

Notes on the Quarterly Report – Three Months Ended 31 March 2008

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and Paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements have been prepared on the basis of consolidating the results of the subsidiary companies during the three months period under review using the acquisition method of accounting. The interim financial statements are to be read in conjunction with the Company audited annual financial statements for the financial year ended 31 December 2007. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group.

The accounting principles and bases used are consistent with those previously adopted in the preparation of the financial statements of Ornasteel Holdings Berhad ("OHB") and its subsidiary companies ("Group") except for the adoption of the following applicable revised Financial Reporting Standards ("FRS") effective for financial year beginning 1 January 2008:

FRS 107	: Cash Flow Statements
FRS 112	: Income Taxes
FRS 118	: Revenue
FRS 134	: Interim Financial Reporting
FRS 137	: Provisions, Contingent Liabilities and Contingent Assets

The adoption of the above revised FRSs does not have significant financial impact on the interim financial statements of OHB and the Group.

A2. Qualification of Annual Financial Statements

There has not been any qualification made by the auditors on the annual financial statements of the Group for the financial year ended 31 December 2007.

A3. Seasonal and cyclical factors

The Group's business operation results were not materially affected by any major seasonal or cyclical factors.

A4. Unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows

There were no items of unusual nature and amount affecting assets, liabilities, equity, net income or cash flows during the quarter under review.

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A5. Material changes in estimates

There were no material changes in estimates of amounts reported in the current quarter under review.

A6. Issuances and repayment of debt and equity securities

There were no issuance and repayment of debt and equity securities during the quarter under review.

A7. Dividend Paid

There was no dividend paid during the quarter under review.

A8. Segment information

Segmental information in respect of the Group's business segments is as follows:-

	<u>CRC</u> RM'000	<u>GI & PPGI</u> RM'000	<u>Others</u> RM'000	<u>adjustment</u> RM'000	<u>31/03/2008</u> RM'000
Revenue from external customers	187,856	155,086	-	-	342,942
Inter-segment revenue	96,338	-	1,350	(97,688)	-
Total revenue	<u>284,194</u>	<u>155,086</u>	<u>1,350</u>	<u>(97,688)</u>	<u>342,942</u>
Segment result	<u>19,477</u>	<u>8,664</u>	<u>626</u>	<u>(2,000)</u>	<u>26,767</u>

CRC – cold rolled steel coils
 GI – galvanised steel coils
 PPGI – pre-painted galvanized steel coils

A9. Valuation of property, plant and equipment

The property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and impairment losses. There was no revaluation of property, plant and equipment for the current quarter and financial year to date.

A10. Material events subsequent to the end of the interim period

There were no material events subsequent to the end of the current quarter under review.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter under review.

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A12. Changes in contingent liabilities

As at the date of this announcement, there were no material contingent liabilities incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

A13. Capital commitments

	<u>RM'000</u>
Approved and contracted for	9,343
Approved but not contracted for	13,968
	<u>23,311</u>

**PART B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF
BURSA SECURITIES**

B1. Review of performance

The Group achieved revenue of RM342.9 million and profit before tax of RM27.1 million for the quarter under review. This represents an increase of RM15.6 million or 4.8% higher in revenue than that of its corresponding quarter. As a result of the revenue growth, profit before tax increase by RM3.2 million or 13.3% to RM27.1 million from RM23.9 million in the corresponding quarter.

The higher revenue is due to the increase in sale volume of our steel products. The improvement in revenue has increased the profit before tax as well.

B2. Variation of results against preceding quarter

The Group's revenue has increased by 14.7%, from RM299.1 million in the preceding quarter to RM342.9 million in this quarter. The increase in revenue is driven by higher sale volume and favorable selling prices of our steel products.

The increase in revenue has resulted Group's profit before tax to increase by 65.7% from RM16.3 million in the preceding quarter to RM27.1 million this quarter.

B3. Current year prospects

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Due to the hefty increase in the prices of iron ore, coking coal and transportation charges, second quarter steel prices had been raised by about 30% which were more than USD200 per metric ton by upstream integrated steel mills worldwide.

This increase is unprecedented and set a historical high for the prices of steel products. Downstream industries have to find a way to pass on the increased cost to their end users. They need to turn crisis to opportunity by evolving and upgrading their products so that higher value added products could be produced to counteract the price increase which, however, takes time to achieve.

During the second quarter, due to our suppliers' different shipping months which exposed hot rolled steel (HRC) to too risky price increases, we have adopted to offer our products to our customers on a monthly pricing basis instead of the usual quarterly pricing basis. The quantity to be offered would also be limited to the amount of the raw material that we expected to receive from our suppliers. So far we were able to pass on the cost increase to our customers month by month.

First quarter 2008 China production of crude steel remained growing at high level which had resulted in strong demand for iron ores, coking coals and steel scraps with spot prices of these raw materials continue to increase. We expect the coming May announcement of third quarter prices for steel products by major Asian steel mills to continue to trend higher under the unrelenting onslaught of increasing raw material costs.

The volatility in prices of steel products renders full year results unpredictable however, barring any unforeseen circumstances, we expect the second quarter business to continue to be profitable to the Group.

B4. Variance of actual and forecast profit

Not applicable as the Group does not make any forecast profit for financial year 2008.

B5. Tax expense

	Current year quarter ended 31 March 2008 RM'000	Financial year-to- date 31 March 2008 RM' 000
Current year:		
- Income tax	1,312	1,312
- Deferred Tax	1,748	1,748
Total	<u>3,060</u>	<u>3,060</u>

The effective tax rate for the period under review was lower than the statutory income tax rate of 26% due mainly to the following:

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- the utilisation of investment tax allowance;
- the tax effect of income not taxable in determining taxable profit; and
- the tax effect of double deduction on import insurance.

B6. Unquoted investments and/or properties

The Group did not dispose of any investments in any unquoted investments and/or properties during the financial quarter under review.

B7. Quoted securities

During the quarter under review the Group's investment in marketable securities are as follows:-

	<u>Current Quarter ended 31/3/08</u>	<u>Financial Year-to-date ended 31/3/08</u>
Total purchase of securities (RM)	10.0 million	10.0 million
Sale of securities	nil	nil
Profit/(loss) (RM'000)	361	361

The status of the Group's investment in marketable securities as at the end of the reporting quarter is as follows:-

- | | | |
|-------|--------------------|-----------------------|
| (i) | at cost: | RM56.240 million; |
| (ii) | at carrying value: | RM56.956 million; and |
| (iii) | at market value: | RM56.956 million. |

B8. Status of corporate proposal announced

There is no corporate proposal announced but not completed as at the date of this announcement.

B9. Details of treasury shares

The Company did not buy back any of its own shares during the quarter under review. As at the end of the reporting quarter, the status of the share buy-back is as follows:-

	<u>Current Financial- Year-to-Date</u>	<u>Accumulated Total</u>
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Description of shares purchased:	Ordinary share of RM1.00 each:	
Total number of shares purchased:	Nil	3,567,500
Total number of shares cancelled:	Nil	Nil
Total number of shares held as treasury shares:	3,567,500	3,567,500
Total number of treasury shares resold:	Nil	Nil

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B10. Group borrowings

The Group's borrowings as at the end of the reporting quarter are as follows:

	Payable within 12 months RM'000	Payable after 12 months RM'000
RM denominated borrowings (Secured)		
Bank overdrafts, trust receipts and bankers' acceptances	11,800	-
RM denominated borrowings (Unsecured)		
Bank overdrafts, trust receipts and bankers' acceptances	165	-
Long term loan	4,500	33,166
	<u>4,665</u>	<u>33,166</u>
Total borrowings	<u>16,465</u>	<u>33,166</u>

B11. Off balance sheet financial instrument

There are no financial instruments with off balance sheet risk as at the date of this report.

B12. Changes in material litigation

Neither OHB nor any of its subsidiaries is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or any of its subsidiaries and the Board is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or any of its subsidiaries.

B13. Dividend recommended by Directors

The Board of Directors has recommended a final dividend of 12% or 12 sen per share less 26% tax for the financial year ended 2007 which is subject to the approval of the shareholders in the forthcoming annual general meeting.

B14. Earnings per share

The basic earnings per share and diluted earnings per share for the current quarter and cumulative year to date are computed as follows:-

ORNASTEEL HOLDINGS BERHAD
(Company No: 640357-X)

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	Current Year Quarter Ended 31 March 2008	Current Year To-date Ended 31 March 2008
Profit attributable to equity holders of the parent (RM'000)	<u>24,004</u>	<u>24,004</u>
Weighted average number of shares in issue ('000)	<u>376,433</u>	<u>376,433</u>
Basic earnings/(loss) per share (sen)	<u>6.38</u>	<u>6.38</u>
Diluted earnings/(loss) per share (sen)	<u>6.38</u>	<u>6.38</u>

By order of the Board

Mr. Su, Wei-Jin
Group Managing Director
15th May 2008