MCSB SYSTEMS (M) BERHAD

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Subject : **MCSB SYSTEMS (M) BERHAD (MCSB or Company) - Proposed Restructuring Scheme**

Contents :

1. INTRODUCTION

Hwang-DBS Securities Berhad (Hwang-DBS), on behalf of the Board of Directors of MCSB, wishes to announce that MCSB had on 1 July 2004 entered into a Restructuring Agreement with Jendela Bumi Sdn Bhd (JBSB), Jinan Iron and Steel Group Corporation (JISG) and Jinan Steel International Trade Co. Ltd. (JSIT) to facilitate the proposed restructuring of MCSB which will involve the following exercises:

(i) proposed share exchange of the entire issued and paid-up share capital in MCSB of up to 75,387,967 ordinary shares of RM1.00 each (MCSB Shares) for up to 15,077,593 new ordinary shares of RM1.00 each in Newco, a special purpose vehicle which shall assume the listing status of MCSB, on the basis of one (1) new ordinary share of RM1.00 each in Newco (Newco Share) for every five (5) existing MCSB Shares held (Proposed Share Exchange);

(ii) proposed acquisition of 354,180,576 ordinary shares of RM1.00 each representing the entire equity interest in Ji Kang Dimensi Sdn Bhd (Ji Kang) for a purchase consideration of RM400,000,000 to be satisfied by the issuance of 400,000,000 new Newco Shares at an issue price of RM1.00 per Newco Share (Proposed Ji Kang Acquisition);

(iii) proposed restricted renounceable offer for sale of up to 15,077,593 Newco Shares by certain vendors of Ji Kang to the existing shareholders of MCSB on the basis of one (1) Newco Share for each existing Newco Share held after the Proposed Share Exchange at an offer price of RM1.00 per Newco Share (Proposed Restricted Offer for Sale);

(iv) proposed transfer of the listing status of MCSB on the Second Board of Bursa Malaysia Securities Berhad (Bursa Securities) to Newco (Proposed Transfer of Listing Status); and

(v) proposed exemption to the vendors of Ji Kang from the obligation to undertake a mandatory offer under the Malaysian Code on Take-Overs and Mergers 1998 (Proposed Exemption).

The Proposed Share Exchange, Proposed Ji Kang Acquisition, Proposed Restricted Offer for Sale, Proposed Transfer of Listing Status and Proposed Exemption are collectively referred to as "Proposed Restructuring Scheme" in this announcement.

2. DETAILS OF THE PROPOSED RESTRUCTURING SCHEME

Details of the Proposed Restructuring Scheme are set out below.

2.1 Proposed Share Exchange

The Proposed Share Exchange will be implemented via a scheme of arrangement under Section 176 of the Companies Act, 1965 and shall involve the exchange of the entire issued and paid-up share capital in MCSB of up to 75,387,967 ordinary shares of RM1.00 each (MCSB Shares) for up to 15,077,593 new Newco Shares, on the basis of one (1) new Newco Share for every five (5) existing MCSB Shares held. The number of shares to be exchanged of up to 75,387,967 MCSB shares takes into account the possibility that 9,415,975 outstanding Warrants may be exercised prior to the implementation of the Proposed Restructuring Scheme. Based on the closing price of MCSB Shares of RM0.275 per share on 30 June 2004, being the last trading day prior to this announcement and the exercise price of the Warrants of RM2.70 per share, it is unlikely that the Warrants will be exercised prior to the implementation of the Proposed Restructuring Scheme. In addition, the Warrants will expire on 5 September 2004.

MCSB will be a wholly-owned subsidiary of Newco upon completion of the Proposed Share Exchange.

2.2 Proposed Ji Kang Acquisition

Pursuant to the Proposed Ji Kang Acquisition, Newco will enter into a sale and purchase agreement (SPA) with JBSB, JISG and JSIT to acquire 354,180,576 ordinary shares of RM1.00 each representing the entire equity interest in Ji Kang for a purchase consideration of RM400,000,000 to be satisfied by the issuance of 400,000,000 new Newco Shares at an issue price of RM1.00 per Newco Share.

2.2.1 Information on Ji Kang

Ji Kang was incorporated in Malaysia under the Companies Act, 1965 on 22 September 1992 as a private limited company under the name Perindustrian Dimensi Sdn Bhd and assumed its present name on 7 June 1994. Presently, Ji Kang has an authorised share capital of RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each, of which 354,180,576 ordinary shares of RM1.00 each have been issued and fully paid-up.

Ji Kang is principally involved in the manufacturing of hot-rolled steel plates, sheets and strips. Ji Kang's factory is located on a 53-acre piece of land in the Gebeng Industrial Estate in Kuantan, Pahang. The factory has an annual production capacity of 600,000 tonnes of hot-rolled steel plates, sheets and strips.

Out of the two (2) licensed plate mills in Malaysia, Ji Kang is the only licensed plate mill with the capability to produce a full range of plates with thickness of up to 30 millimeter (mm) and width of up to 8 feet. This capability enables Ji Kang to take advantage of the specific requirements of certain industries in Malaysia, Singapore and other countries in South East Asia which require higher width plates e.g. shipbuilding industry.

JISG and JSIT, being companies that are directly and indirectly owned by the Chinese Government are substantial shareholders of Ji Kang. JISG has a crude steel production capacity of 6.5 million metric tonnes (mt) per annum. On 3 February 2004, Ji Kang entered into a Guaranteed Supply And After Sale Services Agreement with JISG where JISG agreed to supply not less than 900,000 mt of steel slabs over a period of three (3) years to Ji Kang or 300,000 mt of steel slabs per annum at market price per tonne to be agreed by Ji Kang and JISG. At the expiry of the three (3)-year period, there shall be an automatic renewal of the guaranteed supply of a minimum of 300,000 mt per annum of steel slabs provided that either party can terminate the extended period by serving a six (6)-month notice of termination. In addition, JISG grants Ji Kang for a period of three (3) years and thereafter for such further period as the parties may agree, the non-exclusive right and licence to manufacture, use and sell Ji Kang's finished products in accordance with processes and technical know-how developed or acquired by JISG. This strategic relationship with JISG provides Ji Kang with competitive advantage in its efforts to strengthen its position in both the domestic and regional markets.

Details of Ji Kang's subsidiary are set out in Table 1. The summary of Ji Kang's audited results for the past five (5) financial years until 31 December 2003 are set out in Table 2.

2.2.2 Basis of Purchase consideration

The purchase consideration of RM400,000,000 for the entire equity interest in Ji Kang was arrived at based on a willing buyer willing seller basis after taking into consideration the following:

(i) the audited net tangible assets (NTA) of Ji Kang as at 31 December 2003 of RM306.4 million; and

(ii) the future earnings potential of Ji Kang.

2.2.3 Rights attached

The ordinary shares of Ji Kang will be acquired by Newco free from all encumbrances together with all rights attached thereto including all dividends and distributions declared, paid or made in respect thereof on or after the date of the SPA to be executed.

2.2.4 Basis for the issue price of Newco Shares

The issue price of RM1.00 per Newco Share to be issued pursuant to the Proposed Ji Kang Acquisition is arrived at after taking into account the following:

(i) the par value of Newco Shares of RM1.00 each; and

(ii) the proforma consolidated NTA per share of Newco of 75 sen per share upon completion of the Proposed Restructuring Scheme.

2.2.5 Ranking of the new Newco Shares

The Newco Shares to be issued pursuant to the Proposed Ji Kang Acquisition shall upon allotment and issue, rank pari passu in all respects with the existing Newco Shares except that such new Newco Shares shall not rank for any dividends, allotments or other distributions that may be declared, the entitlement date of which is prior to the date of allotment of the said Newco Shares.

2.2.6 Liabilities to be assumed

Newco will not assume any liabilities pursuant to the Proposed Ji Kang Acquisition, other than those stated in the balance sheet of Ji Kang as at 31 December 2003.

2.2.7 Other Salient Terms of the Restructuring Agreement

(i) Until the Restructuring Agreement is terminated in accordance with its terms:

(a) MCSB shall not enter into any discussions or negotiations, give access or information to any third party with a view to or execute any agreement in relation to a restructuring of MCSB which will result, inter alia, in the indirect listing of the assets of that third party on Bursa Securities through or in place of MCSB; and

(b) the vendors of Ji Kang shall not enter into any discussions or negotiations, give access or information to any third party with a view to or execute any agreement in relation to a direct listing on Bursa Securities or a back door listing or reverse take-over of any other company listed on Bursa Securities.

(ii) The parties to the Restructuring Agreement agree that the purchase consideration for Ji Kang (and the number of Newco Shares to be issued in satisfaction thereof) shall be adjusted accordingly to reflect the purchase consideration as may be approved by the Securities Commission (SC) provided always that the purchase consideration shall not in any event be varied by more than fifteen percent (15%) from the agreed purchase consideration. Should the purchase consideration be varied by a margin of more than fifteen percent (15%), the affected party shall by written notice to the other elect one of the following options within fourteen (14) days from his receipt of the letter from SC or such other period to be mutually agreed:

(a) to accept the purchase consideration approved by the SC;

(b) to appeal against the purchase consideration approved by the SC; or

(c) to reject the purchase consideration approved by the SC and in such an event the SC's approval shall be deemed not to have been obtained.

In default of any election, the affected party shall be deemed to have elected paragraph (a) above and the SC's approval shall be deemed to have been obtained.

(iii) The parties to the Restructuring Agreement agree that the definitive agreement between Newco and the vendors of Ji Kang in respect of the Proposed Ji Kang Acquisition be executed within fourteen (14) days from the date of the Restructuring Agreement.

2.2.8 Original Cost and Dates of Investment

The original cost and dates of investment for Ji Kang are set out below:

	Date of Investment	**Original cost of investment**
		RM '000
JISG	17 November 2000, 23 December 2003 and 22 April 2004	85,003
JSIT	16 January 2002 and 23 December 2003	88,545
JBSB	7 May 2003 and 23 December 2003	180,632

2.2.9 Information on the Vendors of Ji Kang

The vendors of Ji Kang are JBSB, JISG and JSIT. Further information on JBSB, JISG and JSIT are set out below.

Information on JBSB

JBSB was incorporated in Malaysia under the Companies Act, 1965 on 18 February 2003 as a private limited company. Presently, JBSB has an authorised share capital of RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which 5,100,002 ordinary shares of RM1.00 each have been issued and fully paid-up.

The principal activity of JBSB is investment holding.

The names of JBSB's Directors and substantial shareholders are as follows:

Directors	Substantial Shareholders
1. Chong Lee Chang	1. Dato' Law Tien Seng
2. Lee Choon Hong	2. Lee Choon Hong
	3. Sundra A/L Kelandai
	4. Lau Chin An

Information on JISG

JISG was incorporated on 6 May 1991 in China. It is a state-owned enterprise in China. Presently, JISG has an authorised and issued and paid-up share capital of 2,100,000,000 Renminbi.

The principal activities of JISG are manufacturing and sale of iron and steel.

JISG is wholly owned by the Shandong Province, China and does not have any Directors.

Information on JSIT

JSIT was incorporated on 3 September 1999 in China. Presently, JSIT has an authorised and issued and paid-up share capital of 30,000,000 Renminbi.

The principal activities of JSIT are marketing and trading in iron and steel products.

JSIT is a wholly-owned subsidiary of JISG and its Directors are Dato' Li Changshun, Wang Jun, Wen Yanming and Zhao Fengqi.

2.3 Proposed Restricted Renounceable Offer for Sale

Certain vendors of Ji Kang, shall undertake a restricted renounceable offer for sale of up to 15,077,593 Newco Shares to the existing shareholders of MCSB on the basis of one (1) Newco Share for each existing Newco Share held after the Proposed Share Exchange at an offer price of RM1.00 per Newco Share.

2.4 Proposed Transfer of Listing Status

Upon completion of the Proposed Restructuring Scheme, MCSB will be removed from the Official List of the Second Board of Bursa Securities and Newco will assume the listing status of MCSB.

2.5 Proposed Exemption

Upon completion of the Proposed Ji Kang Acquisition, the vendors of Ji Kang namely JBSB, JISG and JSIT will collectively hold 400,000,000 Newco Shares representing approximately 96.8% equity interest in Newco (assuming none of the Warrants are exercised). Pursuant to Part II of the Malaysian Code on Take-Overs and Mergers 1998 (Code), the vendors would be under an obligation to undertake a mandatory offer to acquire the remaining Newco Shares not already owned by them after the Proposed Ji Kang Acquisition.

In this respect, an application will be made to the SC for an exemption from the obligation to undertake a mandatory offer under the relevant practice note of the Code.

2.6 Public Spread Requirement

Certain vendors of Ji Kang shall collectively undertake a placement of Newco Shares to placees to be identified to comply with the minimum 25% public spread requirement as stipulated under the Listing Requirements of Bursa Securities within six (6) months from the date of listing of the new Newco Shares.

3. RATIONALE FOR THE PROPOSED RESTRUCTURING SCHEME

MCSB has been making losses for the past eight (8) financial years until the financial year ended 30 June 2003. In MCSB's unaudited nine (9)-month results ended 31 March 2004, MCSB recorded a loss after tax of RM3.7 million. In addition, MCSB's audited consolidated net tangible assets (NTA) as at 30 June 2003 stood at RM4.4 million whilst its accumulated losses on the same date stood at RM94.6 million. Based on the unaudited nine (9)-month results as at 31 March 2004, MCSB fell into a net tangible liabilities position of RM0.3 million whilst its accumulated losses on the same date increased to RM98.4 million.

The Proposed Restructuring Scheme presents an opportunity for MCSB to immediately return to profitability and strengthen its NTA and shareholders' funds. Ji Kang is principally involved in the manufacturing of hot-rolled steel plates, sheets and strips. Due to the favourable economic outlook, steel consumption is expected to rise and this augurs well for Ji Kang.

4. INDUSTRY OVERVIEW AND OUTLOOK

4.1 Overview and Outlook of the Malaysian Economy

While events in the first half of the year had an impact on growth, the mutually reinforcing combination of strong economic fundamentals, supportive monetary and financial policies and decisive Government action provided the platform for growth to accelerate in the second half. For the year as a whole, real gross domestic product (GDP) expanded by 5.2% (2002:4.1%), exceeding the official forecast of 4.5%.

Growth in 2003 was broad based and balanced across sectors. The manufacturing sector grew by 8.2% on the back of strong production growth, both in the export-oriented and domestic-oriented industries. Export-oriented industries, particularly the electronics and chemicals industries, benefited from the recovery in the global electronics sector as investment demand picked up in most major economies. This growth was also seen in the strong expansion in manufactured exports (8.2%) and capacity utilization levels that exceeded 80%. In certain industries, the 90% utilization level was breached in 2003, prompting an increase in capital expenditure.

The agriculture sector also enjoyed higher growth of 5.5% as higher production and prices, mainly of palm oil and rubber, drove growth. The mining sector, which grew by 4.8%, also enjoyed the benefits of higher prices. In addition, the production capacity in the sector was enhanced with the MLNG Tiga Plant and four new oil and gas fields each coming on-stream. Higher prices and improving external demand conditions led to the strong growth in exports of primary commodities (30.4%).

The services sector experienced the greatest impact from the uncertainties in the first half, most notably the impact of the severe acute respiratory syndrome (SARS) outbreak on tourism and travel-related activities. The wholesale and retail trade, hotels and restaurants sub-sector and air passenger travel segment, in particular, were severely affected as the number of tourist arrivals dropped significantly from a pre-SARS monthly average of one million to about half that number in April. However, the impact of SARS proved transitory and these sub-sectors recovered rapidly in the second half. In addition, the strong loan growth, increased use of new services in the cellular telecommunications segment and sustained volume of international trade ensured that growth in the sector remained resilient. The sector recovered rapidly and for the year as a whole expanded by 4.1%.

Growth in the construction sector moderated to 1.9% due to slower growth in the civil engineering sub-sector as a result of the completion of several privatized projects. On the other hand, strong demand for housing sustained activity in the residential construction segment.

In 2003, GDP growth was private sector-driven. Private expenditure contributed 2.5 percentage points of the 5.2% growth rate. Both households and the corporate sector benefited from arising disposable incomes, the improving terms of trade for commodities and strengthening external demand. While household incomes increased as a result of growth in wages and higher commodity prices, the corporate sector generated higher profits and cash flows from rising productivity and higher export earnings.

The public sector continued to play an important role in sustaining domestic demand, especially in the first half. Real public consumption increased by 7.9% due to higher spending on supplies and services. On the other hand, real public investment growth moderated to 3.6% in line with the moderate increase in Federal Government development expenditure and lower capital spending by the non-financial public enterprises.

As a result, real aggregate domestic demand (excluding change in stocks), increased more rapidly by 4.8%. However, this pick-up in demand did not lead to an increase in inflation. The Consumer Price Index (CPI) increased more moderately by 1.2% during the year (2002 : 1.8%), with core inflation-inflation that excludes price-volatile and price-administered items-amounting to 0.6% in spite of higher commodity prices. While stronger economic growth led to a narrowing of the output gap, it was not completely eliminated and reflected excess capacity in selected sectors.

The Malaysian economy is expected to strengthen further in 2004, building on the strong growth momentum in the second half of 2003 and brighter prospects for global growth in 2004. Real GDP is expected to expand by 6-6.5% (2003: 5.2%), underpinned by stronger domestic demand and reinforced by more favourable external demand. Growth will mainly be private sector-driven, while the public sector gradually consolidates. The growing consumer and business confidence since the second quarter of 2003, strengthened economic fundamentals and the positive impact of pro-growth fiscal and monetary measures are expected to mutually reinforce robust consumer spending and the upturn in private investment activities.

The projections for growth in 2004 are based on a stronger global economic growth of 4.1% and led by synchronized recovery across all regions, an upturn in the global electronics cycle and firm prices for crude palm oil and crude oil. With the growth in Asia stronger than the global average, Malaysia is also expected to benefit from the continued expansion in intra-regional trade. The expectation of the stronger pace of growth is also premised on the strength and dynamism of the private sector performance, especially the strength of the upturn in domestic investment. Evidence of higher new investments and capacity expansion are indicative that the recovery in economic growth is sustainable.

While possible downside risks remain, the strong underlying fundamentals will provide strong foundations for economic resilience and future growth.

On the production side, growth is expected to be supported by stronger performance across all sectors, except agriculture and construction. The manufacturing and services sectors are expected to remain as the main drivers of growth.

(Source: Bank Negara Malaysia Annual Report 2003)

4.2 Overview and Outlook for the Steel Industry in Malaysia

To a large extent, the steel industry in Malaysia can be categorised into two (2) broad sectors, namely long and flat products whereby the former is mainly for the construction sector while the latter is predominantly for the manufacturing sector. The rate of industrialisation and development has led to the increasing importance of flats and steel sections. With capacity now available for medium and heavy steel sections as well as for flat products, imports of such products have been significantly reduced in the recent years.

Likewise, with continued emphasis on the manufacturing sector as the engine of growth and a slower growth in construction activity, it is anticipated that Malaysia's consumption pattern for steel would witness a shift from longs to flats. The progression in the level of the country's industrialisation is expected to generate additional consumption of flat steel products such as hot-rolled and cold-rolled coils as raw feed for the manufacturing sector.

Currently, most of the steel in Malaysia is produced using the electric-arc-furnace (EAF) route which uses scrap as raw feed, the majority of which are imported. There are also a number of producers that use semi-finished steel products such as slabs and billets as the main ingredients for steel making.

(Source: The 6th Report of the Malaysian Iron & Steel Industry, 2003 and Management of Ji Kang)

4.2.1 Performance of Flat Products

Until the late-1990s, Malaysia had no capacity to produce hot-rolled (HR) flat products, such as sheets, strips and plates. Domestic demand for such products was completely met through imports. The coming on-stream of Megasteel's 2.0 million mt HR plant in 1999 together with Ji Kang's and Gunawan's plate mill facilities led to an increase in local production of flat products. Production has since been on the rise, from a modest 231,000 mt in 1999, to 738,000 mt in 2000 and 850,000 mt in 2001. In 2002, production of HR flats peaked at 1.4 million mt, up 64% from the previous year.

The demand for HR sheets, strips and plates continued to be met by imports until 1998. Ironically, imports peaked in 1999 despite Megasteel commencing operations as industry players build up stocks with cheaper imports in anticipation of an import ban and higher domestic price for HR products. Imports have, however, steadily declined from 2000 as local production picked up. In 2002, HR imports stood at 549,000 mt, down 25% from 739,000 in the previous year that consists of HR flat specifications not within the production capability of Megasteel.

Exports of HR flats have risen in the past two years as any surplus production is destined for the export market. Exports of HR products peaked in 2001 before declining to 246,000 mt in 2002 (2001: 258,000 mt). However, exports of HR coils include quantities sent for re-rolling for conversion to cold-rolled coils by Megasteel and are subsequently reimported as cold-rolled coils.

The production of plates commenced in 1996 with the commissioning of Gunawan's 250,000 mt plate mill in Kemaman. Production peaked in 1997 (at 116,000 mt) before moderating to 90,000 mt in 1998. However, both Gunawan and Ji Kang discontinued production in 1998 and 1999 due to financial problems. Hence, in 1999, Malaysia had to once again rely on imports of steel plates to fulfill the requirements of its engineering and marine industries. Nevertheless, Ji Kang recommenced operations in 2000 and with the Lion Group taking over from Gunawan, steel plate production recorded 109,000 mt in 2002 (2001 : 12,000 mt).

Malaysia's steel consumption of 7.0 million mt in 2002 consisted of 3.6 million mt (or 51%) finished long products and 3.4 million mt (or 49%) finished flat products. In projecting the steel consumption of longs and flats till the year 2007, it is assumed that the ratio of longs to flats will steadily decline over the 2003-2007 period. By year 2007, it is anticipated that the ratio of longs to flats would be about 40:60.

There are valid reasons to assume why the percentage of flats vis-à-vis longs will rise in the future. For one, as Malaysia continues to industrialise, there is bound to be a shift in the consumption pattern to favour flats. This pattern in steel consumption is evident in other newly industrialised countries as well. Thus, rising flats' consumption indicates a shift towards advanced development. It is also associated with wealth prosperity and quality of life of the population. Another reason for higher flats' consumption is that the manufacturing sector, which is an important user of flats, will continue to be the main driver of industrial development in Malaysia in the coming years.

On the contrary, the construction sector, which is a major consumer of longs, grew moderately at 2.3% in 2002 (unlike the robust double-digit growth during the pre-crisis period). Growth in 2003 is expected to be only 1.9% due mainly to a slowdown in the civil engineering and residential sub-sectors. In the case of civil engineering, many large infrastructure projects have already been completed. The residential sub-sector is faced with property overhang and low take-up rate while the non-residential sector continues to be affected by the oversupply situation. Unless there is new impetus, it is unlikely that the construction sector will spur the consumption of long products.

The coming on-stream of Megasteel's HR plant in 1999 is yet another positive factor favouring the consumption of flats. Megasteel's production has been increasing annually and this has in turn reduced Malaysia's dependence on imported flat products.

(Source: The 6th Report of the Malaysian Iron & Steel Industry, 2003 and Management of Ji Kang)

4.2.2 Outlook of the Steel Industry

The Malaysia Iron and Steel Industry Federation (MISIF) projects that steel consumption for the period 2003-2007 are reflective of Malaysia's economic thrust in the near and medium term i.e. to focus on stable and sustainable growth rather than to pursue high growth. Going by the baseline scenario, MISIF expects steel consumption to grow moderately at 5% in 2003, 8% in 2004 before picking up to about 10% annually for 2005-2007. Under such a scenario, steel consumption will register 7.6 million mt in 2003 and 9.8 million mt in 2005 before escalating to 12.9 million mt in 2007.

(Source: The 6th Report of the Malaysian Iron & Steel Industry, 2003)

5. PROSPECTS OF JI KANG

Ji Kang is principally involved in the manufacturing of steel plates, sheets and strips, being types of flat steel products.

The prospects of Ji Kang appear favourable in light of the expected industrialisation of the country. For the year 2003, the manufacturing sector of the Malaysian economy grew by 8.2%. As the manufacturing sector is an important user of flat steel products and is expected to be one of the main drivers of economic growth, demand for flat steel products is expected to increase going forward. In addition, steel consumption patterns in newly industrialised countries show that there is a shift in steel consumption pattern from long steel products to flat steel products. As Malaysia continues to industrialise, Malaysia's flat to long steel consumption ratio is expected to increase from a ratio of 49:51 in 2002 to a progressively higher ratio of flat to long steel consumption.

Ji Kang plans to expand its range of products in the future and is expected to be able to produce a wider range of higher value added products for the domestic market which will enable the country to reduce its reliance on imports.

(Source: The 6th Report of the Malaysian Iron & Steel Industry, 2003, Bank Negara Malaysia Annual Report 2003 and Management of Ji Kang)

6. RISK FACTORS

Notwithstanding the favourable prospects of the steel industry and Ji Kang as set out in Sections 4 and 5 above, Ji Kang's business is subject to certain risk factors as set out below:

6.1 Business Risks

Ji Kang is subject to certain risks inherent in the steel manufacturing industry. These include, inter alia, possible increase in the cost of labour and raw materials, availability of labour, changes in general economic and business conditions, foreign exchange rate fluctuations, credit and interest rate conditions and changes in the legal and environmental framework within which the industry operates and the drop in the demand for its products.

Although Ji Kang seeks to limit these risks through inter-alia, prudent financial management and efficient production processes, there can be no assurance that any change to these factors will not have a material adverse effect on their businesses.

6.2 Fluctuation in the Price and Supply of Raw Materials

Ji Kang is highly dependent on the availability of steel slabs as a source of raw materials. In its effort to ensure sufficient supply of raw materials, Ji Kang had, on 3 February 2004, entered into a Guaranteed Supply And After Sales Services Agreement with JISG where JISG agreed to supply not less than 900,000 mt of steel slabs over a period of three (3) years to Ji Kang or 300,000 mt of steel slabs per annum at market price per tonne to be agreed by Ji Kang and JISG. At the expiry of the three (3)-year period, there shall be an automatic renewal of the guaranteed supply of a minimum of 300,000 mt per annum of steel slabs provided that either party can terminate the extended period by serving a six (6)-month notice of termination.

6.3 Production Risks

Breakdown in critical machinery along the production line as a result of disruption in energy supply, fire outbreaks or other emergencies may affect Ji Kang's production capabilities. In the past twelve (12) months, Ji Kang has not experienced any breakdown that has severely disrupted its operations.

Ji Kang seeks to limit production risks by implementing a strict preventive maintenance and stringent audit service procedures for its production line. Ji Kang's production line is checked regularly by trained personnel and experts from the suppliers of Ji Kang's machinery.

6.4 Dependence on Key Personnel

Ji Kang believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its existing Directors, senior management and key technical personnel. The loss of any key members of the Board of Directors, senior management or key technical personnel could affect Ji Kang's continued ability to compete effectively in the steel manufacturing industry.

Ji Kang seeks to limit these risks by implementing rigorous on-the-job training as well as offering remuneration packages that adequately reward its employees. In addition, Ji Kang has strong technical support from its shareholders from China and has in place an adequate succession plan.

6.5 Economic and political considerations

Any adverse development in the economic, political and financial conditions in Malaysia could materially and adversely affect the financial and operational conditions and profitability of Ji Kang. These risks include the risks of an economic downturn, changes in interest rates and unfavourable changes in government policies such as changes in method of taxation and introduction of new regulations. Whilst Ji Kang will continue to take effective measures such as prudent financial management and efficient production processes, there is no assurance that adverse political and economics factors will not materially affect Ji Kang.

6.6 Impact of ASEAN Free Trade Area (AFTA)

Commencing from 2003, tariff on goods traded within the region, which meet a 40% local content requirement, will be reduced to 0-5% under AFTA. Although this has resulted in a more liberalised steel market, it is also expected to present opportunities to efficiently run steel producers to increase their market share in both domestic and regional markets.

To maintain its competitiveness under the AFTA regime, Ji Kang is training its workforce to keep abreast with current production technologies and technical know-how. Nonetheless, there is no assurance that AFTA will not have any adverse effect on Ji Kang's business and financial conditions going forward.

6.7 Competition

Currently, Ji Kang mainly faces competition from Megasteel and Lion Plate Mill Sdn Bhd, being local companies that produce flat products.

Ji Kang believes that it can remain competitive due to the following reasons:

(i) its factory is strategically located near a port which will enable it to enjoy lower transportation costs compared to other Malaysian steel producers which are located inland; and

(ii) its strategic relationship with JISG enables Ji Kang to use JISG's technical know-how to offer a wider range of products that meet the requirements of both local and regional markets and to have a guaranteed supply of raw materials i.e. steel slabs for at least the next three (3) years at market price per tonne to be agreed by Ji Kang and JISG. In addition to the above, Ji Kang seeks to constantly improve its production processes to increase efficiency. Nonetheless, no assurance can be given that Ji Kang will be able to maintain or increase its existing market share in the future.

6.8 Dependence on the Manufacturing and Construction Sectors

The demand for the products manufactured by Ji Kang are directly related to the level of industrialisation of the country. The management of Ji Kang believes that Ji Kang's diversification will enable it to meet the expanding market requirements in line with the rapid pace of industrialisation of the country.

7. EFFECTS

The effects of the Proposed Restructuring Scheme are as follows:

7.1 Share capital

The effects of the Proposed Restructuring Scheme on the issued and paid-up share capital of Newco are set out in Table 3 below.

7.2 Earnings and earnings per share (EPS)

Barring any unforeseen circumstances, the Proposed Restructuring Scheme is expected to contribute positively to the future earnings and EPS of the Newco group.

7.3 NTA per share

As at 30 June 2003, the audited NTA per share of MCSB stood at RM0.07 per share. The proforma NTA per share of Newco group after the Proposed Restructuring Scheme will be RM0.75 per share.

7.4 Shareholding structure

The effects of the Proposed Restructuring Scheme on the shareholding structure of Newco are set out in Table 4 below.

8. APPROVALS REQUIRED

The Proposed Restructuring Scheme is subject to and conditional upon approvals being obtained from the following:

(i) SC;
(ii) Foreign Investment Committee;
(iii) Ministry of International Trade and Industry;
(iv) Bursa Securities for the admission of Newco Shares to the Official List and the listing of and quotation for the entire enlarged issued and paid-up share capital of Newco after the Proposed Restructuring Scheme and for the proposed transfer of listing status of MCSB on the Second Board of Bursa Securities to Newco;
(v) shareholders of MCSB at an extraordinary general meeting and court convened meeting to be convened;
(vi) the High Court for its sanction pursuant to Section 176 of the Companies Act, 1965; and
(vii) any other relevant authorities/parties.

The Proposed Share Exchange, Proposed Ji Kang Acquisition, Proposed Restricted Offer for Sale, Proposed Transfer of Listing Status and Proposed Exemption are inter-conditional.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

As far as the Company is aware, none of the Directors or major shareholders of MCSB and persons connected to them have any interest, direct or indirect, in the Proposed Restructuring Scheme contemplated in this announcement.

10. DIRECTORS' RECOMMENDATION

The Board of Directors of MCSB, after careful deliberation, is of the opinion that the Proposed Restructuring Scheme is in the best interest of MCSB.

11. DEPARTURE FROM SC GUIDELINES

To the best knowledge and belief of the Board of Directors of MCSB, the Proposed Restructuring Scheme is not expected to contravene the Policies and Guidelines on Issue/Offer of Securities issued by the SC.

12. ADVISER

The Board of Directors of MCSB has appointed Hwang-DBS as Adviser for the Proposed Restructuring Scheme.

13. TIMING OF APPLICATION TO RELEVANT AUTHORITIES

Applications to the relevant authorities are expected to be made within three (3) months from the date of this announcement.

14. ESTIMATED TIME FRAME FOR COMPLETION

The Proposed Restructuring Scheme contemplated in this announcement is expected to be completed by the first quarter of 2005.

15. DOCUMENTS FOR INSPECTION

A copy of the Restructuring Agreement is available for inspection during the normal office hours (except public holidays) at the registered office of MCSB at Suite 11.1A, Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur for a period of three (3) months from the date of this announcement.

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