

## **PERWAJA HOLDINGS BERHAD (“PHB” OR “THE COMPANY”)**

### **PROPOSED CONSTRUCTION OF A CONCENTRATION AND PELLETIZING PLANT BY PERWAJA STEEL SDN BHD (“PSSB”)**

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#### **1.0 INTRODUCTION**

The Board of Directors (“Board”) of PHB is pleased to announce that PSSB, a wholly-owned subsidiary of PHB, is proposing to undertake the construction of a concentration and pelletizing plant (“the Project”), which will be the first concentration and pelletizing plant in Malaysia.

To facilitate successful implementation of the Project, PSSB had on 25 October 2010 entered into a contract with Sinosteel Equipment & Engineering Co., Ltd., China (Abbreviated as “Sinosteel MECC”) for the design, supply, installation, construction and commission of a concentration and pelletizing plant with an annual capacity of up to 1.2 million metric ton (“Concentration and Pelletizing Plant”) for a total consideration of USD64,908,800 (equivalent to RM201,541,824.00 based on an exchange rate of USD1.00 to RM3.1050) (“Contract”).

Details of the Project are set out in the ensuing sections.

#### **2.0 DETAILS OF THE PROJECT**

##### **2.1 The Project**

PSSB is proposing to undertake the construction of the Concentration and Pelletizing Plant to produce iron ore pellets (“Pellets”) which is the feedstock materials for the manufacturing of Direct Reduction Iron (“DRI”) in a Direct Reduction plant (“DR plant”). The Concentration and Pelletizing Plant shall be constructed in Kemaman, Terengganu where PSSB’s existing DR plant is located, and will have an annual production capacity of Pellets of up to 1.2 million metric ton.

The Project shall comprise the design, supply, installation, construction, installation, cold tests, hot tests, performance tests and commissioning of the Concentration and Pelletizing Plant to be supplied by Sinosteel MECC.

##### **2.2 Salient terms of the Contract**

Please refer to the Appendix for salient terms of the Contract.

##### **2.3 Source of funding**

PSSB intends to fund the total cost of the Project of approximately RM201,541,824.00.00 via combination of bank borrowings and internally generated funds, the proportion of which will be decided by the management of PSSB at a later date.

## **2.4 Liabilities to be assumed**

Save for the bank borrowings, there are no other liabilities, including contingent liabilities and guarantees, to be assumed by PSSB arising from the Project.

## **2.5 Information on Sinosteel MECC**

### **2.5.1 Sinosteel MECC**

Sinosteel MECC is a corporation established under the law of the People's Republic of China, with its legal address at No: 8, Haidian Street, Haidian District, Beijing, PR China and is a sole subsidiary of Sinosteel Corporation Limited ("Sinosteel Corporation").

Sinosteel MECC was established in 1972 as a professional, internationally operated engineering company with business covering domestic and overseas EPC/EP projects, equipment and spare parts supply, project management, project and equipment manufacturing supervision.

Sinosteel MECC is granted with several qualifications including Class A National Qualification for complete set equipment supply, Class A National Qualification for equipment manufacturing supervision etc, possesses over ten patent technologies and products, and is approved by ISO9001, ISO14001 and OHSAS18001. Sinosteel MECC also invests in and held shares of 5 companies.

As a well-known metallurgical engineering company in China, Sinosteel MECC has made outstanding contribution in the development of China's metallurgical industry. It has ever accomplished over 400 state key metallurgical projects in the field of mining, coking, sintering, pelletizing, blast furnace, EAF, converter, continuous casting machine, wire rod and bar mill, hot strip mill, plate mill, steckel mill, cold strip mill, processing and finishing line, environment protecting and energy saving system for major Chinese steel enterprises. Through years of development and experience accumulation, Sinosteel MECC has acquired the full capacity to undertake the construction of integrated steel plants.

Sinosteel MECC's parent corporation i.e. Sinosteel Corporation is a central enterprise under the administration of the State-Owned Assets Supervision and Administration Commission. There are 86 subsidiaries under the administration of Sinosteel Corporation, among which 63 are in China and 23 abroad. In 2009, the core businesses revenue of Sinosteel Corporation reached RMB164 billion, ranking the 352<sup>nd</sup> of World Top 500 according to the 2010 Fortune's list.

(sources: <http://www.mecc.sinosteel.com/en/ContentDir/872/3340.aspx> & <http://en.sinosteel.com/zggk/jtjj>)

### **3.0 INFORMATION ON PSSB**

PSSB was incorporated in Malaysia on 11 October 1989 under the Companies Act, 1965 as a private limited company. The present authorised share capital of PSSB 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 787,774,374 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.

### **4.0 RATIONALE FOR THE PROJECT**

The Board of PHB is of the view that the Project will further strengthen PSSB's position as one of the leading upstream steel producer in Malaysia.

Having its own Concentration and Pelletizing Plant will enable PSSB to reduce dependencies on imported Pellets thus facilitating better project management for its production and sales requirement. It also allows PSSB to be more cost competitive in its move towards producing higher value added steel products. Implementation of the Project will further help to prevent PSSB from any unanticipated disruption of supply of Pellets and ensure stable supply of Pellets.

Moving up on the steel making value chain via building its own Concentration and Pelletizing Plant will enable PSSB to transform itself into an integrated upstream steel player in this region. The management of PSSB intends to implement phase two (2) of the Project within five (5) years to further increase the production capacity of the Concentration and Pelletizing Plant to 2.4 million metric ton.

### **5.0 PROSPECTS**

The construction sector expanded by 4.1% in the second quarter (1Q 10: 8.7%), supported mainly by the strong growth in the non-residential sub-sector. The strong activities in the non-residential sub-sector reflected the construction of office space, schools and Government quarters. Meanwhile, the continued expansion in the civil engineering sub-sector reflected progress in the implementation of several infrastructure projects such as the construction of highways, the double-track rail project, the second Penang Bridge, the new Low Cost Carrier Terminal, as well as gas pipeline in Sabah and Sarawak. However, the construction of residential properties was lower during the quarter.

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2010 (1Q 10: 10.1%) driven by sustained expansion in domestic demand and continued robust growth in external demand. The stronger domestic demand was due to higher private and public sector spending, while the expansion in external demand spurred domestic production. On the supply side, major economic sectors continued to record strong growth during the quarter, led by the manufacturing and services sectors.

*(Source: Bank Negara, Quarterly Bulletin, Second Quarter, 2010)*

Domestic steel consumption has been on the rise in tandem with the growth of local economy and also rebound in construction activities, both in the public and private sectors. The same trend can be seen regionally, and this which bodes well for PHB and its subsidiary companies ("PHB Group"). Barring unforeseen circumstances, PHB Group expects the steel sector to continue to be positively influenced by the gradual recovery of the local economy.

## **6.0 RISK FACTORS**

The Board of PHB is unaware of any risk arising from the Project that could materially and adversely affect the financial and operations of PHB Group. Nevertheless, the following risk factors, which are not exhaustive, are relevant and currently faced by PHB Group:

### **(i) Business risks**

The primary inherent risk of the steel industry is the exposure to economic cycles. Other risks include changes in political and business conditions, labour shortages, increases in raw material prices, interest rates and availability of bank loans and changes in legal and environmental framework within which the industry operates. These risks are addressed as part of ordinary course of business.

### **(ii) Political, economic and regulatory factors**

Like all other business entities, changes in political, economic and regulatory conditions could materially and adversely affect the financial and business prospects of PHB Group. Amongst the political, economic and regulatory uncertainties are the changes in political leadership, expropriation, nationalization, renegotiation or nullification of existing sales orders and contracts, interest rates, method of taxation and currency exchange rates. Any adverse changes in such political, economic or regulatory conditions could have an adverse effect on PHB Group's business, financial condition, results of operations and prospects.

### **(iii) Competition risk**

PHB Group may face competition from players both from local and overseas, with no assurance that PHB Group will be able to maintain its existing market share in the future which could result in the business, financial condition, results of operations and prospects of PHB Group being adversely affected.

### **(iv) Risk of non-completion of the Project**

There is no assurance that the Project can be completed within the time frame required. Barring unforeseen circumstances, PSSB expects to complete the Project within the specified time frame.

## **7.0 FINANCIAL EFFECTS**

The financial effects of the Project on PHB Group are as follows:

### **7.1 Share Capital**

The Project will not have any effect on the issued and paid-up share capital of PHB as the consideration of the Project will be satisfied in cash.

### **7.2 Substantial shareholders' shareholding**

The Project will not have any effect on the substantial shareholders' shareholdings in PHB.

### **7.3 NA and gearing**

The Project will not have any effect on the NA of PHB. The effect of the Project on PHB's gearing can only be determined upon finalisation of the proportion of bank borrowings and internally generated funds to be used as source of fund for the Project.

### **7.4 Earnings**

The utilization of bank borrowings to finance the Project, if any, is expected to result in an immediate increase in interest expense.

Nevertheless, barring unforeseen circumstances, the Board expects the Project, once completed, to contribute positively to the future earnings of PHB.

## **8.0 PERCENTAGE RATIOS UNDER PARAGRAPH 10.02(g) OF THE MAIN MARKET LISTING REQUIREMENTS**

The ratio of 21.6% computed in accordance with Paragraph 10.02(g)(iii) of Chapter 10 of the Main Market Listing Requirements is the highest percentage ratio applicable to the Project.

## **9.0 APPROVALS REQUIRED**

The Project does not require the approval of the shareholders' of PHB but require the following relevant governmental approvals to be obtained by PSSB:

- i. Malaysian Industrial Development Authority for the manufacturing license to manufacture Pellets;
- ii. Department of Environment for the Environmental Impact Assessment; and
- iii. Any other governmental approvals, if required.

**10.0 ESTIMATED TIMEFRAME FOR THE COMPLETION OF THE PROJECT**

Barring unforeseen circumstances, the Project is expected to be completed within 18 months from the effective date of the Contract.

**11.0 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

None of the Directors and major shareholders of PHB and/or persons connected with any of them has any direct or indirect interests in the Project.

**12.0 DIRECTORS' STATEMENT**

The Board of PHB, after having considered all aspects of the Project, is of the opinion that the Project is in the best interest of the Company.

**13.0 DOCUMENTS FOR INSPECTION**

The Contract will be available for inspection following the date of this announcement for a period of fourteen (14) days at PHB's registered office at Level 31 Maju Tower, 1001 Jalan Sultan Ismail, 50250 Kuala Lumpur during normal office hours from Mondays to Fridays (except public holidays).

This announcement is dated 25 October 2010.