# CHAIRMAN'S

# STATEMENT

On behalf of the Board of Directors, I am pleased to report that the Melewar Industrial Group Berhad Group (the "Group") has achieved significant progress and recorded very impressive results for the period under review. This adds on another year to our impressive, unbroken track record of profits for 36 straight financial periods since inception in 1970 and our unbroken dividend record of 21 years since our listing on Bursa Malaysia in 1986.

## FINANCIAL RESULTS

As a result of the change in financial reporting date, from 31 January to 30 June, this report encapsulates the financial results for the 17-month period, from 1 February 2006 to 30 June 2007.

For the period under review, the Group recorded a Group Turnover of RM810.2 million and generated an Operating Profit of RM201.6 million, with Net Profit Attributable to Equity Holders of RM104.8 million.

Of the RM201.6 million Operating Profit, it is worth noting that 70% or RM140.1 million, was contributed by the spectacular capital gains of our investment in Gindalbie Metals Ltd., an iron ore mining company, listed on the Australian Stock Exchange. Needless to say, the Board of Directors is very happy to report on these gains, but would prudently highlight, that these gains, have not as yet been realised, through sale of the Gindalbie Metals Ltd. shares.

As a result, the Board is pleased to report, that for this financial period, the Group's Earnings was a record 32.9 sen per share, with Net Tangible Assets increased substantially to RM2.56 per share.

## BONUS ISSUE

During the period under review, the Share Capital base was increased to 226,227,011 ordinary shares, following the completion of a bonus issue of 56,287,131 new ordinary shares of RM1 each on the basis of 1 new ordinary share of RM1 each for every 3 existing ordinary shares of RM1 each. This exercise was completed on 28 February 2007.

## DIVISIONAL PERFORMANCE

The Group is principally involved in 3 core business divisions, namely:
(1) Iron & Steel
(2) Power, Oil & Gas
(3) Engineering

As in previous years, this diversified income base has proven to be a successful strategy, and I am pleased to report the progress of the 3 core divisions, in the ensuing paragraphs.

## IRON & STEEL DIVISION

The Group's Iron and Steel division is made up of the following companies:
(1) Melewar Steel Tube Sdn. Bhd. - Manufacturer of Steel Tubes and Pipes
(2) Mycron Steel Berhad - Manufacturer of Cold Rolled Coils Steel Sheets
(3) Melewar Steel Mills Sdn. Bhd. - Manufacturer of Steel Reinforcement Bars
(4) Gindalbie Metals Ltd. - Miner of Iron Ore in Australia

**Industry Overview (Iron & Steel Division)**

In the past few years, world steel prices have experienced much volatility, with the price of flat-steel products like Hot Rolled Coils ("HRC"), climbing from a low of US$200 per tonne in 2002, to an all time high of US$620 per tonne in 2005. Driven by China's economic expansion, demand for steel increased substantially, making China the largest importer of steel in the world.

That scenario came to an abrupt stop in mid-2005, when China's own steel generating capacity made her a net exporter of steel, resulting in a panic HRC price collapse down to US$450 per tonne.

Japanese and other world steel manufacturers reacted quickly, by reducing supply, through the exercise of plant shut-downs, for the much needed maintenance and overhaul works. Chinese authorities also took the opportunity to shut down inefficient steel mills, and pushed through mergers of state-owned steel mills, to stabilise their own supply and demand needs. This stabilised the markets for HRC, and checked the price fall by early 2006.

Coupled with the Chinese Government's moves to cut steel exports, through increased export taxation, HRC prices have recovered strongly, to the present level of US$550 per tonne.

In Malaysia, steel prices also collapsed in 2005, resulting in substantial inventory value write-downs across the industry. Demand for steel products also shrank, as customers delayed orders, to minimise inventory levels, in anticipation of further price falls. To make matters worse, the Malaysian domestic construction industry has undergone 3 years of negative year-on-year growth, due to the cancellation of many projects by the Government, which further depressed the domestic demand for steel.

Since 2006, domestic steel prices began its recovery, in line with international markets. Domestic HRC prices have increased by 19% in 2006 and 9.5% in 2007 thus, exerting significant pressure on the margins of manufacturers, who may not have been able to pass on the cost to customers.

Domestic demand for long-steel products, however, remained weak, with the still lethargic and almost stagnant construction sector being the cause. Low volumes and thin margins have been the bane for this sector of the steel industry.

On the other hand, domestic demand for flat-steel products, like Cold Rolled Coils ("CRC"), recovered strongly, as customers' inventory levels thinned, and production levels normalised back to pre-2005 levels. As the backbone to Malaysia's manufacturing base, CRC, which is used in the manufacture of durable and semi-durable goods like automobiles, drums, electrical and electronic products, has been enjoying healthy demand growth.

Steel tube and pipe makers, have had a mixed experience, with 50% of their output going to the construction industry, with the balance going to the automotive, electronic, furniture making and water sectors.

On the raw material side, the big 3 iron ore producers (i.e. CVRD, BHP and RTZ), who account for 80% of the world's iron ore exports, have managed to push the price of iron ore up by 72% in 2005, 19% in 2006 and 10% in 2007. Profits of iron ore producers have, as a result, been catapulted to super-normal levels.

This fundamental change in the cost of production of steel, whilst placing pressure on the margins of steel producers, has nevertheless ensured that steel prices will remain high for the foreseeable future.

The world steel making industry is currently enjoying strong profits, as they pass on costs to consumers, through strong price control mechanisms, following the creation of giant steel oligopolies, brought about by the recent consolidation of global steel producers (e.g. Mittal Arcelor, JFE Japan and Anshan China mergers).

Global demand for steel has been strong, with the main drive coming from BRIC (Brazil, Russia, India and China). As the world's largest consumer and producer of steel, China has introduced regulatory measures, to manage its domestic steel supply and demand imbalances, and control steel exports, thereby also stabilising international steel prices.

**Steel Tube Operations (Melewar Steel Tube Sdn. Bhd.)**

Since 2004, the Malaysian domestic construction industry has experienced 3 consecutive years of contraction, due to deferments or cancellations of mega projects. This construction slump where 50% of the Group's steel pipe products are sold, has resulted in considerable reduction of steel pipe demand.

Whilst the government dictates that pipe manufacturers have to source all their HRC feed materials from a single domestic steel supplier, at prices higher than the international norm, the authorities continue to allow cheap pipe imports from neighbouring ASEAN countries at preferential CEPT rates, which further exacerbates the already difficult domestic market.

Despite the above, the Group's Steel Pipe division generated a Total Revenue of RM364.3 million with Profit Before Tax of RM30.9 million for the period under review.

All parties within the industry are looking forward to the speedy implementation of the 9th Malaysia Plan which hopefully, will act as an impetus to the general recovery in the building and construction industry in Malaysia. In view of the current difficult market environment, the management continues to be prudent, and to maintain our stringent credit control policy. The Group has one of the best Trade Debtor to Sales ratio in the steel tube industry, of 65 days.

**CRC Operations (Mycron Steel Berhad)**

The Group's CRC operations achieved relatively strong revenue growth, which was bolstered by a recovery in the demand for CRC products to normal (pre-2005) levels. For the 17-month period ended 30 June 2007, the division recorded a Total Revenue of RM482.3 million.

In terms of production activity, the CRC operations produced 202,000 tonnes for the financial period under review. This represents an average capacity utilisation of 80%, with a current monthly output at 90% capacity utilisation. As a result, the CRC operations recorded a Profit After Tax of RM21.8 million for the financial period under review.

The CRC division has embarked on a RM120 million plant upgrade exercise, that will expand the quality and range of CRC products we offer, together with added production capacity of 45% (to 260,000 tonnes per year). This exercise will be completed in early 2008 and will add substantial profits to the Group, due to the added volume throughput as well as economies of scale savings.

The Group has set its focus on moving up the value chain and will be producing higher-quality CRC products that are not currently manufactured in Malaysia. Such products are currently being imported, at the level of 808,000 tonnes in 2006 (801,000 tonnes in 2005), and this presents an excellent opportunity for the Group to expand its market, through an import substitution strategy.

Our CRC operations have already shifted our product lines towards the higher-end market, via our 1st Technical Assistance Agreement with JFE Steel Corporation ("JFE"), a long term partner of our CRC business, to enhance our ability to produce thin-gauge CRC, used mainly by Steel Galvanizers. This technical assistance arrangement, which was completed in September 2006, has boosted our sales volume in this sector, to 8.0% of our product sales, from 1.9% in the previous financial year. The 2nd Technical Assistance Agreement with JFE, to produce automotive grade CRC, is progressing well, and upon completion, will position the Group as a domestic supplier of CRC for automotive, as well as Electro-Galvanizers, and other higher-end use.

The Group has secured 2 off-take agreements with strategic partners, to ensure consistent long-term sales; firstly, with our 20% associate company, PMP Galvanizers Sdn. Bhd. based in Kuching, for 75,000 tonnes per year; and secondly, with BlueScope (Malaysia) Sdn Bhd, which is part of the largest steel group in Australia, for 60,000 tonnes a year. It is therefore safe to say, that our added capacity, from the plant expansion and upgrade exercise, of 80,000 tonnes a year mentioned above, is 100% sold out.

**Steel Reinforcement Bar Operations (Melewar Steel Mills Sdn. Bhd.)**

The Group's Steel Bar operations, suffered setbacks in the first 3 quarters of 2006, due to the negative growth of the construction industry. As in previous years, rising raw material costs and volatile selling prices, remained key factors, in the profitability equation of the long-steel product industry. At the behest of the steel industry, the government agreed to raise the control price of steel bars in April 2007 by 20%.

Total Revenue for the Group's Steel Bar operations for the 17 months ended 30 June 2007 was RM34.4 million, mainly due to lower inter-mill trading activities. For the same financial period, the Steel Bar operations recorded a Loss Before Tax of RM6.7 million, largely attributable to testing and commissioning costs of the new billet plant as well as higher raw material and consumable costs, which in turn were due to external factors in particular, demand for alloys by big steel producing countries like China.

However, since the second half of 2007, Steel Reinforcement Bar prices have been on even keel, and thus, margins for the re-rolling mill have stabilised. I am pleased to inform that the scrap smelting and billet casting plant has recently commenced commercial production. With the introduction of lower cost raw material billets, the Steel Bar operations is expected to contribute profits in the future financial years.

**Iron Ore Mining Operations (Gindalbie Metals Ltd.)**

Gindalbie Metals Ltd. ("Gindalbie") which is listed on the Australian Stock Exchange, represents the Group's first significant investment, in its diversification strategy in 2004. Gindalbie is an Iron Ore mining company, with exploratory and mining rights over more than 2,000 sq. km of tenements, in the north of Perth, in Western Australia.

The present Iron Ore deposit, based on geologic studies and exploration drillings established to-date, has led Gindalbie to officially announce a 1.4 billion tonnes of Magnetite Iron Ore resource base, including a smaller Hematite Iron Ore deposit, at its Mungada tenement. Further studies are underway to confirm the resource base at other parts of their huge tenement.

Since 2004, the Group has cumulatively, a total of 74,087,009 shares, at an average cost of A$0.10 per share. This investment has been extremely rewarding, as the market price of Gindalbie has since soared to a, thus far, high of A$1.80 per share. Based on the market price of A$1.67 per share as at 30 August 2007, this investment translates into an unrealised capital gain of A$124 million (or RM350 million) for the Group.

Gindalbie's joint-venture development partner for the development of the tenements for the extraction of steel-making standard Iron Ore, is Anshan Steel Group ("Anshan"), the second largest steel maker in China. As part of phase 1, the joint venture partnership is targeting a production of 8.0 million tonnes of Magnetite Iron Ore, and 3 million tonnes of Hematite Iron Ore per year, commencing in 2008. Anshan has recently subscribed for a 15% interest in Gindalbie thus, cementing its commitment in this joint venture.

The demand for Iron Ore remains strong. Following the price hikes of 72% in 2005, 19% in 2006, and 10% in 2007, the industry anticipates further increases of between 10% to 25% for the next 3 years.

The Group is proud of this investment and aims to realise further value for shareholders in the near future.

**Business Outlook (Iron & Steel Division)**

Under the Malaysian Government's economic development program, in particular the 9th Malaysia Plan, the country will spend RM46.5 billion between 2006 and 2010 on the construction of bridges, roads, water and sewage systems.

In Malaysia, steel consumption, as released by the Malaysian Iron & Steel Industry Federation ("MISIF"), is expected to rise 7% from 2006 levels, and to register a total consumption of 7.6 million tonnes for 2007. Other analysts have predicted more optimistic growth numbers for steel consumption of 10% for both 2007 and 2008. These forecasts are very encouraging for our steel tube and CRC divisions.

Similarly, the Iron Ore industry's much expected price hikes, anticipated for the next 3 years, bodes well for our investment in Gindalbie.

**POWER, OIL AND GAS DIVISION**

The Group's activity in the Oil & Gas sector is principally conducted via its interest in the listed company, M3nergy Berhad and its group of companies. The Group's Power Generation activity is conducted via its interest in Siam Power Generation Company Ltd. ("SIPCO"). A report of the performance of this division is set out in the ensuing paragraphs.

**Oil & Gas Operations (M3nergy Berhad)**

The Group's associated company, M3nergy Berhad ("M3nergy"), which is listed on the Main Board of Bursa Malaysia, is principally involved in the Oil and Gas industry, via its interest in Floating Production Storage and Offloading ("FPSO") vessels. It currently owns one vessel, which is contracted to Petronas (located off-shore Terengganu), and operates another on behalf of Carigali-Triton, the Malaysian-Thai joint venture operator for gas fields north of Terengganu.

During the period under review, M3nergy's 54.5% subsidiary, Maveric Ltd. (formerly known as Total Automation Ltd) ("Maveric"), which is listed on the Singapore Stock Exchange, completed the sale of its entire business, together with its equity interests in its subsidiaries and associates, on 30 June 2006, for a cash consideration of S$120 million (RM276 million). A total of nearly S$90 million was distributed by Maveric as dividend; of which about RM108 million was received by M3nergy. As a company with S$32 million in cash and no core activity, the shares of Maveric have been suspended by the Singapore Stock Exchange, pending the company's entry into a, yet to be determined, new core activity.

For the 18 months ended 30 June 2007, M3nergy turned in a Net Profit After Tax of RM0.7 million, after accounting for an impairment loss of RM16.2 million for its investment in an associate company, Malaysian Merchant Marine Berhad ("MMM"), which is listed on the Main Board of Bursa Malaysia.

In a recent announcement made to Bursa Malaysia, M3nergy announced that it is in the midst of securing the disposal of its interest in MMM to a third party. This bodes well for M3nergy, as it enables M3nergy to focus on the Oil and Gas sector.

The outlook for the Oil and Gas sector remains promising as high crude oil prices continue to drive exploration, production and drilling activities, together with huge new facility investments and upgrades. There is rising demand for rigs, production platforms, FPSO vessels, and Floating Storage Offloading ("FSO") vessels, etc.

M3nergy has forayed into the international upstream Oil and Gas sector, for exploration, appraisal, development and production, with other oil and gas partners, as a lead to secure FPSO or FSO contracts, that such oil and gas fields will require. In this respect, M3nergy, in a 30% joint venture with Hindustan Petroleum, was awarded the Service Contract for oil field development by the Indian Government, for the Cluster 7 off-shore oil field, west of Mumbai in 2006.

In 2007, M3nergy was awarded the Production Sharing Contract ("PSC") in Indonesia for the Ujung Kulon oil and gas field, located south west of Java island. No production partner has been determined as yet for this field.

Both projects, Cluster 7 and Ujung Kulon, are currently undergoing geological and reserve proofing evaluation to determine the economic volume of oil and gas that can be extracted. The prospects are good, given that both fields had produced oil and gas in the past. Once such evaluations have been determined, with financing and joint venture partners secured, the production activities will begin, in 2009 and 2012 for Cluster 7 and Ujung Kulon respectively.

The Group is excited about the long term potential growth for M3nergy, and its value enhancement for the Group.

M3nergy will remain focussed on its goal of building and expanding its upstream Exploration and Production division together with its FPSO and FSO division. As M3nergy rides along with the wave of growth in the Oil and Gas industry, so too will the fortunes of the Group.

**Power Operations (Siam Power Generation Company Ltd.)**

The Group had on 30 December 2005, via its wholly-owned subsidiary, Mperial Power Ltd., entered into an agreement for the acquisition of 70% equity interest in Siam Power Generation Company Ltd. ("SIPCO"), for a cash consideration of US$23.0 million. The above exercise is still in progress pending the fulfilment of certain conditions precedent pertaining to power purchase off-take and is expected to be completed before end 2007.

SIPCO has a licence under the Small Power Producer ("SPP") generation program, which is under the purview of Electricity Generation Authority of Thailand ("EGAT"), to build, own and operate a 450 MW combined cycle power plant, in the SPP Industrial Park, Rayong Province of Thailand. The 1st phase involves the construction of a 185 MW combined cycle gas fired power plant, together with related transmission and distributions systems. The plant is expected to be in operation in 2009.

EGAT, as one of the principal power purchasers, has signed a 25-year Power Purchase Agreement ("PPA") at US$0.07530 per kWh tariff, and with foreign exchange and energy cost fluctuation clauses incorporated therein.

The interest in SIPCO represents the Group's first major step to be a significant power producer in the region. Accordingly, the Group has assembled a capable team of management and partners, with strong credentials to complete the project as well as to continue to seek out new strategic opportunities in this business sector.

Although the Power Generation sector will not contribute profits over the next 2 years, the Group recognises the potential of SIPCO's long term PPA concessions as a steady source of earnings, which will complement the Group's strategy to diversify its earnings base by the financial year 2010.

## ENGINEERING DIVISION

The Engineering arm of the Group comprises its 70% interest in Melewar Integrated Engineering Sdn. Bhd. and other companies. I am pleased to report the following progress of this division:

### Engineering Consultancy (Melewar Integrated Engineering Sdn. Bhd.)

The Engineering Consultancy operations has since the last financial year expanded and registered a Total Revenue of RM53.3 million and Profit Before Tax of RM1.6 million for the period under review.

Melewar Integrated Engineering Sdn. Bhd. ("MIE") has been instrumental in the managing and construction of the expansion of the CRC facilities of Mycron Steel Berhad, for which all civil works and auxiliary works have been successfully completed, and the final equipment installation has commenced. MIE has also started work on a Barite Grinding Plant in Labuan for M3nergy, with an expanded capacity of 60,000 tonnes per year. Apart from these, MIE is progressing in a few promising pre-engineering and project development work, for a client in the Iron and Steel industry, as well as a pellet plant feasibility study with a leading international company.

In addition, the Engineering Consultancy division, continues to pursue the Group's tender for the much publicised Penang Monorail project. Tender re-submissions are due in October 2007, as a result of the Government's request for an increased track length, and a concept change, from a Private Funding Initiative, to a 100% Government owned and funded project.

### Steel Smelting Technology (Melewar Mycrosmelt Technology Ltd.)

Melewar Mycrosmelt Technology Ltd. ("MMTL") was incorporated in the previous financial year, to market its new scrap-smelting technology for the production of steel billets. The existing facility, which is operated by Melewar Steel Mills Sdn. Bhd. and located in Shah Alam, is in the process of being upgraded.

Pending the successful implementation of that upgrade, MMTL intends to license the use of this new technology, within and outside the Group.

The outlook for the engineering and consultancy business is positive with continuous buoyant steel market development, port development and the implementation of the various projects under the 9th Malaysia Plan of the Malaysian Government. The Group is keen to play a role in the implementation of this growth, and has placed its focus in MIE, to take on the challenges of these developments.

## DIVIDEND

The Board of Directors had, on 28 August 2007 recommended a first and final tax exempt dividend of 6% in respect of the financial period ended 30 June 2007. This is subject to shareholders' approval at the forthcoming Annual General Meeting to be held on Wednesday, 31 October 2007. If approved, the final dividend will be paid on 30 November 2007.

## APPRECIATION

On behalf of the Board of Directors, I would like to place on record our sincere appreciation to all our staff and members of the management team, for their unwavering commitment throughout another challenging financial period.

I would also wish to thank all our shareholders, customers, suppliers, business partners and the regulatory authorities for their continuing support and confidence in the Group.

36 years of unbroken profit track record is a major achievement for any corporation or business group. The fact that the Group has managed to achieve such a fantastic track record reflects well on the people of the Group, be they staff, clients, suppliers, directors or shareholders. Syabas and congratulations!

**Tunku Tan Sri Abdullah Ibni Almarhum Tuanku Abdul Rahman**
Chairman

26 September 2007

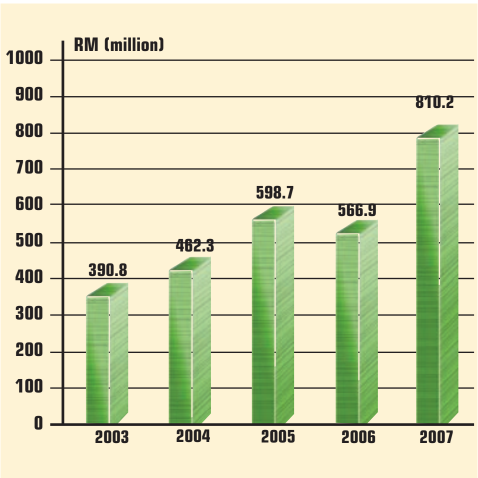
# GROUP FINANCIAL HIGHLIGHTS

| | | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Result of Operations** | | | | | | | | | | |
| | Revenue (RM mil) | 461.5 | 300.9 | 366.6 | 378.3 | 352.3 | 390.8 | 462.3 | 598.7 | 566.9 | 810.2 |
| | Profit Before Tax (RM mil) | 55.4 | 7.0 | 72.3 | 67.9 | 42.8 | 77.5 | 80.6 | 72.7 | 35.7 | 189.1 |
| | Profit After Tax (RM mil) | 45.0 | 7.9 | 62.3 | 59.5 | 53.9 | 56.6 | 64.4 | 46.5* | 46.9* | 104.8* |
| 2 | **Balance Sheet** | | | | | | | | | | |
| | Share Capital (RM mil) | 79.0 | 79.0 | 79.0 | 79.0 | 79.0 | 158.1 | 158.3 | 161.0 | 169.9 | 226.2 |
| | Bonus Shares (RM mil) | 0 | 0 | 0 | 0 | 0 | 79.0 | 0 | 0 | 0 | 56.3 |
| | Shareholders' Funds (RM mil) | 388.4 | 389.4 | 436.8 | 584.4 | 623.6 | 630.3 | 359.1 | 351.4 | 475.5 | 581.1 |
| | Total Assets (RM mil) | 476.3 | 413.2 | 471.0 | 597.2 | 658.0 | 685.5 | 484.8 | 621.2 | 828.1 | 1,181.9 |
| 3 | **Financial Ratio** | | | | | | | | | | |
| | Return on Equity | 11.6% | 2.0% | 14.3% | 10.2% | 8.7% | 9.0% | 17.9% | 13.3% | 9.9% | 18.0% |
| | Debts / Equity (Times) | 0.22 | 0.05 | 0.07 | 0.01 | 0.05 | 0.05 | 0.29 | 0.38 | 0.41 | 0.67 |
| | Current Assets / Current Liabilities (Times) | 3.01 | 9.57 | 9.15 | 37.34 | 12.00 | 12.56 | 2.20 | 2.41 | 2.24 | 2.20 |
| | Pre-Tax Profit / Average Shareholders' Fund | 15.0% | 1.8% | 17.5% | 13.3% | 7.1% | 12.4% | 16.3% | 20.5% | 8.6% | 35.8% |
| | Pre-Tax Profit / Revenue | 12.0% | 2.3% | 19.7% | 18.0% | 12.2% | 19.8% | 17.4% | 12.1% | 6.3% | 23.3% |
| 4 | **Per Share** | | | | | | | | | | |
| | Gross Earnings*** per share (sen) | 26.3 | 3.3 | 34.3 | 32.2 | 20.3 | 36.8 | 38.2 | 34.0 | 16.3 | 59.2** |
| | Net Earnings*** per share (sen) | 21.3 | 3.7 | 29.5 | 28.2 | 25.6 | 26.7 | 30.6 | 21.8 | 21.4 | 32.9** |
| | Net Tangible Assets per share (RM) | 4.19 | 4.93 | 5.53 | 7.39 | 7.89 | 3.99 | 2.27 | 2.19 | 2.79 | 2.56 |
| 5 | **Dividends** | | | | | | | | | | |
| | Tax Exempt Dividend (sen) | - | - | 10.0 | 10.0 | 20.0 | 10.0 | 80.0 | - | 3.0 | 6.0 |
| | Ordinary Dividend (sen) | 12.0 | 12.0 | 12.0 | 12.0 | - | - | 180.0 | 13.0 | - | - |

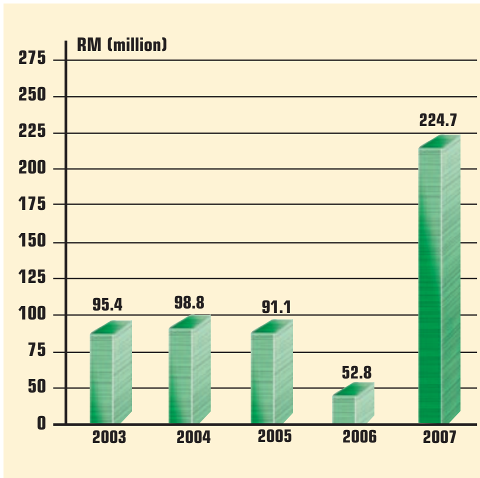
The figures for years 1998 to 2006 are for full 12-month financial period while those for 2007 are for 17-month financial period.

* Profit After Tax and After Minority Interest
** Annualised
*** After adjusting for bonus issues

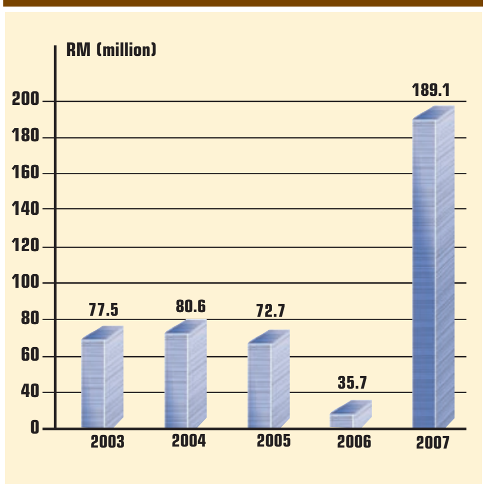
## REVENUE



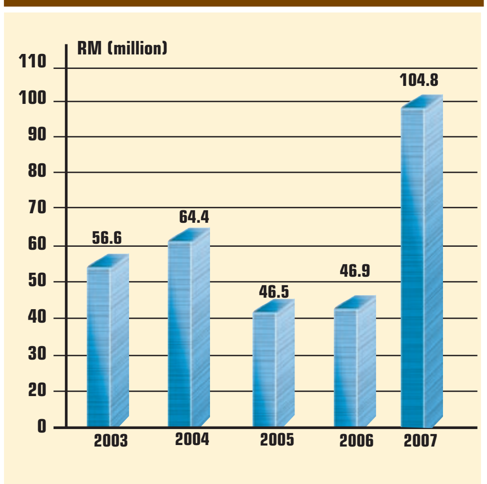

## EBITA



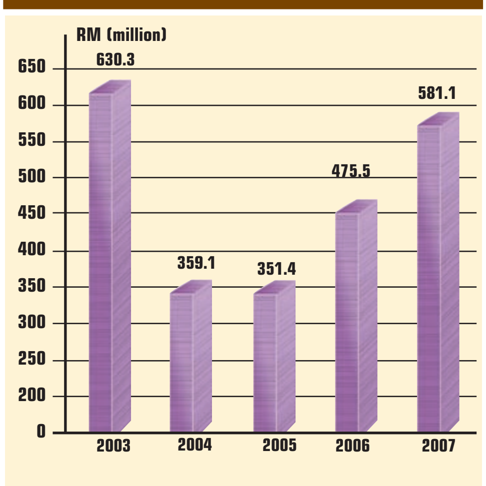

## PROFIT BEFORE TAX




## PROFIT AFTER TAX




## SHAREHOLDERS' FUNDS




## TOTAL ASSETS