

Masteel

MALAYSIA STEEL WORKS (KL) BHD
www.masteel.com.my
(7878-V)

Putting The Steel into
Malaysia's Growth

ANNUAL REPORT
2010



Table of Contents

2	Notice of Annual General Meeting
6	Corporate Information
7	Corporate Structure
8	Financial Highlights
9	Directors' Profile
12	Chairman's Statement
14	Managing Director/CEO's Statement
16	Corporate Governance Statement
25	Audit Committee Report
30	Statement on Internal Control
32	Financial Statements
86	List of Properties
87	Analysis of Shareholdings
90	Analysis of Warrant Holdings
92	Appendix I
93	Appendix II
Enclosed	Proxy Form

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Thirty-Ninth Annual General Meeting of the Company will be held at Rebana 1 & 2, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 23 June 2011 at 3.00 p.m. to transact the following businesses:-

AGENDA

As Ordinary Business

- | | |
|---|-----------------------|
| 1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2010 together with the Directors' and Auditors' Reports thereon. | Ordinary Resolution 1 |
| 2. To declare a first and final single-tier dividend of 1.35 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2010. | Ordinary Resolution 2 |
| 3. To approve the increase of Directors' Fees to RM56,000 for the financial year ended 31 December 2010 and the payment thereof. | Ordinary Resolution 3 |
| 4. To re-elect the Director, Dato' Ikhwan Salim Bin Dato' Haji Sujak who is retiring under Article 79 of the Articles of Association of the Company. | Ordinary Resolution 4 |
| 5. To re-elect the Director, Dato' Sri Tai Hean Leng @ Tek Hean Leng who is retiring under Article 79 of the Articles of Association of the Company. | Ordinary Resolution 5 |
| 6. To re-elect the Director, En. Muhammad Hanizam Bin Hj. Borhan who is retiring under Article 79 of the Articles of Association of the Company. | Ordinary Resolution 6 |
| 7. To appoint Messrs Nexia SSY as Auditors of the Company in place of the retiring Auditors, Messrs SSY Partners and to authorise the Directors to fix their remuneration. | |

Notice of Nomination pursuant to Section 172(11) of the Companies Act, 1965 (a copy of which is annexed and marked as "Appendix I" in the Annual Report 2010) has been received by the Company for the nomination of Messrs Nexia SSY who have given their consent to act, for appointment as Auditors in place of the retiring Auditors, Messrs SSY Partners and of the intention to propose the following ordinary resolution:-

"That Messrs Nexia SSY having consent to act, be and are hereby appointed as the Auditors of the Company for the financial year ending 31 December 2011 in place of the retiring Auditors, Messrs SSY Partners and to hold office until the conclusion of the next Annual General Meeting of the Company and that the Directors be authorised to fix their remuneration."

Ordinary Resolution 7

As Special Business

To consider and, if thought fit, to pass the following resolutions:-

8. **Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares**

"**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and they are hereby authorised to issue shares in the Company at any time and from time to time until the conclusion of the next Annual General Meeting of the Company upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the issued share capital of the Company for the time being, subject always to the approval of all the relevant regulatory bodies being obtained for such allotment and issue."

Ordinary Resolution 8

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

9. Proposed Renewal of Shareholders' Mandate For Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Renewal of Shareholders' Mandate")

"THAT subject always to the Companies Act, 1965, the Memorandum and Articles of Association of the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and its subsidiaries, to enter and give effect to the recurrent related party transactions of a revenue or trading nature (hereinafter to be referred to as "Recurrent Transactions") with the Related Parties as stated in Section 3.3 of the Circular to Shareholders dated 1 June 2011 which are necessary for the day-to-day operations of the Company and its subsidiaries subject further to the following:-

- (i) the Recurrent Transactions contemplated are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public, and are not to the detriment of the minority shareholders of the Company; and
- (ii) disclosure will be made in the Annual Report of the breakdown of the aggregate value of the Recurrent Transactions conducted pursuant to the Proposed Renewal of Shareholders' Mandate during the financial year on the type of Recurrent Transactions made, the names of the related parties involved in each type of Recurrent Transactions and their relationships with the Company.

AND THAT the approval is subject to annual renewal and shall only continue to be in force until:-

- (a) the conclusion of the next Annual General Meeting of the Company following the forthcoming Annual General Meeting of the Company at which the Proposed Renewal of Shareholders' Mandate will be tabled;
- (b) the expiration of the period within which the next Annual General Meeting of the Company after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is the earlier.

AND FURTHER THAT the Directors of the Company be and are hereby authorised to do all acts and things to give full effect to the Recurrent Transactions contemplated and/or authorised by this resolution, as the Directors of the Company, in their absolute discretion, shall deem fit."

Ordinary Resolution 9

10. Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares ("Proposed Renewal of Share Buy-Back Mandate")

"THAT subject to the Companies Act, 1965, the Memorandum and Articles of Association of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approvals of all relevant governmental and/or regulatory authorities (if any), the Company be and is hereby authorised to utilise an amount not exceeding the audited retained profits and/or share premium of the Company as at 31 December 2010 of RM271.3 million and RM31.2 million respectively to purchase such amount of ordinary shares of RM0.50 each in the Company ("Proposed Share Buy-Back") as may be determined by the Directors of the Company from time to time through Bursa Malaysia Securities Berhad upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares purchased and/or held pursuant to this resolution does not exceed ten per centum (10%) of the issued and paid-up share capital of the Company;

THAT an amount not exceeding the Company's share premium account and retained profits account be allocated by the Company for the Proposed Share Buy-Back;

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

THAT authority be and is hereby given to the Directors of the Company to decide at their absolute discretion to either retain the shares so purchased as treasury shares (as defined in Section 67A of the Companies Act, 1965) and/or to cancel the shares so purchased and if retained as treasury shares, may resell the treasury shares and/or to distribute them as share dividend and/or subsequently cancel them;

THAT the authority conferred by this resolution will be effective immediately upon the passing of this resolution and will expire at:

- (i) the conclusion of the next Annual General Meeting of the Company (being the Fortieth Annual General Meeting of the Company), at which time the said authority will lapse unless by an ordinary resolution passed at a general meeting of the Company, the authority is renewed, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which the Fortieth Annual General Meeting of the Company is required by law to be held; or
- (iii) revoked or varied by an ordinary resolution passed by the shareholders in a general meeting;

whichever occurs first but not so as to prejudice the completion of the purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Malaysia Securities Berhad and/or any other relevant governmental and/or regulatory authorities (if any);

AND THAT the Directors of the Company be authorised to take all steps necessary to implement, complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Share Buy-Back as may be agreed or allowed by any relevant governmental and/or regulatory authority."

Ordinary Resolution 10

11. Proposed Amendments to the Articles of Association

"**THAT** the deletions, alterations, modifications, variations and additions to the Articles of Association of the Company as set out in Appendix II attached with the Annual Report for the financial year ended 31 December 2010 be and are hereby approved."

Special Resolution 1

DATE OF ENTITLEMENT AND PAYMENT OF FIRST AND FINAL DIVIDEND

NOTICE IS HEREBY GIVEN THAT subject to the approval of shareholders at the Thirty-Ninth Annual General Meeting, a first and final single-tier dividend of 1.35 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2010 will be paid on 26 July 2011. The entitlement date for the said dividend shall be 7 July 2011.

A Depositor shall qualify for entitlement to the dividend only in respect of:

- a. Shares transferred to the Depositor's securities account before 4.00 p.m. on 7 July 2011 in respect of transfers; and
- b. Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD
 TAI YIT CHAN (MAICSA 7009143)
 LIEW IRENE (MAICSA 7022609)
 Company Secretaries

Selangor Darul Ehsan
 Date: 1 June 2011

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

NOTES:

1. A member [other than an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991] entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) proxies to attend and vote on his (her) behalf. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. Where a member appoints two (2) proxies, the appointment shall be invalid unless he (she) specifies the proportions of his (her) holdings to be represented by each proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The Proxy Form shall be signed by the appointer or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer.
5. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited by hand at or by facsimile transmission to the Registered Office of the Company at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the Meeting or any adjournment thereof.

EXPLANATORY NOTES ON SPECIAL BUSINESS

1. *Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares*

The Company had, during its Thirty-Eighth Annual General Meeting held on 24 June 2010, obtained its shareholders' approval for the general mandate for issuance of shares pursuant to Section 132D of the Companies Act, 1965 ("the Act"). As at the date of this notice, the Company did not issue any shares pursuant to this mandate obtained.

Ordinary Resolution 8 proposed under item 8 of the Agenda is a renewal of the general mandate for issuance of shares by the Company under Section 132D of the Act. The mandate, if passed, will provide flexibility for the Company and empower the Directors to allot and issue new shares speedily in the Company up to an amount not exceeding in total 10% of the issued share capital (excluding treasury shares, if any) of the Company for such purposes as the Directors consider would be in the interest of the Company. This would eliminate any delay arising from and cost involved in convening a general meeting to obtain approval of the shareholders for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding investment project(s), working capital and/or acquisition.

2. *Proposed Renewal of Shareholders' Mandate*

Ordinary Resolution 9 proposed under item 9 of the Agenda, if passed, will allow the Company and its subsidiaries to enter into recurrent related party transactions in accordance with paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the necessity to convene separate general meetings from time to time to seek shareholders' approval as and when such recurrent related party transactions occur would not arise. This would reduce substantial administrative time and expenses associated with the convening of such meetings without compromising the corporate objectives of the Group or affecting the business opportunities available to the Group. The shareholders' mandate is subject to renewal on an annual basis.

3. *Proposed Renewal of Share Buy-Back Mandate.*

Ordinary Resolution 10 proposed under item 10 of the Agenda, if passed, will give the Directors of the Company authority to take all such steps as are necessary or expedient to implement, finalise, complete and/or to effect the purchase(s) of ordinary shares by the Company as the Directors may deem fit and expedient in the best interest of the Company. The authority will, unless revoked or varied by the Company in general meeting, continue to be in force until the conclusion of the next Annual General Meeting of the Company or the expiry of the period within which the next Annual General Meeting of the Company following the Thirty-Ninth Annual General Meeting is required by law to be held.

4. *Proposed Amendment to the Articles of Association*

Special Resolution 1 proposed under item 11 of the Agenda, if passed, will render the Articles of Association of the Company to be in line with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and to update the Articles of Association of the Company to be consistent with the prevailing laws, guidelines or requirements of the relevant authorities as well as to further enhance administrative efficiency of the Company.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dato' Ikhwan Salim bin Dato' Haji Sujak
(Chairman – Non-Independent Non-Executive)

Dato' Sri Tai Hean Leng @ Tek Hean Leng
(Managing Director/Chief Executive Officer)

Lee Kean Binh
(Executive Director)

Lau Yoke Leong
(Executive Director)

Lim Hoo Teck
(Independent Non-Executive Director)

Ng Wah Lok
(Independent Non-Executive Director)

Muhammad Hanizam bin Hj. Borhan
(Independent Non-Executive Director)

COMPANY SECRETARIES

Tai Yit Chan (MAICSA 7009143)
Liew Irene (MAICSA 7022609)

REGISTERED OFFICE

Unit B-05-3A, 5th Floor
Block B (West Wing)
PJ8 Office Suite
No. 23, Jalan Barat
Seksyen 8
46050 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7955 7889
Fax : 03-7956 0389

PRINCIPAL OFFICE

Wisma Masteel
Lot 29C, Off Jalan Tandang
Section 51
46050 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7781 1611
Fax : 03-7781 5435

SHARE REGISTRAR

Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Tel : 03-2264 3883
Fax : 03-2282 1886

AUDITORS

SSY Partners
(Member of Nexia International)
Chartered Accountants
SSY Building @ Sentral
Level 1, 2A Jalan USJ Sentral 3
USJ Sentral, Persiaran Subang 1
47620 Subang Jaya
Selangor Darul Ehsan

PRINCIPAL BANKERS

EON Bank Berhad
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Berhad

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

	<u>Shares</u>	<u>Warrants</u>
Stock Name:	Masteel	Masteel-WA
Stock Code:	5098	5098WA

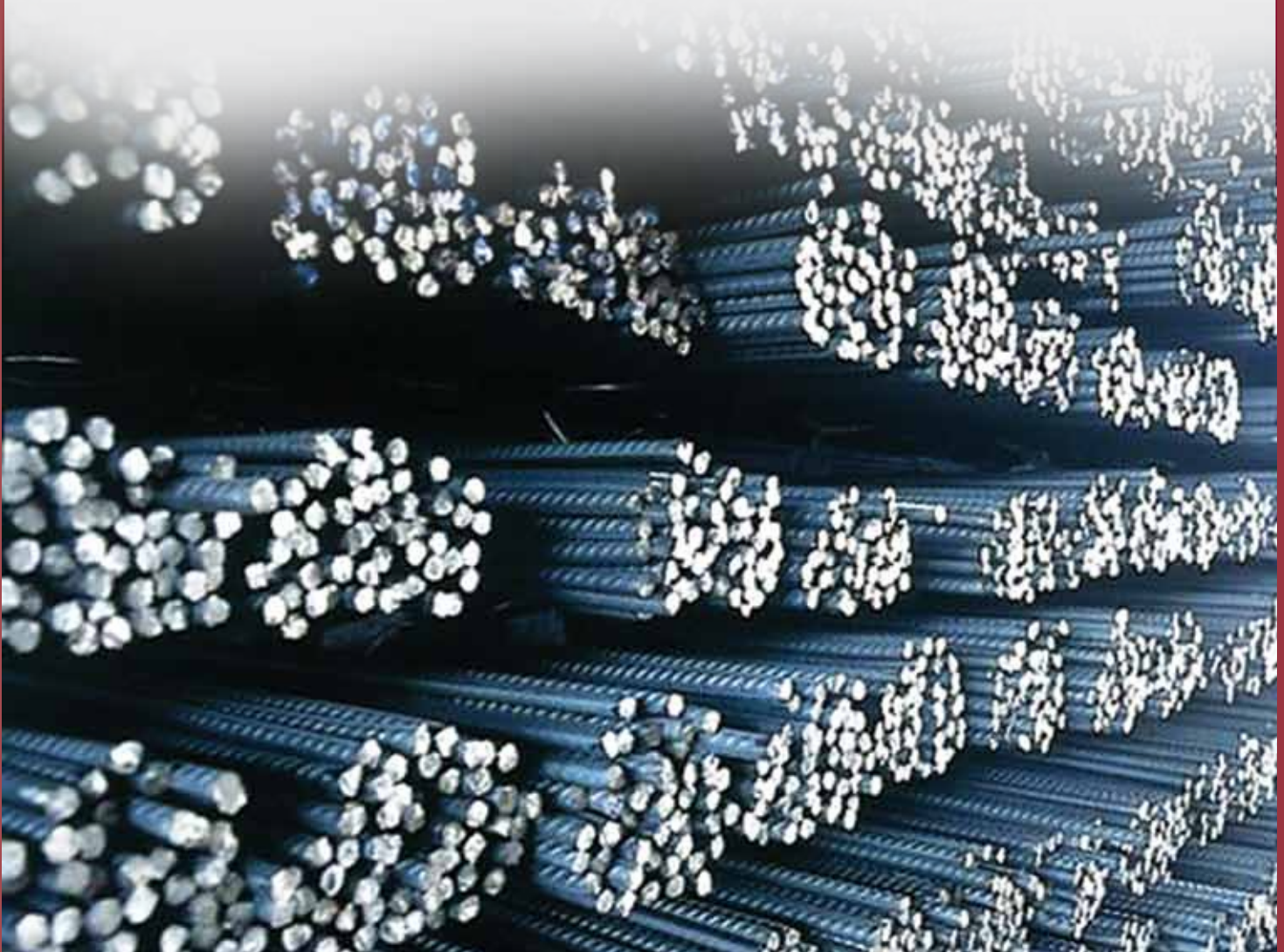
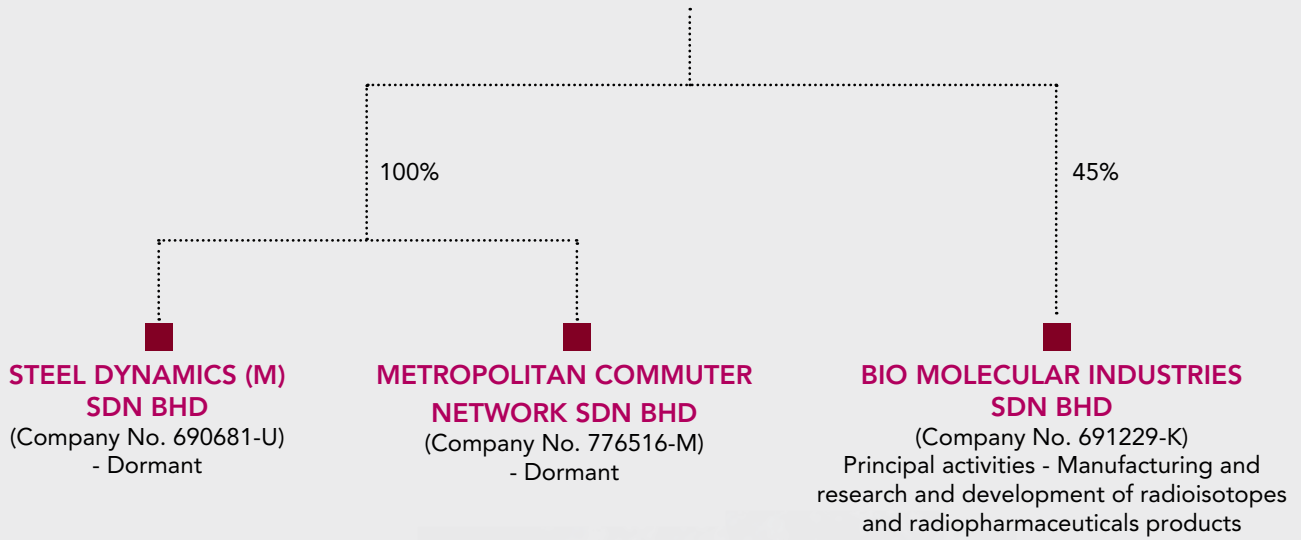
CORPORATE STRUCTURE

Masteel

MALAYSIA STEEL WORKS (KL) BHD

www.masteel.com.my

(Company No. 7878-V)

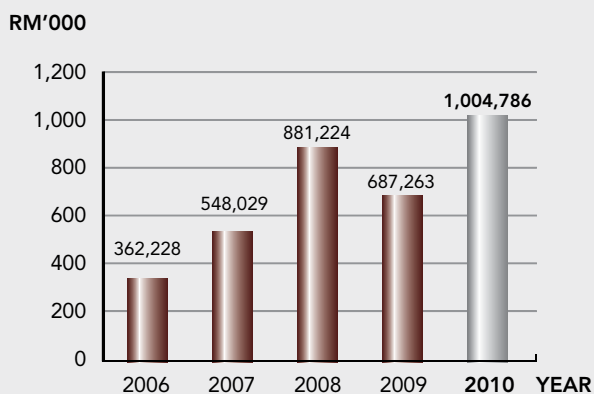


FINANCIAL HIGHLIGHTS

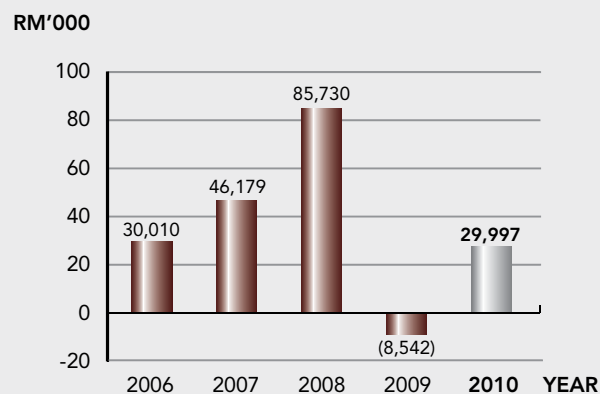
	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	362,228	548,029	881,224	687,263	1,004,786
Profit/(Loss) before taxation	30,010	46,179	85,730	(8,542)	29,997
Net Profit/(Loss) for the financial year	30,010	44,334	79,301	(8,092)	28,094
Total Assets Employed	567,868	646,278	734,521	749,615	826,171
Total Shareholders' funds	301,268	355,387	430,308	417,319	478,554
Paid-up Share Capital	66,500	73,000	97,333	97,333	105,393
No. of Ordinary Shares in Issue ('000)	133,000	146,000	194,667	194,667	210,787
Net Assets per Share (RM)	2.27	2.43	2.21	2.14	2.27
Earnings/(Loss) per Share (sen) *	22.56	22.93	40.74	(4.16)	13.58
Diluted Earnings per Share (sen)	N/A	N/A	N/A	N/A	11.34
Gross Dividend per Share (sen)	2.10	3.00	2.50	1.00	1.35

* - In compliance with FRS 133, Earnings Per Share, the weighted average number of shares has been adjusted to account for the bonus issue as if it had occurred at beginning of 2007.

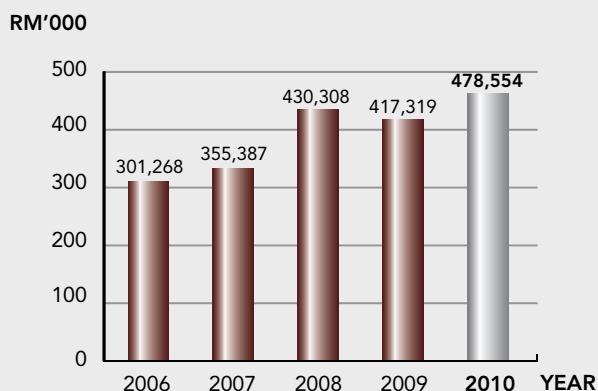
REVENUE



PROFIT/(LOSS) BEFORE TAXATION



TOTAL SHAREHOLDERS' FUNDS



DIRECTORS' PROFILE



Dato' Ikhwan Salim bin Dato' Haji Sujak
(Chairman – Non-Independent Non-Executive)
(Chairman of Remuneration Committee)

Dato' Ikhwan Salim bin Dato' Haji Sujak, a Malaysian, aged 54, Non-Executive Chairman since 22 May 2003 and a Non-Executive Director of Masteel since 23 July 1998. He obtained a Bachelor of Science degree in Economics/Accounting in 1977 from Queen's University, Belfast, Ireland. He joined Nestle (M) Sdn Bhd as a Finance Executive in 1979. In 1980, he joined Bandar Management Sdn Bhd, a subsidiary of General Corporation Berhad as the Group Finance Planning Manager and upon restructuring his family's varied business operations in 1981, he was made the Director for the holding company, Jaya Holdings Sdn Bhd. In 2000, he was appointed as Executive Chairman/Director of Konsortium Jaringan Selangor Sdn Bhd and was also appointed as an Independent Director as well as Chairman of the audit committee of Glomac Berhad. Subsequently, he was appointed as Independent Director of Kumpulan Perangas Selangor Berhad in 2001 to 2008. He was also appointed as a Director in Land and General Berhad on 1 December 2007. He was also a committee member of Automobile Association of Malaysia and the British Graduates Association of Malaysia. He is the Division Head of Petaling Jaya Utara Division of United Malay National Organisation (UMNO). Dato' Ikhwan Salim bin Dato' Haji Sujak also sits on the Board of several private companies in Malaysia.

Dato' Ikhwan Salim attended all 5 Board meetings of the Company held during the financial year ended 31 December 2010.

Dato' Sri Tai Hean Leng @ Tek Hean Leng
(Managing Director / Chief Executive Officer)
(Member of Risk Management Committee)

Dato' Sri Tai Hean Leng, a Malaysian, aged 47, was appointed as an Executive Director of Masteel on 25 April 1994. He is also the Managing Director/Chief Executive Officer of Masteel. He obtained a Bachelor of Science degree in Mechanical Engineering from the The University of Southern California in 1987 and a Master's degree in Finance from the University of Hull, United Kingdom in 1993. He began his practical training in 1987 as a Plant Manager in the manufacturing of Liquefied Petroleum Gas (LPG) pressure vessels for the oil and gas industries. He has been involved in the formulation and implementation of Masteel's corporate strategies including corporate planning, business expansion and operations. He has more than 20 years of business experience in the iron and steel industry. Dato' Sri Tai also sits on the Board of Steel Dynamics (M) Sdn Bhd and Metropolitan Commuter Network Sdn Bhd, which are wholly owned subsidiaries of Masteel. He also sits on the Board of Bio Molecular Industries Sdn Bhd, an associate company of Masteel and several private companies in Malaysia. Dato' Sri Tai is the Vice President of the Malaysia Steel Association (MSA).



Dato' Sri Tai attended all 5 Board meetings of the Company held during the financial year ended 31 December 2010.

None of the Directors has family relationship with any other directors/major shareholders, except for the Managing Director/Chief Executive Officer ("MD/CEO"), who is related to one of the major shareholders, and he does not have any conflict of interest with the Company. The members of the Board has no convictions for any offences within the past ten (10) years.

DIRECTORS' PROFILE (cont'd)



Lee Kean Binh
(Executive Director)
(Member of Risk Management Committee)

Lee Kean Binh, a Malaysian, aged 54, was appointed as an Executive Director of Masteel on 4 June 2003. He is a Fellow Chartered Management Accountant, an Associate Chartered Secretary by profession and a member of the Malaysia Institute of Accountants. He has more than 27 years of extensive local and international experience in management, accounting and secretarial matters. Upon graduation in 1981, he joined Messrs. Porter Gee & Co, a public accounting firm in London, England as an auditor until 1983 when he returned to Malaysia and joined Transwater Engineering Sdn Bhd as an Accountant cum Office Manager until 1985. From 1985 to 1990, he was with Gas Pantai Timur Sdn Bhd as Group Accountant and from 1990 to 1993, he was with Sitt Tatt Berhad as Senior Manager in Finance and Administration cum Company Secretary. He joined Masteel in November 1993 as a Finance Manager. He also sits on the Board of Metropolitan Commuter Network Sdn Bhd, a wholly owned subsidiary of Masteel and several private companies in Malaysia.

Mr Lee attended all 5 Board meetings of the Company held during the financial year ended 31 December 2010.

Lau Yoke Leong
(Executive Director)

Lau Yoke Leong, a Malaysian, aged 42 was appointed as an Executive Director of Masteel on 16 April 2007. He joined Masteel as an Accountant in July 2000 and was promoted as Chief Accountant in June 2004. He is a Fellow Chartered Certified Accountant and a member of the Malaysian Institute of Accountants. He has more than 13 years of experience in various fields of accounting, audit, taxation and management matters as well as in-house training instructor on updating of accounting standards and audit software program, corporate restructuring, corporate exercise and due diligence assignments. He started his accounting profession in 1994 as an auditor with Messrs Ong & Wong. He completed the professional qualification from The Association of Chartered Certified Accountants in late 1995. Upon graduation in 1995, he joined another public accounting firm, Messrs T.H.Liew & Gan as an auditor before moving on to Messrs Deloitte Touche Tohmatsu as an auditor from 1996 to 1999. From 1999 to 2000, he was an accountant with Bell Management Services Sdn Bhd before joining Masteel. Mr Lau also sits on the Board of Bio Molecular Industries Sdn Bhd, an associate company of Masteel and several private companies in Malaysia.



Mr Lau attended all 5 Board meetings of the Company held during his term in office for the financial year ended 31 December 2010.

DIRECTORS' PROFILE (cont'd)



Lim Hoo Teck

*(Independent Non-Executive Director)
(Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)*

Lim Hoo Teck, a Malaysian, aged 46, was appointed as an Independent Non-Executive Director of Masteel on 5 July 2006. He is a member of the Malaysian Institute of Accountants (MIA), Chartered Tax Institute of Malaysia (CTIM) and Malaysian Institute of Certified Public Accountants (MICPA). He is also a member of the Disciplinary Committee Panel (Lembaga Tatatertib Peguam-Peguam) pursuant to the Legal Profession Act, 1976. He acts as an Adjudicator for the 2009 National Annual Corporate Report Awards (NACRA) competition. Mr Lim started his accounting profession in 1984 as an Audit Assistant with Messrs Mustapha Law, where he served for 5 years. In 1989, he joined the international accounting firm of Price Waterhouse (now known as PricewaterhouseCoopers), Kuala Lumpur for about 2 years. He joined Coopers & Lybrand, Singapore as an Audit Manager in 1991. Currently, he is the Managing Partner in his two-partner audit practice, Messrs.

Steven Lim & Associates. He has more than 19 years experience in public accounting which includes, handling large audits of multinational and public-listed companies as well as small and medium-sized audits for companies engaged in trading, manufacturing, banking, plantation, hotel, construction, property holding and service industries. He has also been involved in initial public offer (IPO) assignments, acquisition reviews and investigation works. On 7 April 2008, he was appointed as a Non-Executive Director to YGL Convergence Berhad, a listed company on the ACE Market.

Mr Lim attended all 5 Board meetings of the Company held during the financial year ended 31 December 2010.

Ng Wah Lok

*(Independent Non-Executive Director)
(Chairman of Risk Management Committee and Member of Audit Committee, Nomination Committee and Remuneration Committee)*

Ng Wah Lok, a Malaysian, aged 50, was appointed as an Independent Non-Executive Director of Masteel on 29 July 2004. He obtained his Bachelor of Engineering degree in 1984 and a Master degree in Engineering Science in 1989 from the University of Malaya. Upon graduation, he worked as a Project Engineer for a research project in the University of Malaya developing a hand pump to eradicate waterborne diseases in rural areas. In 1989, he joined Malaysian Industrial Products Sdn Bhd as a Project Engineer. In 1993, he was appointed as the General Manager of Masteel and was responsible for the upgrading of the rolling mill in Petaling Jaya and managed the expansion of the Bukit Raja plant in Klang. In 1999, he resigned as Senior General Manager and alternate Director of Masteel. He is currently a Director of a private limited company and 2 unlisted public companies in Malaysia.



Mr Ng attended all 5 Board meetings of the Company held during the financial year ended 31 December 2010.



Muhammad Hanizam bin Hj. Borhan

*(Independent Non-Executive Director)
(Chairman of Nomination Committee and Member of Audit Committee)*

Muhammad Hanizam bin Hj. Borhan, a Malaysian, aged 38, was appointed as an Independent Non-Executive Director on 12 November 2007. He is a member of the Malaysian Institute of Accountants (MIA). He obtained his Bachelor in Accountancy (Hons) Degree from The Universiti Teknologi MARA (UiTM) Shah Alam in 1997. He started his career in an accounting firm Messrs Ali Jaafar & Co, in Kuala Lumpur as an audit assistant between 1996 to 1999 before he moved on to become audit supervisor with Messrs. MNZ Associates, a Public Accountants firm between 1999 to 2000. He re-joined Messrs Ali Jaafar & Co in October, 2000 as Audit Assistant Manager and was subsequently promoted to become the Audit Manager from 2002 to 2004. He joined Messrs. Ismail Adam & Co as Tax Manager from May, 2004 to September, 2005. Thereafter, he started his own professional firm Messrs. My Accounting Services where he is currently offering accounting and business advisory services to a variety of clients. He has more than 13 years of experience in small and

medium-sized firms involving in trading, manufacturing, marketing, plantation, construction, property development, quasi government agencies and services industries.

Encik Muhammad Hanizam bin Hj. Borhan attended 5 Board meetings during his term in office for the financial year ended 31 December 2010.

CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board of Directors (“the Board”), I am pleased to present to you the 2010 Annual Report and the audited financial statements of Malaysia Steel Works (KL) Bhd (“Masteel” or “the Group”) for the financial year ended 31 December 2010 (“FY2010”).

Masteel ended FY2010 on a strong footing, successfully emerging from the economic challenges in 2009.

The Group’s turnaround performance was underpinned by the strong recovery in the global economy, particularly in Asia. In addition, property and commodity markets also rebounded with firmer demand and prices, notwithstanding the continued headwind in the developed economies in the US and Europe, which are still weighed down by unemployment and public debt.

The steel industry, after seeing prices collapse during the sub-prime crisis in the US in 2008/9, has been enjoying an uptrend in prices for most of the steel products since early 2010, signalling the worst is over for the industry as construction activities resumed with the improved business sentiment.

FY2010 FINANCIAL HIGHLIGHTS

Against this backdrop, Masteel posted the best-ever sales of RM1.0 billion for the Group in FY2010, compared to RM687.3 million previously. The impressive top line growth was largely due to both the increase in sales tonnage and the better selling prices of steel bars and billets.

As a result of the improved sales, the Group returned to profits with profit before tax of RM30.0 million in FY2010, against a loss before tax of RM8.5 million in the previous financial year.

In fact, the profits for the year under review would have been higher if not for the write-offs and provision amounting to RM14.0 million – RM5.0 million of which from impairment of bond investment, RM4.7 million as a result of disposal/reduction of stake in our subsidiary company – Bio Molecular Industries Sdn Bhd (“BioM”), and RM4.3 million provision due to a legal suit.

Masteel closed the year with net profits of RM28.1 million, or basic earnings per share (“EPS”) of 13.6 sen, versus a net loss of RM8.1 million or basic loss per share of 4.2 sen.

Our balance sheet continued to strengthen. Whilst shareholders’ equity as at 31 December 2010 showed a 14.7% improvement to RM478.6 million, due mainly to the retained profits; cash and bank balances increased 10.8% to RM48.4 million, and interest-bearing borrowings decreased to RM258.0 million, from RM264.8 million previously. As such, our gearing (net of cash) decreased from 0.53 time in the previous year to 0.44 time, a comfortable level for the Group to undertake further expansion.

CHAIRMAN'S STATEMENT (cont'd)

With the positive performance, the Board has recommended a first and final single tier dividend of 1.35 sen per share in respect of FY2010. The quantum amounts to 10.1% payout from the Group's net profits for the year under review. The proposed dividend is subject to shareholders' approval during the upcoming Annual General Meeting. We look forward to your continued support and confidence in Masteel.

CORPORATE SOCIAL RESPONSIBILITY ("CSR")

The Board acknowledges the importance of Corporate Social Responsibility ("CSR"). Therefore, the company has taken various initiatives to uphold the interests of the society and address issues, while maintaining a healthy and safe environment for employees.

CORPORATE GOVERNANCE

The Board endeavours to adhere to corporate governance best practices within the Group as a crucial step to achieve business sustainability and prosperity. The Board is committed to implementing strategies that are in line with the Board's objective to create and protect shareholders' value.

The measures undertaken by the Board to maintain our corporate governance are highlighted in the Corporate Governance Statement in this Annual Report.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to my fellow Directors, management and Masteel's employees for the hard work and the steely resolve in turning the Group around.

To our valued shareholders, the Board is appreciative of your unwavering support. At this juncture, allow me to reiterate our steadfast commitment in making Masteel a strong investment case for growth.

Thank you.

DATO' IKHWAN SALIM BIN DATO' HAJI SUJAK
CHAIRMAN



MANAGING DIRECTOR/CEO'S STATEMENT



FY2010 OVERVIEW

The business strategies undertaken in 2010 were very much a continuation of what we implemented in 2009, when we were faced with one of the worst economic challenges in our corporate history. Our initial measures include keeping our operating costs low in order to stay competitive even with the depressed prices of steel products.

More importantly, we wasted no time in ensuring that Masteel retained its market share during the downturn. We continued to focus on maintaining strong relationships with our local network of dealers and distributors. This in effect kept us responsive to the changes in the local construction and property sectors, from which demand for steel products is mostly derived.

In 2010, demand for steel products in Malaysia returned in tandem with the improved business sentiment, while prices continued to trend up at the same time. With that backdrop, our local sales rose 39.8% year-on-year to RM783.1 million, a level even higher than RM765.7 million achieved in pre-economic crisis year of 2008.

Also, we increased our efforts in expanding the contributions from our export markets, leveraging on our high quality products. Last year, Masteel obtained endorsement from the stringent Australia Certification Authority for Reinforcing Steels Ltd for our steel bars, opening the door for Masteel to enter the Australia and New Zealand market. The efforts paid off for the Group as we saw record revenues from our export markets, rising

74.2% to RM221.7 million in FY2010 versus RM127.3 million in FY2009.

GROWTH STRATEGIES

Growth has always been the focus of Masteel's management. Today, we are one of the top 5 integrated steel mills in the country, owing to our commitment to continuously enlarge the Group's capacity.

Going forward, we will continue to drive the Group's growth by sustainable capacity expansion.

During the year under review, we invested a capital expenditure ("CAPEX") of about RM18 million to increase the capacity of our billet production plant to 500,000 metric tonnes, from 450,000 metric tonnes in 2009. The expansion was achieved in a cost effective manner, by improving the production efficiency of the existing main steel making facilities.

For the current financial year, we will continue to upgrade the billet plant to a maximum capacity of 550,000 metric tonnes.

With the billet plant expansion, we now have more installed capacity, giving us the larger capacity to meet the anticipated ramped-up of demand in the near future.

As for downstream products of steel bars, our rolling mill in Petaling Jaya is currently among the top producers of steel bars in the country, with about 350,000 metric tonnes production capacity. We aim to invest further CAPEX to install a second rolling mill, boasting a total capacity of 500,000 metric tonnes within the next two years.

The general recovery of the global economy underscored by the fiscal initiatives put in place by governments worldwide to mitigate the recession in 2008/2009 have resulted in boosting construction-related demand for steel products. The other driving factor is the unabated investment in infrastructure by rapidly-developing countries like China, India, Brazil and Indonesia. China's recent announcement of investing USD200 billion for the construction of low cost housing will further underpin the demand for steel bars. The reconstruction efforts following the aftermath of the Japan tsunami and earthquake are expected to spur the medium to long term demand for steel.

Locally, the Government's plan to implement the RM50 billion-Ringgit MRT project in the Klang Valley will certainly augur well for the local steel industry.

As a Petaling Jaya-based steel mill, due to its proximity to all MRT sites, Masteel will certainly benefit from the MRT project, be it a direct or indirect role from our supply of billets and bars for the construction of the rail related infrastructure and stations.

MANAGING DIRECTOR/CEO'S STATEMENT (cont'd)

CORPORATE EXERCISES

Private Placement

During the year under review, Masteel undertook a private placement exercise of up to 10% of the issued and paid-up share capital of the Company, or 19.47 million new ordinary shares of RM0.50 each. On 31 July 2011, Masteel successfully placed out 16.12 million new shares to identified investors, raising RM16.3 million proceeds net of listing expenses for the Group.

The private placement exercise resulted in Masteel's share capital increasing to RM105.4 million, consisting of 210.8 million ordinary shares of RM0.50 each, from RM97.3 million previously.

Warrant Issue

In addition, Masteel undertook a renounceable rights issue of 105.4 million five-year warrants on the basis of one (1) warrant for every two (2) existing ordinary shares held by shareholders, at an issue price of RM0.18 per warrant. The exercise was overwhelmingly oversubscribed by the shareholders, helping to raise RM18.3 million, net of listing expenses, for the Group's working capital needs.

The five-year warrants are convertible to Masteel ordinary shares on a basis of one (1) warrant to one (1) new ordinary share at an exercise price of RM0.67 per share; thus, expecting to raise up to RM70.6 million proceeds in the future for the Group's expansion and working capital needs.

CORPORATE DEVELOPMENTS

- **Subscription And Share Sale Agreement entered with IBA Pharma S.A. ("IBA") and Bio Molecular Industries Sdn Bhd ("BioM")**

On 2 June 2010, Masteel entered into a Subscription and Share Sale Agreement with IBA - a wholly-owned subsidiary of Ion Beam Application S.A., whereby IBA agreed to undertake strategic investment in BioM - a wholly-owned subsidiary of Masteel before the transaction.

The exercise effectively resulted in Masteel and IBA becoming partners in BioM; whereby Masteel's shareholding in BioM was reduced to 45.34% of the enlarged share capital of RM18.5 million, and IBA's investment (inclusive of Societe Belge D'Investissement International shareholding) in BioM stood at 54.66%.

- **Signing of Heads of Joint Venture Agreement with KUB Malaysia Berhad ("KUB")**

Going into the new financial year of 2011, Masteel has entered into a Joint Venture ("JV") agreement with

KUB Malaysia Berhad to form a 60:40 JV company - Metropolitan Commuter Network Sdn Bhd, to undertake a RM1.23 billion project to supply and operate a world class rail transit network spanning across Iskandar Malaysia and Woodlands, Singapore.

The project was mooted by Masteel and KUB, as we saw tremendous opportunity to play a pivotal role in creating an efficient and world class mass transport system for the rapidly-growing Johor Bahru city and the vicinity of Iskandar Malaysia.

The joint venture ("JV") project entails buildings of stations, halts and related infrastructure works covering approximately 100.0 km railway in Iskandar Malaysia at an estimated cost of RM1.23 billion, by utilizing the existing Keretapi Tanah Melayu Bhd's track and land reserve. The integrated railway network will have linkages to Nusajaya, Masai, Kulai, Johor Bahru Sentral, and Woodlands, Singapore.

The JV will first "Build-and-Transfer" the rail transit infrastructure and thereafter "Own-and-Operate" the intracity train system to build up a recurring income base.

The project aims to accommodate an annual ridership of more than 30 million.

With the project, Masteel aims to catapult ourselves from a steel products manufacturer to a key infrastructure player with steady and robust income stream.

The JV company is currently in the process of negotiation with the federal government after having recently received the endorsement from the Johor State Government and IRDA and is targeted to commence construction by early 2012, barring unforeseen circumstances.

DATO' SRI TAI HEAN LENG @ TEK HEAN LENG
MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER



CORPORATE GOVERNANCE STATEMENT

Recognizing the importance of good governance as a fundamental part of discharging their responsibilities, the Board of Directors ("Board") has taken steps to evaluate the status of the Group's corporate governance policies and procedures. The Board is committed to ensure that good corporate governance is practised and complied with throughout the Group within the framework as expounded by the principles and best practices as set out in the revised 2007 Malaysian Code on Corporate Governance ("the Code").

This statement sets out the manner in which the Group has applied the principles and best practices of Part 2 of the Code.

BOARD OF DIRECTORS

The Board has the overall responsibility for corporate governance, strategic direction, formulation of policies, implementing an appropriate system of risk management, ensuring the adequacy and integrity of the Group's system of internal control and overseeing the investment and business of the Group.

A brief description of each Director is presented in the profile of Directors on pages 9 to 11 of this Annual Report.

COMPOSITION AND BALANCE

The Board currently has seven (7) members, comprising three (3) Executive Directors, three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. This composition satisfies the requirement of the Code and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for Independent Non-Executive Directors to make up at least one third of the Board membership.

Collectively, the Board brings a balance of skills and experience appropriate to the business owing to their diverse background in business, finance, political and commercial field.

The composition of the Board ensures that Independent Non-Executive Directors will be able to exercise independent judgment on the affairs of the Company. They play a strong and vital role in entrenching good governance practices in the affairs of the Group and through their participation in the Audit, Remuneration, Risk Management and Nomination Committees. The Chairman holds a Non-Independent Non-Executive position and is primarily responsible for the conduct of Board meetings and overseeing the implementation of the Board's decisions and policies. The Executive Directors, supported by the management staff, are closely involved in the Company's day-to-day operations. They also have the responsibility of reporting, clarifying and communicating matters to the Board.

The Board is satisfied that the current Board composition fairly reflects the interests of minority shareholders in the Company.

BOARD MEETING AND SUPPLY OF INFORMATION

The Board meets up at least quarterly to review and approve the quarterly results of the Group for announcement. The Board also attends additional meetings to be convened on an ad-hoc basis as and when necessary to consider corporate proposals or business issues that require the urgent decision of the Board. The Directors are given due notice with the agenda and full set of Board papers prior to the meeting and are free to seek any further information they considered necessary. Senior management staff are invited to attend the Board meetings to provide the Board with detailed explanations and clarifications on issues that are being considered during the Board meetings.

CORPORATE GOVERNANCE STATEMENT (cont'd)

In discharging the Board's duties and responsibilities, all pertinent issues discussed at the meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretaries.

The Board has access to the advice and services of the Company Secretaries, who are experienced and capable of carrying out the duties to which the post entails and may obtain independent professional advice at the Company's expense as and when necessary. The removal of Company Secretaries, if any, would be decided by the Board.

NUMBER OF MEETINGS HELD AND ATTENDANCE AT MEETINGS

During the financial year ended 31 December 2010, five (5) board meetings were held and all the Directors have attended 100% of the total Board meetings held during the financial year. The details of attendance are as follows:-

Directors	Number of Attendance Achieved	Percentage (%)
Dato' Ikhwan Salim bin Dato' Haji Sujak - Non-Independent Non-Executive Chairman	5 / 5	100
Dato' Sri Tai Hean Leng @ Tek Hean Leng - Managing Director/CEO	5 / 5	100
Lee Kean Binh - Executive Director	5 / 5	100
Lau Yoke Leong - Executive Director	5 / 5	100
Lim Hoo Teck - Independent Non-Executive Director	5 / 5	100
Ng Wah Lok - Independent Non-Executive Director	5 / 5	100
Muhammad Hanizam bin Hj. Borhan - Independent Non-Executive Director	5 / 5	100

BOARD COMMITTEES

The Board delegates certain functions to committees, namely Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee to support and assist in discharging its fiduciary duties and responsibilities. The respective committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The Board may form other committees delegated with specific authorities to act on their behalf. These committees operate under approved terms of reference or guidelines, whenever required.

i) Nomination Committee

For the financial year ended 31 December 2010, the Nomination Committee comprises three (3) members, all of whom are Independent Non-Executive Directors. The Nomination Committee is headed by Encik Muhammad Hanizam bin Hj. Borhan while the other two (2) members are Mr Lim Hoo Teck and Mr Ng Wah Lok.

CORPORATE GOVERNANCE STATEMENT (cont'd)

The duties of the Nomination Committee are to:-

- recommend to the Board, candidates for all directorships. In making the recommendations, the Nomination Committee should also consider candidates proposed by the MD/CEO, and within the bounds of practicability, by any other senior executives, Directors or shareholders. In making its recommendations, the Nomination Committee shall consider the candidates':-
 - skills, knowledge, expertise and experience;
 - professionalism;
 - integrity; and
 - in the case of candidates for the position of Independent Non-Executive Directors, the Committee shall also evaluate the candidates' ability to discharge such responsibilities/functions as are expected from Independent Non-Executive Directors;
- recommend to the Board, Directors to fill the seats on Board Committees;
- review annually the required mix of skills and experience of the Board, including the core competencies which Non-Executive Directors should bring to the Board;
- assess annually the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director including Independent Non-Executive Directors, as well as the MD/CEO. All assessments and evaluations carried out by the Nomination Committee in the discharge of all its functions shall be properly documented; and
- review, recommend and ensure training and orientation needs/requirements for each individual Director.

During the financial year under review, the Nomination Committee had met and reviewed and assessed the mix of skills and experience and size of the Board, contribution of each Director and effectiveness of the Board and Board Committees for the financial year.

ii) Remuneration Committee

The Remuneration Committee comprises three (3) members, all of whom are Non-Executive Directors and is headed by Dato' Ikhwan Salim bin Dato' Haji Sujak with Mr Lim Hoo Teck and Mr Ng Wah Lok being the other two (2) members.

The duty of the Remuneration Committee is to recommend to the Board the remuneration of the Executive Directors in all its forms.

The Remuneration Committee met once during the financial year ended 31 December 2010. During the financial year under review, the Remuneration Committee had reviewed and recommended to the Board the remuneration packages of the Executive Directors.

iii) Audit Committee

The terms of reference of the Audit Committee are set out under the Audit Committee Report on pages 25 to 29 of this Annual Report.

iv) Risk Management Committee

The Risk Management Committee ("RMC") formed in April 2010 consists of the following directors:-

Name	Position
Mr Ng Wah Lok	Chairman (Independent Non-Executive Director)
Dato' Sri Tai Hean Leng @ Tek Hean Leng	Member (MD/CEO)
Mr Lee Kean Binh	Member (Executive Director)

CORPORATE GOVERNANCE STATEMENT (cont'd)

The duties of the RMC are as follows:-

- (1) To review the effectiveness of the Group's risk management activities;
- (2) To ensure the implementation of the objectives outlined in the Risk Management Policy and compliance with them;
- (3) To evaluate the process the Group has in place for assessing and continuously improving internal controls and systems, particularly those related to areas of significant business risk;
- (4) To review risk management reports particularly the significant risk observations and risk response and ensure that appropriate action plan is in place to mitigate the risk;
- (5) To report to the Board any significant risk observations that warrants the Board's attention;
- (6) To provide routine bi-annual reporting and update the Board on key risk management issues as well as ad hoc reporting and evaluation on investment proposals;
- (7) To work with the Group Financial Director and Group Internal Audit Department in the preparation of the Statement on Internal Control for inclusion in the Company's Annual Report and to recommend the same for the approvals of the RMC and Board; and
- (8) All other matters delegated by the Board of Directors.

The RMC had met twice during the financial year ended 31 December 2010. During the financial year under review, the RMC had reviewed the Group's risk management report.

RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board are subjected to re-election by shareholders at the next Annual General Meeting ("AGM") following their appointment. The Articles also provide that at least one-third (1/3) of the Directors shall retire by rotation at each AGM and are eligible to offer themselves for re-election at the AGM. In addition, all Directors are also to retire from office at least once in every three (3) years and the Directors to retire in each year shall be those who have been longest in office since their last election.

The profile of Directors seeking for re-election can be found in pages 9 to 11 of this Annual Report.

DIRECTORS' TRAINING AND DEVELOPMENT

All members of the Board have completed the Mandatory Accreditation Programme conducted by Bursatra Sdn Bhd as required by the Main Market Listing Requirements of Bursa Securities. In addition, an orientation programme will be held for newly appointed directors to enable them to familiarise themselves with the Group's business and operation. During the year, no orientation programme was held as there was no newly appointed Director.

During the financial year under review, the Directors attended seminars or briefings conducted by the Regulatory Authorities or members of professional bodies or industries, in order to keep abreast with the latest developments and updates, and to enhance and fulfill their responsibilities as Directors of the Company.

Seminars or briefings attended by the Directors during the financial year under review were as follows:

- Accounting & Tax Treatment for Non Current Assets
- 3rd Malaysian Construction Summit 2010 "10th Malaysian Plan : The Challenges Ahead"
- Board Effectiveness: Redefining the Roles & Functions of An Independent Director
- Investigative Audit & Forensic Accounting
- Anti Money Laundering and Anti Terrorism Financing – Public Accountant and Company Practice's Perspective
- Improved Reporting Results for Group of Companies
- International Accounting Standards Board (IASB)- Malaysian Accounting Standards Board (MASB) Discussion Forum
- Global Leaders Summit
- Towards Corporate Governance Excellence for Sustainable Success

The Company Secretaries circulated the relevant guidelines on statutory and regulatory requirements from time to time for the Board's reference and briefed the Board on these updates quarterly.

CORPORATE GOVERNANCE STATEMENT (cont'd)

DIRECTORS' REMUNERATION

The responsibilities for developing the remuneration policy and determining the remuneration packages of Executive Directors lie with the Remuneration Committee. Nevertheless, it is the ultimate responsibility of the Board to approve the remuneration of these Directors.

During the financial year under review, the Remuneration Committee had reviewed the remuneration packages for the Executive Directors, which reflects the level of risk, responsibility as well as the performance of the Company and considered the packages are well within the industry norm.

In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the individual Non-Executive Director concerned.

LEVEL AND MAKE UP

The remuneration of each individual Director is not disclosed due to security reason. The transparency and accountability aspects of corporate governance as applicable to Directors' remuneration recommended by the best practices of the Code are deemed appropriately complied with the following disclosures:-

1. The Directors' fees are subject to the approval by shareholders at the forthcoming AGM of the Company.
2. Aggregate remuneration of Directors paid during the financial year under review can be categorized into the following components:-

	Directors' Fees (RM'000)	Directors' Salaries, Bonus and Other Emoluments (RM'000)	Directors' Allowances (RM'000)	Total (RM'000)
Executive Directors	18	1,331	53	1,402
Non-Executive Directors	24	-	264	288

Directors' remuneration are broadly categorized as follows:-

Range of remuneration	Number of Directors	
	Executive Directors	Non - Executive Directors
Up to RM50,000	-	2
RM 50,001 – RM100,000	-	1
RM100,001 – RM150,000	-	1
RM150,001 – RM200,000	-	-
RM200,001 – RM250,000	1	-
RM250,001 – RM300,000	-	-
RM300,001 – RM350,000	1	-
RM850,001 – RM900,000	1	-

(Note: None of the Directors received remuneration other than the above range)

RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of maintaining transparency and accountability to its shareholders as a key element of good corporate governance and thus, maintains a high level of disclosure and communication with its shareholders through disclosure to Bursa Securities and to the press.

CORPORATE GOVERNANCE STATEMENT (cont'd)

The Company's website, www.masteel.com.my is accessible by the shareholders, investors and members of the public to obtain information on the Company's press releases, corporate information, operation activities and financial performances.

The AGM is the principal forum for dialogue with shareholders. Shareholders are provided with an opportunity to participate in the question and answer session in which shareholders may raise questions pertaining to the business activities of the Company. The Directors are available to respond to questions from shareholders at the AGM.

The Board has identified Mr Ng Wah Lok as the Senior Independent Non-Executive Director, to address any valid and appropriate issues raised by shareholders, via his email address at nwl@masteel.com.my.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board aims to present a balanced, clear and meaningful assessment of the Company's financial position and prospects in all their reports to the shareholders, investors and regulatory authorities. This assessment is primarily provided through the annual financial statements and quarterly announcement of financial results to the shareholders as well as the Chairman's statement and MD/CEO's statement on the review of the operations in the Annual Report.

The Board is assisted by the Audit Committee to oversee the Company's financial reporting process and the quality of its financial reporting.

INTERNAL CONTROL

The Board acknowledges its overall responsibility for maintaining a sound system of internal control, which provides reasonable assurance of effective and efficient operations and compliance with laws and regulations as well as with the internal financial administration procedures and guidelines.

The Statement on Internal Control is set out on pages 30 and 31 of this Annual Report.

RELATIONSHIP WITH THE AUDITORS

The Company has established and maintained an appropriate working relationship with the Company's external auditors, Messrs. SSY Partners, in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

The Audit Committee had met up with the external auditors twice during the financial year under review without the presence of the Executive Directors and the Management as part of good governance practice.

COMPLIANCE WITH THE CODE

Unless otherwise stated, the Group has complied with the Code throughout the financial year ended 31 December 2010.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board is required to present the financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs, the results and cash flows of the Group and the Company.

The Board is satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2010, the Group has used the appropriate accounting policies and applied them consistently, adopted to include the new and revised Financial Reporting Standards (FRSs) where applicable. The Board is also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

CORPORATE GOVERNANCE STATEMENT (cont'd)

ADDITIONAL COMPLIANCE INFORMATION

The following additional information is provided in compliance with Paragraph 9.25 of the Main Market Listing Requirements as set out in Appendix 9C thereto:-

1. CORPORATE EXERCISE

PRIVATE PLACEMENT

On 28 January 2010, the Company proposed a private placement of up to 19,466,666 new ordinary shares of RM0.50 each representing not more than ten percent (10%) of the issued and paid-up share capital of the Company to be utilized for working capital purpose. The proposal was approved by Bursa Malaysia Securities Berhad ("Bursa Securities") and the Ministry of International Trade and Industry ("MITI") on 3 February 2010 and 11 February 2010 respectively.

On 30 July 2010, the Company announced that it has deemed the private placement completed with the total placement of 16,120,000 shares representing 82.81% of the total number of shares available under the Private Placement and that the Company has no further intention of completing the placement of the remaining 3,346,666 shares.

On 18 January 2011, the Company proposed a private placement of up to 31,616,499 new ordinary shares of RM0.50 each, representing not more than ten percent (10%) of the issued and paid-up share capital of the Company for working capital purpose. The proposal was approved by Bursa Securities and MITI on 10 February 2011 and 2 March 2011 respectively.

As at 1 June 2011, the Company has yet to place out any shares pursuant to the approval received.

WARRANT ISSUE

On 18 May 2010, the Company proposed to undertake a renounceable rights issue of up to 107,066,666 five (5)-years warrants ("Warrants") on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.50 each held in the Company.

The application was approved by Bursa Securities, Bank Negara Malaysia and MITI on 31 May 2010, 29 June 2010 and 19 July 2010 respectively.

A total of 105,378,333 Warrants were issued on 27 October 2010 at an issue price of RM0.18 per Warrant. The Warrants were listed and quoted on the Main Market of Bursa Securities on 2 November 2010 marking the completion of the Warrants issue.

2. UTILISATION OF PROCEEDS

As at 31 December 2010, the Group has utilised the proceeds from the private placement and warrants issue as follows:-

Private Placement	Total Proceeds RM'000	Utilised RM'000	Unutilised RM'000
Working Capital	16,353	16,353	-
Listing expenses	90	90	-
	16,443	16,443	-

CORPORATE GOVERNANCE STATEMENT (cont'd)

Warrants Issue	Total Proceeds RM'000	Utilised RM'000	Unutilised RM'000
Working Capital	18,268	16,615	1,653
Listing expenses	700	282	418
	18,968	16,897	2,071

3. SHARE BUY-BACK

During the financial year ended 31 December 2010, the Company did not repurchase any shares or cancel any treasury shares. Subsequent to the financial year, a total of 80,000 ordinary shares of RM0.50 each were repurchased as follows:-

Month	No. of shares purchased and retained as treasury shares	Lowest price paid per share (RM)	Highest price paid per share (RM)	Average price paid per share (RM)	Total consideration paid (RM)
January – December 2010	Nil	Nil	Nil	Nil	Nil
March 2011	80,000	1.17	1.17	1.17	93,600

The total 80,000 shares repurchased by the Company subsequent to the financial year ended 31 December 2010 were retained as treasury shares.

4. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

On 27 October 2010, the Company issued a total of 105,378,333 five (5)-year warrants on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.50 each held in the Company at an issue price of RM0.18 per warrant.

For the financial year ended 31 December 2010, there was no exercise of warrants.

No options and convertible securities were issued by the Company during the financial year under review.

5. DEPOSITORY RECEIPT PROGRAMME

During the financial year under review, the Company did not sponsor any depository receipt programme.

6. IMPOSITION OF SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company, Directors or management by regulatory authorities.

7. NON-AUDIT FEES

The amount of non-audit fees incurred for the services rendered to the Group by a company affiliated to the external auditors during the financial year under review was RM31,000 for tax consultation and advisory fees.

8. VARIATION IN RESULTS

No profit estimate, forecast or projection were issued by the Company for the financial year under review.

CORPORATE GOVERNANCE STATEMENT (cont'd)

9. PROFIT GUARANTEE

No profit guarantee was given or received by the Company for the financial year under review.

10. MATERIAL CONTRACTS

There were no material contracts of the Company involving Directors and/or major shareholders either subsisting as at 31 December 2010 or entered into since the end of the financial year.

11. CONTRACTS RELATED TO LOANS

There were no contracts leading to a loan by the Company in respect of the preceding item.

12. RECURRENT RELATED PARTY TRANSACTIONS

At the Thirty-Eighth Annual General Meeting of the Company held on 24 June 2010, the Company had obtained a mandate from its shareholders to enter into recurrent related party transactions of a revenue or trading nature, which are necessary for its day-to-day operations and in the ordinary course of its business.

In accordance with Practice Note 12 of the Main Market Listing Requirements of Bursa Securities, the details of recurrent related party transactions conducted during the financial year ended 31 December 2010 pursuant to the shareholders' mandate are disclosed as follows:-

Type of Transactions	Mandated Related Party	Interested Director, Major Shareholder and Person Connected	Amount transacted during the financial year RM'000
Purchase of scrap metal, diesel / petroleum products, galvanized colour sheet and coils.	Soon Seng Co (Penang) Sdn Bhd	<ul style="list-style-type: none"> • Dato' Sri Tai Hean Leng @ Tek Hean Leng • TYY Resources Sdn Bhd • Tai May Chean • Lee Kean Binh • Estate of Tai Ho Seng @ Teh Hoo Sing • Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang) 	94

13. REVALUATION OF LANDED PROPERTIES

During the financial year ended 31 December 2010, no valuation was carried out on its landed properties as set out in Note 15 to the financial statements and on page 86 of this Annual Report.

AUDIT COMMITTEE REPORT

MEMBERS

The Audit Committee comprises the following members:-

Name	Designation	Directorship
Lim Hoo Teck*	Chairman	Independent Non-Executive Director
Ng Wah Lok	Member	Independent Non-Executive Director
Muhammad Hanizam bin Hj. Borhan*	Member	Independent Non-Executive Director

* Member of the Malaysian Institute of Accountants (MIA).

AUDIT COMMITTEE (TERMS OF REFERENCE)

1. OBJECTIVES

The objective of the Audit Committee is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall:-

- a) Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- b) Maintain open lines of communication between the Board of Directors, the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- c) Determine the adequacy of the Group's administrative, operating and accounting controls.

2. COMPOSITION

The Audit Committee shall be appointed by the Directors from among their number (pursuant to a resolution of the Board of Directors) which fulfils the following requirements:-

- a) the Audit Committee must be composed of no fewer than 3 members;
- b) all members of the Audit Committee must be non-executive directors;
- c) a majority of the Audit Committee must be independent directors; and
- d) all members of the Audit Committee should be financially literate and at least one member of the Audit Committee:-
 - i) must be a member of the Malaysian Institute of Accountants; or
 - ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967, or

AUDIT COMMITTEE REPORT (cont'd)

- iii) he must be a person who fulfills such other requirements as may be prescribed by or approved by the Exchange and/or such other relevant authorities from time to time.

The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (d) above, the vacancy must be filled within 3 months of that event.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

3. FUNCTIONS

The functions of the Audit Committee are as follows:-

- a) to review the following and report the same to the Board of Directors:-
- i) with the external auditors, the audit plan;
 - ii) with the external auditors, his evaluation of the system of internal controls;
 - iii) with the external auditor, his audit report;
 - iv) the assistance given by the Company's employees to the external auditors; and
 - v) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- b) To consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal;
- c) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- d) To review the quarterly and year-end financial statements of the company, focusing particularly on:-
- Any changes in accounting policies and practices;
 - Significant adjustments arising from the audit;
 - The going concern assumption;
 - Compliance with accounting standards and other legal requirements;
- e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
- f) To review the external auditor's management letter and management's response;
- g) To do the following where an internal audit function exists:-
- Review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - Review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;

AUDIT COMMITTEE REPORT (cont'd)

- Review any appraisal or assessment of the performance of members of the internal audit function;
 - Approve any appointments or termination of senior staff members of the internal audit function;
 - Take cognisance of resignations of internal audit staff members (for in-house internal audit function) or change in internal audit function service provider (for outsourced internal audit function) and provide the resigning staff member/service provider an opportunity to submit his/their reasons for resigning.
- h) To consider the major findings of internal investigations and management's response;
- i) To ensure the internal audit function established is independent of the activities it audits and to identify a head of internal audit who reports directly to the Audit Committee. The head of internal audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control, and governance processes within the Company.
- j) To consider other areas as defined by the Board; and
- k) To perform any other functions or responsibilities as may be required of them as prescribed by Bursa Malaysia Securities Berhad or any other relevant authorities from time to time.

4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, wherever necessary and reasonable for the Company to perform its duties, in accordance with procedures to be determined by the Board of Directors and at the cost of the Company:-

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, internal auditors or both excluding the attendance of the other directors and employees of the Company, whenever deemed necessary.

5. MEETINGS

The Audit Committee shall meet at least 4 times a year and such additional meetings as the Chairman shall decide in order to fulfil its duties. However, at least twice a year the Audit Committee shall meet with the external auditors without executive Board members present.

In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

The Company Secretary or other appropriate senior official shall act as secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to committee members and to the other members of the Board of Directors.

A quorum shall consist of a majority of independent directors.

AUDIT COMMITTEE REPORT (cont'd)

By invitation of the Audit Committee, the Company must ensure that other directors and employees attend any particular Audit Committee meeting specific to the relevant meeting.

During the financial year under review, five (5) Audit Committee meetings were held which recorded full attendance from all the members of the Audit Committee.

	Attendance
Lim Hoo Teck	5 / 5
Ng Wah Lok	5 / 5
Muhammad Hanizam bin Hj. Borhan	5 / 5

SUMMARY OF AUDIT COMMITTEE ACTIVITIES

The Audit Committee carried out activities during the financial year ended 31 December 2010 in discharging its duties and responsibilities in accordance with its Terms of Reference which are as follows:-

Financial Results

Reviewed the quarterly reports and audited financial statements with the adoption of the new Financial Reporting Standards for the Company before recommending to the Board for consideration and approval.

Internal Audit

Reviewed and assessed yearly internal audit plan, scope of audits, internal audit findings and areas for improvements and recommendations, if any.

With respect to the annual report, reviewed Audit Committee's Report, Statement of Corporate Governance, Directors' Responsibility Statement, Statement on Internal Control and Circular to Shareholders for the proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and the proposed Share Buy-Back Mandate, before recommending to the Board for approval.

Reviewed and assessed new investments and business ventures before recommending to the Board for approval and adoption.

Corporate Governance

Conduct periodic reassessment and refinement on corporate governance before recommending to the Board for consideration and approval.

Risk Management

Reviewed and assessed the corporate restructuring of refinancing activities before recommending to the Board for approval and adoption.

External Audit

Reviewed the statutory audit plan and scope of audit with the external auditors.

Related Party Transactions

Reviewed the related party transactions entered into by the Company.

AUDIT COMMITTEE REPORT (cont'd)

TRAINING

The AC members had attended the following relevant training programmes to enhance their knowledge to enable them to discharge their duties more effectively:-

- Accounting & Tax Treatment for Non Current Assets
- Global Leaders Summit
- Towards Corporate Governance Excellence for Sustainable Success

INTERNAL AUDIT FUNCTION

The internal audit department of the Group is independent of the operations of the respective operating units. The principal role of the department is to undertake independent regular and systematic reviews of the system and internal control so as to provide reasonable assurance that such system continue to operate satisfactorily and effectively. It is the responsibility of the internal audit department to provide the Audit Committee with independent and objective report on the state of internal control of the various operating units within the Group and the extent of compliance of the units with the Group's established policies and procedures as well as relevant statutory requirements. The internal audit reports are presented together with the Management's response and proposed action plans to the Audit Committee quarterly.

Cost incurred for the Internal Audit Function of the Group in respect of the financial year ended 31 December 2010 amounted to RM126,000.

An overview of the state of internal control within the Company is set out in the Statement on Internal Control on pages 30 and 31 of this Annual Report.

STATEMENT ON INTERNAL CONTROL

Pursuant to paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Board of Directors ("Board") is pleased to provide the following statement on the state of internal control of the Group for the financial year ended 31 December 2010, which has been prepared in accordance with the "Statement on Internal Control Guidance for Directors of Public Listed Companies" issue by Bursa Securities.

BOARD RESPONSIBILITIES

In discharging its stewardship responsibilities, the Board recognizes that the internal control system in the Group:-

- is a logical and systematic method of identifying, analyzing, assessing, treating and monitoring the Company's risk;
- is a continuous and ongoing process;
- should be an integral part of the Company's management practices; and
- enable the Company to not only minimize losses but maximize opportunities.

RISK MANAGEMENT

In dealing with its stewardship responsibilities, the Board recognizes that effective risk management is an integral part of good business management practice. The Board acknowledges that all areas of the Group's business activities involve some degree of risk and it is committed to ensure that the Group has an effective risk management framework, which allows the management to manage risk within defined risk parameters. All identified risks are dealt with and managed within limits and controls. These limits and controls are monitored closely and adjusted periodically, taking into account changes in market conditions, products and processes.

INTERNAL AUDIT

Internal Audit Report – Function

The Internal Audit Department ("IAD") reports directly to the Audit Committee ("AC"), to assist the AC in discharging its duties and responsibilities and to provide reports on the adequacy and effectiveness of risk management functions and internal controls in the Group.

Control and Monitoring Process

The IAD's scope covers audit planning, special investigations, liaison with the International Standard Organisation (ISO) – the Germanischer Lloyd Certification GmbH for ISO 9001 certification to ensure the various procedures are followed strictly.

Meanwhile, the Board would advise the IAD to focus on the following key area of the Group's internal control system:-

- Documentation of the Group's processes in the Standard Operating Procedures (SOP) which will be regularly reviewed and updated, and to be implemented through ISO and QA accreditation programs.

Internal audit reports, incorporating audit recommendations and management responses with regard to audit findings relating to the weaknesses in the systems and controls of the respective operations, were reviewed at every AC meeting before recommending to the Board, its discussion and deliberation of the strategic issues facing the businesses, and resolve on actions to mitigate such risk. The AC also reviewed the yearly Internal Audit plan.

Further, the external auditors conduct annual statutory audit on the financial statements. Areas for improvement, if any, identified during the course of the statutory audit by the external auditors are brought to the attention of the AC.

STATEMENT ON INTERNAL CONTROL (cont'd)

The Board further reviews the minutes of the AC to assess the adequacy and effectiveness of the system of internal controls, financial and accounting control procedures, significant results, findings and the necessary recommendations made during AC meetings.

Besides that, the Board also entrusts the daily running of the business to the Managing Director/Chief Executive Officer ("MD/CEO") and his management team. The MD/CEO plays a pivotal role in communicating the Board's expectations of the system of internal control to the management, where a clear organizational structure with defined lines of responsibility, delegation of authority, segregation of duties and information flow exist, to ensure decisions are made and actions taken by the appropriate person. This is achieved on a day-to-day basis, through active participation by the MD/CEO in the operations of the business as well as various management and operational level meetings being conducted where operational, production and financial risk are discussed and dealt with respectively. The MD/CEO will update the Board of any significant matters that require the Board's attention and/or approval.

Risk Management Framework ("RMF")

Besides primary ownership over effectiveness of the Group's internal control systems, the Board recognizes its responsibility over the principal risk of various aspects of the Group's business. For long term viability of the Group, it is crucial to achieve a critical balance between risk incurred and potential returns.

The Board has a RMF to formalize the identification of principal risk which includes both internal and external factors that will affect the achievement of the Group's business objectives. Such framework will provide a structured and focused approach in managing the business risk and enables the Group to adopt a risk based internal control system.

As part of the continual efforts to enhance the day-to-day management of operational risk exposures, an improved system of internal control supported by modern system and tightened procedures to monitor and analyse transaction positions and documentation to minimize risk and losses arising from fraud has been designed and implemented. Reviews are also conducted on potential areas of threat and controls procedures to mitigate any risk and losses.

Furthermore, the Group mitigates any potential risk by having appropriate insurance policies coverage.

Conclusion

The Board remains committed towards keeping abreast with the ever-changing business environment in order to support the Group's business and operation. Cognisant of this fact, the Board will put in place appropriate measures, when necessary, to further enhance the internal control system of the Group.

Financial Statements

33	Directors' Report
37	Statement by Directors
37	Statutory Declaration
38	Independent Auditors' Report
40	Statements of Financial Position
42	Statements of Comprehensive Income
43	Statements of Changes in Equity
45	Statements of Cash Flows
47	Notes to the Financial Statements

DIRECTORS' REPORT

for the year ended 31 December 2010

The Directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is manufacturing of steel bars and steel billets. The principal activities of the subsidiary are as stated in Note 7 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the year	28,094	27,783
Attributable to:		
Equity holders of the Group and the Company	28,094	27,783

DIVIDENDS

Dividends paid by the Company since the end of the previous financial year are as follows:

In respect of the financial year ended 31 December 2009 as reported in the Directors' report of that financial year:

	RM'000
First and final single tier dividend of 1.0 sen per share on 210,756,666 ordinary shares of RM0.50 each, paid on 23 July 2010	2,108

At the forthcoming Annual General Meeting, a first and final single tier dividend in respect of the financial year ended 31 December 2010, of 1.35 sen per share on 210,676,666 ordinary shares of RM0.50 each, amounting to the net dividends payable of RM2,844,135 will be proposed for shareholders' approval. This dividend is exempt from income tax in the hands of the shareholders. The financial statements for the current financial year do not reflect this proposed dividend. Such dividends, if approved by shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2011.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year have been disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company issued 16,120,000 new ordinary shares of RM0.50 each through private placements at an average issue price of RM1.02 per ordinary share for cash, for additional working capital purposes. The share premium of RM8,383,100 arising from issuance of ordinary shares net of share issue costs of RM161,024 have been included in the share premium account.

The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

There were no issue of debentures during the financial year.

DIRECTORS' REPORT (cont'd)

for the year ended 31 December 2010

TREASURY SHARES

During the financial year, there was no buy-back of the Company's shares.

As at 31 December 2010, the Company held as treasury shares a total of 30,000 of its 210,786,666 issued ordinary shares at an average price of RM0.99 per ordinary share. The repurchase transactions were financed by internally generated funds. Such treasury shares are held at carrying amount of RM29,649 and further relevant details are disclosed in Note 16 to the financial statements.

WARRANTS

On 2 November 2010, the Company completed its renounceable rights issue of 105,378,333 five (5) year new warrants on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.50 each in the Company held at an issue price of RM0.18 per warrant. Further relevant details are disclosed in Note 17 to the financial statements.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Ikhwan Salim bin Dato' Haji Sujak
 Dato' Sri Tai Hean Leng @ Tek Hean Leng
 Lee Kean Binh
 Ng Wah Lok
 Lim Hoo Teck
 Lau Yoke Leong
 Muhammad Hanizam Bin Hj. Borhan

In accordance with the Company's Articles of Association, Dato' Ikhwan Salim bin Dato' Haji Sujak, Dato' Sri Tai Hean Leng @ Tek Hean Leng and Muhammad Hanizam Bin Hj. Borhan retire pursuant to Article 79 at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings, particulars of interests in the shares and warrants of the Company and its related corporations during the financial year of those Directors who held office at the end of the financial year were as follows:

	Number of ordinary shares of RM0.50 each in the Company			
	At 1.1.2010	Bought	Sold	At 31.12.2010
Shareholdings in the name of the Directors:				
Dato' Ikhwan Salim bin Dato' Haji Sujak	10,199,999	-	-	10,199,999
Dato' Sri Tai Hean Leng @ Tek Hean Leng	4,082,000	-	-	4,082,000
Shareholdings in which the Director is deemed to have an interest:				
Dato' Sri Tai Hean Leng @ Tek Hean Leng*	60,202,352	3,873,867	-	64,076,219

* Deemed interest by virtue of his shareholdings in TYY Resources Sdn. Bhd., a body corporate holding shares in the Company.

DIRECTORS' REPORT (cont'd)

for the year ended 31 December 2010

DIRECTORS' INTERESTS (cont'd)

	Number of warrants of 2010/2015			
	At 1.1.2010	Bought	Sold	At 31.12.2010
Warrantholdings in the name of the Directors:				
Dato' Ikhwan Salim bin Dato' Haji Sujak	-	5,099,999	-	5,099,999
Dato' Sri Tai Hean Leng @ Tek Hean Leng	-	2,041,000	-	2,041,000
Warrantholdings in which the Director is deemed to have an interest:				
Dato' Sri Tai Hean Leng @ Tek Hean Leng*	-	32,038,109	-	32,038,109

* Deemed interest by virtue of his shareholdings in TYY Resources Sdn. Bhd., a body corporate holding shares in the Company.

Pursuant to Section 6A of the Companies Act, 1965, by virtue of his interests in the shares of the Company, Dato' Sri Tai Hean Leng @ Tek Hean Leng is also deemed to have an interest in the shares of the subsidiary of the Company to the extent the Company has an interest.

None of the other Directors in office at the end of the financial year held any interest in the shares or warrants of the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration as disclosed in Note 22 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, except as disclosed in Note 27 to the financial statements.

Neither during nor at the end of the financial year was the Company or any of its related corporations a party to any arrangement whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to their expected realisable values.

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off or provided for bad and doubtful debts of the Group and the Company inadequate to any substantial extent or the values attributed to current assets of the Group and the Company misleading; and
- (b) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

DIRECTORS' REPORT (cont'd)

for the year ended 31 December 2010

OTHER STATUTORY INFORMATION (cont'd)

In the interval between the end of the financial year and the date of this report:

- (a) no item, transaction or event of a material and unusual nature has arisen which, in the opinion of the Directors, would substantially affect the results of the operations of the Group and of the Company for the financial year in which this report is made; and
- (b) no charge has arisen on the assets of the Group and of the Company which secures the liability of any other person nor has any contingent liability arisen in the Group and the Company.

In the opinion of the Directors, the results of the operations of the Group and the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

As detailed in Note 29 to the financial statements, there are pending litigation in respect of claims instituted against the Company. The contingent liabilities arising from the said claims amount to approximately RM2.44 million.

Apart from the above, no contingent liability or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet their obligations when they fall due.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

SIGNIFICANT EVENTS

Significant events during the financial year are as disclosed in Note 36 to the financial statements.

SUBSEQUENT EVENTS

Events subsequent to the reporting date are as disclosed in Note 37 to the financial statements.

AUDITORS

The auditors, Messrs SSY Partners, have indicated their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 26 April 2011.

Dato' Ikhwan Salim bin Dato' Haji Sujak
Director

Petaling Jaya

Dato' Sri Tai Hean Leng @ Tek Hean Leng
Director

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

We, **Dato' Ikhwan Salim bin Dato' Haji Sujak** and **Dato' Sri Tai Hean Leng @ Tek Hean Leng**, being two of the Directors of **Malaysia Steel Works (KL) Bhd**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 40 to 85 are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of their performance and cash flows for the financial year then ended.

The supplementary information set out in Note 38 has been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements as issued by the Malaysian Institute of Accountants, and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 26 April 2011.

Dato' Ikhwan Salim bin Dato' Haji Sujak
Director

Petaling Jaya

Dato' Sri Tai Hean Leng @ Tek Hean Leng
Director

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, **Lau Yoke Leong**, being the Director primarily responsible for the financial management of **Malaysia Steel Works (KL) Bhd**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 40 to 85 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Lau Yoke Leong at
Petaling Jaya in the state of
Selangor Darul Ehsan on 26 April 2011.

Lau Yoke Leong
Director

Before me,

M. KHANDIMADDI (NO. B106)
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT

to the Members of Malaysia Steel Works (KL) Bhd

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of **Malaysia Steel Works (KL) Bhd**, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and the statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 85.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards issued by the Malaysian Accounting Standards Board. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

INDEPENDENT AUDITORS' REPORT (cont'd)

to the Members of Malaysia Steel Works (KL) Bhd

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of the subsidiary of which we have not acted as auditors, which are indicated in Note 7 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiary that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiary did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 38 is disclosed to meet the requirements of Bursa Malaysia Securities Berhad and does not form part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the Members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

SSY Partners
AF: 0040
Chartered Accountants

Jason Sia Sze Wan
No. 2376/05/12 (J)
Partner

Subang Jaya
26 April 2011

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 (Restated)	2010 RM'000	2009 RM'000 (Restated)
ASSETS					
Non-current assets					
Property, plant and equipment	6	436,195	422,866	436,195	409,839
Investment in subsidiaries	7	-	-	*	10,000
Investment in associate	8	8,066	-	8,388	-
Other investments	9	4,000	9,000	4,000	9,000
		448,261	431,866	448,583	428,839
Current assets					
Inventories	10	147,838	158,526	147,838	158,526
Trade and other receivables	11	179,799	113,658	179,832	117,131
Tax recoverable		1,864	1,864	1,864	1,864
Fixed deposits with licensed banks	12	4,243	12,073	4,243	12,073
Cash and bank balances		44,166	31,628	44,160	31,534
		377,910	317,749	377,937	321,128
TOTAL ASSETS		826,171	749,615	826,520	749,967
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	13	105,393	97,333	105,393	97,333
Share premium	14	31,198	22,977	31,198	22,977
Revaluation reserves	15	31,030	31,030	31,030	31,030
Treasury shares	16	(30)	(30)	(30)	(30)
Warrant reserves	17	40,044	-	40,044	-
Retained earnings	18	270,919	266,009	271,268	266,669
TOTAL EQUITY		478,554	417,319	478,903	417,979

* Carrying amount stated at RM2

STATEMENTS OF FINANCIAL POSITION (cont'd)

as at 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 (Restated)	2010 RM'000	2009 RM'000 (Restated)
Non-current liabilities					
Borrowings	19	86,488	67,410	86,488	67,410
		86,488	67,410	86,488	67,410
Current liabilities					
Trade and other payables	20	89,360	67,454	89,360	67,146
Taxation		247	-	247	-
Borrowings	19	171,522	197,432	171,522	197,432
		261,129	264,886	261,129	264,578
TOTAL LIABILITIES		347,617	332,296	347,617	331,988
TOTAL EQUITY AND LIABILITIES		826,171	749,615	826,520	749,967

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue		1,004,786	687,263	1,004,786	687,263
Cost of sales		(913,022)	(653,903)	(913,022)	(653,903)
Gross profit		91,764	33,360	91,764	33,360
Other operating income		2,064	154	2,064	154
		93,828	33,514	93,828	33,514
Distribution costs		(11,548)	(9,389)	(11,548)	(9,389)
Administrative expenses		(37,314)	(18,766)	(37,628)	(18,620)
Other operating expenses		-	(2)	-	-
Profit from operations	23	44,966	5,357	44,652	5,505
Finance costs	24	(14,966)	(13,899)	(14,966)	(13,899)
Share of loss of associates		(3)	-	-	-
Profit/(Loss) before taxation		29,997	(8,542)	29,686	(8,394)
Taxation	25	(1,903)	450	(1,903)	450
Profit/(Loss) for the year		28,094	(8,092)	27,783	(7,944)
Earnings/(loss) per share (sen)	28				
- Basic		13.58	(4.16)		
- Diluted		11.34	Not applicable		

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Note	Share capital RM'000	Share premium RM'000	Revaluation reserves RM'000	Treasury shares RM'000	Warrant reserves RM'000	Retained earnings RM'000	Total RM'000
Group								
At 1 January 2010		97,333	22,977	31,030	(30)	-	266,009	417,319
Profit for the year		-	-	-	-	-	28,094	28,094
		97,333	22,977	31,030	(30)	-	294,103	445,413
Transactions with owners:								
Issue of shares	13,14	8,060	8,221	-	-	-	-	16,281
Issue of warrants	17	-	-	-	-	40,044	(21,076)	18,968
Dividends paid	32	-	-	-	-	-	(2,108)	(2,108)
		8,060	8,221	-	-	40,044	(23,184)	33,141
At 31 December 2010		105,393	31,198	31,030	(30)	40,044	270,919	478,554
At 1 January 2009		97,333	22,977	31,030	-	-	278,968	430,308
Loss for the year		-	-	-	-	-	(8,092)	(8,092)
		97,333	22,977	31,030	-	-	270,876	422,216
Transactions with owners:								
Share buy-back		-	-	-	(30)	-	-	(30)
Dividends paid	32	-	-	-	-	-	(4,867)	(4,867)
		-	-	-	-	-	(4,867)	(4,897)
At 31 December 2009		97,333	22,977	31,030	(30)	-	266,009	417,319

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY (cont'd)

for the year ended 31 December 2010

	Note	Share capital RM'000	Share premium RM'000	Revaluation reserves RM'000	Treasury shares RM'000	Warrant reserves RM'000	Retained earnings RM'000	Total RM'000
Company								
At 1 January 2010		97,333	22,977	31,030	(30)	-	266,669	417,979
Profit for the year		-	-	-	-	-	27,783	27,783
		97,333	22,977	31,030	(30)	-	294,452	445,762
Transactions with owners:								
Issue of shares	13,14	8,060	8,221	-	-	-	-	16,281
Issue of warrants	17	-	-	-	-	40,044	(21,076)	18,968
Dividends paid	32	-	-	-	-	-	(2,108)	(2,108)
		8,060	8,221	-	-	40,044	(23,184)	33,141
At 31 December 2010		105,393	31,198	31,030	(30)	40,044	271,268	478,903
At 1 January 2009		97,333	22,977	31,030	-	-	279,480	430,820
Loss for the year		-	-	-	-	-	(7,944)	(7,944)
		97,333	22,977	31,030	-	-	271,536	422,876
Transactions with owners:								
Share buy-back		-	-	-	(30)	-	-	(30)
Dividends paid	32	-	-	-	-	-	(4,867)	(4,867)
		-	-	-	-	-	(4,867)	(4,897)
At 31 December 2009		97,333	22,977	31,030	(30)	-	266,669	417,979

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2010

	Group		Company	
	2010 RM'000	2009 RM'000 (Restated)	2010 RM'000	2009 RM'000 (Restated)
Cash flows from operating activities				
Profit/(Loss) before taxation	29,997	(8,542)	29,686	(8,394)
Adjustments for:				
Investment written off	5,000	-	5,000	-
Loss on disposal of investment in subsidiary	4,713	-	5,111	-
Share of loss of associates	3	-	-	-
Depreciation of property, plant and equipment	17,802	16,200	17,802	16,192
Interest expense	14,966	13,899	14,966	13,899
Reversal of provision for impairment on inventories	-	(154)	-	(154)
Gain on disposal of property, plant and equipment	(53)	(58)	(53)	(58)
Unrealised foreign exchange (gain)/loss	(1,887)	230	(1,887)	230
Allowance for doubtful debts	9	102	9	102
Interest income	(124)	(96)	(124)	(96)
Operating profit before working capital changes	70,426	21,581	70,510	21,721
Decrease in inventories	10,688	5,290	10,688	5,290
(Increase)/decrease in receivables	(65,326)	20,722	(65,326)	18,414
Increase in payables	34,064	17,159	22,214	16,854
Cash generated from operations	49,852	64,752	38,086	62,279
Interest paid	(14,619)	(13,630)	(14,619)	(13,630)
Tax paid	(1,656)	(3,702)	(1,656)	(3,702)
Net cash generated from operating activities	33,577	47,420	21,811	44,947
Cash flows from investing activities				
Interest received	124	96	124	96
Proceeds from disposal of property, plant and equipment	84	82	84	82
Net proceeds from disposal of investment in subsidiary (Note 7)	(3)	-	1	-
Purchase of property, plant and equipment (Note 26)	(47,669)	(39,869)	(35,819)	(37,149)
Net cash used in investing activities	(47,464)	(39,691)	(35,610)	(36,971)

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (cont'd)

for the year ended 31 December 2010

	Group		Company	
	2010 RM'000	2009 RM'000 (Restated)	2010 RM'000	2009 RM'000 (Restated)
Cash flows from financing activities				
Bankers' acceptances	7,294	17,092	7,294	17,092
Repayment of revolving credit	(5,130)	(1,131)	(5,130)	(1,131)
Repayment of finance lease liabilities	(1,706)	(1,262)	(1,706)	(1,262)
Drawdown of term loans	30,000	-	30,000	-
Repayment of term loans	(57,035)	(2,075)	(57,035)	(2,075)
Payment of finance lease interest	(347)	(269)	(347)	(269)
Share buy-back	-	(30)	-	(30)
Net proceeds from issuance of shares	16,281	-	16,281	-
Net proceeds from issuance of warrants	18,968	-	18,968	-
Dividends paid	(2,108)	(4,867)	(2,108)	(4,867)
Net cash generated from financing activities	6,217	7,458	6,217	7,458
Net (decrease)/ increase in cash and cash equivalents	(7,670)	15,187	(7,582)	15,434
Cash and cash equivalents at beginning of the year	43,701	28,514	43,607	28,173
Cash and cash equivalents at end of the year	36,031	43,701	36,025	43,607
Cash and cash equivalents comprise:				
Fixed deposits with licensed banks	4,243	12,073	4,243	12,073
Cash at banks	44,150	31,615	44,144	31,521
Cash in hand	16	13	16	13
Bank overdrafts	(12,378)	-	(12,378)	-
	36,031	43,701	36,025	43,607

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia. The principal place of business of the Company is located at Wisma Masteel, Lot 29C, Off Jalan Tandang, Section 51, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal activity of the Company is manufacturing of steel bars and steel billets.

The principal activities of the subsidiary are as stated in Note 7. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 26 April 2011.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements comply with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies (Note 3).

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards issued by the Malaysian Accounting Standards Board requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

The financial statements are presented in Ringgit Malaysia (RM), which is the Group's and the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand ("RM'000"), unless otherwise stated.

3. SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies set out below are consistent with those applied in the previous financial year.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of consolidation (cont'd)

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in the income statement.

(b) Property, plant and equipment, and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land is stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised.

A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in income statement. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

The Directors have applied the transitional provisions of Financial Reporting Standard (FRS) 116 which allows freehold and leasehold land and buildings to be stated at their previous years' valuation less accumulated depreciation, if any. Accordingly, the valuations of these properties have not been updated.

Freehold land has an unlimited useful life and therefore is not depreciated. Capital work-in-progress are also not depreciated as these assets are not available for use.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Property, plant and equipment, and depreciation (cont'd)

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful lives, at the following annual rates:

Leasehold land	58 - 99 years
Factory	2.0% - 7.5%
Buildings	5.0%
Plant and machinery	3.0% - 10.0%
Factory and electrical equipment	10.0%
Motor vehicles	20.0%
Office equipment	15.0%
Furniture and fittings	15.0%
Electrical installation	7.5%

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(c) Investment in subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investment in subsidiaries is stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

(d) Investment in associates

Associates are those entities in which the Group exercises significant influence but not control, through participation in the financial and operating policy decisions of the entities.

Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. Under the equity method of accounting, the Group's share of profits less losses of associates during the financial year is included in the statement of comprehensive income. The Group's interest in associates is carried in the statement of financial position at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods and work-in-progress includes cost of raw material, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(f) Receivables

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

(g) Cash and cash equivalents

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

(h) Provision for liabilities

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

(i) Leases

i Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Leases (cont'd)

ii Finance lease

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payment, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance cost and the reduction of the outstanding liabilities. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that of depreciation for property, plant and equipment as described in Note 3(b).

iii Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of lease of land and buildings, the minimum lease payments or up-front payment made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings elements of the lease at the inception of the lease.

(j) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(k) Payables

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

(l) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Equity instruments (cont'd)

The consideration paid, including attributable transaction costs on repurchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in the income statement on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

(m) Income tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(n) Employee benefits

i Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

ii Defined contribution plan

As required by law, the Group makes contributions to the statutory provident fund, the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

iii Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Revenue

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the Company and the amount of the revenue can be measured reliably.

Revenue from sales of goods is recognised upon delivery and customer's acceptance. Revenue of the Group and the Company represents sale of steel bars and steel billets and is recognised when the goods are delivered and invoiced.

Gain on disposal of property, plant and equipment and other income is recognised on an accrual basis unless collectability is in doubt.

(p) Foreign currencies

i Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

ii Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the income statement for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in the income statement.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in the income statement for the period. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in the income statement in the Group's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statement for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Foreign currencies (cont'd)

iii Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

The principal closing rates used in translation of foreign currency amounts are as follows:

Foreign currency	2010 RM	2009 RM
1 United States Dollar	3.123	3.462
1 Euro	4.134	4.969
1 Australian Dollar	3.199	3.117

(q) Impairment of assets

The carrying amounts of assets, other than investment property, construction contract assets, property development costs, inventories, deferred tax assets and non-current assets (or disposal groups) held for sale, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each statement of financial position date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Impairment of assets (cont'd)

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(r) Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables, payables and borrowings. The recognition methods adopted are disclosed in the respective accounting policy statements.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends and gains and losses relating to a financial instruments classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets

Financial assets are recognised in the statements of financial position when the Group and the Company become a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting.

On initial recognition, financial assets are measured at fair value, plus transaction costs for financial assets not at 'fair value through profit or loss'. Effective interest method is a method of calculating the amortised cost of financial assets and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash receipts through the expected life of the financial assets or a shorter period to the net carrying amount of the financial assets.

After initial recognition, financial assets are classified into one of four categories: financial assets at 'fair value through profit or loss', 'held-to-maturity' investments, loans and receivables and 'available-for-sale' financial assets.

i Financial assets at 'fair value through profit or loss'

Financial assets are classified as at 'fair value through profit or loss' when the financial assets are either 'held for trading', or upon initial recognition, financial assets are designated as at 'fair value through profit or loss'.

A financial asset is classified as 'held for trading' if:

- it is acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective hedging instrument.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

i Financial assets at 'fair value through profit or loss' (cont'd)

Financial assets (other than 'held for trading') are designed as at 'fair value through profit or loss' upon initial recognition if:

- it eliminates or significant reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognised the gains and losses on them on different bases; or
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- a contract contains one or more embedded derivatives, the entire hybrid contracts are designated as at 'fair value through profit or loss'.

After initial recognition, financial assets at 'fair value through profit or loss' are measured at fair value. Gains or losses on the financial assets at 'fair value through profit or loss' are recognised in profit or loss.

ii 'Held-to-maturity' investments

'Held-to-maturity' investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Company have the positive intention and ability to hold to maturity.

After initial recognition, 'held-to-maturity' investments are measured at amortised cost using the effective interest method less any accumulated impairment losses. Gains or losses are recognised in profit or loss when 'held-to-maturity' investments are derecognised or impaired.

iii Loans and receivables

Loans and receivables are non-derivative financial assets (such as trade receivables, loans assets, unquoted debt instruments and deposits held in banks) with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any accumulated impairment losses. Gains or losses are recognised in profit or loss when loans and receivables are derecognised or impaired.

iv 'Available-for-sale' financial assets

Investment in quoted equity and debt instruments that are traded in active market and certain unquoted equity instruments (when the fair value can be determined using a valuation technique) are classified as 'available-for-sale' financial assets. 'Available-for-sale' financial assets are measured at fair value.

Gains or losses on 'available-for-sale' financial assets are recognised in other comprehensive income, except for impairment losses and foreign exchange gains or losses, until the 'available-for-sale' financial assets are derecognised.

At that time, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on 'available-for-sale' equity instruments are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

v Investment in unquoted equity instruments carried at cost

Investment in equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such an unquoted equity instruments, are measured at cost less any accumulated impairment losses.

vi Reclassifications of financial assets

The Group and the Company do not reclassify derivative out of the 'fair value through profit or loss' category while they are held or in issue. Equally, the Group and the Company do not reclassify other financial assets out of the 'fair value through profit or loss' category if upon initial recognition, those financial assets were designated as at 'fair value through profit or loss'. Other financial assets are not reclassified into the 'fair value through profit or loss' category after initial recognition under another category.

When it is no longer appropriate to classify an investment as 'held-to-maturity' as a result of a change in intention and ability, the investment is reclassified as held for sale and re-measured at fair value. Any difference between the carrying amount and fair value of the investment is recognised in other comprehensive income.

vii Impairment of financial assets

At the end of each reporting period, the Group and the Company assess whether there is any objective evidence that financial assets held, other than financial assets at 'fair value through profit or loss', are impaired.

Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial assets which have an impact on the estimated future cash flows of the financial assets that can be reliably measured.

For investment in equity instruments classified as 'available-for-sale', objective evidence that the financial assets are impaired include the disappearance of an active market for the financial assets because of financial difficulties, or the decline of the market price below the cost.

For other financial assets, objective evidence could include:

- significant financial difficulty of the issuer; or
- a breach of contract; or
- the lender granting to the borrower a concession that the lender would not otherwise consider; or
- it becoming probable that the borrower will enter bankruptcy or other financial re-organisation; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial assets since the initial recognition of those assets.

Impairment losses, in respect of 'held-to-maturity' investments carried at amortised cost are measured as the differences between the assets' carrying amounts and the present values of their estimated future cash flows discounted at the 'held-to-maturity' investments' original effective interest rate.

For certain category of financial assets, such as trade receivables, if it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the assets are included in a group with similar credit risk characteristics and collectively assessed for impairment.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

vii Impairment of financial assets (cont'd)

The carrying amounts of the financial assets are reduced directly, except for the carrying amounts of trade receivables which are reduced through the use of an allowance account. Any impairment loss is recognised in profit or loss immediately.

If, in later periods, the amount of any impairment loss decreases, the previously recognised impairment losses are reversed directly, except for the amounts related to trade receivables which are reversed to write back the amount previously provided in the allowance account. The reversal is recognised in profit or loss immediately.

If there is objective evidence that impairment losses have been incurred on financial assets carried at cost, the amount of any impairment loss is measured as the differences between the carrying amounts of the financial assets and the present value of their estimated future cash flows discounted at the current market rate of return for a similar financial assets. Such impairment losses are not reversed.

For 'available-for-sale' financial assets, if a decline in fair value has been recognised in other comprehensive income and there is objective evidence that the assets are impaired, the cumulative losses that have been recognised are reclassified to profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as 'available-for-sale' financial assets are not reversed through profit or loss. If the fair value of a debt instrument classified as an 'available-for-sale' financial asset subsequently increases, and the increase can be objectively related to an event occurring after the impairment losses were recognised in profit or loss, the impairment losses are reversed and recognised in profit or loss.

viii Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the Group and the Company transfer the financial assets and the transfers qualify for derecognition.

On derecognition of financial assets in their entirety, the differences between the carrying amounts and the sum of the consideration received and any cumulative gains or losses that have been recognised in other comprehensive income are recognised in profit or loss.

Financial liabilities

Financial liabilities are recognised on the statements of financial position when the Group and the Company become a party to the contractual provisions of the instrument. On initial recognition, financial liabilities are measured at fair value, plus transaction costs for financial liabilities not at 'fair value through profit or loss'. After initial recognition, financial liabilities are either classified as at 'fair value through profit or loss' or amortised cost using the effective interest method.

i Financial liabilities at 'fair value through profit or loss'

Financial liabilities are classified as at 'fair value through profit or loss' when the financial liabilities are either 'held for trading' or upon initial recognition, the financial liabilities are designated as at 'fair value through profit or loss'.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Financial instruments (cont'd)

i Financial liabilities at 'fair value through profit or loss' (cont'd)

A financial liability is classified as 'held for trading' if:

- it is incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective hedging instrument.

Financial liabilities (other than 'held for trading') are designated as at 'fair value through profit or loss' upon initial recognition if:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring liabilities or recognized the gains and losses on them on different bases; or
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- a contract contains one or more embedded derivatives, the entire hybrid contracts are designated as at 'fair value through profit or loss'.

After initial recognition, financial liabilities at 'fair value through profit or loss' are measured at fair value. Gains or losses on the financial liabilities at 'fair value through profit or loss' are recognised in profit or loss.

ii Financial liabilities at amortised cost using the effective interest method

Effective interest method is a method of calculating the amortised cost of financial liabilities and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts.

Estimate future cash payments through the expected life of the financial liabilities or a shorter period to the net carrying amount of the financial liabilities. After initial recognition, financial liabilities other than financial liabilities at 'fair value through profit or loss' are measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the financial liabilities are derecognised or impaired.

iii Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Any difference between the carrying amounts of financial liabilities derecognised and the consideration paid is recognised in profit or loss.

(s) Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segments results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 33, including the factors used to identify the reportable segments and measurement basis of segment information.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(t) Related parties

Parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party subject to common control or common significant influence. Related parties may be individual or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

(u) Research and development costs

All research costs are recognised in the income statement as incurred.

Expenditure incurred on project to develop new products is capitalised and deferred only when the Group and the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

Development costs, considered to have finite useful lives, are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet.

4. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSS

During the financial year, the Company has adopted the following new and revised Financial Reporting Standards, Interpretations and Amendments to certain Standards and Interpretations (collectively referred to as 'FRSs') issued by the Malaysian Accounting Standards Board (MASB) which are effective for the financial periods beginning on or after 1 January 2010:

FRS 4:	Insurance Contracts
FRS 7:	Financial Instruments: Disclosures
FRS 8:	Operating Segments
FRS 101:	Presentation of Financial Statements
FRS 123:	Borrowing Costs
FRS 139:	Financial Instruments: Recognition and Measurement
Amendments to FRS 1:	First-time Adoption of Financial Reporting Standards
Amendments to FRS 2:	Share-based Payment – Vesting Conditions
Amendments to FRS 5:	Non-current Assets Held for Sale and Discontinued Operations (revised September 2009)
Amendments to FRS 7:	Financial Instruments: Disclosures
Amendments to FRS 8:	Operating Segments (revised September 2009)
Amendments to FRS 107	Statement of Cash Flows (revised September 2009)
Amendments to FRS 108:	Accounting Policies, Changes in Accounting Estimates and Errors (revised September 2009)
Amendments to FRS 110:	Events After the Reporting Period (revised September 2009)
Amendments to FRS 116:	Property, Plant and Equipment (revised September 2009)
Amendments to FRS 117	Leases (revised September 2009)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

4. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSS (cont'd)

Amendments to FRS 118:	Revenue (revised September 2009)
Amendments to FRS 119:	Employee Benefits (revised September 2009)
Amendments to FRS 120:	Accounting for Government Grants and Disclosure of Government Assistance (revised November 2009)
Amendments to FRS 123:	Borrowing Costs (revised September 2009)
Amendments to FRS 127:	Amendments to FRS 1 First-time Adoption of Financial Reporting Standards
Amendments to FRS 127:	Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 128:	Investments in Associates (revised September 2009)
Amendments to FRS 129:	Financial Reporting in Hyperinflationary Economies (revised September 2009)
Amendments to FRS 131:	Interests in Joint Ventures (revised September 2009)
Amendments to FRS 132:	Financial Instruments: Presentation
Amendments to FRS 134:	Interim Financial Reporting (revised September 2009)
Amendments to FRS 138:	Intangible Assets (revised September 2009)
Amendments to FRS 140:	Investment Property (revised September 2009)
IC Interpretation 9:	Reassessment of Embedded Derivatives
IC Interpretation 10:	Interim Financial Reporting and Impairment
IC Interpretation 11:	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13:	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
Amendments to IC Interpretation 9:	Reassessment of Embedded Derivatives (revised 2009)

FRSs that have been issued but are not yet effective

The Group and the Company have not early adopted the following FRSs that have been issued by the MASB but are not yet effective and have no significant impact on the Group and the Company:

FRS 3:	Business Combinations
FRS 124:	Related Party Disclosures
FRS 127:	Consolidated and Separate Financial Statements
Amendments to FRS 1:	First-time Adoption of Financial Reporting Standards (revised January 2010)
Amendments to FRS 1:	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (revised March 2010)
Amendments to FRS 1:	Additional Exemptions for First-time Adopters (revised July 2010)
Amendments to FRS 1:	First-time Adoption of financial Reporting Standards (revised November 2010)
Amendments to FRS 2:	Share-based Payment (revised January 2010)
Amendments to FRS 2:	Group Cash-settled Share-based Payment Transactions (revised July 2010)
Amendments to FRS 3:	Business Combinations (revised November 2010)
Amendments to FRS 5:	Non-current Assets Held for Sale and Discontinued Operations (revised January 2010)
Amendments to FRS 7:	Improving Disclosures about Financial Instruments (revised March 2010)
Amendments to FRS 7:	Financial Instruments: Disclosures (revised November 2010)
Amendments to FRS 101:	Presentation of Financial Statements (revised November 2010)
Amendments to FRS 121:	The Effects of Changes in Foreign Exchange Rates (revised November 2010)
Amendments to FRS 124*:	Related Party Disclosures (revised November 2010)
Amendments to FRS 127:	Consolidated and Separate Financial Statements (revised January 2010)
Amendments to FRS 128:	Investments in Associates (revised November 2010)
Amendments to FRS 131:	Interests in Joint Ventures (revised November 2010)
Amendments to FRS 132:	Financial Instruments: Presentation (revised November 2010)
Amendments to FRS 134:	Interim Financial Reporting (revised November 2010)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

4. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSS (cont'd)

FRSs that have been issued but are not yet effective (cont'd)

Amendments to FRS 138:	Intangible Assets (revised January 2010)
Amendments to FRS 139:	Financial Instruments: Recognition and Measurement (revised November 2010)
IC Interpretation 4:	Determining Whether an Arrangement contains a Lease
IC Interpretation 12:	Service Concession Arrangements
IC Interpretation 15*:	Agreements for the Construction of Real Estate
IC Interpretation 16:	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17:	Distributions of Non-cash Assets to Owners
IC Interpretation 18:	Transfers of Assets from Customers
IC Interpretation 19:	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IC Interpretation 9:	Reassessment of Embedded Derivatives (revised January 2010)
Amendments to IC Interpretation 13:	Customer Loyalty Programmes (revised November 2010)
Amendments to IC Interpretation 14:	Prepayments of a Minimum Funding Requirement (revised November 2010)
Amendments to IC Interpretation 15:	Agreements for the Construction of Real Estate (revised August 2010)

The new FRSs will be applicable to the Group and the Company for financial year beginning 1 January 2011 except for those marked "*" will be applicable for financial year beginning 1 January 2012.

At the date the financial statements are recognised for issue, the impact of the adoption of these FRSs is yet to be reasonably estimated. Hence, the impact on the adoption of new accounting policies is not disclosed, except for the following:

FRS 7: Financial instruments: Disclosures

FRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010). FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosure about credit risks, liquidity risk, interest rate risk, foreign currency exchange risk and market risk. The Group and the Company have applied FRS 7 prospectively in accordance with the transitional provision, hence the new disclosures have not been applied to the comparatives. The new disclosures are included in the Group's and the Company's financial statements for the financial year ended 31 December 2010.

FRS 8: Operating segments

FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114 Segment Reporting. FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes that are regularly reviewed by the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the segments. The Group's reportable segment is primarily based on long steel products, which nature of business, financial effects and economic environments in which it operates are similar. As such the segmental information on revenue, results and assets are disclosed in the statements of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

4. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSS (cont'd)

FRS 101: Presentation of Financial Statements (revised)

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes to the financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement cash flows and notes to the financial statements.

The total comprehensive income for the period is presented as a one-line item in the statement of changes in equity.

Amendment to FRS 117: Leases

This amendment removes the classification of leases of land and of buildings, and instead, requires assessment of classification based on the risks and rewards of the lease itself. The reassessment of land elements of unexpired leases shall be made retrospectively in accordance with FRS 108. The Group has reassessed and determined that all leasehold land of the Group are in substance finance leases and has reclassified the leasehold land from prepaid lease payments for land to property, plant and equipment.

The reclassification has been made retrospectively and the comparative figures have been restated as follows:-

	As reported previously RM'000	Effect of adopting Amendment to FRS 117 RM'000	As restated RM'000
Group			
<u>31 December 2009</u>			
Property, plant and equipment	352,264	70,602	422,866
Prepaid lease payments for land	70,602	(70,602)	-
<u>1 January 2009</u>			
Property, plant and equipment	336,913	61,950	398,863
Prepaid lease payments for land	61,950	(61,950)	-
Company			
<u>31 December 2009</u>			
Property, plant and equipment	339,237	70,602	409,839
Prepaid lease payments for land	70,602	(70,602)	-
<u>1 January 2009</u>			
Property, plant and equipment	326,598	61,950	388,548
Prepaid lease payments for land	61,950	(61,950)	-

The adoption of Amendment to FRS 117 does not have any impact to the financial results of the Group for the current and previous financial years.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

4. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSS (cont'd)

FRS 139: Financial Instruments: Recognition and Measurement

This Standard establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted.

All financial instruments are recognised initially at fair value plus in the case of financial instruments not at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial instruments. Subsequent to the initial recognition, the financial instruments are measured in accordance with the designation of the financial instruments.

In accordance with the transitional provisions of FRS 139, the impact of applying FRS 139 upon first adoption is applied prospectively with adjustments to be made to the opening balances in the statement of financial position. Comparative figures need not be adjusted.

5. SIGNIFICANT ACCOUNTING ESTIMATES

Key Sources of Estimation Uncertainty

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of inventories

Inventories are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the inventories have been determined based on their fair value less costs to sell. The fair value less costs to sell was arrived at by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market condition existing at each balance sheet date.

(ii) Depreciation of property, plant and equipment

The cost of property, plant and equipment are depreciated on straight-line basis over their useful lives. Management estimates the useful lives of the property, plant and equipment as stated in Note 3(b). These are common life expectancies applied in the industries. Change in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iii) Deferred taxation

Deferred tax assets are recognised for all unutilised reinvestment allowances to the extent that it is probable that taxable profit will be available against which the reinvestment allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

6. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Plant and machinery, factory and electrical equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Electrical installation RM'000	Capital work-in- progress RM'000	Total RM'000
Group								
Carrying amount								
At 1 January 2010	258	31,674	305,644	960	768	88	12,872	352,264
Effects of adopting the Amendments to FRS 117	-	70,602	-	-	-	-	-	70,602
As restated	258	102,276	305,644	960	768	88	12,872	422,866
Additions	997	-	32,950	-	111	-	21,981	56,039
Disposals	-	-	-	(31)	-	-	-	(31)
Disposal of a subsidiary (Note 7)	(1,153)	-	-	-	-	-	(23,724)	(24,877)
Depreciation charge	(5)	(1,778)	(15,418)	(359)	(235)	(7)	-	(17,802)
At 31 December 2010	97	100,498	323,176	570	644	81	11,129	436,195
At 31 December 2010								
Cost	108	60,000	488,000	3,337	2,528	271	11,129	565,373
Valuation	65	52,000	-	-	-	-	-	52,065
Accumulated depreciation	(76)	(11,502)	(164,824)	(2,767)	(1,884)	(190)	-	(181,243)
Carrying amount	97	100,498	323,176	570	644	81	11,129	436,195
Carrying amount								
At 1 January 2009	267	23,240	291,585	1,231	795	88	19,707	336,913
Effects of adopting the Amendments to FRS 117	-	61,950	-	-	-	-	-	61,950
As restated	267	85,190	291,585	1,231	795	88	19,707	398,863
Additions	4	18,300	18,794	218	189	6	2,716	40,227
Disposals	-	-	-	(24)	-	-	-	(24)
Depreciation charge	(13)	(1,214)	(14,286)	(465)	(216)	(6)	-	(16,200)
Reclassification	-	-	9,551	-	-	-	(9,551)	-
At 31 December 2009 (restated)	258	102,276	305,644	960	768	88	12,872	422,866
At 31 December 2009								
Cost	279	60,000	455,050	3,517	2,417	271	12,872	534,406
Valuation	65	52,000	-	-	-	-	-	52,065
Accumulated depreciation	(86)	(9,724)	(149,406)	(2,557)	(1,649)	(183)	-	(163,605)
Carrying amount	258	102,276	305,644	960	768	88	12,872	422,866

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Plant and machinery, factory and electrical equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Electrical installation RM'000	Capital work-in- progress RM'000	Total RM'000
Company								
Carrying amount								
At 1 January 2010	102	31,674	305,644	960	769	88	-	339,237
Effects of adopting the Amendments to FRS 117	-	70,602	-	-	-	-	-	70,602
As restated	102	102,274	305,644	960	769	88	-	409,839
Additions	-	-	32,950	-	110	-	11,129	44,189
Disposals	-	-	-	(31)	-	-	-	(31)
Depreciation charge	(5)	(1,778)	(15,418)	(359)	(235)	(7)	-	(17,802)
At 31 December 2010	97	100,498	323,176	570	644	81	11,129	436,195
At 31 December 2010								
Cost	108	60,000	488,000	3,337	2,528	271	11,129	565,373
Valuation	65	52,000	-	-	-	-	-	52,065
Accumulated depreciation	(76)	(11,502)	(164,824)	(2,767)	(1,884)	(190)	-	(181,243)
Carrying amount	97	100,498	323,176	570	644	81	11,129	436,195
Carrying amount								
At 1 January 2009	107	23,240	291,585	1,231	796	88	9,551	326,598
Effects of adopting the Amendments to FRS 117	-	61,950	-	-	-	-	-	61,950
As restated	107	85,190	291,585	1,231	796	88	9,551	388,548
Additions	-	18,300	18,794	218	189	6	-	37,507
Disposals	-	-	-	(24)	-	-	-	(24)
Depreciation charge	(5)	(1,214)	(14,286)	(465)	(216)	(6)	-	(16,192)
Reclassification	-	-	9,551	-	-	-	(9,551)	-
At 31 December 2009 (restated)	102	102,276	305,644	960	769	88	-	409,839
At 31 December 2009								
Cost	108	60,000	455,050	3,517	2,418	271	-	521,364
Valuation	65	52,000	-	-	-	-	-	52,065
Accumulated depreciation	(71)	(9,724)	(149,406)	(2,557)	(1,649)	(183)	-	(163,590)
Carrying amount	102	102,276	305,644	960	769	88	-	409,839

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) Carrying amounts of property, plant and equipment held under finance lease arrangements are as follows:

	Group and Company	
	2010	2009
	RM'000	RM'000
Plant and machinery	19,010	3,315
Motor vehicles	556	934
	19,566	4,249

(b) The carrying amounts of property, plant and equipment charged as securities for borrowings as disclosed in Note 19 are as follows:

	Group and Company	
	2010	2009
	RM'000	RM'000
		(Restated)
Leasehold land, at cost	8,669	8,821
Leasehold land, at valuation	61,611	61,781
Leasehold buildings	30,218	18,442
Plant and machinery	304,221	266,431
	404,719	355,475

7. INVESTMENT IN SUBSIDIARIES

	Company	
	2010	2009
	RM'000	RM'000
Unquoted shares, at cost	10,000	10,000
Capitalise advances	3,500	-
	13,500	10,000
Disposal of unquoted shares	(5,112)	-
Reclassified to investment in associate (Note 8)	(8,388)	-
	*	10,000

* Carrying amount stated at RM2

Name of company	Equity interest held		Principal activities
	2010	2009	
Steel Dynamics (M) Sdn. Bhd.	100%	100%	Dormant
Bio Molecular Industries Sdn. Bhd.	-	100%	Manufacturing, research and development of radioisotopes and radiopharmaceuticals products

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

7. INVESTMENT IN SUBSIDIARIES (cont'd)

The subsidiary was incorporated in Malaysia and audited by a firm of auditors other than SSY Partners.

On 2 June 2010, the Company entered into a Subscription and Share Sale Agreement with IBA Pharma SA, a wholly-owned subsidiary of Ion Beam Application S.A. ("IBA") and Bio Molecular Industries Sdn. Bhd. ("BMI"), a wholly-owned subsidiary of the Company with the following salient terms:

- (i) The Company shall capitalise an amount due from BMI of RM3,500,000;
- (ii) IBA shall subscribe for 5,000,000 ordinary shares of RM1.00 each in the issued and paid-up capital of BMI; and
- (iii) The Company shall sell and transfer to IBA 5,112,000 ordinary shares of RM1.00 each in the issued and paid-up capital of BMI for a cash consideration of RM1,000.

On 6 August 2010, the Company completed the disposal of its equity interest in BMI pursuant to the said Agreement. As a result, Bio Molecular Industries Sdn. Bhd. ceased to be subsidiary of the Company and is treated as investment in associate.

The disposal had the following effects on the financial position of the Group as at 31 December 2010:

	2010 RM'000
Assets and liabilities disposed of:	
Property, plant and equipment (Note 6)	24,877
Receivables	3
Cash and bank balances	4
Payables	(15,588)
Fair value of net assets disposed of	9,296
Amount accounted for as an associate	(4,215)
Impairment losses	(367)
Attributable net assets disposed of	4,714
Cash consideration	(1)
Loss on disposal	4,713
Net cash outflow arising from the disposal:	
Cash consideration	1
Cash and cash equivalents of subsidiary disposed of	(4)
	(3)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

8. INVESTMENT IN ASSOCIATE

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Unquoted shares, at cost				
Reclassified from investment in subsidiaries (Note 7)	8,388	-	8,388	-
Shares of accumulated post-acquisition losses	(322)	-	-	-
	8,066	-	8,388	-

Name of company	Equity interest held		Principal activities
	2010	2009	
Bio Molecular Industries Sdn. Bhd.	45.34%	-	Manufacturing, research and development of radioisotopes and radiopharmaceuticals products

The associate was incorporated in Malaysia and audited by a firm of auditors other than SSY Partners.

9. OTHER INVESTMENTS

Other investments represent the issuance of subordinated bonds with a financial institution as the asset-backed securities pursuant to the Primary Collateralised Loan Obligation ("CLO") Transaction.

Details of subordinated bonds are as follows:

Stock code	Issue No	Coupon rate % p.a.	Maturity date	Group and Company	
				2010 RM'000	2009 RM'000
FJ050001	CAPONE	No fixed rate	20.9.2010	-	5,000
DI070008	PRIMA UNO	No fixed rate	26.1.2012	4,000	4,000
				4,000	9,000

10. INVENTORIES

	Group and Company	
	2010 RM'000	2009 RM'000
Raw materials	138,601	146,954
Finished goods	9,237	11,572
	147,838	158,526

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade receivables				
Non related parties	180,534	112,971	180,534	112,971
Less: Allowance for doubtful debts	(842)	(833)	(842)	(833)
	179,692	112,138	179,692	112,138
Other receivables				
Due from subsidiaries	-	-	33	3,771
Due from associate	18	-	18	-
Deposits	72	371	72	73
Sundry receivables	17	1,149	17	1,149
	107	1,520	140	4,993
	179,799	113,658	179,832	117,131

The normal trade credit terms of the Company ranged from 30 to 90 days (2009: 30 to 90 days). The amounts due from subsidiary and associate are unsecured, interest free and are repayable on demand.

The currency exposure profile of trade receivables of the Group and of the Company are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Malaysian Ringgit	128,623	104,344	128,623	104,344
Australian Dollar	67	476	67	476
United States Dollar	51,002	7,318	51,002	7,318
	179,692	112,138	179,692	112,138

The above foreign financial assets are exposed to foreign currency risk.

The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2010 RM'000	2009 RM'000
Neither past due nor impaired	144,169	92,042
1 to 30 days past due not impaired	28,684	7,855
31 to 60 days past due not impaired	6,827	5,223
61 to 90 days past due not impaired	12	7,018
	35,523	20,096
Impaired	842	833
	180,534	112,971

The balance of receivables that are past due but not impaired are unsecured in nature. The management is confident that the remaining receivables are recoverable as these accounts are still active.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

12. FIXED DEPOSITS WITH LICENSED BANKS

The interest rate per annum of deposits that was effective as at the balance sheet date were as follows:

	Group		Company	
	2010 %	2009 %	2010 %	2009 %
Deposits with licensed banks	1.62 – 1.93	1.50 – 2.15	1.62 – 1.93	1.50 – 2.15

Deposits of the Group and the Company are unsecured and have an average maturity period of between 4 days and 1 month (2009: between 4 days and 1 month).

13. SHARE CAPITAL

	Group and Company	
	2010 RM'000	2009 RM'000
<u>Authorised</u>		
1,000,000,000 ordinary shares of RM0.50 each	500,000	500,000
<u>Issued and fully paid</u>		
Ordinary shares of RM0.50 each		
At 1 January – 194,666,666 ordinary shares	97,333	97,333
Issue during the year – 16,120,000 (2009: Nil)	8,060	-
At 31 December – 210,786,666 (2009: 194,666,666) ordinary shares	105,393	97,333

During the financial year, the Company issued 16,120,000 new ordinary shares of RM0.50 each through private placements at an average issue price of RM1.02 per ordinary share for cash, for additional working capital purposes. The share premium of RM8,383,100 arising from issuance of ordinary shares, net of share issue costs of RM161,024, have been included in the share premium account.

The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

14. SHARE PREMIUM

	Group and Company	
	2010 RM'000	2009 RM'000
At 1 January	22,977	22,977
Add: Issue of shares during the financial year	8,383	-
Less: Share issue expenses	(162)	-
At 31 December	31,198	22,977

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

15. REVALUATION RESERVES

Revaluation reserves represent the net surplus based on valuation carried out by independent professional valuers of the Group's and the Company's freehold and leasehold land as of 30 September 2005.

16. TREASURY SHARES

	Group and Company	
	2010	2009
	RM'000	RM'000
<u>At cost</u>		
At 1 January	(30)	-
Acquired during the year	-	(30)
At 31 December	(30)	(30)

The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the interests of the Company and its shareholders.

The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares as allowed under Section 67A of the Companies Act, 1965. The Company has the right to cancel these treasury shares, distribute these treasury shares as share dividends to the shareholders and/or resell these treasury shares on the Bursa Malaysia. As treasury shares, the rights attached as to voting, dividends and participation in other distribution are suspended.

None of the treasury shares held were resold or cancelled during the financial year.

At the balance sheet date, the number of outstanding shares in issue after setting off the treasury shares against equity was 210,756,666 (2009: 194,636,666).

17. WARRANT RESERVES

	Group and Company	
	2010	2009
	RM'000	RM'000
<u>At cost</u>		
At 1 January	-	-
Issue of warrants during the year	40,044	-
At 31 December	40,044	-

During the financial year, the Company issued 105,378,333 five (5) year new warrants on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.50 each in the Company held at an issue price of RM0.18 per warrant. The theoretical fair value of the above warrants was computed using the Black-Scholes Option Pricing Model at approximately RM0.38 per warrant.

Each warrant will entitle its registered holder to subscribe for one (1) new ordinary share in the Company at an exercise price of RM0.67 per share at any time within 5 years from the date of issue of the warrant. The last date to exercise the warrant rights is 26 October 2015.

As at 31 December 2010, the warrants remained unexercised.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

18. RETAINED EARNINGS

Effective 1 January 2008, the Company is given an irrevocable option to elect for the single tier tax system or to continue to use its tax credit under Section 108 of the Income Tax Act, 1967 for the purpose of dividend distribution during the transitional period of up to 6 years until 31 December 2013. The Company has elected to move to a single tier tax system.

19. BORROWINGS

	Group and Company	
	2010	2009
	RM'000	RM'000
Current		
Secured:		
Bank overdrafts	12,378	-
Bankers' acceptances	142,530	135,236
Revolving credit	3,130	5,130
Finance lease liabilities	2,032	1,342
Term loans	11,452	55,724
	171,522	197,432
Non-current		
Secured:		
Revolving credit	4,696	7,826
Finance lease liabilities	7,095	1,121
Term loans	74,697	58,463
	86,488	67,410
Total Borrowings		
Bank overdrafts	12,378	-
Bankers' acceptances	142,530	135,236
Revolving credit	7,826	12,956
Finance lease liabilities	9,127	2,463
Term loans	86,149	114,187
	258,010	264,842

The interest rates incurred during the financial year for borrowings, excluding finance lease liabilities, ranged from 1.76% to 7.80% (2009: 1.74% to 6.30%) per annum.

The bankers' acceptances, revolving credit and term loans are secured by the following:

- Negative pledge;
- Debenture over certain property, plant and equipment of the Company; and
- First fixed charge over a leasehold land and building of the Company.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

19. BORROWINGS (cont'd)

The currency exposure profile of term loans of the Group and of the Company are as follows:

	Group and Company	
	2010	2009
	RM'000	RM'000
Secured:		
Malaysian Ringgit	78,654	103,109
United States Dollar	7,495	11,078
	86,149	114,187
Repayment terms		
Secured:		
Bank borrowings excluding finance lease liabilities		
- not later than 1 year	169,490	196,090
- later than 1 year and not later than 2 years	54,583	8,854
- later than 2 years and not later than 5 years	24,625	56,696
- later than 5 years	185	739
	248,883	262,379
Finance lease liabilities		
- not later than 1 year	2,758	1,495
- later than 1 year and not later than 2 years	2,353	687
- later than 2 years and not later than 5 years	5,939	499
- later than 5 years	-	8
	11,050	2,689
Future finance charges on finance lease	(1,923)	(226)
Present value of finance lease liabilities	9,127	2,463
Present value of finance lease liabilities		
- not later than 1 year	2,032	1,342
- later than 1 year and not later than 2 years	1,809	642
- later than 2 years and not later than 5 years	5,286	471
- later than 5 years	-	8
	9,127	2,463

The finance lease liabilities bear interest at the rates of between 2.40% to 6.02% (2009: 2.40% to 7.35%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade payables				
Related parties	4	79	4	79
Non related parties	70,913	54,979	70,913	54,979
	70,917	55,058	70,917	55,058
Other payables				
Accruals	9,093	10,776	9,093	10,764
Staff costs payable	1,385	1,334	1,385	1,324
Sundry payables	7,965	286	7,965	-
Deposits	*	*	*	*
	18,443	12,396	18,443	12,088
	89,360	67,454	89,360	67,146

* Negligible as the individual amount is below RM500

The normal trade credit terms of the Company ranged from 30 to 90 days (2009: 30 to 90 days).

The amount due to related parties of which is trade in nature is subject to the Company's normal trade credit terms.

21. STAFF COSTS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Salaries, bonus allowances and overtime	17,875	17,223	17,875	17,112
Social security costs	140	128	140	128
Employees Provident Fund	1,185	1,231	1,185	1,231
Other benefits	50	43	50	43
	19,250	18,625	19,250	18,514

Included in staff costs of the Group and of the Company are Directors' remuneration as disclosed in Note 22.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

22. DIRECTORS' REMUNERATION

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Directors of the Company				
Executive:				
Salaries and other emoluments	1,331	1,277	1,331	1,277
Fees	18	129	18	18
Allowances	53	52	53	52
	1,402	1,458	1,402	1,347
Non-executive:				
Fees	24	24	24	24
Allowances	264	207	264	207
	288	231	288	231
Total executive Directors' Remuneration	1,402	1,458	1,402	1,347
Total non-executive Directors' remuneration	288	231	288	231
Grand total	1,690	1,689	1,690	1,578

The number of Directors of the Company whose total remuneration during the year fall within the following bands are analysed below:

	Number of Directors	
	2010	2009
Executive Directors:		
RM150,001 – RM200,000	-	1
RM200,001 – RM250,000	1	-
RM300,001 – RM350,000	1	1
RM800,001 – RM850,000	-	1
RM850,001 – RM900,000	1	-
Non-executive Directors:		
Below RM50,000	2	3
RM50,001 – RM100,000	1	-
RM100,001 – RM150,000	1	1

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

23. PROFIT FROM OPERATIONS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit from operations is arrived at after charging:				
Auditors' remuneration				
- statutory audit				
- current year	81	57	80	55
- overprovision in prior year	-	(5)	-	(5)
- other services	25	-	25	-
Depreciation of property, plant and equipment	17,802	16,200	17,802	16,192
Investments written off	5,000	-	5,000	-
Hire of equipment	820	648	820	648
Loss on disposal of investment in subsidiary	4,713	-	5,111	-
Unrealised foreign exchange loss	-	230	-	230
Allowance for doubtful debts	9	102	9	102
Rental of premises	134	169	134	169
Research and development expenses	-	2	-	-
Staff costs (Note 21)	19,250	18,625	19,250	18,514
and crediting:				
Fixed deposits interest	124	96	124	96
Gain on disposal of property, plant and equipment	53	58	53	58
Reversal of impairment on inventories	-	154	-	154
Unrealised foreign exchange gain	1,887	-	1,887	-

24. FINANCE COSTS

	Group and Company	
	2010 RM'000	2009 RM'000
Interest expenses on borrowings:		
- Bankers' acceptances	6,876	5,420
- Bank overdrafts and revolving credit	1,195	1,146
- Finance leases	347	269
- Term loans	6,548	7,064
	14,966	13,899

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

25. TAXATION

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<u>Malaysian income tax</u>				
Current year	2,231	-	2,231	-
Overprovision in prior years	(328)	(450)	(328)	(450)
	1,903	(450)	1,903	(450)

Reconciliations of income tax expense applicable to the results of the Group and of the Company at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit/(Loss) before taxation	29,997	(8,542)	29,686	(8,394)
Tax at Malaysian statutory tax rate of 25%	7,499	(2,135)	7,421	(2,098)
Tax effects of:				
- expenses not deductible for tax purposes	1,663	2,135	1,741	2,098
- utilisation of reinvestmen allowances	(6,931)	-	(6,931)	-
Overprovision of income tax in prior years	(328)	(450)	(328)	(450)
Tax expense for the year	1,903	(450)	1,903	(450)

Subject to agreement with the Inland Revenue Board, the Company has unutilised reinvestment allowances amounting to approximately RM245,006,780 (2009: RM245,771,480) which are available for set off against future chargeable income.

Deferred tax assets have not been recognised in respect of these unutilised reinvestment allowances and allowance for doubtful debts of the Company amounting to approximately RM61,462,370 (2009: RM61,650,960) as the Directors are uncertain whether future taxable profits from the Company will be available for set off against these allowances.

Deferred tax assets have not been recognised in respect of the following items:

	Company	
	2010 RM'000	2009 RM'000
Unutilised reinvestment allowances	61,252	61,443
Allowance for doubtful debts	210	208
	61,462	61,651

Deferred tax liabilities have not been recognised as the Directors are of the opinion that the effects of the temporary differences are unlikely to reverse in the foreseeable future due to the substantial amount of reinvestment allowance available to be utilised for offset.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

26. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group and the Company acquired property, plant and equipment with aggregate cost of RM56,039,030 (2009: RM40,227,147) and RM44,189,360 (2009: RM37,507,252) respectively which were satisfied as follows:

	Group		Company	
	2010 RM'000	2009 RM'000 (Restated)	2010 RM'000	2009 RM'000 (Restated)
Finance leases	8,370	358	8,370	358
Cash payments	47,669	39,869	35,819	37,149
	56,039	40,227	44,189	37,507

27. SIGNIFICANT RELATED PARTY TRANSACTIONS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Purchase of materials from related party in which a Director has interest:				
Soon Seng Co. (Penang) Sdn. Bhd.	94	322	94	322

The Directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions agreed on negotiated basis.

28. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2010 RM'000	2009 RM'000
Profit/(loss) attributable to ordinary shareholders	28,094	(8,092)
Weighted average number of ordinary shares in issue	206,869	194,637
Basic earnings/(loss) per share (sen)	13.58	(4.16)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

28. EARNINGS/(LOSS) PER SHARE (cont'd)

(b) Diluted earnings/(loss) per share

For the purpose of calculating diluted earnings per share, the weighted average number of shares in issue have been adjusted for the dilutive effects of all potential conversion of any convertible securities issued during the period as set out below:-

	Group	
	2010 RM'000	2009 RM'000
Profit attributable to ordinary shareholders	28,094	N/A
Weighted average number of ordinary shares in issue	206,869	N/A
Effects of dilution	40,947	N/A
Adjusted weighted average number of ordinary shares in issue and issuable	247,816	N/A
Diluted earnings per share (sen)	11.34	N/A

N/A – not applicable

29. CONTINGENT LIABILITIES

The following are pending litigation in respect of claims instituted against the Company:

- (i) Claim of RM1.23 million for the balance of the purchase price for goods sold. The Company had filed a defence and counter claim for damages of RM3.73 million. The case was heard on 2 May 2006 and on 19 September 2006 judgment was delivered. The claim of RM1.23 million was dismissed with cost and the court then gave judgment in favour of the Company on its counter claim for RM3.73 million together with cost and interest of 8% per annum from January 1999 until full payment. The supplier had filed its appeal and on 15 May 2008, the supplier's appeal was allowed and the High Court Judgment was set aside. The Company filed an appeal at the Federal Court which was dismissed with costs of RM30,000 awarded to the supplier. On 25 August 2010, the High Court taxed down the Supplier's claim to RM109,254 as the overall costs to the Supplier and the said costs and claim of RM1.23 million was fully settled by the Company during the year.

- (ii) A letter of demand against the Company for RM2.44 million was submitted for Arbitration and the parties had filed their respective claims and counterclaims. The Company has a counterclaim in excess of the said letter of demand. The solicitors of the Company are of the opinion that the Company's chances of success in the claim proper are good. The Company had further filed an application in court for security of costs and on 21 June 2007, security of costs of RM75,000 was allowed. The supplier had filed an appeal to the Court of Appeal against this order for security of costs. Pending the outcome of these applications, the Arbitrator had also stayed the arbitration proceedings.

On 19 October 2010, both appeals of the parties on applications for security of costs were dismissed by the Court of Appeal.

- (iii) Claims of RM7.56 million for goods sold and delivered together with interest. The solicitors of the Company are of the opinion that such a claim would fail in court since there appears to be no agreements whatsoever, nor any prior demand or claim made by supplier regarding the interests and that so long as the supplier has accepted periodical payments by the Company unequivocally, they cannot now insist that interest are due to them. The supplier had filed their Statement of Claim and Summary Judgement Application to which the Company had filed a Statement of Defence and Counterclaim.

On 13 August 2009, the High Court had dismissed Plaintiff's Summary Judgment application with costs and the matter proceeded with trial on 20 and 21 October 2010. On 26 November 2010, the High Court gave judgment in favour of the Plaintiff for the amount of RM4,341,747 and on 18 February 2011, the Company filed and served the Record of Appeal at the Court of Appeal. The Company is still awaiting a hearing date to be fixed by the Court of Appeal for the said appeal. The solicitors of the Company are of the opinion that the Company has fair chance of success on the appeal. This amount of RM4,341,747 has been accrued in the accounts for the current year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

30. FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below. It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:

(i) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits or occasionally, in short term commercial papers.

The Group's interest rate risk arises primarily from interest-bearing borrowings. The Group's policy is to borrow principally on the floating rate basis but to retain a proportion of fixed rate debt. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

Sensitivity analysis

The Group's floating rate borrowings in RM are exposed to variability in future interest payments. If the Bank's Base Lending Rate ("BLR") were to increase/decrease by 1%, it would impact the Group's profit by approximately RM2,489,000.

(ii) Credit Risk

The Group's credit risk is primarily attributable to trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, marketable securities and non-current investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

(iii) Foreign Currency Risk

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars (USD), Euro (EURO), and Australian Dollars (AUD). Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level. Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts.

The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the property or investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

30. FINANCIAL RISK MANAGEMENT POLICIES (cont'd)

(iv) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

31. FAIR VALUES OF THE FINANCIAL INSTRUMENTS

The fair values of the financial instruments of the Group and of the Company as at 31 December 2010 are not materially different from their carrying values.

32. DIVIDENDS

	Group and Company	
	2010	2009
	RM'000	RM'000
Recognised during the year:		
First and final single tier dividend in respect of financial year ended 31 December 2009: 1.0 sen per share on 210,756,666 ordinary shares	2,108	-
First and final single tier dividend in respect of financial year ended 31 December 2008: 2.5 sen per share on 194,666,666 ordinary shares	-	4,867
	2,108	4,867

33. SEGMENT INFORMATION

(a) Primary reporting format – by business segment

The Group is primarily organised in one business segment which is the manufacturing of steel bars and billets.

(b) Secondary reporting format – by geography

The Group's business segments are managed in two (2) main geographical areas:

Area	Sales		Total Assets		Capital Expenditure	
	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	783,068	559,955	826,171	749,615	56,039	40,227
Outside Malaysia	221,718	127,308	-	-	-	-
	1,004,786	687,263	826,171	749,615	56,039	40,227

In determining the geographical segments of the Group, sales are based on the countries in which the customers are located. Total assets and capital expenditure are determined based on where the assets are located.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

34. CAPITAL COMMITMENTS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Capital expenditure				
Approved and contracted for:				
Property, plant and equipment	-	13,596	-	-

Operating lease commitments – as lessee

Future minimum rentals payable under non-cancellable operating leases (excluding land use rights) at the reporting date are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Not later than 1 year	37	79	37	79
Later than 1 year but not later than 5 years	-	37	-	37
	37	116	37	116

35. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

The gearing ratios at 31 December 2010 and 2009 were as follows:

	Group	
	2010 RM'000	2009 RM'000
Total borrowings (Note 19)	258,010	264,842
Total equity	478,554	417,319
Gearing ratio	53.91%	63.46%

The decrease in the gearing ratio resulted primarily from the settlement of borrowings and issuance of new ordinary shares and warrants during financial year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

36. SIGNIFICANT EVENTS

i. Disposal of interests in Bio Molecular Industries Sdn. Bhd.

On 2 June 2010, the Company entered into a Subscription and Share Sale Agreement with IBA Pharma SA, a wholly-owned subsidiary of Ion Beam Application S.A. ("IBA") and Bio Molecular Industries Sdn. Bhd. ("BMI"), a wholly-owned subsidiary of the Company as disclosed in Note 7.

ii. Renounceable rights warrant

On 2 November 2010, the Company has completed the renounceable rights issue of 105,378,333 five (5) year new warrants on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.50 each in the Company held at an issue price of RM0.18 per warrant. Further details are disclosed in Note 17.

37. SUBSEQUENT EVENTS

- i.** On 6 January 2011, the Company acquired two (2) ordinary shares of RM1.00 each at par representing the entire issued and paid up share capital of Metropolitan Commuter Network Sdn. Bhd. for a total cash consideration of RM2.00 thereby resulting in Metropolitan Commuter Network Sdn. Bhd. becoming a wholly-owned subsidiary of the Company.
- ii.** On 18 January 2011, the Company proposed to implement a private placement of up to 31,616,499 new ordinary shares of RM0.50 each in the Company representing not more than ten percent (10%) of the issued and paid-up share capital of the Company to investors to be identified.
- iii.** On 19 January 2011, the Company entered into Heads of Joint Venture Agreement with KUB Malaysia Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad wherein the Company and KUB Malaysia Berhad have agreed to combine their capabilities and resources related to the objective stated herein and are desirous to co-operate and collaborate with each other in the joint-venture company, Metropolitan Commuter Network Sdn. Bhd. to pursue the rail transit network project in the Iskandar Development Region. In this connection, the Company are desirous of submitting a joint proposal for the project to the Government of Malaysia.
- iv.** On 22 March 2011, the Company repurchased 80,000 of its issued share capital from the open market on the Bursa Malaysia for RM93,600. The average price paid for the shares repurchased was approximately RM1.17 per ordinary share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares as allowed under Section 67A of the Companies Act, 1965. The Company has the right to cancel these treasury shares, distribute these treasury shares as share dividends to the shareholders and/or resell these treasury shares on the Bursa Malaysia. As treasury shares, the rights attached as to voting, dividends and participation in other distribution are suspended.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31 December 2010

38. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the accumulated losses of the Group and of the Company as at 31 December 2010 into realised and unrealised losses is presented in accordance with the directive of Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements as issued by the Malaysian Institute of Accountants.

	Group 2010 RM'000
Total retained earnings of the Company and its subsidiary:	
– Realised	269,032
– Unrealised	1,887
<hr/>	
Total Group retained earnings as per consolidated accounts	270,919

	Company 2010 RM'000
Total retained earnings of the Company	
– Realised	269,381
– Unrealised	1,887
<hr/>	
Total the Company retained earnings as per accounts	271,268

Comparative figures are not required in the first financial year of complying with the Realised and Unrealised Profits or Losses Disclosure.

LIST OF PROPERTIES

Location	Existing Use	Approximate Age of Building (Years)	Tenure	Land Area (Built-up Area)	Net Book Value (RM'000)	Date of Revaluation
HSD 161066 Lot No. PT29C, Section 28, Town of Petaling Jaya, District of Petaling, Selangor Darul Ehsan	Office, factory and warehouse	28 years	Leasehold for 99 years expiring on 15.04.2067	130,897 sq. ft. (63,187 sq. ft.)	Land – 9,611 Building – 3,131	30.09.2005
Lot 2 of Parent Lot 13039, Kawasan Perusahaan Bukit Raja Mukim Kapar District of Klang, Selangor Darul Ehsan	Office, factory and warehouse	10 years	Leasehold for 99 years (pending issuance of title to the land)	1,566,067 sq. ft. (187,220 sq. ft.)	Land – 52,000 Building – 17,973	30.09.2005
GRN 33304, Lot 3780, Mukim of Pasir Panjang, District of Port Dickson, Negeri Sembilan Darul Khusus	Bungalow	26 years	Freehold	5,403 sq.ft. (1,334 sq. ft.)	Land – 65 Building – 31	30.09.2005
HSD 161067, Lot No. PT29B, Section 28, Town of Petaling Jaya, District of Petaling, Selangor Darul Ehsan	Factory	2 years	Leasehold for 99 years expiring on 15.04.2067	110,425 sq. ft. (69,960 sq. ft.)	Land – 8,669 Building – 5,022	Nil
Lot No. B-05-03 H.S. (D) 238211 PT24605 Bandar Petaling Jaya Daerah Petaling Jaya Selangor Darul Ehsan	Office	1 year	Leasehold for 99 years expiring on 05.03.2106	(4,176 sq. ft.)	Building - 2,126	Nil
Lot No. B-05-03A H.S. (D) 238211 PT 24605 Bandar Petaling Jaya Daerah Petaling Jaya Selangor Darul Ehsan	Office	1 year	Leasehold for 99 years expiring on 05.03.2106	(3,003 sq. ft.)	Building – 1,524	Nil

ANALYSIS OF SHAREHOLDINGS

as at 29 April 2011

Authorised Share Capital	:	RM500,000,000
Issued and Fully Paid-Up Capital	:	RM105,393,333 comprising 210,786,666 ordinary shares of RM0.50 each
Class of Shares	:	Ordinary shares of RM0.50 each
Voting Rights	:	One (1) vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS AS AT 29 April 2011

Size of Shareholdings	No. of Holders	% over total Shareholders	No. of Shares	% over total Shares ^
1 - 99	340	7.320	12,018	0.006
100 - 1,000	318	6.846	206,165	0.098
1,001 - 10,000	2,814	60.581	13,336,364	6.330
10,001 - 100,000	1,025	22.067	29,420,366	13.965
100,001 - 10,533,832 (*)	147	3.165	100,775,534	47.834
10,533,833 AND ABOVE (**)	1	0.021	66,926,219	31.767
TOTAL :	4,645	100.000	210,676,666	100.000

Notes:-

* Less than 5% of issued shares

** 5% and above of issued shares

^ Excluding a total of 110,000 ordinary shares bought-back by the Company and retained as treasury shares as at 29 April 2011.

LIST OF TOP 30 SHAREHOLDERS/DEPOSITORS

No.	Name of Shareholders/Depositors	No. of Shares	% ^
1	TYE RESOURCES SDN BHD	66,926,219	31.767
2	LEMBAGA TABUNG HAJI	8,360,600	3.968
3	IKHWAN SALIM BIN SUJAK	7,349,999	3.489
4	KEMAJUAN REKACEKAP SDN BHD	6,559,666	3.114
5	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM)	5,500,000	2.611
6	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NORGES BK LEND)	3,000,000	1.424
7	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (CIMB-P 6939-404)	2,821,600	1.339
8	TAI HEAN LENG @ TEK HEAN LENG	2,582,000	1.226
9	MERCSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR RAYA REKAJAYA SDN BHD	2,527,800	1.200
10	NG TENG SONG	2,476,400	1.175
11	AMSEC NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BERHAD FOR PACIFIC PEARL FUND (UT-PM-PPF)	2,469,400	1.172
12	MERCSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAI HEAN LENG @ TEK HEAN LENG	2,401,200	1.140

ANALYSIS OF SHAREHOLDINGS (cont'd)

as at 29 April 2011

No.	Name of Shareholders/Depositors	No. of Shares	% ^
13	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NA, SINGAPORE (JULIUS BAER)	2,040,000	0.968
14	KOPERASI PERMODALAN FELDA MALAYSIA BERHAD	2,000,000	0.949
15	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOH KIN LIP	1,780,000	0.845
16	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG BENG HOO (8051654)	1,748,000	0.830
17	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG BENG HOO	1,573,800	0.747
18	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SU MING KEAT	1,471,000	0.698
19	TAI MAY CHEAN	1,333,333	0.633
20	HLG NOMINEE (TEMPATAN) SDN BHD HONG LEONG FUND MANAGEMENT SDN BHD FOR HONG LEONG ASSURANCE BHD (LIFE)	1,260,000	0.598
21	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR EXODIUS HOLDINGS SDN BHD	1,200,000	0.570
22	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG BENG HOO	1,188,700	0.564
23	MAYBAN NOMINEES (TEMPATAN) SDN BHD AMANAHRAYA INVESTMENT MANAGEMENT SDN. BHD. FOR NOORSHAH BINTI ISMAIL (C245-240115)	1,146,133	0.544
24	SU MING YAW	1,124,500	0.534
25	LIM KHUAN ENG	1,034,700	0.491
26	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MAAKL PROGRESS FUND (4082)	1,033,000	0.490
27	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NEOH SOON KEE	1,014,900	0.482
28	MAYBAN NOMINEES (TEMPATAN) SDN BHD MAYBAN TRUSTEES BERHAD FOR CIMB-PRINCIPAL ASEAN EQUITY FUND (270711)	987,500	0.469
29	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG BENG HOO	873,500	0.415
30	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR LEE SAI SING (PB)	850,000	0.403
Total:		136,633,950	64.855

Note:-

^ Excluding a total of 110,000 ordinary shares bought-back by the Company and retained as treasury shares as at 29 April 2011.

ANALYSIS OF SHAREHOLDINGS (cont'd)

as at 29 April 2011

DIRECTORS' SHAREHOLDINGS AS AT 29 APRIL 2011

Name of Directors	Direct Interest		Indirect Interest	
	No. of Shares	% of Issued Capital ^	No. of Shares	% of Issued Capital ^
Dato' Ikhwan Salim Bin Dato' Haji Sujak	7,349,999	3.49	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	4,983,200	2.37	66,926,219 *	31.77

Notes:-

^ Excluding a total of 110,000 shares bought-back by MASTEEL and retained as treasury shares as at 29 April 2011.

* Deemed interested pursuant to Section 6A(4)(c) of the Companies Act, 1965 by virtue of his interest in TYY Resources Sdn Bhd.

Pursuant to Section 6A of the Companies Act, 1965, by virtue of his interests in the shares of the Company, Dato' Sri Tai Hean Leng @ Tek Hean Leng is also deemed to have an interest in the shares of the subsidiaries of the Company to the extent the Company has an interest.

SUBSTANTIAL SHAREHOLDERS AS AT 29 APRIL 2011

Name of Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	% of Issued Capital ^	No. of Shares	% of Issued Capital ^
TYY Resources Sdn Bhd	66,926,219	31.77	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	4,983,200	2.37	66,926,219 *	31.77
Estate of Tai Ho Seng @ Teh Hoo Sing	1,333,333@	0.63	66,926,219 *	31.77
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	66,926,219 *	31.77
Tai May Chean	1,333,333@	0.63	73,485,885#	34.88

Notes:-

^ Excluding a total of 110,000 shares bought-back by MASTEEL and retained as treasury shares as at 29 April 2011.

* Deemed interested pursuant to Section 6A(4)(c) of the Companies Act, 1965 by virtue of their interests in TYY Resources Sdn Bhd.

Deemed interested pursuant to Section 6A(4)(c) of the Companies Act, 1965 by virtue of her interest in TYY Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.

@ Shares held in trust by Tai May Chean for the Estate of Tai Ho Seng @ Teh Hoo Sing in the capacity as an administrator for the Estate.

ANALYSIS OF WARRANT HOLDINGS

as at 29 April 2011

No. of warrants issued	: 105,378,333
Exercise price per warrant	: RM0.67
Expiry date of the warrants	: 26 October 2015
Voting Rights	: Every warrant holder present in person or by proxy at any Warrant holders' meeting shall be entitled on a show of hands to one (1) vote or on a poll, one (1) vote for each warrant held

Size of Warrant holdings	No. of Warrant Holders	% of Warrant Holders	No. of Warrants	% of Issued Warrants
1 - 99	11	0.511	524	0.000
100 - 1,000	175	8.132	126,025	0.120
1,001 - 10,000	1,139	52.928	6,373,411	6.048
10,001 - 100,000	723	33.597	24,988,444	23.713
100,001 - 5,268,915 (*)	103	4.786	41,851,820	39.716
5,268,916 AND ABOVE (**)	1	0.046	32,038,109	30.403
TOTAL :	2,152	100.000	105,378,333	100.000

Notes:-

* Less than 5% of issued warrants

** 5% and above of issued warrants

LIST OF TOP 30 WARRANT HOLDERS

No.	Name of Warrant Holders	No. of Warrants	%
1	TYE RESOURCES SDN BHD	32,038,109	30.403
2	IKHWAN SALIM BIN SUJAK	5,099,999	4.840
3	KEMAJUAN REKACEKAP SDN BHD	3,279,833	3.112
4	LEMBAGA TABUNG HAJI	2,259,250	2.144
5	TAI HEAN LENG @ TEK HEAN LENG	2,041,000	1.937
6	RAYA REKAJAYA SDN BHD	1,682,700	1.597
7	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOAY BOON BIOH (AK0018)	1,330,000	1.262
8	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SU MING YAW	1,192,600	1.132
9	LIM JIT HAI	1,136,000	1.078
10	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOAY CHEE HONG (8069795)	847,000	0.804
11	DIONG SUK HWA	765,500	0.726
12	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SU MING KEAT	710,000	0.674
13	YEONG KOK WAH	700,000	0.664
14	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KONG GOON KHING (E-BTR)	680,000	0.645

ANALYSIS OF WARRANT HOLDINGS (cont'd)

as at 29 April 2011

No.	Name of Warrant Holders	No. of Warrants	%
15	OSK NOMINEES (TEMPATAN) SDN BERHAD PLEDGED SECURITIES ACCOUNT FOR LEE HONG CHYE	568,000	0.539
16	TAN LAY PENG	560,000	0.531
17	EXODIUS HOLDINGS SDN BHD	550,100	0.522
18	TOH SU SEE	542,500	0.515
19	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MAH SIEW SEONG	541,700	0.514
20	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NEOH SOON KEE	507,500	0.482
21	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD PLEDGED SECURITIES ACCOUNT FOR CHAN CHEE LEONG	500,000	0.474
22	OSK NOMINEES (TEMPATAN) SDN BERHAD PLEDGED SECURITIES ACCOUNT FOR TAN MING WAI	480,000	0.456
23	MAH SIEW SEONG	470,000	0.446
24	CARTABAN NOMINEES (TEMPATAN) SDN BHD AXA AFFIN GENERAL INSURANCE BERHAD	450,000	0.427
25	TAN LIONG HUAT @ TAN SWEE HUAT	436,850	0.414
26	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SHIN KAM SUN (8061868)	400,000	0.380
27	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR TAN CHIN HOOI (MP0137)	400,000	0.380
28	GAN AH HUAT	400,000	0.380
29	OSK NOMINEES (TEMPATAN) SDN BERHAD PLEDGED SECURITIES ACCOUNT FOR LIM SONG HUAT	350,000	0.332
30	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR BASKARAN A/L ARUNASALAM PILLAY	312,000	0.296
Total:		61,230,641	58.106

DIRECTORS' WARRANT HOLDINGS AS AT 29 APRIL 2011

Name of Directors	Direct Interest		Indirect Interest	
	No. of Warrants	% of Issued Warrants	No. of Warrants	% of Issued Warrants
Dato' Ikhwan Salim Bin Dato' Haji Sujak	5,099,999	4.84	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	2,041,000	1.94	32,038,109 *	30.40

Note:-

* Deemed interested pursuant to Section 6A(4)(c) of the Companies Act, 1965 by virtue of his interests in TYY Resources Sdn Bhd.

APPENDIX I

**TYY RESOURCES SDN. BHD.** (6479-X)

Unit B-05-3, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23 Jalan Barat, Seksyen 8,
46050 Petaling Jaya, Selangor Darul Ehsan
Tel No. 03-79557282 (Hunting), 03-79606782, 03-79606775, 03-79608270, 03-79606544,
03-79606559, 03-79607363 Fax No. 03-79557173, 03-79557193

APPENDIX I

Date: 27 May 2011

The Board of Directors
MALAYSIA STEEL WORKS (KL) BHD
Unit B-05-3A, 5th Floor, Block B (West Wing)
PJ8 Office Suite
No. 23, Jalan Barat, Seksyen 8
46050 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

NOTICE OF NOMINATION OF MESSRS NEXIA SSY AS AUDITORS

Pursuant to Section 172(11) of the Companies Act, 1965, we, TYY Resources Sdn Bhd, being a substantial shareholder of the Company, hereby give notice of our intention to nominate Messrs Nexia SSY for appointment as the new Auditors of the Company in place of the retiring Auditors, Messrs SSY Partners and our intention to propose the following resolution to be tabled as an ordinary resolution at the forthcoming Thirty-Ninth Annual General Meeting of the Company:-

Ordinary Resolution

“That Messrs Nexia SSY having consent to act, be and are hereby appointed as the Auditors of the Company for the financial year ending 31 December 2011 in place of the retiring Auditors, Messrs SSY Partners and to hold office until the conclusion of the next Annual General Meeting of the Company and that the Directors be authorised to fix their remuneration.”

Thank you.

Yours faithfully,
For and on behalf of
TYY Resources Sdn Bhd

-ORIGINAL SIGNED-

.....
Dato' Sri Tai Hean Leng
Director

APPENDIX II

MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V) ("the Company")
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Company are proposed to be amended in the following manner:

Article No.	Existing Articles	Amended Articles
7(i).	<p>Subject to the provisions of the Act, the Central Depositories Act and the Rules of the Depository, the Company shall allot and/or issue securities, dispatch notices of allotment to the successful allottees and make an application for the quotation of such securities:</p> <p>(i) within <u>15</u> market days of the final applications <u>closing</u> date or such other period as may be prescribed by the Exchange for issue of securities to the public;</p>	<p>Subject to the provisions of the Act, the Central Depositories Act and the Rules of the Depository, the Company shall allot and/or issue securities, dispatch notices of allotment to the successful allottees and make an application for the quotation of such securities:</p> <p>(i) within 8 market days of the final applications date or such other period as may be prescribed by the Exchange for issue of securities to the public;</p>
29.	<p>The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than thirty (30) days in any year. The Company shall give the Exchange prior written notice <u>and publication in a daily newspaper circulating in Malaysia</u> of the period of the intended suspension or closure and the purposes thereof, which notice shall be at least <u>twelve (12)</u> market days or such number of days as may be prescribed by the Exchange. In relation to the suspension or closure, the Company shall give written notice in accordance with the Rules of the Depository to <u>prepare</u> the appropriate Record of Depositors.</p>	<p>The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than thirty (30) days in any year. The Company shall give the Exchange prior written notice of the period of the intended suspension or closure and the purposes thereof, which notice shall be at least ten (10) market days or such number of days as may be prescribed by the Exchange. In relation to the suspension or closure, the Company shall give written notice in accordance with the Rules of the Depository to issue the appropriate Record of Depositors.</p>
55.	<p>(1) The Company shall request the Depository in accordance with the Rules of the Depository, to <u>prepare</u> a Record of Depositors to whom notices of general meetings shall be given by the Company.</p> <p>(2) The Company shall also request the Depository in accordance with the Rules of the Depository, to <u>prepare</u> a Record of Depositors as at a date not less than three (3) market days before the general meeting (hereinafter referred to as "the General Meeting Record of Depositors").</p> <p>(3) Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1966 (where applicable) <u>and notwithstanding any provision in the Act</u>, a Depositor shall not be regarded as a member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors.</p>	<p>(1) The Company shall request the Depository in accordance with the Rules of the Depository, to issue a Record of Depositors to whom notices of general meetings shall be given by the Company.</p> <p>(2) The Company shall also request the Depository in accordance with the Rules of the Depository, to issue a Record of Depositors as at the latest date which is reasonably practicable which shall in any event be not less than three (3) market days before the general meeting (hereinafter referred to as "the General Meeting Record of Depositors").</p> <p>(3) Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1966 (where applicable), a Depositor shall not be regarded as a member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors.</p>

APPENDIX II (cont'd)

MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V) ("the Company")
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION (cont'd)

Article No.	Existing Articles	Amended Articles
70.	A member may appoint not more than two (2) proxies to attend the same meeting. Where a member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Central Depository Act, it may appoint at least one (1) proxy <u>but not more than two (2) proxies</u> in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.	A member may appoint not more than two (2) proxies to attend the same meeting. Where a member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Central Depository Act, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
71.	<p>The instrument appointing a proxy shall be in the following form with such variations as circumstances may require or the statutes permit or in such other form as the Directors may approve:-</p> <p style="text-align: center;">MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V)</p> <p>I/We, _____ (NRIC No./Company No.) of _____ being a member of MALAYSIA STEEL WORKS (KL) BHD hereby appoint* the Chairman of the meeting or _____ (NRIC No.) of _____, or failing whom _____ (NRIC No.) of _____, as my/our Proxy(ies) to vote for me/us and act on my/our behalf at the Annual/Extraordinary General Meeting of the Company to be held at _____ on _____ day of _____ at _____ and at any adjournment thereof for/against* the resolution(s) to be proposed thereat.</p> <p>Dated this day of _____</p> <p style="text-align: center;">Number of shares held _____</p> <p>Signature/Common Seal of Shareholder(s)</p> <p>*delete if not applicable.</p>	<p>The instrument appointing a proxy shall be in the following form with such variations as circumstances may require or the statutes permit or in such other form as the Directors may approve:-</p> <p style="text-align: center;">MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V)</p> <p>/We, _____ (NRIC No./Company No.) of _____ being a member of MALAYSIA STEEL WORKS (KL) BHD hereby appoint* the Chairman of the meeting or _____ (NRIC No.) of _____, or failing whom _____ (NRIC No.) of _____, as my/our Proxy(ies) to vote for me/us and act on my/our behalf at the Annual/Extraordinary General Meeting of the Company to be held at _____ on _____ day of _____ at _____ and at any adjournment thereof for/against* the resolution(s) to be proposed thereat.</p> <p>Dated this day of _____</p> <p style="text-align: center;">Number of shares held _____</p> <p>Signature/Common Seal of Shareholder(s)</p> <p>*delete if not applicable.</p>

APPENDIX II (cont'd)

MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V) ("the Company")
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION (cont'd)

Article No.	Existing Articles	Amended Articles
71. (Cont'd)	<p>Notes:</p> <ol style="list-style-type: none"> 1. A member (other than an Authorised Nominee as defined under the Securities Industry (Central Depositories) Act 1991) entitled to attend and vote at the Meeting is entitled to appoint a maximum of two <u>Proxies</u> to attend and vote on his (her) behalf. A proxy may but need not be a member of the Company and the provisions of section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. 2. Where a member appoints two (2) <u>Proxies</u>, the appointment shall be invalid unless he (she) specifies the proportions of his (her) holdings to be represented by each <u>Proxy</u>. 3. The Proxy Form shall be signed by the appointor or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer. 4. The instrument appointing a <u>Proxy</u> <u>must</u> be deposited <u>at the</u> Office of the Company not less than 48 hours before the time set for the Meeting or at any adjournment thereof. 	<p>Notes:</p> <ol style="list-style-type: none"> 1. A member [other than an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991] entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) proxies to attend and vote on his (her) behalf. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. 2. Where a member appoints two (2) proxies, the appointment shall be invalid unless he (she) specifies the proportions of his (her) holdings to be represented by each proxy. 3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. 4. The Proxy Form shall be signed by the appointor or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer. 5. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited by hand at or by facsimile transmission to the Registered Office of the Company not less than 48 hours before the time set for the Meeting or any adjournment thereof.

APPENDIX II (cont'd)

MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V) ("the Company")
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION (cont'd)

Article No.	Existing Articles	Amended Articles
77.	<u>All the Directors of the Company shall be natural persons and</u> until otherwise determined by general meeting the number of Directors shall not be less than two (2) nor more than twenty (20) but in the event of any casual vacancy occurring and reducing the number of Directors below the aforesaid minimum the continuing Director or Directors may, except in an emergency, act only for the purpose of increasing the number of Directors to such minimum number or to summon a general meeting of the Company.	Until otherwise determined by general meeting the number of Directors shall not be less than two (2) nor more than twenty (20) but in the event of any casual vacancy occurring and reducing the number of Directors below the aforesaid minimum the continuing Director or Directors may, except in an emergency, act only for the purpose of increasing the number of Directors to such minimum number or to summon a general meeting of the Company.
81.	No person not being a retiring Director shall be eligible for election to the office of Director at any general meeting unless a member intending to propose him for election has, at least eleven (11) clear days before the meeting, left at the Office of the Company a notice in writing duly signed by the nominee, giving his consent to the nomination and signifying his candidature for the office, or the intention of such member to propose him for election, provided that in the case of a person recommended by the Directors for election, nine (9) clear days' notice only shall be necessary, and notice of each and every candidature for election to the Board of Directors shall be served on the registered holders of shares at least seven (7) days prior to the meeting at which the election is to take place.	No person not being a retiring Director shall be eligible for election to the office of Director at any general meeting unless a member intending to propose him for election has, at least eleven (11) clear days before the meeting, left at the Office of the Company a notice in writing duly signed by the nominee, giving his consent to the nomination and signifying his candidature for the office, or the intention of such member to propose him for election, provided that in the case of a person recommended by the Directors for election, nine (9) clear days' notice only shall be necessary, and notice of each and every candidature for election to the Board of Directors shall be served on the registered holders of shares at least seven (7) days prior to the meeting at which the election is to take place. <i>The cost of serving the notice to propose the election of a Director where the nomination is made by a member or members shall be borne by the member or members making the nomination.</i>
89.	The office of a Director shall become vacant if the Director becomes of unsound mind or bankrupt during his term of office.	The office of a Director shall become vacant if the Director:- (a) becomes of unsound mind or bankrupt during his term of office; (b) <i>is absent from more than 50% of the total board of directors' meetings held during a financial year of the Company, except when an exemption or waiver is obtained from the Exchange;</i> (c) <i>is removed by a resolution of the Company in general meeting;</i>

APPENDIX II (cont'd)

MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V) ("the Company")
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION (cont'd)

Article No.	Existing Articles	Amended Articles
89. (Cont'd)		<p>(d) <i>is prohibited from being a Director by any order made under any provision of the Act;</i></p> <p>(e) <i>by notice in writing given to the Company he resigns his office; or</i></p> <p>(f) <i>is convicted by a court of law, whether in Malaysia or elsewhere, in relation to the offences under the Act or the securities laws as defined in the Listing Requirements.</i></p>
135.	<p>The Directors shall from time to time in accordance with section 169 of the Act and the Listing Requirements, cause to be prepared and laid before the Company in general meeting such profit and loss accounts, balance sheets and reports as are referred to in the section and the Listing Requirements. The interval between the close of a financial year of the Company and the issue of the annual audited accounts, the Directors' and Auditors' reports shall not exceed four (4) months. A copy of the annual report including such document shall not <u>be</u> less than twenty-one (21) days before the date of the meeting, provided always that it shall not exceed six (6) months from the close of a financial year of the Company, be sent to every member of, and to every holder of debentures of the Company under the provisions of the Act or of these Articles. The requisite number of copies of each of such document as may be required <u>by the Exchange or the Approved Market Place, if any, upon which the Company's shares may be listed</u>, shall at the same time be likewise sent to the Exchange <u>and the Approved Market Place</u>, if any, provided that these Articles shall not require a copy of these documents to be sent to any person of whose address the Company is not aware, but any member to whom a copy of these documents has not been sent shall be entitled to receive a copy, free of charge on application at the Office.</p>	<p>The Directors shall from time to time in accordance with section 169 of the Act and the Listing Requirements, cause to be prepared and laid before the Company in general meeting such profit and loss accounts, balance sheets and reports as are referred to in the section and the Listing Requirements. The interval between the close of a financial year of the Company and the issue of the annual audited accounts, the Directors' and Auditors' reports shall not exceed four (4) months. A copy of the annual report including such document shall not less than twenty-one (21) days before the date of the meeting, provided always that it shall not exceed six (6) months from the close of a financial year of the Company, be sent to every member of, and to every holder of debentures of the Company under the provisions of the Act or of these Articles. The requisite number of copies of each of such document as may be required shall at the same time be likewise sent to the Exchange and other stock exchange, if any, upon which the Company's shares may be listed provided that these Articles shall not require a copy of these documents to be sent to any person of whose address the Company is not aware, but any member to whom a copy of these documents has not been sent shall be entitled to receive a copy, free of charge on application at the Office.</p>

APPENDIX II (cont'd)

MALAYSIA STEEL WORKS (KL) BHD (Company No. 7878-V) ("the Company")
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION (cont'd)

Article No.	Existing Articles	Amended Articles
140.	The Directors may, before recommending any dividends, set aside out of the profits of the Company such sums as they think proper as reserves which shall, at the discretion of the Directors, be applicable for any purpose at which the profits of the Company may be properly applied, and pending any such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (<u>other than shares in the Company</u>) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.	The Directors may, before recommending any dividends, set aside out of the profits of the Company such sums as they think proper as reserves which shall, at the discretion of the Directors, be applicable for any purpose at which the profits of the Company may be properly applied, and pending any such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (including purchasing shares in the Company to the extent and in the manner allowed by the Act) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.
151.	(1) Notice of every general meeting shall be given in any manner herein before specified to:- (d) the Exchange and <u>the Approved Market Place</u> , if any, on which the shares of the Company are listed.	(1) Notice of every general meeting shall be given in any manner herein before specified to:- (d) the Exchange and other stock exchange , if any, on which the shares of the Company are listed.
159.	The Company shall comply with the provisions of the relevant governing statutes, regulations and rules as may be amended, modified or varied from time to time, or any other directive or requirement imposed by the Exchange, <u>Approved Market Place</u> , the Depository and other appropriate authorities to the extent required by law, notwithstanding any provisions in these Articles to the contrary.	The Company shall comply with the provisions of the relevant governing statutes, regulations and rules as may be amended, modified or varied from time to time, or any other directive or requirement imposed by the Exchange, other stock exchange , the Depository and other appropriate authorities to the extent required by law, notwithstanding any provisions in these Articles to the contrary.

Masteel

MALAYSIA STEEL WORKS (KL) BHD

www.masteel.com.my
(Company No. 7878-V)

No. of Shares	
CDS account No.	

PROXY FORM

I/We, _____ (NRIC No./Company No. _____)
of _____

being a member of MALAYSIA STEEL WORKS (KL) BHD hereby appoint the Chairman of the Meeting or
_____ (NRIC No. _____)

of _____ or failing whom _____
(NRIC No. _____) of _____

as my/our proxy(ies) to vote for me/us on my/our behalf at the Thirty-Ninth Annual General Meeting of the Company to be held at Rebana 1 & 2, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 23 June 2011 at 3.00 p.m. and at any adjournment thereof for/against the resolutions to be proposed thereat.

	RESOLUTIONS		FOR	AGAINST
1.	Adoption of the Audited Financial Statements for the financial year ended 31 December 2010 and Directors' and Auditors' Reports thereon	Ordinary Resolution 1		
2.	Declaration of first and final single-tier dividend of 1.35 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2010	Ordinary Resolution 2		
3.	Approval of the increase of Directors' Fees for the financial year ended 31 December 2010 and the payment thereof	Ordinary Resolution 3		
4.	Re-election of Dato' Ikhwan Salim Bin Dato' Haji Sujak as Director	Ordinary Resolution 4		
5.	Re-election of Dato' Sri Tai Hean Leng @ Tek Hean Leng as Director	Ordinary Resolution 5		
6.	Re-election of En. Muhammad Hanizam Bin Hj. Borhan as Director	Ordinary Resolution 6		
7.	Appointment of Messrs Nexia SSY as Auditors in place of the retiring auditors, Messrs SSY Partners and to authorise the Directors to fix their remuneration	Ordinary Resolution 7		
8.	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares	Ordinary Resolution 8		
9.	Proposed Renewal of Shareholders' Mandate	Ordinary Resolution 9		
10.	Proposed Renewal of Share Buy-Back Mandate	Ordinary Resolution 10		
11.	Proposed Amendments to the Articles of Association	Special Resolution 1		

(Please indicate with an "X" in the spaces provided how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his(her) discretion.)

Signature/Common Seal

Number of shares held: _____

Date: _____

Contact No: _____

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	Percentage
Proxy 1	%
Proxy 2	%
Total	100%

NOTES:

1. A member [other than an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991] entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) proxies to attend and vote on his (her) behalf. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. Where a member appoints two (2) proxies, the appointment shall be invalid unless he (she) specifies the proportions of his (her) holdings to be represented by each proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The Proxy Form shall be signed by the appointer or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer.
5. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited by hand at or by facsimile transmission to the Registered Office of the Company at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the Meeting or any adjournment thereof.



Please fold here

AFFIX
STAMP

The Company Secretary
MALAYSIA STEEL WORKS (KL) BHD (7878-V)
Unit B-05-3A, 5th Floor
Block B (West Wing)
PJ8 Office Suite
No. 23, Jalan Barat
Seksyen 8
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Please fold here



www.masteel.com.my

Head Office

Wisma Masteel
29C, Off Jalan Tandang, Section 51,
46050 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

Tel : 603 7781 1611
Fax : 603 7781 5435