sdn Bhd [8]	30,000	0.27
Blackrock Corporation Sdn Bhd [8]	30,000	0.27
PFC Engineering Sdn Bhd [9]	30,000	0.27

Notes:

1. *Calculated based on 11,200,000 PHB Shares to be issued pursuant to the Proposed Pink Form Offer*
2. *Deemed interested by virtue of its shareholding in Kin Kee (60.62%) pursuant to Section 6A of the Act*
3. *Being person connected to Tan Sri Dato' Pheng Yin Huah*
4. *Being persons connected to Dato' Lew Choon*
5. *Being persons connected to Tan Sri Dato' Pheng Yin Huah, Dato' Hong Thian Hock and Datin Hong Cheng Guat*
6. *Being persons connected to Maju, Tan Sri Abu Sahid bin Mohamed, Dato' Abu Talib Bin Mohamed and Dato' Mohamed Fuad bin Yon*
7. *Being person connected to Maju and Tan Sri Abu Sahid bin Mohamed*
8. *Being persons connected to Tan Sri Abu Sahid bin Mohamed and Dato' Abu Talib Bin Mohamed*
9. *Being person connected to Dato' Abu Talib Bin Mohamed*
10. *Being persons connected to Tan Sri Dato' Pheng Yin Huah and Dato' Hong Thian Hock*
11. *Being persons connected to Tan Sri Dato' Pheng Yin Huah, Dato' Hong Thian Hock, Datin Hong Cheng Guat and Dato' Pheng Chin Kiat*

All the Interested Directors, being deemed interest in the allocation of the PHB Shares pursuant to the Proposed Pink Form Offer have abstained and will continue to abstain from all Board deliberations with regards to the respective allocation of the PHB Shares pursuant to the Proposed Pink Form Offer.

The Interested Directors and Interested Major Shareholder will also abstain from voting in respect of their direct and indirect shareholdings in Kinsteel on the respective resolution pertaining to their respective allocations of the PHB Shares pursuant to the Proposed Pink Form Offer at the forthcoming EGM. Further, they will undertake to ensure that persons connected to them will abstain from voting in respect of their direct and indirect shareholdings in Kinsteel on the respective resolutions pertaining to their respective allocations of the PHB Shares pursuant to the Proposed Pink Form Offer at the forthcoming EGM.

ECSB is one of the Offerors for the Proposed Flotation and is a wholly-owned subsidiary of Maju. Hence, Maju will abstain from voting in respect of their direct and indirect shareholdings in Kinsteel on the resolution pertaining to the Proposed Flotation at the forthcoming EGM. Further, they will undertake to ensure that persons connected to them will abstain from voting in respect of their direct and indirect shareholdings in Kinsteel on the resolution pertaining to the Proposed Flotation at the forthcoming EGM.

The direct and indirect shareholdings of the Interested Directors, Interested Major Shareholder and persons connected, in the Record of Depositors of Kinsteel as at 30 April 2008 are set out below:

Name of Interested Directors/ Interested Major Shareholder / persons connected	**No. of Kinsteel Shares**			
	Direct	**%**	**Indirect**	**%**
Tan Sri Abu Sahid Bin Mohamed [1]	2,864,000	0.31	187,822,600	20.60
Dato' Md Sharif bin Shamsuddin	3,625,000	0.40	-	-
Tan Sri Dato' Pheng Yin Huah [2]	21,805,665	2.39	325,411,675	35.68
Henry Pheng Chin Guan	1,660,000	0.18	140,000	0.02
Dato' Hong Thian Hock [3]	1,838,400	0.20	325,538,675	35.70
Dato' Lew Choon	2,920,000	0.32	125,000	0.01
Datin Hong Cheng Guat	1,422,500	0.16	3,095,000	0.34
Dato' Pheng Chin Kiat	150,000	0.02	-	-
Dato' Abu Talib Bin Mohamed	700,000	0.08	-	-
Dato' Mohamed Fuad bin Yon	-	-	-	-
Kamaruddin bin Koskani Abdul Hamid	20,000	0.002	-	-
Pheng Chin Huat	275,000	0.03	-	-
Dato' Rahadian Mahmud bin Tan Sri Dato' Seri Haji Mohammad Khalil	-	-	-	-
Shamsudin @ Samad bin Kassim	10,000	0.001	-	-
Chong Hoi Sheong @ Chong Hoi Cheong	50,000	0.01	30,000	0.003
Pheng Chin Shiun	375,000	0.04	-	-
PKK[4]	-	-	311,791,675	34.19
Kin Kee	311,791,675	34.19	-	-
Maju	187,822,600	20.60	-	-
Hong Chye Lai	1,000	*	-	-
Lew Pei Boon	15,000	0.002	-	-
Lew Weng Chen	110,000	0.01	-	-

Notes:

* *Negligible*

1. *Deemed interested by virtue of his shareholding (91.00%) in Maju pursuant to Section 6A of the Act.*

2. *Deemed interested by virtue of his shareholding in PKK (57.57%), Kin Kee (17.67%), KKH (17.47%), KKMetal (30.63%) and PKK's shareholdings in Kin Kee pursuant to Section 6A of the Act.*

3. *Deemed interested by virtue of his shareholding in KKMetal (30.63%), PKK (31.62%), PKK's shareholdings in Kin Kee and KKH and his children, Hong Ching Pheng and Hong Chai Siang shareholding in Kinsteel pursuant to Section 6A of the Act.*

4. *Deemed interested by virtue of its shareholding in Kin Kee (60.62%) pursuant to Section 6A of the Act.*

13. DIRECTORS' RECOMMENDATION

Our Directors (save for Tan Sri Abu Sahid Bin Mohamed, Dato' Abu Talib Bin Mohamed and Dato' Mohamed Fuad bin Yon who are Directors of Maju), having considered all aspects of the Proposed Flotation, are of the opinion that the Proposed Flotation are in the best interest of our Company.

Accordingly, our Board (save for Tan Sri Abu Sahid Bin Mohamed, Dato' Abu Talib Bin Mohamed and Dato' Mohamed Fuad bin Yon who are Directors of Maju) recommends that you vote in favour of the relevant resolution to be tabled at the forthcoming EGM to give effect to the Proposed Flotation.

All of our Directors are eligible for the allocation of the PHB Shares to be issued pursuant to the Proposed Pink Form Offer. Based on the above, our Directors have abstained and would abstain from rendering any opinion and/or making any recommendation to vote in respect of the resolutions pertaining to the allocations of PHB Shares to be issued to them pursuant to the Proposed Pink Form Offer.

14. EGM

The EGM II, the notice of which is enclosed in this Circular, will be held at Perdana Ballroom, Ground Floor, MS Garden Hotel Kuantan, Lot 5 & 10, Lorong Gambut, Off Jalan Beserah, 25300 Kuantan, Pahang Darul Makmur on Wednesday, 11 June 2008 at 12.00 p.m. or immediately following the conclusion or adjournment (as the case may be) of the EGM of the Company which will be held at the same venue and on the same day at 11.45 a.m., whichever is later or at any adjournment (as the case may be), for the purpose of considering and if thought fit, passing the resolutions to give effect to the Proposed Flotation.

If you are unable to attend and vote in person at the EGM II, you should complete, sign and return the enclosed Form of Proxy in accordance with the instructions printed thereon as soon as possible so as to arrive at the registered office of the Company at B-38, 1st Floor, Lorong Sri Teruntum 139, Off Jalan Bukit Ubi, 25200 Kuantan, Pahang Darul Makmur, not later than 48 hours before the time fixed for the EGM II or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM II should you subsequently wish to do so.

15. FURTHER INFORMATION

Shareholders are requested to refer to the attached appendices for further information.

Yours faithfully
For and on behalf of the Board of Directors
KINSTEEL BHD

DATO' MD SHARIF BIN SHAMSUDDIN
Independent Non-Executive Deputy Chairman

BACKGROUND INFORMATION ON PHB

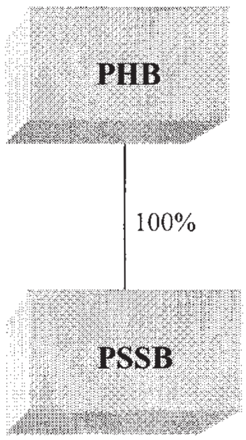
1. HISTORY AND BUSINESS

PHB was 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, the company changed its name to Perwaja Holdings Sdn Bhd. The company was subsequently converted into a public limited company on 28 December 2007.

PHB, being currently dormant, was incorporated as an investment holding company to facilitate the Proposed Listing.

As part of the Proposed Flotation, on 30 January 2008, PHB had entered into a sale and purchase agreement with the shareholders of PSSB 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 Proposed Acquisition has yet to be completed as at the date of this Circular.

The following chart depicts the proposed corporate structure of the PHB Group:



2. SHARE CAPITAL

The authorised share capital and issued and paid-up share capital of PHB as at 30 April 2008 are as follows:

	RM
Authorised share capital	
100,000 ordinary shares of RM1.00 each	100,000
Issued and fully paid-up as at 30 April 2008	
2 ordinary shares of RM1.00 each	2

3. CHANGES IN THE ISSUED AND PAID-UP SHARE CAPITAL

Details of the changes in the issued and paid-up share capital of PHB since incorporation up to 30 April 2008 are as follows:

Date of allotment	Total no. of shares allotted	Par value RM	Consideration	Cumulative total RM
06.12.2007	2	1.00	Cash	2

4. DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

As at 30 April 2008, the Directors and substantial shareholders of PHB are as follows:

	<-------Direct------->		<------Indirect------>	
	No. of Shares	%	No. of Shares	%
Yap Wai Bing	1	50.0	-	-
Oh Swee Chin	1	50.0	-	-

5. SUBSIDIARY AND ASSOCIATED COMPANIES

Presently, PHB do not have any subsidiary or associated company.

6. PROFIT AND DIVIDEND RECORD

PHB is a newly incorporated company and has not filed any audited financial statements to date.

BACKGROUND INFORMATION ON PSSB

1. HISTORY AND BUSINESS

PSSB was incorporated in Malaysia under the Act as a private limited company on 11 October 1989 under its current name. PSSB is principally involved in the manufacturing and trading of DRI and semi-finished long products (steel billets, beam blanks and blooms). DRI is manufactured as an alternative feedstock to be used in billets, blooms, beam-blanks, ingots and slabs production. PSSB processes a significant portion of the DRI it produces into billets, blooms and beam-blanks. DRI is also sold to local upstream steel manufacturers, who further process the DRI and other materials into billets and slabs. Billets and beam-blanks and blooms are sold to midstream steel manufacturers who further process them into rolled products such as bars, wire rods and sections. PSSB commenced operations in 1990 and is currently the only producer of DRI in Malaysia.

PSSB's steel manufacturing business was originally initiated by the Government of Malaysia under the First 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, Perwaja Terengganu Sdn Bhd 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.

In 1990, under the Government of Malaysia's directive, a restructuring exercise of the Perwaja group of companies was commissioned. Following the restructuring exercise, Perwaja Terengganu Sdn Bhd became the ultimate holding company of Perwaja group of companies and all of its assets were transferred to PSSB. In 1996, the Government of Malaysia entered into a privatisation exercise of the Perwaja group with Maju. 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 Proposed Flotation, on 30 January 2008, PHB had entered into a sale and purchase agreement with the shareholders of PSSB 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.

PSSB's production facilities consist of a direct reduction plant and a semi-finished long steel products plant with a built-up area of 115,138 square metres located at Kemaman, Terengganu. PSSB's production capacity and output of DRI and billets for the past 5 financial years/period are as follows:

FYE/FPE	Product	Annual production capacity (mt)	Production output (mt)
31 March 2003	DRI	1,200,000	777,074
	Billet	1,300,000	566,997
31 December 2003	DRI	900,000*	777,074
	Billet	975,000*	566,997
31 December 2004	DRI	1,200,000	909,518
	Billet	1,300,000	704,868
31 December 2005	DRI	1,200,000	855,804
	Billet	1,300,000	608,934
31 December 2006	DRI	1,200,000	906,854
	Billet	1,300,000	543,264
31 December 2007	DRI	1,200,000	1,078,983
	Billet	1,300,000	902,256

Note:

* *Apportioned for the 9-month period, March to December.*

Iron ore is the main raw material used in the production of DRI. DRI and scrap iron are the main raw materials used for the production of semi-finished long steel products (i.e. billet, beam-blanks and blooms). Most of the iron ore are imported from Bahrain, Brazil and Chile.

PSSB is the only domestic producer of DRI, and is among the largest of the six billet producers in Malaysia. PSSB's billets are of high quality due to the high composition of DRI in its feedstock mix, and account for the majority of its total sales extending into both the international and domestic market. For the FYE 31 December 2007, approximately 62.1% of the PSSB's sales was derived from Malaysia and the remaining 37.9% from overseas market. For the FYE 31 December 2007, PSSB exported its products to Vietnam, Indonesia, Thailand, Philippines, Iran, China, Myanmar and Korea, as well as to intermediaries (being international trading companies) in Singapore, who in turn sell to other countries.

In addition, PSSB is currently the only producer of beam-blanks and blooms in Malaysia.

PSSB has a dedicated research and development team comprising 10 personnel. The amount spent on research and development is not available from the last audited financial statements as no specific expenditure relating to the research and development was recognised.

2. SHARE CAPITAL

The authorised share capital and issued and paid-up share capital of PSSB as at 30 April 2008 are as follows:

	RM
Authorised share capital	
1,500,000,000 ordinary shares of RM1.00 each	1,500,000,000
500,000,000 preference shares of RM1.00 each	500,000,000
Issued and fully paid-up	
1,216,180,704 ordinary shares of RM1.00 each	1,216,180,704

3. CHANGES IN THE ISSUED AND PAID-UP SHARE CAPITAL

Details of the changes in the issued and paid-up share capital of PSSB since incorporation up to 30 April 2008 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				
11.10.89	2	1.00	Subscribers' shares	2
14.07.90	250,000,000	1.00	Cash	250,000,002
14.07.90	426,371,667	1.00	Otherwise than for cash	676,371,669
08.04.91	100,000,000	1.00	Cash	776,371,669
27.12.91	64,000,000	1.00	Cash	840,371,669
27.12.91	15,000,000	1.00	Otherwise than for cash	855,371,669

BACKGROUND INFORMATION ON PSSB

Date of allotment/ conversion	No. of shares allotted/ converted	Par Value RM	Consideration	Total issued and paid-up share capital RM
31.03.95	60,809,035	1.00	Cash	916,180,704
17.04.98	300,000,000	1.00	Conversation of preference shares to ordinary shares	1,216,180,704
Preference shares				
08.04.91	100,000,000	1.00	Cash	100,000,000
20.08.91	200,000,000	1.00	Cash	300,000,000
17.04.98	(300,000,000)	1.00	Conversion of preference shares to ordinary shares	-

4. SUBSTANTIAL SHAREHOLDER

As at 30 April 2008, the substantial shareholder of PSSB is as follows:

	<-------Direct------->		<------Indirect------>	
Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
Kinsteel	620,252,159	51.0	-	-
ECSB	535,119,510	44.0	-	-
Maju	60,809,035	5.0	1,155,371,669	95.0[1]
Tan Sri Abu Sahid bin Mohamed	-	-	1,216,180,704	100.0[2]
Kin Kee	-	-	620,252,159	51.0[3]
PKK	-	-	620,252,159	51.0[4]
Tan Sri Dato' Pheng Yin Huah	-	-	620,252,159	51.0[5]
Hong Thian Hock	-	-	620,252,159	51.0[6]

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

5. DIRECTORS

The Directors of PSSB and their respective shareholdings in PSSB as at 30 April 2008 are as follows:

	<-------Direct------->		<------Indirect------>	
Directors	**No. of Shares**	**%**	**No. of Shares**	**%**
Tan Sri Abu Sahid bin Mohamed	-	-	1,216,180,704	100.00[1]
Dato' Abu Talib bin Mohamed	-	-	-	-
Dato' Mohamed Fuad bin Yon	-	-	-	-
Datuk Lim Chaing Cheah	-	-	-	-
Tan Sri Dato' Pheng Yin Huah	-	-	620,252,159	51.00[2]
Dato' Md Sharif Bin Shamsuddin	-	-	-	-
Henry Pheng Chin Guan	-	-	-	-
Pheng Chin Huat	-	-	-	-
Pheng Chin Shiun	-	-	-	-

Notes:
1. *Deemed interest by virtue of his shareholdings in Maju pursuant to Section 6A of the Act*
2. *Deemed interest by virtue of his shareholding in PKK, Kin Kee, KKMetal and Kin Kee Hardware Sdn Bhd pursuant to Section 6A of the Act*

6. SUBSIDIARY AND ASSOCIATED COMPANIES

Presently, PSSB do not have any subsidiary and associated company.

7. PROFIT AND DIVIDEND RECORD

7.1 A summary of the PSSB's audited consolidated results for the past 5 financial years/period ended 31 December 2007 is set out below:

	FYE 31.03.2003 RM'000	FPE 31.12.2003 RM'000	FYE 31.12.2004 RM'000	FYE 31.12.2005 RM'000	FYE 31.12.2006 RM'000	FYE 31.12.2007 RM'000
Turnover	305,088	639,782	1,104,543	1,062,572	1,182,092	1,693,007
(LAT)/PBT	2,070,667	(95,642)	(24,245)	(103,126)	96,461	162,586
Taxation	-	(19)	-	-	110,000	-
(LAT)/PAT and after minority interest	2,070,667	(95,661)	(24,245)	(103,126)	206,461	162,586
Number of Shares in issue ('000) [2]	1,216,181	1,216,181	1,216,181	1,216,181	1,216,181	1,216,181
Shareholders' funds/NA	641,761	546,100	521,855	418,729	625,190	787,776
NA per share (RM)	0.53	0.45	0.43	0.34	0.51	0.65
Net (LPS)/EPS (RM)	1.70	(0.10)*	(0.02)	(0.08)	0.17	0.13
Gross dividend rate (%)	-	-	-	-	-	-

Notes:

* *Annualised for comparison purposes.*

1. *For the FYE 31 March 2003, turnover decreased by 21.8% to approximately RM305.0 million. However, despite the lower turnover, PSSB recorded a profit before taxation of RM2,070.7 million as compared to previous year's loss of RM264.4 million. This was mainly due to the waiver of debts by Perwaja Terengganu Sdn Bhd, the ultimate holding company of PSSB at that time, of approximately RM2,670.1 million.*

2. *For the FPE 31 December 2003, turnover increased by 109.7% to approximately RM639.8 million mainly due to the increase in sales volume of billets and DRI following the management's emphasis to focus on the export market. The significant drop in profit before taxation by approximately RM2.2 billion for the FPE 31 December 2003 was mainly due to the non-occurrence of previous year's gain on the disposal of property, plant and equipment, waiver of debts and the writeback of allowance for doubtful debts.*

3. *For the FYE 31 December 2004, turnover increased by 72.6% to approximately RM1,104.5 million mainly due to higher demand for DRI and billets, and an improvement in the selling price of DRI and billets during the year under review. In FYE 31 December 2004, loss before taxation reduced by approximately RM103.3 million as compared to the annualised FPE 31 December 2003, mainly due to the increase in gross profit but this was offset by the increase in finance costs.*

4. *For the FYE 31 December 2005, turnover decreased slightly mainly due to a decrease in the sales volume and price of billets. PSSB recorded a loss before taxation of RM103.1 million for the FYE 31 December 2005 mainly due to an increase in raw materials cost for DRI and billets, the provision for the cancellation of contract of affreightment of approximately RM34.6 million, bad debts written off of approximately RM16.1 million as well as property, plant and equipment written off of RM3.1 million.*

5. *For the FYE 31 December 2006, turnover increased by approximately 11.2% compared to FYE 31 December 2005 mainly due to higher sales of DRI. Sales of DRI increased due to the superior profit margin of DRI over semi finished long steel products during the year. Revenue also increased due to the increase in sales of wire rod, bars and sections generated from the Gurun Assets (wherein PSSB was previously managing the Gurun Assets pending the completion of the Strategic Alliance in September 2006 and as such, the operation costs and revenue at Gurun Assets were recognised in PSSB's financial accounts for the FYE 2006). The company had also managed to turnaround the loss making position in 2005 to a PBT of approximately RM96.5 million mainly due to the higher gross profits and lower operating and finance costs. Moreover, TNB had waived approximately RM29.7 million of overdue interest.*

6. *For the FYE 31 December 2007, revenue increased to approximately RM1.7 billion mainly due to the increase in selling price of billets as the ceiling price for the local market was revised effective from 16 April 2007 and 1 December 2007. In line with the increase in turnover, the profit before taxation for the FYE 31 December 2007 was approximately RM162.6 million.*

7. *There is no extraordinary item or exceptional item for the financial years under review.*

Exhibit 5
MARC Downgrades Rating on Perwaja Steel Sdn Bhd's RM400 Million MMTN Programme to A-Id

MARC Downgrades Rating on Perwaja Steel Sdn Bhd's RM400 Million MMTN Programme to A-Id

Feb 3, 2012 -

MARC has lowered its rating on Perwaja Steel Sdn Bhd's (Perwaja) RM400 million Murabahah Medium Term Notes (MMTN) programme from AID to A-ID. The outlook on the rating is negative. The rating action, which affects RM160 million of outstanding MMTNs under the programme, is premised on the prolonged decline in the steelmaker's operating performance and the rating agency's expectation of deterioration in its leverage and cash flow coverage credit metrics as a result of incremental debt to finance capital expenditure on an iron ore concentration and pelletizing plant. While Perwaja's strategic initiative to integrate backwards into iron ore processing would likely contribute to better longer-term performance, MARC believes that the uncertain industry conditions and ongoing pressure on Perwaja's profitability will make it difficult for the steelmaker to improve its credit measures to a level commensurate with its previously assigned rating within the next 12 to 24 months. This view is reflected in the negative outlook that MARC is maintaining on the rating.

The rating also reflects Perwaja's vulnerability to decreases in upstream steel consumption and lower steel prices, its domestic market revenue concentration and its sensitivity to raw material price fluctuations, as evidenced by its lacklustre sales and reported losses for two consecutive years and the nine month period ending September 2011 (9MFY2011). MARC also acknowledges the financial support from Perwaja's ultimate holding company Kinsteel Berhad (Kinsteel) which, together with reduced working capital requirements at the steelmaker, have helped to limit the deterioration in Perwaja's financial profile and allowed the company to exhibit improved cash flow coverage measures in a challenging operating environment.

Perwaja is engaged in the production of direct reduced iron (DRI), a steelmaking feedstock, and semi-finished long products such as billets, beam-blanks and blooms. In recent times, Perwaja's profitability has been adversely affected by the negative impact of an incomplete pass-through of raw material cost increases to steel product prices as well as lower demand for billets and DRI. For 9MFY2011, average iron ore and scrap prices have risen by 18.2% (2011: USD182/MT vs 2010: USD154/MT) and 20.5% (2011: USD493/MT vs 2010: USD409/MT) respectively while selling prices for both DRI and billets have only increased by 11.9% and 11.5% (DRI - 2011: USD469/MT vs 2010: USD419/MT) (Billets - 2011: USD652/MT vs 2010: USD585/MT) respectively. The pressure on margins was further exacerbated by increases in electricity and natural gas costs, causing Perwaja to report pre-tax losses of RM54.0 million for 9MFY2011. Prior to that, the steelmaker also posted pre-tax losses of RM67.8 million in FY2010 and RM140.4 million in FY2009.

Perwaja expects to commission the first phase of the RM230.0 million iron ore concentration and pelletising plant in 2012. The plants, which will have a total combined annual production capacity of 2.4 million metric tonnes when both phases are completed, are expected to substantially meet the steelmaker's internal requirement of iron ore pellets. Total project costs will be mostly funded by new borrowings. MARC understands that Perwaja is also proposing a joint venture between the company and the Terengganu state government to mine iron ore with a view to obtain a regular supply of iron ore. Perwaja is banking on the successful implementation of these strategic initiatives to reduce its dependency on imported iron ore and exposure to volatile iron ore prices, and to realise production cost savings. In MARC's view, these strategic initiatives are subject to moderate execution risk.

Perwaja has recorded losses for the two consecutive years and the 9MFY2011. Its gearing, as measured by its debt to equity (D/E) ratio, continues to be elevated on the back of these losses notwithstanding a slight improvement in total debt levels and equity base following capital injections. The steelmaker has been generating positive cash flow from operations (CFO) since FY2009 as a result of lower working capital needs in a weaker revenue environment. MARC notes positively the fund raising exercise by immediate holding company Perwaja Holdings Berhad (PHB) to raise RM280.0 million through the issuance of redeemable convertible unsecured loan stocks (RCULS) to Kinsteel for the working capital needs of Perwaja group. As of January 4, 2011, Kinsteel has made a RM70 million RCULS subscription payment to PHB, the balance of RM210.0 million to be paid by early February 2012. The RCULS issuance will address MARC's earlier concern over Perwaja's heavy dependence on short-term trade financing to fund its working capital needs.

Against the uncertain outlook in the domestic steel industry and slower-than-expected rollout of infrastructure projects in the country as well as continuing cost pressures, a return to profitability is not expected in the near term. Meanwhile, Perwaja's debt-funded investment programme will likely make the company increasingly free cash flow negative, and place the steelmaker at increased risk of deterioration in its financial profile. MARC believes that Kinsteel's ability to provide further financial support to PHB and Perwaja beyond the full subscription of its allotted RCULS in the next 12 to 24 months is limited.

The rating outlook could revert to stable if Perwaja's operating performance improves over the coming quarters, and the company continues to retain an appropriate liquidity profile in addition to the ability to address its refinancing needs reasonably in advance.

Source: MARC

Exhibit 6
Timeline of Key Events

Exhibit 6

Timeline of Key Events

Year	*Event*
1982	Establishment of Perwaja Terengganu Sdn Bhd (PTSB), a Malaysian-Japanese joint-venture
1984	Completion of direct-reduction and billet-making plant
1987	Closure of direct-reduction plant
1988	Takeover of Perwaja by the Government and appointment of Tan Sri Eric Chia to manage PTSB
1989	Exit of Japanese shareholders from PTSB
1990	Restructuring of PTSB, whereby all the assets and operations of PTSB were transferred to Perwaja Steel Sdn Bhd
1990s	Expansion of Perwaja's operations
1994	Perwaja reportedly accumulated losses and debts of RM2.5 billion to-date
1995	Resignation of Tan Sri Eric Chia, later charged with misappropriating funds belonging to Perwaja
1996	Assumption of control over Perwaja by Ministry of Finance
1997	Sale of Perwaja to Equal Concept Sdn Bhd
2003	Acquisition of Perwaja by Maju Group
2005	Entry of Kinsteel into Perwaja
2006	Perwaja reported profits
2007	Perwaja running at full capacity, a first in its history Kinsteel exercised stock-split
2008	Listing of Perwaja on Main Board of Bursa Malaysia Securities Berhad
2009	Perwaja fell into red again
1Q2012	Perwaja reported recovery and turned in profits