

PERWAJA HOLDINGS BERHAD

(Formerly known as Vertical Winners Sdn Bhd)

(Company No: 798513-D)

(Incorporated in Malaysia with limited liability under the Companies Act, 1965)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2008

A. NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARD 134 (FRS 134): INTERIM FINANCIAL REPORTING

A1. Basis of reporting preparation

The interim financial statements is unaudited and has been prepared in accordance with the Financial Reporting Standards 134 (FRS134): "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB") and Appendix 9B part A of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). This is the first interim financial report on the consolidated results for the second quarter ended 30 June 2008 announced by the Company in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding period.

The accounting policies and methods of computation adopted by the Group in this interim financial report are in compliance with the new and revised Financial Reporting Standards issued by the MASB.

The interim financial statement should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 April 2008 as disclosed in the Prospectus of the Company dated 21 July 2008 and the accompanying explanatory notes attached to this interim financial report.

A2. Auditors' report

There was no qualification on the audited financial statements of the Company for the financial period ended 30 April 2008.

A3. Seasonal or cyclical factors

The principle business operations of the Group are not significantly affected by seasonal or cyclical factors during the period under review.

A4. Items of unusual nature and amount

There were no items affecting assets, liabilities, equity, net income or cashflows that are unusual because of their nature, size or incidence in the interim financial reports.

A5. Material changes in estimates

There were no changes in the estimates of amount relating to the prior financial years that have a material effect in the current quarter under review.

A6. Issuances, cancellations, repurchase, resale and repayments of debt and equity securities

(1) Pursuant to the Initial Public Offering (IPO) of Perwaja Holdings Berhad, The Securities Commission (SC) requires PHB to address its accumulated losses (from its subsidiary, i.e Perwaja Steel Sdn Bhd) before end of financial year ending 31 December 2008. In this respect, Perwaja Steel Sdn Bhd (PSSB) has made the necessary application to the Court and on 23 July 2008, the Court has granted its order to PSSB to exercise the capital reduction scheme to address its accumulated losses as follow:

- (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 Share to RM787.776 million comprising 787.776 million PSSB Share by cancellation of 428.405 million PSSB Share,

whereby the total credit arising amounting to RM550.023 million will be utilized to eliminate PSSB's accumulated losses in its entirety as at 31 December 2007.

On 24 June 2008, the Company issued 499,999,998 new ordinary shares of RM1.00 each for the acquisition of the entire equity interest in PSSB as disclosed in Note A12 in this interim financial report.

(2) After the acquisition of PSSB, the Company shall place out 156,123,000 ICULS to Kinsteel Berhad at an issue price of RM0.10 per ICULS. The conversion price of the ICULS is RM2.90 per share and with maturity date of 10 years from the date of issuance of ICULS. The ICULS will not be listed on any stock exchange.

Save for the above, there have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current period and year to date.

A7. Dividends paid

No dividends have been paid by the Company in the current period and year to date.

A8. Segmental information

Segmental information is not provided as the Group's primary business segment is principally engaged in the manufacturing and trading in direct reduced iron, steel billets, beam blanks and blooms and its operation is principally located in Malaysia.

A9. Valuation of property, plant and equipment

There was no valuation of the property, plant and equipment in the current period under review.

A10. Capital commitments

Capital commitment as at end of the current quarter and financial year to date are as follows:-

30 June 2008
RM'000

Approved and contracted for:- 14,188

Approved but not contracted for:- 1,500

A11. Material events subsequent to the end of period reported

There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

A12. Changes in the Composition of the Group

There were no changes in the composition of the Group in the current quarter and financial year-to-date save for the acquisition of Perwaja Steel Sdn Bhd pursuant to the listing exercise.

Acquisition of the entire issued and paid-up share capital of PSSB comprising 1,216,180,704 ordinary shares of RM1.00 each for a purchase consideration of RM966,253,600 to be satisfied by the issuance of 499,999,998 new ordinary shares of RM1.00 each at an issue price of RM1.93 per ordinary share. The acquisition of PSSB was completed on 24 June 2008.

A13. Contingent Liabilities and Contingent Assets

Save as disclosed below, there are no contingent liabilities or contingent assets, which upon becoming enforceable, may have a material effect on the Net Assets, profits or financial position of our Group:-

(i) A claim of RM6.69 million has been made by the related parties on goods transferred to PSSB. PSSB does not agree with the amount claimed. To date, no legal action has been instituted by related parties.

(ii) A claim of RM36.1 million has been filed in the Court by a customer against PSSB for alleged breach of contract. PSSB has made a counterclaim against this customer for the recovery of an amount of approximately RM3.3 million for goods sold. The case management has been further adjourned to 28 August 2008. Based on legal advice, the directors are of the opinion that the claim against PSSB will not succeed.

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES'S LISTING REQUIREMENTS

B1. Review of performance of the Company and its principal subsidiaries

For the financial year to date, the Group recorded a pre-tax profit of RM222.622 million.

In the opinion of the Directors, the result for the current quarter and financial year to date have not been affected by any transactions or events of a material nature which has arisen between 31 December 2007 and the date of this report.

B2. Material changes in the quarterly results compared to the results of the preceding quarter

Not applicable as this is the first quarter in which the consolidated results of the Group is presented.

B3. Prospects for the current financial year

Barring any unforeseen circumstances, the Directors remain positive with the Group's prospects.

B4. Variance between Actual Profit and Forecast Profit

The Group did not issue any profit forecast in a public document during the current financial period.

B5. Taxation

There is no tax payable due mainly to the utilization of deferred tax assets not recognized in prior years to offset current period taxation expenses.

B6. Profit from sale of unquoted investments and/ or properties

There were no disposal of unquoted investment and properties for the current quarter and financial year-to-date.

B7. Quoted securities

There were no purchase or disposal of quoted securities for the current quarter and financial year to date and the Group did not hold any quoted securities as at the end of the financial year to date.

B8. Status of Corporate Proposal

In conjunction with the flotation exercise undertaken by the Company, the Company has, on 21 July 2008, issued a Prospectus in relation to the following:-

The IPO comprising an offering of 90,000,000 IPO shares under the Offer for Sale and 60,000,000 IPO shares under the Public Issue and to be allocated in the following manner, all payable in full upon application:

1. 101,476,000 Restricted Shares are available for application by the Entitled Shareholders of Kinsteel Berhad at the Restricted Offer Price at RM2.23 each;
2. 26,124,000 IPO Shares are available for private placement to identified investors at IPO price of RM2.90
3. 11,200,000 IPO Shares are available for application by the eligible Directors and Employees of Kinsteel Group and the Group and persons who have contributed to the Group's success at IPO price of RM2.90.
4. 11,200,000 IPO Shares are available for application by the Malaysian public at IPO price of RM2.90.

The admission to the official list and the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of Bursa Securities is expected to be completed on 20 August 2008

B9. Group borrowings and debt securities

The Group's borrowings as at 30 June 2008 are as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowing:-</u>			
Trade Financing	270,238	-	270,238
Hire Purchases	17,656	-	17,656
Related company Loan	-	21,070	21,070
Government Loan	-	29,723	29,723
	<u>287,894</u>	<u>50,793</u>	<u>338,687</u>
<u>Long Term borrowings:-</u>			
Term Loan	310,000	40,000	350,000
Related company Loan		85,746	85,746
Government Loan		104,891	104,891
	<u>310,000</u>	<u>230,637</u>	<u>540,637</u>
Total	<u>597,894</u>	<u>281,430</u>	<u>879,324</u>

B10. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off-balance sheet risk.

B11. Material Litigation

Save as disclosed below, as at 30 June 2008, neither our Company nor any of our subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of our Company or our subsidiaries and our Directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Company or our subsidiaries.

(i) Shah Alam High Court Civil Suit No. MT4-22-204-2002 Nesaga Technology Sdn Bhd (“Nesaga”) vs. PSSB

PSSB is alleged to have failed to adhere to 4 maintenance agreements in 1996 whereby Nesaga was to provide various services to PSSB. PSSB had entered into a settlement dated 28 June 1996 with various terms and conditions and PSSB allegedly agreed to all the terms in the settlement via a letter dated 1 July 1996.

On 22 March 2002, Nesaga filed a Writ of Summons and Statement of Claim at the High Court of Malaya at Shah Alam against PSSB. The claim was for LIRE356,996,800.00, RM404,180.00 and USD826,117.40 with interest calculated at the rate of 8% per annum from 1 July 1996 until date of judgment.

Nesaga has filed an application under Order 27 Rule 3 of the Rules of High Court 1980 on 4 March 2005 for judgment on admission (Enclosure 10). Enclosure 10 is now fixed for mention on 9 September 2008. PSSB has filed an application to amend its defence to include a counterclaim (Enclosure 31) which application is now fixed for hearing on 9 September 2008. This matter is also fixed for case management on 19 August 2008 pending the disposal of both Enclosure 10 and Enclosure 31.

PSSB's solicitors are of the view that PSSB stands a fair chance of defending the case.

(ii) Kuala Lumpur High Court Civil Suit No. D1-22-785-2005 PSSB vs. Arus Zaman Sdn Bhd (formerly known as MK Farlin Development Sdn Bhd) (“Arus Zaman”)

The claim was filed by PSSB in 2005 whereby PSSB is claiming a sum of RM15.5 million together with damages, interest calculated at the rate of 8% from 15 July 1999 to date of judgment and interest calculated at 8% from the date of judgment to the date of full and final realisation and costs for construction works done under an agreement dated 20 October 1998 for the Multimedia University Campus Development in Cyberjaya.

Arus Zaman has filed a Counter-Claim against PSSB for the sum of RM69,014.13 for overpayment together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. On 18 January 2006, the court allowed Arus Zaman's application to amend their Defence and Counterclaim which the claim is amended to RM400,227.52 together with interest at the rate of 8% per annum from date of judgment

until full realisation and costs. This matter is fixed for case management on 17 September 2008.

The solicitors of PSSB are of the view that since a substantial part of the documents for PSSB's claim, at first sight are not certified, PSSB may not have a strong claim against Arus Zaman, until and unless the necessary documents substantiating PSSB's claim are complete.

**(iii) Kuala Lumpur High Court Suit No. D8-22-1464-2007 ("D8 Suit")
Megasteel Sdn Bhd ("Megasteel") (Plaintiff) vs PSSB (Defendant)**

Megasteel filed Writ of Summons and Statement of Claim for sum of RM36,079,860.33 ("Megasteel's Claim") as damages for an alleged breach of contract against PSSB. On 17 December 2007, PSSB in its defence argued, inter-alia, that Megasteel has continued to accept the delivery of the goods unconditionally after the alleged stipulated time, causing time to be at large hence time is no longer of the essence. In addition there were variations to the contract causing time to be at large as well.

PSSB has also filed a Counter-Claim against Megasteel for inter-alia the sum of RM3,390,509.03 ("Outstanding Sum") for the DRI supplied to Megasteel. PSSB has then issued a statutory notice under Section 218 of the Companies Act 1965 ("S218 Notice") to wind up Megasteel for the Outstanding Sum on 9 November 2007 (please see item (iv) below). Plaintiff filed an application for summary judgment which is fixed for mention on 28 August 2008. The matter is also fixed for case management on 28 August 2008 pending disposal of the application for summary judgment.

The solicitors of PSSB are of the opinion that PSSB stands a fair chance of success of defending Megasteel's claim and that Megasteel has no viable defence to the Outstanding Sum which Megasteel is seeking to set off the Outstanding Sum against Megasteel's Claim.

**(iv) Kuala Lumpur High Court Suit No. D2-22-1594-2007 ("D2 Suit")
Megasteel Sdn Bhd ("Megasteel") (Plaintiff) vs PSSB (Defendant)
Kuala Lumpur High Court Companies Winding-Up Petition No. D1-28-33-2008
("D1 Suit")
PSSB vs Megasteel**

Megasteel file the D2 Suit against PSSB on 22 November 2007 inter-alia for an injunction to restrain PSSB from acting upon the S218 Notice. Megasteel also filed an ex-parte application for an injunction ("Injunction Application") to restrain PSSB from acting upon the S218 Notice.

PSSB has then filed a Winding-Up Petition (D1 Suit) against Megasteel on 11 January 2008 pursuant to a Statutory Notice under Section 218 of the Companies Act 1965 for the outstanding sum of RM3,390,509.03 when the High Court decided in favour of PSSB on 11 January 2008 on the D2 Suit. However, PSSB filed an application for leave to appeal to the Federal Court when the Court of Appeal decided in favour of Megasteel on 17 January 2008 on the D2 Suit.

The Court has fixed 27 November 2008 for hearing of the D1 Suit pending the disposal of PSSB's application for leave to appeal to the Federal Court in respect of the D2 Suit, which was adjourned from 19 June 2008 to a date to be determined.

The solicitors of PSSB are of the opinion that Megasteel has no viable defence to PSSB's claim in the D1 Suit. The Solicitors are also of the opinion that the Court of Appeal has decided on the appeal wrongly as the said court failed to consider that PSSB has an undisputed claim against Megasteel. Since the Federal Court exercises sparingly its discretion in giving leave to appeal based on point of law, PSSB stands a fair chance of succeeding in the D2 Suit.

B12. Proposed Dividend

There was no dividend proposed or declared for the current quarter and the financial year to date.

B13. Earnings per share

(a) Basic earnings per share

The basic earnings per share is calculated based on the Group's profit attributable to equity holders of the Company of RM147.402 million for the current quarter and RM222.622 million for current financial year-to-date as at 30 June 2008 and on the number of shares in issue of 500,000,000 as at 30 June 2008.

(b) Fully diluted earnings per share

Fully diluted earnings per share were not computed as there were no outstanding potential ordinary shares to be issued as at the end of the reporting period.

By order of the Board,

Henry Pheng Chin Guan
Chief Executive Officer
Date: 4 August 2008