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**MELEWAR INDUSTRIAL GROUP BERHAD**

(8444-W)

(Incorporated in Malaysia under the Companies Act, 1965)

**INFORMATION CIRCULAR TO SHAREHOLDERS**

in relation to the

**PROPOSED ACQUISITION BY MPERIAL POWER LTD, A WHOLLY-OWNED SUBSIDIARY COMPANY OF MELEWAR STEEL ENGINEERING SDN BHD (FORMERLY KNOWN AS SIMPLEX TREND SDN BHD), WHICH IN TURN IS A WHOLLY-OWNED SUBSIDIARY COMPANY OF MELEWAR INDUSTRIAL GROUP BERHAD, OF 70% OF THE ISSUED AND PAID-UP SHARE CAPITAL IN SIAM POWER GENERATION PUBLIC COMPANY LIMITED (FORMERLY KNOWN AS SIAM POWER GENERATION CO., LTD.) FROM E POWER PTE LTD FOR A PURCHASE CONSIDERATION OF USD23.0 MILLION (EQUIVALENT TO RM87.4 MILLION BASED ON THE EXCHANGE RATE OF USD1.00:RM3.80)**

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## DEFINITIONS

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Except where the context otherwise requires, the following definitions (*in alphabetical order*) shall apply throughout this Information Circular:

"Act"	:	Companies Act, 1965, as amended from time to time
"Board"	:	Board of Directors of MIG
"BOI"	:	Board of Investment of Thailand
"Bursa Securities"	:	Bursa Malaysia Securities Berhad (635998-W)
"EGAT"	:	Electricity Generating Authority of Thailand
"E Power" or "Vendor"	:	E Power Pte Ltd (682169)
"EPC Contractor"	:	Engineering, procurement and construction contractor
"GDP"	:	Gross domestic product
"G Steel"	:	G Steel Public Company Limited (Bor Mor Jor 597) ( <i>formerly known as Siam Strip Mill Public Company Limited</i> ), a public limited steel company headquartered in Bangkok, Thailand
"IPPs"	:	Independent Power Producers
"Listing Requirements"	:	Listing requirements of Bursa Securities, as at the date of this Information Circular
"MIG" or "Company"	:	Melewar Industrial Group Berhad (8444-W)
"MIG Group" or "Group"	:	MIG and its subsidiary companies collectively
"M-Power"	:	M-Power TT Ltd (LL05050), a wholly-owned subsidiary company of Melewar Steel Engineering Sdn Bhd ( <i>formerly known as Simplex Trend Sdn Bhd</i> ), which in turn is a wholly-owned subsidiary company of MIG
"MPP" or "Purchaser"	:	Mperial Power Ltd (LL05139), a wholly-owned subsidiary company of Melewar Steel Engineering Sdn Bhd ( <i>formerly known as Simplex Trend Sdn Bhd</i> ), which in turn is a wholly-owned subsidiary company of MIG
"MW"	:	Megawatts
"NA"	:	Net assets

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## DEFINITIONS (Cont'd)

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"PMS"	:	Project management service agreement dated 15 March 2006 entered into between SIPCO and M-Power, whereby M-Power shall be appointed as a project manager in relation to the development, management and arrangement of the financing for the Project
"PPSA"	:	Power purchase and sale agreement dated 19 March 1998, entered into between SIPCO and EGAT for the sale of electricity to EGAT for a period of 25 years
"Project" or "Power Plant"	:	A 150 MW gas fired combined cycle power plant, together with related transmission and distribution systems to be located at the SSP Rayong Industrial Park in Amphoe Ban Khai, Changwat Rayong, Thailand
"Proposed Acquisition"	:	Proposed acquisition by MPP of 70% issued and paid-up share capital in SIPCO from E Power for a purchase consideration of USD23.0 million (equivalent to RM87.4 million based on the exchange rate of USD1.00:RM3.80)
"PTT"	:	PTT Public Company Limited (Bor Mor Jor 671)
"PTT Revised Gas Supply Agreement"	:	A revised gas supply agreement to be entered into between SIPCO and PTT
"RM"	:	Ringgit Malaysia and sen, respectively
"SIPCO"	:	Siam Power Generation Public Company Limited ( <i>formerly known as Siam Power Generation Co., Ltd</i> ) (Company Registration No. 0107549000068)
"SIPCO Shares"	:	Ordinary shares of THB10.00 each in SIPCO
"Sale Shares"	:	70% of the issued and paid-up share capital in SIPCO to be acquired by MPP pursuant to the Proposed Acquisition
"SPPs"	:	Small power producers
"SSPA"	:	Share Sale and Purchase Agreement dated 30 December 2005 entered into between MPP and E Power
"Supplemental SSPA"	:	Supplemental Share Sale and Purchase Agreement dated 22 June 2006 entered into between MPP and E Power
"THB"	:	Thai Baht
"USD" and "cents"	:	United States Dollars and cents respectively

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**MELEWAR INDUSTRIAL GROUP BERHAD**  
(8444-W)  
(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**

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Menara MAA  
No.12, Jalan Dewan Bahasa  
50460 Kuala Lumpur

28 September 2006

**DIRECTORS**

Y.A.M. Tunku Tan Sri Abdullah ibni Almarhum Tuanku Abdul Rahman (*Non-Independent Non-Executive Chairman*)  
Y.M. Tunku Dato' Ya'acob bin Tunku Tan Sri Abdullah (*Managing Director/ Chief Executive Officer*)  
Y.M. Tunku Dato' Seri Iskandar bin Tunku Tan Sri Abdullah (*Non-Independent Non-Executive Director*)  
Y.M. Tunku Yahaya @ Yahya bin Tunku Tan Sri Abdullah (*Non-Independent Non-Executive Director*)  
Y.M. Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah (*Independent Non-Executive Director*)  
Dato' Jaffar Indot (*Independent Non-Executive Director*)  
Datin Ezurin Yusnita binti Abdul Malik (*Non-Independent Non-Executive Director*)  
Lim Kim Chuan (*Executive Director/ Chief Operating Officer*)  
Azlan bin Abdullah (*Executive Director*)  
Nikmat bin Abdullah (*Executive Director*)  
Terence Francis Mahony (*Independent Non-Executive Director*)  
Lee Ching Kion (*Independent Non-Executive Director*)

**To : The Shareholders of Melewar Industrial Group Berhad**

Dear Sir/Madam

**PROPOSED ACQUISITION BY MPP, A WHOLLY-OWNED SUBSIDIARY COMPANY OF MELEWAR STEEL ENGINEERING SDN BHD (FORMERLY KNOWN AS SIMPLEX TREND SDN BHD), WHICH IN TURN IS A WHOLLY-OWNED SUBSIDIARY COMPANY OF MIG, OF 70% OF THE ISSUED AND PAID-UP SHARE CAPITAL IN SIPCO FROM E POWER FOR A PURCHASE CONSIDERATION OF USD23.0 MILLION (EQUIVALENT TO RM87.4 MILLION BASED ON THE EXCHANGE RATE OF USD1.00:RM3.80)**

**1. INTRODUCTION**

On 30 December 2005, MPP entered into a SSPA with E-Power for the acquisition of 70% of the issued and paid-up share capital in SIPCO for a total cash consideration of USD23.0 million or RM87.4 million (*based on an exchange rate of USD1.00:RM3.80*).

**THE PURPOSE OF THIS INFORMATION CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE PROPOSED ACQUISITION AND IS INTENDED FOR YOUR INFORMATION ONLY. NO ACTION IS REQUIRED ON YOUR PART.**

## 2. DETAILS OF THE PROPOSED ACQUISITION

### 2.1 Particulars

On 30 December 2005, MPP entered into a SSPA with E Power for the acquisition of 70% of the issued and paid-up share capital in SIPCO for a purchase consideration of USD23.0 million or RM87.4 million (*based on an exchange rate of USD1.00:RM3.80*).

### 2.2 Salient terms of the SSPA and Supplemental SSPA

The salient terms and conditions of the SSPA and the Supplemental SSPA are as follows:

#### (i) Sale and purchase

The Sale Shares to be acquired by MPP shall be free from all liens, charges mortgages and any other encumbrances and with all rights and advantages attaching thereto or accruing thereon.

#### (ii) Conditions precedent

The Proposed Acquisition shall be conditional upon the fulfillment of, inter-alia, the following conditions precedent (*all of which may be waived in whole or in part by the parties in writing*):

- (a) The completion of a legal due diligence of SIPCO to the satisfaction of the Purchaser within fourteen (14) days from the date of SSPA by professional advisors, solicitors, auditors as MPP may appoint;

The legal due diligence has been satisfactorily completed on 12 April 2006 by PricewaterhouseCoopers, Legal & Tax Consultants Ltd, Thailand.

- (b) The due diligence working committee shall conduct a second legal, financial and accounting due diligence of SIPCO prior to completion of SSPA. The completion of the second due diligence of SIPCO must be to the satisfaction of the Purchaser;

- (c) The execution of a revised energy services agreement, with terms and conditions acceptable to Purchaser between SIPCO and G Steel, whereby the energy services agreement dated 14 March 1997, made between SIPCO and G Steel, and the first amendment to energy services agreement dated 29 April 1999, made between SIPCO and G Steel, shall be repealed and replaced in its entirety and on terms not less favourable than the repealed agreements;

- (d) The execution of the PTT Revised Gas Supply Agreement between SIPCO and PTT;

- (e) Immediately upon the second payment, but in any event not later than two (2) days from the date the second payment is made, the Vendor shall cause the execution of the PMS, whereby M-Power shall be appointed as a project manager in relation to the nomination of the EPC Contractor, arranging the financing for the Project and overseeing the implementation of the construction and completion of the Project;

The PMS has been duly executed on 15 March 2006.

- (f) At the completion of the restructuring exercise of SIPCO, SIPCO shall have no current or contingent liabilities and shall continue to be free from any contingent liabilities.

**(iii) Default**

In the event that the Vendor shall commit any breach of the SSPA or any warranty on their parts contained herein whereby such representation or warranty is found to be materially untrue, false or incorrect, the Purchaser shall be entitled to forthwith terminate the SSPA and demand for refund of all monies, including but not limited to the first payment and second payment, previously paid by the Purchaser to the Vendor pursuant to the SSPA within seven (7) days from the date of termination.

The Vendor shall thereafter be entitled at its absolute discretion to re-sell or otherwise dispose of SIPCO, as the Vendor shall deem fit and without being liable to the Purchaser.

**(iv) Purchase consideration and mode of payment**

The purchase consideration of the Sale Shares of USD23.0 million shall be paid in the following manner:

**(a) First Payment**

Upon execution of SSPA, the Purchaser shall pay to the Vendor or other person designated by the Vendor a sum of USD2.0 million immediately.

The First Payment has been made by MPP on 30 December 2005.

**(b) Second Payment**

Subject always to Clause (a) being satisfied, on 15 January 2006, the Purchaser shall pay to the Vendor or other person designated by the Vendor a sum of USD3.0 million immediately.

The Second Payment has been made by MPP on 19 January 2006.

**(c) Balance Payment**

MPP had made an aggregate payment of USD2.0 million to the Vendors on 14 February 2006 and 28 August 2006 respectively.

This payment forms part of the Balance Payment of USD18.0 million to be made by MPP to the Vendors upon completion of the Proposed Acquisition. As at to-date, the Balance Payment due by MPP to the Vendors is USD16.0 million.

**(v) Completion**

The completion for the Proposed Acquisition shall take place on or before 30 September 2006 ("Completion Date").

The management of MPP foresees that the Proposed Acquisition will be completed by 30 September 2006 or at a later date which will be mutually agreed by both parties.



### **2.3 Basis of the purchase consideration**

The purchase consideration of USD23.0 million or RM87.4 million was arrived at on a willing buyer willing seller basis after taking into consideration the following:

- (i) Prospective business potential and future earnings and cashflow of the Project; and
- (ii) SIPCO had been awarded with a SPP license by EGAT to build, own and operate 450 MW gas fired combined cycle power plant.

The purchase consideration of RM87.4 million or RM1.16 per share represents a premium of 16% over the audited NA of SIPCO as at 30 June 2006 of RM1.00 per share (*Based on the exchange rate of THB100: RM10.32*).

### **2.4 Sources of financing**

The Proposed Acquisition will be financed partly by internally generated funds and partly by external bank borrowings.

### **2.5 Liabilities to be assumed**

There are no liabilities to be assumed by MPP pursuant to the Proposed Acquisition, save for the liabilities incurred in the ordinary course of business of SIPCO.

### **2.6 Estimated financial commitment**

The Board foresees that MIG will incur the following financial commitments upon SIPCO becoming 70%-owned subsidiary company:

- (i) the purchase consideration to be paid by MPP under the Proposed Acquisition; and
- (ii) the costs for design, engineering, procurement, construction and commissioning of the Power Plant of approximately USD160.0 million to be paid by SIPCO.

## **3. INFORMATION ON MPP, SIPCO AND E POWER**

### **3.1 Information on MPP**

MPP was incorporated on 15 December 2005 in the Federal Territory of Labuan under the Offshore Companies Act, 1990 as a private limited company. The present authorised share capital of MPP is USD13,000 comprising 13,000 ordinary shares of USD1.00 each of which 100 ordinary shares of USD1.00 each have been issued and fully paid up.

MPP is principally an investment holding company which focuses mainly in the power generation industry.

MPP is a wholly-owned subsidiary company of Melewar Steel Engineering Sdn Bhd (*Formerly known as Simplex Trend Sdn Bhd*), which in turn is a wholly-owned subsidiary company of MIG.

As at 22 September 2006, the Directors of MPP are Lim Kim Chuan, Azlan bin Abdullah and Nikmat bin Abdullah.



### 3.2 Information on SIPCO

SIPCO was incorporated in Thailand under the Thai Civil and Commercial Code on 9 February 1996 as a limited liability company. SIPCO has obtained investment promotion and privileges from the office of the BOI since 23 February 1996 to develop, build, operate and own 450 MW gas fired combined cycle power plant located at the SPP Rayong Industrial Park in Amphoe Ban Khai, Changwat Rayong, Thailand.

SIPCO had submitted the application for license to operate business of generation and sale of electricity on 17 September 1997 and was awarded the said license on 12 June 2001 by the Ministry of Energy.

SIPCO commenced the construction of its Project since 1997 and the Project had been suspended since 1998 when the lenders withdrew their financial support due to the lagged effects of the Asian financial crisis in 1997.

Prior to 30 June 2006, the authorised and paid-up share capital of SIPCO was THB1,500,000,000 comprising 150,000,000 ordinary shares of THB10 each. Upon completion of the restructuring exercise on 30 June 2006, the authorised and paid-up capital of SIPCO was reduced to THB1,078,902,510 comprising 107,890,251 ordinary shares of THB10 each after utilizing credit arising from capital of THB3,236.71 million to offset part of accumulated losses of THB3,262.34 million as at 30 June 2006. The accumulated losses resulted from among others claims from previous EPC Contractor, pre-operating expenses and suspension of the Project after Thailand's financial crisis in 1997.

SIPCO will initially develop, build, own and operate a 150 MW gas fired combined cycle power plant located at the SPP Rayong Industrial Park in Amphoe Ban Khai, Changwat Rayong, Thailand. The Project has previously obtained a factory license and an Environment Impact Assessment approval. The Project site currently has, inter-alia:

- (i) partially completed foundations for two (2) combustion turbines and heat recovery steam generators;
- (ii) partially completed building foundation;
- (iii) partially constructed switchyard with overhead steel structures and foundations for switching equipment; and
- (iv) galvanised steel structural components for completion of switchyard and components stored in a site warehouse.

The construction of the power plant is expected to complete within 24 months after securing financing for the Project. The total cost of the Project is estimated at approximately USD160.0 million and will be financed by external banks borrowings and shareholders equity.

Please refer to Appendix I for further information on SIPCO.

### 3.3 Information on E Power

E Power was incorporated under the laws of British Virgin Island as a limited liability company. E Power is principally an investment holding company and has been established to facilitate the restructuring exercise undertaken by the current shareholders of SIPCO prior to the completion of the Proposed Acquisition on their shareholdings in SIPCO.

The sole registered shareholder of E Power is Alliance Corporate Services Ltd. which was incorporated in British Virgin Island.

As at the date hereof, the authorised share capital of E Power is USD50,000 comprising 50,000 ordinary shares of USD1.00 each of which 1 ordinary share of USD1.00 each has been issued and fully paid up.

#### **4. RATIONALE FOR THE PROPOSED ACQUISITION**

The Project paves the way for MIG to venture into the power generation and energy industry in Thailand. The Project is in-line with MIG's strategy to diversify its existing businesses and to broaden its earnings base through local and international projects and strengthen its standing in national and global markets.

In tandem with Thailand's economic progress, it is anticipated that there will be an increase in demand for electricity in Thailand over the next few years. Given the favourable outlook of the power generation industry, the power generation activity will contribute positively to the future earnings and cash flows of the MIG group, thereby enhancing its shareholders' value.

The participation of MPP in the Project represents an investment in a stable cash flow generating business with good returns and will provide MIG with a stable income stream.

#### **5. OUTLOOK AND PROSPECTS OF THAILAND POWER SECTOR**

##### **5.1 Overview and outlook of the Thailand economy**

With a well-developed infrastructure, a free-enterprise economy, and pro-investment policies, Thailand appears to have fully recovered from the 1997-98 Asian Financial Crisis. The country was one of East Asia's best performers in 2002-04. Boosted by increased consumption and strong export growth, the Thai economy grew 6.9% in 2003 and 6.1% in 2004 despite a sluggish global economy. Thailand has pursued preferential trade agreements with a variety of countries in an effort to boost exports and to maintain high growth.

In late December 2004, a major tsunami caused massive destruction of property in the southern provinces of the country. Growth slowed to 4.4% in 2005. The downturn can be attributed to high oil prices, weaker demand from Western markets, severe drought in rural regions, tsunami-related declines in tourism, and lower consumer confidence.

However, the Thai economy performed well beginning in the third quarter of 2005. Export-oriented manufacturing - in particular automobile production - and farm output drove these gains. In 2006, the economy should benefit from an influx of investments and a revived tourism sector.

*(Source: The World Factbook, Thailand, the information was last updated on 19 September 2006)*

##### **5.2 Overview and outlook of the Thailand power industry**

EGAT was established on 1 May 1969 by the promulgation of the Electricity Generating Authority of Thailand Act B.E. 2511 which merged assets and operations of the three previous state enterprises, namely Yanhee Electricity Authority, Lignite Authority and the Northeast Electricity Authority. Presently, EGAT is Thailand's largest producer of electric power and the state enterprise under the Ministry of Energy.

EGAT builds, owns and operates several types and sizes of power plants across the country with a combined installed capacity of 15,035.80 MW, accounting for about 59% of the country's total installed capacity of 25,646.99 MW generating capacity. EGAT also purchases electric power from private power companies and neighboring countries.

*(Source: Electricity Generating Authority of Thailand - <http://www.egat.co.th>)*



The decline of the Thai economy as a result of the Asian financial crisis resulted in a decline in domestic demand for electricity of about 3 billion kilowatt-hours in 1998, before rebounding in 1999. This situation compelled EGAT to revise its electricity demand projections. EGAT postponed or delayed a number of projects including: delaying the commissioning of the third and fourth 300 MW thermal units of the Ratchaburi power complex by three (3) years to 2004 and 2005, respectively; postponing the start-up of the second 300 MW thermal unit at the Krabi power plant from 2001 to 2005 and delaying power purchases from three (3) Laotian projects – the lignite-fired Hongsa project and the Nam Ngum 1-2 hydro projects to 2004 and 2005, respectively.

While demand growth has recovered in line with Thailand's economic growth over the last five (5) years, EGAT decided to lower its planned generating capacity reserve from 25% to 15%, which further delayed the need for additional generating capacity. Now that the country has worked through most of the backlog of projects approved before the financial crisis, several major new power generation projects are again being planned.

A bidding round for additional generating capacity is planned for late 2006, with projects approved to come online between 2011 and 2015. A total of around 13 GW is to be added during that period, based on current demand forecasts. EGAT will build half of the new capacity, with the other half awarded to IPPs.

*(Source: Energy Information Administration, Country Analysis Briefs, Thailand, Electricity – <http://www.eia.doe.gov>)*

Under the current policy on energy development, the government of Thailand has emphasized the cooperation with Thailand's neighboring countries in the areas of power development and power purchases as well as to speed up the restructuring of power supply industry and the acquisition of power from IPPs and SPPs.

The peak generation requirement is forecast to increase to 40,699 MW at the end of 2016 by the Thailand Load Forecast Sub-committee. To serve the demand during this period, EGAT has planned to develop more power plants and purchase more power as follows:

	2002 – 2006	2007 - 2011	2012 - 2016
	MW	MW	MW
Thermal oil/gas	-	300	-
Combined cycle	1,418	693	441
Gas turbine	122	-	-
EGAT	-	-	-
IPP and purchase from Laos	3,462	7,430	14,700
SPP	190	90	-

The government of Thailand has a policy to privatize the power supply industry which will bring about a major change in the operation of EGAT. EGAT will no longer build any major power projects after the year 2007. All the generation requirement will be acquired from IPPs, SPPs and power purchases from the neighboring countries. Therefore, the power purchases will be needed to serve the base load, intermediate load as well as peak load requirements.

*(Source: Asean Centre for Energy – <http://www.aseanenergy.org>)*

### 5.3 Overview of Thailand's SPP

The SPP program was established in 1992, followed by the IPP program in 1994. EGAT defines a SPP as either a private or state enterprise that generates electricity either (a) from non-conventional sources such as wind, solar and mini-hydro energy or fuels such as waste, residues or biomass or (b) from conventional sources (natural gas, coal, oil) and using cogeneration (combined cycle units capable of producing power and steam).

One-third of the SPP licences went to industrial power consumers concentrated in Rayong province. Thailand's agro-industrial giant, Soon Hua Seng, was awarded six (6) SPP licenses for two (2) coal-fired cogeneration plants, and four (4) non-fossil fuel power plants. Some of the first SPP companies were awarded multiple licences while other potential SPPs (i.e., municipalities, universities, hospitals, shopping malls, hotels, and rural cooperatives) have been denied the opportunity.

Of the 71 SPPs operating as of March 2005, 17 are using natural gas in combined cycle plants with installed generating capacities ranging from 66 to 150MW.

By the government policy, EGAT presently purchase 7,441MW from IPPs and 1,768.4MW from SPPs. EGAT's contracts with them are of two (2) types. Firm contracts are at least five (5) years in duration and include capacity payments. Non-firm contracts, on the other hand, are no more than five (5) years in duration and specify only energy payments.

*(Source: Probe International Briefing - SPPs in Thailand March 2005)*

## **6. RISK FACTORS**

The Proposed Acquisition may expose MIG to certain risks associated with owning and operating of power plant. Some of the risk factors pertaining to the Proposed Acquisition are set out below:-

### **6.1 Construction risk**

The commercial operation date ("COD") of the power plant may be adversely affected by factors commonly associated with construction works such as shortage of labour, materials, equipment, labour disputes, natural disasters and adverse weather conditions.

In order to mitigate the risk associated with the engineering and construction of the power plant, SIPCO will enter into a Turnkey Fixed Price Contract with a reputable international EPC Contractor. The EPC Contractor is responsible for the engineering, procurement, construction, commissioning and testing of the power plant works at a fixed price and will provide among other things, financial guarantees in the form of a first written demand instrument for liquidated damages against shortfall in the Performance of the Power Plant such as guaranteed output and net plant heat rate, delays in achieving Commercial Operation Date ("COD"). The EPC Contractor has to comply with all relevant government and international codes and standards for power plant design, construction and workmanship, meets all EIA requirements, provide warranty for the design, equipment and plant operation.

SIPCO will take out appropriate insurance to cover risks associated with delay in start-up caused by force majeure events.

### **6.2 Market/ off-take risk**

At present, there is no apparent market/ off take risk in the power industry as IPPs and SPPs in Thailand are regulated by their respective power purchase agreements ("PPAs").

The Market/Off-take Risk will be mitigated by SIPCO entering into a long term agreements with EGAT and G Steel respectively. This is represented by the PPSA between SIPCO and EGAT and the Energy Services Agreement between SIPCO and G Steel, whereby both EGAT and G Steel has contractual obligations to purchase power from SIPCO according to terms of the agreement.

EGAT is a sovereign entity and therefore carries a sovereign risk rating and G Steel is the largest Hot Rolled Coil producer in Thailand.



### **6.3 Economic, political and regulatory considerations**

As in any other business, the power generation industry is subject to risks that are inextricably linked to economic, political and regulatory developments which include risks of war, expropriation, nationalization or nullification of existing contracts, change in currency exchange and gross domestic products growth. In addition, any changes to the political scenes of Thailand also poses a threat to SIPCO as a change in the ruling party may lead to enactment of new laws which may affect foreign investments in Thailand and foreign shareholdings in a company incorporated in Thailand. . No assurance can be given that any changes to these factors will not have material adverse effect on SIPCO. Nevertheless, SIPCO strive to continue to take prudent measure in its financial management.

### **6.4 Operating risk**

The operations of the power plant involve certain risks, including but not limited to, the breakdown or failure of the equipment, the performance of the equipment at levels below those originally projected, unexpected wear and tear or unexpected degradation of equipment. Any of the foregoing could reduce project revenues or increase the cost of operations associated with the maintenance and repair costs, hence reducing the net income and cashflow of SIPCO.

These risks are, however, mitigated by hiring a reputable operating and maintenance contractor and procuring the necessary business interruption insurance to cover such risk as machinery breakdown, fire, damages to property and others business interruption.

### **6.5 Fluctuations in exchange rate**

SIPCO operates in Thailand whose revenue and expenses are denominated exclusively in THB, while the Project will be financed mainly in USD denominated funds. Accordingly, the weakening/ strengthening of THB and USD relative to each other may impact MIG's consolidated financial statements and cashflows.

These risks are, however, mitigated to the extent that the PPSA has a formula that allows the capacity payment to be adjusted according to the fluctuation of USD/ THB exchange rates and MIG's exposure to movements in RM/ USD may be minimised by financing its net investment in SIPCO in Thailand in USD denominated funds.

There can be no assurance that any future significant fluctuations in exchange rates and financial crisis will not materially or adversely affect the MIG Group and SIPCO's operations as a whole. However, the Group will, as a mitigating factor, attempt to use various hedging techniques to mitigate this risk.

### **6.6 Foreign investment**

As MIG's investment in SIPCO is a foreign investment in Thailand, it will be subject to Thailand's policy on foreign investment.

In addition, MIG's ability to repatriate the profits arising from its investment in Thailand will depend largely on the relevant legislation relating to repatriation of profits prevailing at the point of repatriation. At present there is no such restriction on the repatriation of profits.

MIG has sought and will continue to seek professional advice in order to minimize such risks.

## 6.7 Raw material risk

The Power Plant is a gas fired power plant. SIPCO is therefore subject to risk of higher production costs as a result of increase in the prices of natural gas.

This risk will be mitigated by a condition in the PPSA with EGAT and energy service agreement with G Steel, whereby any increase in cost of natural gas shall be absorbed by EGAT and G Steel accordingly. In addition, SIPCO will also seek to mitigate this risk through, inter-alia, increasing the efficiency of operations.

## 6.8 Environmental risk

The power plants in Thailand are subject to environmental legislations, policies and regulations imposed by the Office of Natural Resources and Environment Policy and Planning ("NREP Office"). SIPCO received its approval for Environmental Impact Assessment from NREP Office for the construction of 450 MW power plant on 20 February 1998. There can be no assurance that the standards imposed by such legislation and regulations will not change or otherwise result in costs increased. The MIG Group however, appreciates that such policies and guidelines are for the long term benefit of the environment and intends to comply with the said policies and regulations as and when they are introduced.

## 7. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

### 7.1 Share Capital and Substantial Shareholding Structure of MIG

The Proposed Acquisition does not have any effect on the issued and paid-up share capital and substantial shareholding structure of the Company as the purchase consideration shall be satisfied entirely by cash.

### 7.2 Earnings

The Proposed Acquisition is not expected to have any effects on the earnings of the MIG Group for the financial year ending 30 June 2007.

Barring any unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to the long-term earnings of the MIG Group due to the long term stable cashflows to be generated from the Power Plant.

### 7.3 NA and Gearing

The Proposed Acquisition will not have any material effects on the NA of the MIG Group as the purchase consideration of USD23.0 million will be satisfied via bank borrowing and internal generated fund. The gearing of the MIG Group is expected to increase as the Proposed Acquisition shall be partly financed by bank borrowing.

Set out below are effects of the Proposed Acquisition on the NA and gearing of the MIG Group:

	As at 31 January 2006 RM'000	After the Proposed Acquisition RM'000
Share Capital	169,940	169,940
Reserve	82,381	82,381
Retained Profits	223,147	223,147
Shareholders' fund/ NA	<u>475,468</u>	<u>475,468</u>
NA per share (RM)	2.80	2.80
Bank Borrowings*	179,291	217,291
Gearing (times)	0.38	0.46

**Note:**

\* Assuming USD10.0 million of the purchase consideration will be satisfied by way of bank borrowing and balance of USD13.0 million via internal generated fund.

**8. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM**

None of the Directors or substantial shareholders of MIG or persons connected to them have any interest, direct or indirect, in the Proposed Acquisition.

**9. APPROVALS REQUIRED**

The Proposed Acquisition is not subject to the approval of shareholders of MIG as the percentage ratio of the Proposed Acquisition is less than 25% and this Information Circular is issued pursuant to paragraph 10.05 of the Listing Requirements.

**10. DIRECTORS' STATEMENT**

The Board, after careful deliberation, is of the opinion that the Proposed Acquisition is in the best interest of the Company and its shareholders.

**11. FURTHER INFORMATION**

Shareholders are requested to refer to the Appendices for further information.

Yours faithfully  
For and on behalf of the Board  
**MELEWAR INDUSTRIAL GROUP BERHAD**

**Y.M. TUNKU DATO' YA'ACOB BIN TUNKU TAN SRI ABDULLAH**  
Managing Director/Chief Executive Officer



## INFORMATION ON SIPCO

### 1. HISTORY AND BUSINESS

SIPCO was incorporated in Thailand under the Thai Civil and Commercial Code on 9 February 1996 as a limited liability company. SIPCO has obtained investment promotion and privileges from the office of the BOI since 23 February 1996 to develop, build, operate and own 450 MW gas fired combined cycle power plant located at the SPP Rayong Industrial Park in Amphoe Ban Khai, Changwat Rayong, Thailand.

SIPCO submitted the application for the license to operate business of generation and sale of electricity on 17 September 1997 and was awarded the said license on 12 June 2001 by the Ministry of Energy.

SIPCO commenced the construction of its Project since 1997 and the Project had been suspended since 1998 when the lenders withdrew their financial support due to the lagged effects of the Asian financial crisis in 1997.

SIPCO will initially develop, build, own and operate a 150 MW gas-fired combined cycle power plant located at the SPP Rayong Industrial Park in Amphoe Ban Khai, Changwat Rayong, Thailand. The Project has previously obtained a factory license and an Environment Impact Assessment approval. The Project site currently has, inter-alia:

- (i) partially completed foundations for two (2) combustion turbines and heat recovery steam generators;
- (ii) partially completed building foundation;
- (iii) partially constructed switchyard with overhead steel structures and foundations for switching equipment; and
- (iv) galvanized steel structural components for completion of switchyard and components stored in a site warehouse.

The construction of the power plant is expected to complete within 24 months after securing source of financing for the Project. The total Project cost is estimated at approximately USD160.0 million and will be financed by external banks borrowings and shareholders equity.

### 2. SHARE CAPITAL

The authorised and issued and paid-up share capital of SIPCO as at 22 September 2006 are as follows:

	No. of Shares	THB
Authorised, issued and fully paid-up	107,890,251	1,078,902,510

Details of the changes in the issued and paid-up share capital of SIPCO since incorporation are as follows:

Prior to 30 June 2006, the authorised and paid-up share capital of SIPCO was THB1,500,000,000 comprising 150,000,000 ordinary shares of THB10 each. Upon completion of the restructuring exercise on 30 June 2006, the authorised and paid-up capital of SIPCO was reduced to THB1,078,902,510 comprising 107,890,251 ordinary shares of THB10 each after utilizing credit arising from capital of THB3,236.71 million to offset part of accumulated losses of THB3,262.34 million as at 30 June 2006. The accumulated losses resulted from among others claims from previous EPC Contractor, pre-operating expenses and suspension of the Project after Thailand's financial crisis in 1997. ("Capital Restructuring").



## INFORMATION ON SIPCO

## 3. SHAREHOLDERS

Based on the register of members of the Company, the shareholders of SIPCO and their equity interests in the Company are as follows:

*Prior to the Capital Restructuring*

Shareholders	Nationality/ Country of Incorporation	<-----Direct----->		<-----Indirect----->	
		No. of shares	%	No. of shares	%
Sukumvit Development Co Ltd	Inter Thailand	23,000,000	15.3	-	-
Nippon Plant Management Pte Ltd	Singapore	15,000,000	10.0	-	-
Thaisilp Steel Holding Co., Ltd.	Thailand	2,000,000	1.33	-	-
Somsak Leeswadtrakul	Thai	5,000,000	3.33	-	-
Bangkok Partners Limited	British Virgin Island	54,000,000	36.0	-	-
Chanathip Triwut	Thai	29,000,000	19.3	-	-
G.E.I. Holdings Co Ltd	Thailand	22,000,000	14.7	-	-
<b>Total</b>		<b>150,000,000</b>	<b>100%</b>	-	-

*After the Capital Restructuring*

Shareholders	Nationality/ Country of Incorporation	<-----Direct----->		<-----Indirect----->	
		No. of shares	%	No. of shares	%
E Power	British Virgin Island	75,525,000	70.0	-	-
Rachathani Asia (HK) Ltd	Hong Kong	28,614,951	26.5	-	-
Nippon Plant Management Pte Ltd	Singapore	3,750,000	3.5	-	-
Other shareholders	Thai	300	-*	-	-
<b>Total</b>		<b>107,890,251</b>	<b>100%</b>	-	-

\* Insignificant

## INFORMATION ON SIPCO

## 4. DIRECTORS

The Directors of SIPCO and their respective shareholdings in SIPCO, according to the Register of Directors as at 22 September 2006 are as follows:

Name	Nationality	Direct	No. of Shares held		%
			%	Indirect	
Chulapongs Chullakese	Thai	-	-	-	-
Tirawat Sucharitakul	Thai	-	-	-	-
Prapasri Wongsammart	Thai	-	-	-	-
Charoenrojna Rattanavijai	Thai	-	-	-	-
Thitipol Jitjatupat	Thai	25	*	-	-

Note:-

\* insignificant

## 5. SUBSIDIARY AND ASSOCIATE COMPANIES

As at 22 September 2006, SIPCO does not have any subsidiary and associated company.

## 6. PROFIT AND DIVIDEND RECORD

A summary of the audited financial statements of the SIPCO for the past five (5) financial years ended 30 June 2006 are as follows:

	<-----Financial years ended 30 June----->				
	<-----Audited----->				
	FYE 2002 THB'000	FYE 2003 THB'000	FYE 2004 THB'000	FYE 2005 THB'000	FYE 2006 THB'000
Revenue	3,728	1,436	9,824	6,624	186,513
Loss before taxation and minority interest	(34,816)	(63,545)	(7,212)	(2,848,701)	(9,266)
Taxation	-	-	-	-	-
Loss after taxation and MI	(34,816)	(63,545)	(7,212)	(2,848,701)	(9,266)
Weighted average number of shares ('000)	150,000	150,000	150,000	150,000	196,169
Gross loss per share (THB)	(0.23)	(0.42)	(0.05)	(18.99)	(0.05)
Net loss per share (THB)	(0.23)	(0.42)	(0.05)	(18.99)	(0.05)
Gross dividend rate (%)	-	-	-	-	-

## INFORMATION ON SIPCO

**Notes:**

- (1) *SIPCO commenced the construction of its Project since 1997 and the Project had been suspended since 1998 when the lenders withdrew their financial support as a consequence of the lagged effects of the Asian financial crisis in 1997. No income (except for a small amount of income from compensation on damages from default of electricity sale, interest income, office rental received and others) was generated by the company.*
- (2) *The net losses for the past five (5) financial years ended 2006 were mainly due to the administrative expenses incurred by the company except for the following:*
- (a) *For the financial year ended 2003, the net loss of THB63.5 million was mainly due to the loss on disposal of motor vehicle and provision of impairment losses on the power plant under construction.*
- (b) *For the financial year ended 2005, the net loss of THB2,848.7 million was mainly due to the liability for damages of THB2,841.2 million from the company's previous EPC contractors. On 15 November 2005, SIPCO has entered into a contract with Bangkok Partners Limited ("BPL"), being the substantial shareholder of SIPCO prior to 12 September 2006 to restructure the debts of SIPCO. As part of the debt restructuring, BPL issued to SIPCO a deed of release for part of the liability for damages of THB25.63 million. The balance of THB2,851.61 were converted into equity of SIPCO and subsequently underwent a capital reduction to offset the deficit in shareholders' fund of SIPCO for the financial year ended 2006.*

*The above financial results were extracted from the audited financial statements for the past five (5) financial years ended 2006 which were originally issued by SIPCO in Thai language and have been translated in English.*

**AUDITED FINANCIAL STATEMENTS OF SIPCO FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006 TOGETHER WITH THE AUDITORS' REPORT THEREON**



**BDO Richfield Limited**  
Certified Public Accountants

**บริษัท บีดีโอ ริชฟิลด์ จำกัด**  
ผู้สอบบัญชีรับอนุญาต

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To The Shareholders and Board of Directors of  
Siam Power Generation Public Company Limited

I have audited the accompanying balance sheet of Siam Power Generation Public Company Limited as at 30th June, 2006 and the related statements of earnings, change in shareholders' equity and cash flow for the year then ended. These financial statements are the responsibility of the Company's management as to their correctness and completeness of the presentation. My responsibility is to report on these financial statements based on my audit. The financial statements of Siam Power Generation Public Company Limited for the year ended 30th June, 2005 which are presented herein for comparative purpose, were examined by other auditor, whose report dated 6th January, 2006, issued a disclaim audit opinion due to the scope limitations in auditing on the power plant construction in progress, land, building and equipment, amount due from financial institutions, legal cases, commitments, guarantees and contingent liabilities and the uncertainty relating to the Company's going concern problems.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Siam Power Generation Public Company Limited as at 30th June, 2006 and the results of its operation, the changes in shareholders' equity and the cash flows for the year then ended in conformity with generally accepted accounting principles.



Without qualifying my opinion, I draw attention as follows:

- a) As discussed in Note 1.2 to the financial statements, because of Thailand's economic problems and the financial crisis in the year 1997, several lenders withdrew their financial supports to the Company, as mentioned in Note 9.4 to the financial statements. Since then, the construction of the Company's projects has been suspended and the size of the projects and construction plans are being evaluated from the perspective of current market demand, sourcing of new funding and investors. During the end of the year 2005, a new investor has been identified and share sales agreement was signed on 28th December, 2005. Furthermore, the new investor has been providing funds to the company for its operation use since March 2006.

In March 2006, the Company entered into a Project Management Service Agreement with an overseas company related to the new investor. The overseas company is required to provide the services of project management including the negotiation with all concerned parties and to set out all project planning in order to have the power plant construction completed for commercial operation by November 2007. As of 30th June 2006 the negotiations with contractors, consultant engineers and suppliers of machineries are in progress.

As of 30th June 2006, the Company has a deficit of Baht 34.90 million (2005 : Baht 3,262.34 million). This is as a result of the completion of corporate restructuring exercise undertaken by the Company during the year.

- b) Since the Company's suspension of its construction works, the recoverable value or net sales value of the construction-in-progress, land, building and equipment may be less than the corresponding book value. The Company has not set aside provision for impairment of these assets as it is compel to incorporate the existing works, land, building, structure into the entire project when the project resumes construction.
- c) As discussed in Note 4 to the financial statements, the amount due from financial institutions amounting to Baht 46.80 million (2005 : Baht 46.80 million) comprises of front-end fees and commitment fees which the Company had paid during the year 1997 to 1999 to the financial institutions for the granting of financial facilities to the Company. The amount is net of the Baht 43.34 million that had been refunded to the Company by other financial institutions. Since the financial institutions withdrew their commitments of financial facilities to the Company, as mentioned in Note 9.4 to the financial statements, the Company has therefore contacted them to demand for the refund of the above fees. Furthermore, the Company had sued two financial institutions regarding the withdrawal of financial facilities. In year 2004, the Company and one of the financial institutions agreed to withdraw the case from the court and the said financial institution had subsequently merged with another entity. As for the other financial institution, the court has ruled in favor of the Company and the Defendant is appealing the case to the appellate court.



As at 30th June 2006 the Company has made a provision for doubtful accounts of approximately Baht 10.37 million for the financial institutions whose business had ceased. This amount does not include the amount due from the two financial institutions above referred to and whose balance amounted to Baht 36.43 million. No provision has been set aside as the Company's management believes that the remaining balance will be recovered. I have sent letter of confirmation to the financial institutions and received a reply from one of the financial institutions confirming an understated debt by Baht 31.74 million. The Company's management believes the difference is due to the restructuring within such financial institution after the merge of its business as above mentioned and the investigation on the difference is now undertaken by such financial institution.

- d) As discussed in Note 6 to the financial statements, in 1997 the Company has entered into an agreement with an overseas company under which that company was to procure equipment for use in the construction of a power plant. The Company also entered into another contract with a local contractor to construct the power plant for the Company. Subsequently, the Company faced financial difficulties and temporarily ceased construction on the project. As a result, in the year 1999 the above two contractors issued a termination of agreement and demanded the Company to pay damages. The Company continued to negotiate with both creditors until the year 2001, the creditors agreed to desist with the damage previously claimed. However, the agreement stipulated certain covenants with which the Company had to comply. The Company was not able to comply with these and therefore, in 2003, the creditors sought arbitration with the International Court of Arbitration, seeking approximately USD 68.80 million for damages arising as a result of breach of a contract to provide machinery in a foreign country. In 2004, the creditors notified the Company that it had transferred the rights of claim to all damages to another overseas company. In 2005, the Company entered into agreement with the overseas company to pay for damages. The Company therefore recorded the amount of USD 68.80 million equivalent to Baht 2,841.24 million as liabilities and as other expenses in the financial statements for the year 2005. Furthermore, as stipulated in the contract, the Company was responsible for the expenses and lawyer fee related to the process of the arbitration. After withdrawing the case from arbitration, as discussed in Note 7 to financial statements, the Company entered into a contract of compromise with the said creditor which included the repayment of the expenses and lawyer fees amounting Baht 170 million and in December 2005 recorded the amount as expenses in the financial statements for year 2006. For the damages liability amounting USD 68.80 million, equivalent to Baht 2,841.24 million, the Company received the deed of debt release for the principal of Baht 25.63 million in April 2006 and for the remaining principal of Baht 2,815.60 million, the Company settled by the conversion of debt to equity with an issuance of ordinary share of 281.56 million shares. The Company had registered such increase in the share capital with the Ministry of Commerce in May 2006 and, subsequently, the Company had registered the authorized share capital for all shareholders in the ratio of 4 existing ordinary shares for 1 new ordinary share which in effect has decreased the Company's deficit by Baht 3,236.71 million.



- e) As discussed in Note 9.9 to the financial statements, in May 2006, the Company was informed in a letter from its supplier of natural gas to make payment of Baht 14,742.86 million being gas purchase obligation accumulated since year 2003 up to the present time pursuant to the agreement to purchase gas and/or other fuel. The agreement stipulates that the Company's obligation is to purchase the gas or subject to pay for the gas whose value is calculated based on the quantity of the gas to be purchased from supplier in each month which shall not be less than the committed net monthly quantity. However, in August 2006, the Company and the said supplier agreed in principle to execute a new Gas Supply Agreement, whereby the original Gas Supply Agreement will be terminated. The provision of the new Gas Supply Agreement has, among others, (i) the payment of Baht 100 million to supplier for Loss of Opportunity over a period of 7 years from the date of the execution of the Agreement; (ii) the amount of Baht 15,296 million claimed by the supplier as of May 2006, under the Take or Pay obligations will be set-off against all future billings up to a maximum period of 10 years from the date of Commercial Operation of the power plant and (iii) the supplier will henceforth discontinue their claims against the Company under the Take or Pay obligations of the original Gas Supply Agreement. The Company is required to pay the above mentioned Loss of Opportunity in (i) by Baht 20 million upon the signing of the new Gas Supply Agreement. Up to the present date, an independent lawyer confirms that the said agreement is now ready for signature subject to the Company's share certificate are successfully transferred to the new investor and registered with Ministry of Commerce.

A handwritten signature in black ink, appearing to read 'Anurak Lelapiyakit', with a long horizontal stroke extending to the right.

Mr. Anurak Lelapiyakit  
Certified Public Accountant (Thailand) No. 3462  
BDO Richfield Limited

BANGKOK : 21st August, 2006



## SIAM POWER GENERATION PUBLIC COMPANY LIMITED

## BALANCE SHEETS

AS AT 30th JUNE, 2006 AND 2005

*(Unit : Thousand Baht)*

	Note	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and deposits at financial institutions	3	309	17,925
Amount due from financial institutions - net	4	36,432	46,803
Other current assets		1,492	860
Total current assets		<u>38,233</u>	<u>65,588</u>
<b>NON-CURRENT ASSETS</b>			
Loans and accrued interest to related parties	5	56	121
Other investments in related companies	5	244	236
Power plant under construction, land, building and equipment - net	6	1,016,195	1,017,105
Deposits		7,247	7,217
Total non-current assets		<u>1,023,742</u>	<u>1,024,679</u>
<b>TOTAL ASSETS</b>		<u><u>1,061,975</u></u>	<u><u>1,090,267</u></u>

The accompanying notes are an integral part of the financial statements.



*C. C. M.*

DIRECTOR

## SIAM POWER GENERATION PUBLIC COMPANY LIMITED

## BALANCE SHEETS (Continued)

AS AT 30th JUNE, 2006 AND 2005

(Unit : Thousand Baht)

	Note	2006	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Other payable	6, 7	-	2,841,239
Amount due to related parties	5	3,946	-
Accrued expenses		13,654	10,954
Other current liabilities		367	410
<b>TOTAL CURRENT LIABILITIES</b>		<u>17,967</u>	<u>2,852,603</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital			
Authorized, issued and paid-up			
107.89 million ordinary shares of Baht 10 each			
(2005 : 150 million ordinary shares of Baht 10 each)	8	1,078,903	1,500,000
Retained earnings (deficit)		(34,895)	(3,262,336)
<b>TOTAL SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)</b>		<u>1,044,008</u>	<u>(1,762,336)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>1,061,975</u>	<u>1,090,267</u>

The accompanying notes are an integral part of the financial statements.



C. Chaiwong  
DIRECTOR

SIAM POWER GENERATION PUBLIC COMPANY LIMITED  
 STATEMENTS OF EARNINGS  
 FOR THE YEARS ENDED 30th JUNE, 2006 AND 2005

(Unit : Thousand Baht)

	Note	2006	2005
<b>REVENUES</b>			
Income from compensation on damages from default of electricity sales contract	5, 9.2	159,949	5,292
Gain from debt forgiving	7	25,629	-
Other income		935	1,332
<b>TOTAL REVENUES</b>		<u>186,513</u>	<u>6,624</u>
<b>EXPENSES</b>			
Administrative expenses	5	25,779	14,086
Other expenses	5, 6	170,000	2,841,239
<b>TOTAL EXPENSES</b>		<u>195,779</u>	<u>2,855,325</u>
<b>NET EARNINGS (LOSS)</b>		<u>(9,266)</u>	<u>(2,848,701)</u>
<b>EARNINGS (LOSS) PER SHARE (BAHT)</b>			
Net earnings (loss)		<u>(0.05)</u>	<u>(18.99)</u>
<b>WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES</b>			
<b>(THOUSAND SHARES)</b>		<u>196,169</u>	<u>150,000</u>

The accompanying notes are an integral part of the financial statements.



*C. Chaiyaporn*

DIRECTOR



SIAM POWER GENERATION PUBLIC COMPANY LIMITED  
 STATEMENTS OF CHANGE IN SHAREHOLDERS' EQUITY  
 FOR THE YEARS ENDED 30th JUNE, 2006 AND 2005

(Unit : Thousand Bah)

	Note	Issued and paid-up share capital	Retained earnings (deficit)	Total
Balance as at beginning of period 2005		1,500,000	(413,635)	1,086,365
Net earnings (loss)		-	(2,848,701)	(2,848,701)
Balance as at end of period 2005		1,500,000	(3,262,336)	(1,762,336)
Ordinary shares increased during the period	8	2,815,610	-	2,815,610
Ordinary shares decreased during the period	8	(3,236,707)	3,236,707	-
Net earnings (loss)		-	(9,266)	(9,266)
Balance as at end of period 2006		1,078,903	(34,895)	1,044,008

The accompanying notes are an integral part of the financial statements.



*C. C. M.*

DIRECTOR

## APPENDIX II

SIAM POWER GENERATION PUBLIC COMPANY LIMITED  
 STATEMENTS OF CASH FLOW  
 FOR THE YEARS ENDED 30th JUNE, 2006 AND 2005

	<i>(Unit : Thousand Baht)</i>	
	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>		
Net earnings (loss)	(9,266)	(2,848,701)
<b>Adjustment to reconcile net earnings to cash provided by (used in) operating activities</b>		
Depreciation	1,080	1,159
Doubtful accounts	10,371	-
(Gain) loss on disposal of equipment	(1)	-
Loss from breach of contracts	-	2,841,239
Gain from debt forgiving	(25,629)	-
<b>Earnings from operating activities before changes in operating assets and liabilities</b>	<u>(23,445)</u>	<u>(6,303)</u>
<u>(Increase) decrease in operating assets</u>		
Other current assets	(631)	(465)
Deposits	(30)	15
<u>Increase (decrease) in operating liabilities</u>		
Amount due to related parties	3,946	-
Accrued expenses	2,700	3,364
Other current liabilities	(43)	(277)
<b>Net cash provided by (used in) operating activities</b>	<u>(17,503)</u>	<u>(3,666)</u>
<b>Cash flows from investing activities</b>		
(Increase) decrease in loans and accrued interest to related parties	56	113
Cash receipt from disposal of equipment	1	-
Cash payment from purchase of equipment	(170)	-
<b>Net cash provided by (used in) investing activities</b>	<u>(113)</u>	<u>113</u>
<b>Net increase (decrease) in cash and deposits at financial institutions</b>	<u>(17,616)</u>	<u>(3,553)</u>
<b>Cash and deposits at financial institutions - beginning of the period</b>	<u>17,925</u>	<u>21,478</u>
<b>Cash and deposits at financial institutions - end of the period</b>	<u>309</u>	<u>17,925</u>

The accompanying notes are an integral part of the financial statements.



*C. [Signature]*

DIRECTOR

SIAM POWER GENERATION PUBLIC COMPANY LIMITED  
 STATEMENTS OF CASH FLOW (Continued)  
 FOR THE YEARS ENDED 30th JUNE, 2006 AND 2005

	(Unit : Thousand Baht)	
	<u>2006</u>	<u>2005</u>
<b>Supplemental non-monetary items from</b>		
<b>Investing activities</b>		
Decrease in loans and accrued interest to related parties	8	236
Increase in other investments in related companies	(8)	(236)
	<u>-</u>	<u>-</u>
<b>Financing activities</b>		
Decrease in other payable	(2,841,239)	-
Gain from debt forgiving	25,629	-
Increase in ordinary share	2,815,610	-
Decrease in deficit	3,236,708	-
Decrease in ordinary share	(3,236,708)	-
	<u>-</u>	<u>-</u>
<b>Supplemental cash flow information</b>		
<u>Cash payment during the period</u>		
Income tax	13	8

The accompanying notes are an integral part of the financial statements.



*C. C. Sam*

DIRECTOR



**SIAM POWER GENERATION PUBLIC COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEARS ENDED 30th JUNE, 2006 AND 2005**

**1. INFORMATION ABOUT THE COMPANY**

1.1 Siam Power Generation Public Company Limited was incorporated as a limited company under the Thai Civil and Commercial Code on 9th February, 1996 and became a public limited company on 18th April, 2006. The Company's business is related to the production and distribution of electric and steam. The Company's registered office is located at 555 Sukhumvit 63 (Ekamai) Wattana, Bangkok 10110. The Company's originally major shareholder is HEI Thailand (Rayong) Limited and as at 30th June, 2006 the company's shareholder has been changed to Bangkok Partners Limited, the Company incorporated in the British Virgin Islands which has 77.76% shareholding portion.

The Company has a number of employees and employees expenses as follows:

	<u>2006</u>	<u>2005</u>
Number of employees (person)	5	4
Staff cost (Thousand Baht)	7,794	5,789

1.2 Because of Thailand's economic problems and the financial crisis in the year 1997, several lenders withdrew their financial supports to the Company, as mentioned in Note 9.4 to the financial statements. Since then, the construction of the Company's projects has been suspended and the size of the projects and construction plans are being evaluated from the perspective of current market demand, sourcing of new funding and investors. During the end of the year 2005, a new investor has been identified and share sales agreement was signed on 28th December, 2005. Furthermore, the new investor has been providing funds to the company for its operation use since March 2006.

On 15th March, 2006, the Company entered into a Project Management Service Agreement with an overseas company related to the new investor. The overseas company is required to provide the services of project management including the negotiation with all concerned parties and to set out all project planning in order to have the power plant construction completed for commercial operation by November 2007. As of 30th June 2006 the negotiations with contractors, consultant engineers and suppliers of machineries are in progress.

As of 30th June 2006, the Company has a deficit of Baht 34.90 million (2005 : Baht 3,262.34 million). This is as a result of the completion of corporate restructuring exercise undertaken by the Company during the year.



11 -

*C. C. [Signature]*

DIRECTOR

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of financial statement presentation

The financial statements have been prepared in accordance with the accounting standards which are effective under the Accounting Profession Act B.E.2547.

The financial statements are prepared in accordance with accounting standards pronounced by the Institute of Certified Accountants and Auditors of Thailand, and presented in accordance with the form of balance sheet and statement of earnings for public companies as required by the Department of Commercial Registration dated 14th September, 2001 regarding The Brief Particulars in the Financial Statement B.E. 2544 (2001), issued under the Accounting Act, B.E. 2543 (2000).

### 2.2 Revenue and expenses

Revenue and expenses are recognized on an accrual basis.

### 2.3 Other investments in related companies

Other investments in related companies are accounted for by the cost method and net of allowance for impairment in investment value.

### 2.4 Power plant under construction, land, building and equipment

Power plant under construction and land are stated at cost.

Building and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated by the straight-line method over the estimated useful lives of the assets follows :-

Building	20 years
Furniture and fixtures	5 years
Office equipment	5 years
Vehicles	5 years

No depreciation is provided for the power plant under construction and land.

Expenditure incurred in addition, renewal or betterment, which results in a substantial increase in an assets's current replacement value, is capitalized. Repair and maintenance costs are recognized as an expense when incurred.



*C. O. ...*

DIRECTOR

**2.5 Foreign currencies**

**Exchange rates adopted:-**

- Foreign currency transactions during the period - at the rates ruling on the transaction dates.
- Assets and liabilities in foreign currency outstanding on the balance sheet date - at the rates ruling on the balance sheet date.

Exchange gains and losses are included in determining earnings.

**2.6 Capitalization of interest and exchange difference**

Interest and exchange differences arising as a result of foreign currency loans and liabilities relevant to the project under construction are capitalized and included in project costs. Capitalization ceases when the project is completed or when the construction is suspended until active development resumes.

**2.7 Impairment of assets**

The Company will reduce the carrying amount of the Company's asset to its recoverable amount if, and only if, the recoverable amount of an asset is less than carrying amount. That reduction is an impairment loss.

**2.8 Earnings (loss) per share**

Earnings (loss) per share is determined by dividing the net earnings (loss) the weighted average number of ordinary shares in issued and paid - up during the period.

**2.9 Accounting estimation**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.



*C. Chom*

DIRECTOR



## 3. CASH AND DEPOSITS AT FINANCIAL INSTITUTIONS

	<i>(Unit : Thousand Baht)</i>	
	<u>2006</u>	<u>2005</u>
Cash on hand	10	10
Cash at bank		
Current account	(8)	91
Saving account	307	7,824
Fixed account	<u>-</u>	<u>10,000</u>
Total	<u>309</u>	<u>17,925</u>

The negative balance of cash at bank - current account represented cheques payable which were unrepresented to the bank as at 30th June, 2006, of Baht 10,184.

## 4. AMOUNT DUE FROM FINANCIAL INSTITUTIONS - NET

	<i>(Unit : Thousand Baht)</i>	
	<u>2006</u>	<u>2005</u>
Amount due from financial institutions	46,803	46,803
Less : Allowance for doubtful accounts	<u>(10,371)</u>	<u>-</u>
Amount due from financial institutions - net	<u>36,432</u>	<u>46,803</u>

Amount due from financial institutions - net represents front-end fees and commitment fees which the Company paid during the year 1997 to 1999 to financial institutions for the granting of financial facilities to the Company. The amount is net of the Baht 43.34 million that had been refunded to the Company by other financial institutions. Since the financial institutions withdrew their commitments of financial facilities to the Company, as mentioned in Note 9.4 to the financial statements, the Company has therefore contacted them to demand for the refund of the above fees. Furthermore, the Company had sued two financial institutions regarding the withdrawal of financial facilities. In year 2004, the Company and one of the financial institutions agreed to withdraw the case from the court and the said financial institution had subsequently merged with another entity. As for the other financial institution, the court has ruled in favor of the Company and the Defendant is appealing the case to the appellate court.

As at 30th June 2006 the Company has made a provision for doubtful accounts of approximately Baht 10.37 million for the financial institutions whose business had ceased. This amount does not include the amount due from the two financial institutions above referred to and whose balance amounted to Baht 36.43 million. No provision has been set aside as the Company's management believes that the remaining balance will be recovered.



*C. C. S.*

DIRECTOR

## 5. TRANSACTIONS WITH RELATED PARTIES

The Company has certain transactions with its related parties. A portion of the Company's assets, liabilities, revenue and expenses arose from transactions with certain related parties. These parties are directly and indirectly related through investments, common shareholdings and/or directorships. The effects of these transactions are reflected in the financial statements on the basis determined by the Company and related parties.

Revenue and expenses transactions with related parties are as follows:

	<i>(Unit : Thousand Baht)</i>	
	<u>2006</u>	<u>2005</u>
<b>Income from compensation on damages</b>		
<b>from default of electricity sales contract</b>	159,949	5,292
<b>Administrative expenses</b>		
Office rental and service fees expenses	304	304
<b>Other expenses</b>	170,000	2,841,239

Balance with the related parties consisted of :

	<i>(Unit : Thousand Baht)</i>	
	<u>2006</u>	<u>2005</u>
<b>Loan and accrued interest to related parties</b>		
Sukhumvit Inter Development Co., Ltd.	54	68
G Steel Public Company Limited	-	51
Director	<u>2</u>	<u>2</u>
<b>Total</b>	<u>56</u>	<u>121</u>

**Other investments in related companies**

		<i>(Unit : Thousand Baht)</i>				
		<u>2006</u>		<u>2005</u>		
<u>Nature of business</u>	<u>Paid up share capital</u>	<u>Portion of interest</u>	<u>Cost</u>	<u>Portion of</u>		
				<u>interest</u>	<u>Cost</u>	
		%		%		
Siam Ferro Industry Co., Ltd.	Manufacturing of pipes 250,000	0.09	236	0.09	236	
Sukhumvit Inter Development Co., Ltd.	Leasing of property 99,547	0.01	<u>8</u>	-	<u>-</u>	
			<u>244</u>		<u>236</u>	



*[Handwritten Signature]*

DIRECTOR

APPENDIX II

(Unit : Thousand Baht)

	<u>2006</u>	<u>2005</u>
<b>Amount due to related parties</b>		
Advance from related parties		
Bangkok Partners Limited	1,946	-
M Power TT Limited	<u>2,000</u>	<u>-</u>
Total	<u>3,946</u>	<u>-</u>

Loans to related parties is loan without agreements and the loans are unsecured. The Company recorded the outstanding balances of loans and accrued interest equivalent to net value stipulated in rehabilitation plans of those companies.

Other investments in related companies are the general securities of non-marketable equity securities and valued at cost.

Advance form related parties are made without the interest charge.

6. POWER PLANT UNDER CONSTRUCTION, LAND, BUILDING AND EQUIPMENT - NET

(Unit : Thousand Baht)

	Land	Building	Furniture and fixtures	Office equipment	Motor vehicles	Power plant under construction	Total
<b>Cost:</b>							
30th June, 2005	258,528	21,269	4,919	3,774	2,845	741,121	1,032,456
Purchase	-	-	-	170	-	-	170
Disposal	<u>-</u>	<u>-</u>	<u>-</u>	<u>(174)</u>	<u>-</u>	<u>-</u>	<u>(174)</u>
30th June, 2006	<u>258,528</u>	<u>21,269</u>	<u>4,919</u>	<u>3,770</u>	<u>2,845</u>	<u>741,121</u>	<u>1,032,452</u>
<b>Accumulated depreciation :</b>							
30th June, 2005	-	3,823	4,919	3,774	2,835	-	15,351
Depreciation for the year	-	1,063	-	7	10	-	1,080
Depreciation - disposal	<u>-</u>	<u>-</u>	<u>-</u>	<u>(174)</u>	<u>-</u>	<u>-</u>	<u>(174)</u>
30th June, 2006	<u>-</u>	<u>4,886</u>	<u>4,919</u>	<u>3,607</u>	<u>2,845</u>	<u>-</u>	<u>16,257</u>
<b>Net book value :</b>							
30th June, 2006	<u>258,528</u>	<u>16,383</u>	<u>-</u>	<u>163</u>	<u>-</u>	<u>741,121</u>	<u>1,016,195</u>
30th June, 2005	<u>258,528</u>	<u>17,446</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>741,121</u>	<u>1,017,105</u>
<b>Depreciation in the statement of earnings for the year ended</b>							
30th June, 2006							1,080
30th June, 2005							1,159



*C. Chansu*

DIRECTOR



APPENDIX II

As at 30th June, 2006 the Company has the fully depreciated equipment that are still in use at the cost of Baht 11.36 million (2005 : Baht 8.69 Million).

During 2006 and 2005, the project was suspended and therefore interest expenses are not capitalized.

During 1997, the Company entered into an agreement with an overseas company under which that company was to procure equipment for use in the construction of a power plant. Under the conditions of the agreement the Company had to pay an advance of approximately USD 20 million and the contractor was entitled to call for payment of the goods when it has issued the purchase order to the seller. When the Company was invoiced it recorded the amount as cost of a construction in progress and a construction payable. Subsequently, the Company faced financial difficulties and temporarily suspended construction on the project. As a result, on 9th November, 1999, the contractor issued a termination of agreement and called for the Company to pay damages amounting to approximately USD 124 million, which was the amount of debt outstanding under invoices plus additional damages. On 10th November, 1999, a local contractor issued a letter terminating a construction agreement and claiming damages of approximately Baht 70 million to the Company. The Company continued to negotiate with both creditors until on 16th March, 2001 the Company and the two creditors reach agreement together. The Company agreed to appoint the creditors as sub-contractors of a new contractor so that they would be able to sell at least USD 14 million of machinery and equipment which they had already ordered to the new contractor, and the creditors agreed to desist with the damage claims previously made. The Company reversed the portion of construction payables and cost of power plant construction in progress previously recorded for which it had not received the equipment in the 1998 balance sheet and recorded the full amount by which the advance paid for equipment and the construction costs exceeded the value of the equipment received, amounting to approximately Baht 239 million, as an expense in the 1998 earnings statement. However, the agreement made between the Company and the creditors on 16th March, 2001 stipulated certain covenants with which the Company had to comply first. The Company was not able to comply with these and therefore, on 3rd July, 2003, the creditor filed suit against the Company with the Justice Arbitration in Paris, seeking approximately USD 68.80 million for damage arising as a result of breach of a contract to provide machinery in a foreign country dated 3rd February, 1997. However, on 16th October, 2003 the Company lodged its defence against the creditor. Subsequently, this foreign creditor sent a letter dated 3rd November, 2004 notifying the Company that it had transferred the rights of claim to all damages to Bangkok Partners Limited (BPL), a foreign company. On 15th November, 2005 the Company entered into agreement with BPL to pay for the damages of USD 68.80 million. The Company therefore recorded the said amount as liabilities and as other expenses in the financial statements for the year 2005. Furthermore, as stipulated in the contract, the Company was response for the expenses and lawyer fee related to the process with the Justice Arbitration of Baht 170 million to BPL. In the financial statements for the year 2006, the Company has recorded such amounts as expenses and repaid to BPL. After the execution of agreement, both parties withdrew the case from Justice Arbitration.



17 -

*C. Chom*

DIRECTOR

As at 30th June, 2006, the costs of constructing the power plant included an amount of approximately Baht 29.30 million (2005 : Baht 29.30 million), for the cost of construction of an extension to the power plant substation of the Electricity Generating Authority of Thailand ("EGAT"), for the purpose of transmitting the Company's electricity to EGAT. The extension to EGAT's substation was constructed on land for which the Company had entered into a sales and purchase agreement with G Steel Public Company Limited, a related company, and for which it had made an advance payment. On 22nd November, 2000, the Company purchased the land and the title to the portion of the land on which the extension to EGAT's substation was erected, with an area of 60 rai and a cost value of Baht 139.88 million, was transferred to EGAT without charge, in order to comply with the agreement made with a major electricity purchaser located in the same industrial estate.

The management believes that the transfer of the land title to EGAT so the EGAT can build power plant substations near the Company's power plant will enable the Company to save on costs of installing power lines to connect to EGAT's network, will enhance the project's future expansion capacity, and will provide economic benefit to the Company's operations in the future. In view of this the cost of such land and construction are recorded as assets in the Company's accounts.

#### 7. DEBT RESTRUCTURING

On 15th November, 2005, the Company has entered into the contract of compromise with Bangkok Partners Limited (BPL), the party who received the transferred of right for claim of all damages as mentioned in note 6 to the financial statement. According to the contract, the Company is subject to repay its debts as follows:

- 7.1 To repay Baht 170 million in cash for the expenses and lawyer fee related to the process with the Justice Arbitration.
- 7.2 Liability for damages of USD 68.80 million (or Baht 2,841.24 million equivalent) to be settled by the conversion of debt to equity.
- 7.3 To repay in cash for interest at the rate of 7% of principal liability of USD 68.80 million since 15th November, 2005 until all debts has been settled in full-amount.

The Company has already completed the repay of the expenses and lawyer fee in 7.1) amounting to Baht 170 million to BPL in December 2005.



*C. C. [Signature]*

DIRECTOR

On 25th April 2006, BPL issued a deed of debt release to the Company under the condition that a partial of the principal liability for damage of Baht 25.63 million and the right for claim of its interest, subjected to pay by the Company under the contract of compromise, will be forgiven.

In May 2006, the Company has already repaid the rest of the debts, after the above debt forgiving, amounting to Baht 2,815.61 million by the issuance of additional ordinary share of 281.56 million shares at Bath 10 each.

**8. SHARE CAPITAL**

According to the Extraordinary Shareholders' Meeting (Public) No.1/2006 on 26th April, 2006, the shareholders had a special resolution as follows:

- a) to increase the Company's registered share capital amount 281.56 million shares for use in the conversion of debt into equity, from Baht 1,500 million (150 million ordinary shares of Baht 10 each) to Baht 4,315.61 million (431.56 million ordinary shares of Baht 10 each). The Company had registered the such increase share capital with the Ministry of Commerce on 1st May, 2006.
- b) to decrease the Company's registered share capital after the increase in the Company's registered share capital for use in the conversion of debt into equity, from Baht 4,315.61 million (431.56 million ordinary shares of Baht 10 each) to Baht 1,078.90 million (107.89 million ordinary shares of Baht 10 each) by reducing the number of share capital for all shareholder in the ratio of 4 old ordinary shares for 1 new ordinary share, totalling reduction at 323.67 million shares. The Company had registered the such decrease share capital with the Ministry of Commerce on 30th June, 2006.

**9. COMMITMENTS, CONTINGENT LIABILITIES AND OTHERS LITIGATION**

As at 30th June, 2006, the Company had the significant commitments, contingent liabilities and other litigation as follows:-



*C. Chinn*

DIRECTOR



- 9.1 In year 1998, the Company has entered into sales and purchase electricity agreement with the Electricity Generating Authority of Thailand ("EGAT"). The volume of the electricity supply and rate charged are stipulated in the agreement. The contract period is 25 years starting from the selling date, which was agreed to be 31st December, 2004 and, subsequently to November 2002, the Company issued a letter to EGAT to postpone the selling date to 31st December, 2006. The Company has to place a bank guarantee of Baht 105.79 million with EGAT and EGAT will refund such bank guarantee when the Company sells electricity to EGAT. However, if the Company is unable to sell within the contracted period, the Company has to pay a penalty at a rate specified in the agreement. In addition, under the agreement, the Company has to comply with certain conditions and covenants, including being responsible for the expense of the connecting electricity lines and communication lines to the Company's power plant.
- 9.2 In year 1997, the Company has entered into an energy services agreement with G Steel Public Company Limited ("G - Steel"), the related company agreed to purchase electricity, in a volume and at a price stipulated in the agreement, for a period of twenty year starting from the date on which the Company successfully completed functional performance testing of the power plant, and the power plant has been proven to be technically ready for commercial services ("the commencement date"). The agreement stipulates certain conditions and covenants which the Company has to comply, including that it is responsible for the cost of construction of a substation located on land with an area of 60 rais which the Company transferred to EGAT, as discussed in Note 6, an amount not exceeding Baht 143.33 million. G - Steel is to make advance payment for the construction, and if EGAT fails to make payment to the G - Steel by the commencement date, the Company is to pay the amount to the G - Steel in equal annual installments over the period of the supply agreement through credits against the billing of the latest month of each year.

On 22nd November, 2001 the Company sued G - Steel for breach of contract and claimed damages amounting to Baht 200,202 million since G - Steel had submitted a petition for rehabilitation to the Central Bankruptcy Court, which ordered it to undergo rehabilitation in 2001 and the rehabilitation plan did not identify or accept the energy services agreement or amendment of such agreement, nor identify the Company as a G Steel's creditor under the agreements. In order to settle the dispute on 24th November, 2001 G - Steel entered into a memorandum of understanding with the Company, whereby it was agreed that the Company would receive compensation of approximately Baht 35,629 million (Baht 35,348 million is the value of electricity which that G - Steel agreed to purchase for a period of 20 years, and Baht 281 million for other liabilities) in monthly installments over a period of 20 years, paying 5% of the debt balance each year, commencing in January 2003. In return the Company agreed to supply electricity to G - Steel and to deduct the amount of the electricity supplied from the amounts to be paid by G - Steel. If the agreed payment under the memorandum of understanding is not sufficient of the amount of electricity sold, G - Steel is then to make an additional cash payment.



*C. C. Snu*

DIRECTOR

However, G - Steel has financial problems, it filed a petition to the Central Bankruptcy Court for rehabilitation of its business. Subsequently, on 17th June, 2003, the Central Bankruptcy Court ruled in favor of G - Steel rehabilitation plan. The plan stipulated that the Company would receive such compensation at the rate of 1 percent of the amounts as per the memorandum of understanding, or equivalent to approximately Baht 356.29 million. The payment will be made within 15 years. The Company will record this compensation on damages as revenue when received actual payment each year.

On 1st November, 2005, the Company received Deed of Acknowledge of Debt Payment and Payment Instruction from G - Steel in order to decrease the debt from amounting to Baht 342.20 million (Net of some payment of debt under the Rehabilitation Plan) to Baht 160 million by the debt amounting to Baht 85 million shall be remitted within 7 days after execution of this Deed and Baht 75 million shall be remitted within 30th November, 2005. The Company had accepted the Deed and recorded this compensation on damages as revenue when received actual payment in this period.

9.3 In year 1997, the Company entered into a contract with Electricity Generating Authority of Thailand ("EGAT") which was to design, procure construction equipment for, and install a connection system to supply electricity between the Company and a major customer and between the Company and EGAT, in return for payment of approximately Baht 53.45 million. As at 30th June, 2006, the Company had future payment commitments under this contract amounting to approximately Baht 9.00 million (2005 : Baht 9.00 million).

9.4 In year 1997, the Company entered into a contract with a group of local financial institutions to provide the Company with credit facilities amounting to Baht 8,445 million. The facilities to be provided are :-

9.4.1 A long-term loan of Baht 8,000 million (40% in USD and 60% in Thai Baht) repayable within 13 years, the USD portion carrying interest at SIBOR (Singapore Interbank Offer Rate) plus a certain percentage per annum and the Baht portion carrying interest at MLR (Minimum Loan Rate) plus a certain percentage per annum.

9.4.2 Working capital of Baht 280 million, comprising a bank overdraft and a short-term loan facility, carrying interest at the Minimum Overdraft Rate (MOR) plus a certain percentage per annum.

9.4.3 A guarantee facility of Baht 165 million, which as at 30th June, 2006, the Company had utilized approximately Baht 105.79 million of, as described in Note 9.8.



*C. O. M.*

DIRECTOR



As at 30th June, 2006, the Company had not yet been able to draw down the above long-term loan and working capital facilities because several lenders withdrew their commitments to provide financial support to the Company due to liquidity problems as a result of the economic difficulties in Thailand in 1997.

In year 2003, the Company sued two of financial institution with the Civil Court, seeking the recovery of front-end fees and commitment fees, and compensation for damage as a result of the withdrawal of financial support, together totalling Baht 1,687.11 million. Subsequently on 28th October, 2003, one of financial institution sued the Company for damages arising as a result of the Company's non-payment of fees for bank guarantees provided by the financial institution on behalf of the Company, seeking compensation of approximately Baht 5.61 million. During 2004, the Company and that financial institution were able to negotiate a settlement of the disputes and filed a petition with the Court to withdraw the lawsuits, with no loss incurred by the Company.

9.5 In year 2002, the Company entered into an agreement to jointly invest in the natural gas pipeline system with a local company. The total joint investment was approximately Baht 60 million. Each party agreed to jointly pay 50% of all operating expenses incurred in the construction of this joint pipeline system. The Company paid the first installment of Baht 7.20 million. Another company will make an advance payment for the excess of Baht 7.20 million expenses incurred in the operation of the pipeline system. When the construction is completed, the Company will pay the remaining 50% of the joint pipeline system operating expenses to that company in accordance with the terms stipulated in the agreement.

9.6 On 15th March, 2006, the Company entered into a Project Management Service Agreement with an overseas company related to the new investor. The overseas company is required to provide the services of project management including the negotiation with all concerned parties and to set out all project planning in order to have the power plant construction completed for commercial operation by November 2007. The total service fee of the agreement is USD 2.60 million.

9.7 The Company was sued by a former employee for the compensation of damage from unfair termination of employment at the amount of Baht 3.58 million and for the additional bonus at the amount of Baht 3.58 million. As the result of negotiation in court made in August, 2006, the said employee accepted for the compensation at the amount of Baht 2 million and the further negotiation in court is expected to be made again in September, 2006. The Company will record as expense for the period when the outcome of the case is finalized.

9.8 As at 30th June, 2006, the Company has an outstanding bank guarantees of approximately Baht 105.79 million (2005 : Baht 105.79 million) issued by a local financial institution on behalf of the Company in respect of certain bonds as required in the normal course of the Company's business.



*C. C. M.*  
 \_\_\_\_\_ DIRECTOR



9.9 In year 1996, the Company entered into an agreement to purchase gas and/or other fuel from PTT Public Company Limited (PTT) for the supply of a 450 megawatt power plant to produce electricity for sale to the Electricity Generating Authority of Thailand (EGAT) and steam and electricity for sale to factories located in S.S.P. Rayong Industrial Park. The agreement is for a period of 20 years from the date the Company begins using gas for commercial purposes. The Company had to pay for gas and/or fuel expenses and comply with the conditions stipulated in the contract.

In May 2006, the Company was informed in a letter from PTT to make payment of Baht 14,742.86 million being gas purchase obligation accumulated since year 2003 up to the present time pursuant to the agreement to purchase gas and/or other fuel. The agreement stipulates that the Company's obligation is to purchase the gas or subject to pay for the gas whose value is calculated based on the quantity of the gas to be purchased from PTT in each month which shall not be less than the committed net monthly quantity.

**10. SUBSEQUENT EVENT**

As discussed in Note 9.9 to the financial statements, in August 2006, the Company and PTT agreed in principle to execute a new Gas Supply Agreement, whereby the original Gas Supply Agreement will be terminated. The provision of the new Gas Supply Agreement has, among others, (i) the payment of Baht 100 million to PTT for Loss of Opportunity over a period of 7 years from the date of the execution of the Agreement; (ii) the amount of Baht 15,296 million claimed by PTT as of May 2006, under the Take or Pay obligations will be set-off against all future billings up to a maximum period of 10 years from the date of Commercial Operation of the power plant and (iii) PTT will henceforth discontinue their claims against the Company under the Take or Pay obligations of the original Gas Supply Agreement. The Company is required to pay the above mentioned Loss of Opportunity in (i) by Baht 20 million upon the signing of the new Gas Supply Agreement. Up to the present date, an independent lawyer confirms that the said agreement is now ready for signature subject to the Company's share certificate are successfully transferred to the new investor and registered with Ministry of Commerce.

**11. PROMOTIONAL PRIVILEGES**

The Company was granted promotional privileges under the Investment Promotion Act B.E. 2520 according to the promotion certificate No. 1707/2539 dated 25th October, 1996. Subject to certain imposed conditions, the main privileges are as follow:-



*C. C. [Signature]*

DIRECTOR

- Exemption from payment of corporate income tax for a period of eight years, commencing from the date of first earning operating income.
- A 50 percent deduction on corporate income tax on net income for a period of five years from the expiry date of the above exemption period.

**12. DISCLOSURE FOR FINANCIAL INSTRUMENT INFORMATION**

**12.1 Accounting policies**

Details of significant accounting policies and method adopted, including criteria for the recognition of revenues and expenses in respect of each class of financial assets and liabilities are disclosed in Note 2 to the financial statements.

**12.2 Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. In the case of recognized financial assets, the carrying amount presented in the assets section of balance sheet, net of allowance for doubtful accounts represents the Company's maximum exposure to credit risk.

**12.3 Interest rate risk**

Interest rate risk from the potential for a change in interest rate may have the adverse effects on the Company in the current reporting year and in future years.

The Company is exposed to interest rate risk on the movements in market interest rates. Since such risk is at the low degree, the Company does not use derivative financial instrument to hedge such risk.

**12.4 Foreign exchange risk**

The Company is not exposed to foreign currency risk because as at 30th June, 2006, the Company has no transactions related primarily to its receivables and payables that are denominated in foreign currencies.



*C. Chong*  
 \_\_\_\_\_ DIRECTOR

12.5 Fair Value

Since the majority of financial assets and liabilities carry interest at rates close to current market rates, the Company believes that the book value of the Company's financial assets and liabilities do not materially differ from their fair value.

13. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Company's board of directors.



*C. C. Nui*

DIRECTOR



## FURTHER INFORMATION

### 1. RESPONSIBILITY STATEMENT

This Information Circular has been seen and approved by the Board and the Directors, collectively and individually, accept full responsibility for the accuracy of the information contained in this Information Circular and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no facts the omission of which would make any statement herein misleading.

The information relating to SIPCO have been obtained from the management of SIPCO and the sole responsibility of the Directors of MIG is limited to ensuring that such information is accurately reproduced in this Information Circular.

### 2. CONSENTS

BDO Richfield Limited has given and has not subsequently withdrawn its written consents to the inclusion in this Information Circular of its names, letter (where applicable) and all references thereto in the form and context in which it so appear.

### 3. MATERIAL LITIGATION

The MIG Group and SIPCO are not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Directors of MIG do not have any knowledge of any proceedings, pending or threatened, against the MIG Group or of any facts likely to give rise to any proceedings which might materially or adversely affect the position or business of the MIG Group.

### 4. MATERIAL CONTRACTS

Save as disclosed below, there are no other material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by MIG Group and SIPCO within two (2) years immediately preceding the date of this Information Circular:

#### 4.1 MIG Group

- (i) An agreement on 17 January 2005 between Melewar Steel Services Sdn Bhd and Metacorp Berhad for the acquisition of 12,000,000 ordinary shares of M3nergy Berhad representing approximately 16.03% equity interest in M3nergy Berhad for a cash consideration of RM38,400,000. The acquisition was effected via direct business transaction on 17 January 2005 in accordance with the rules and regulations of Bursa Malaysia Depository Sdn Bhd, the Securities Industry (Central Depositories) Act 1991 and Security Industry (Central Depositories) Amendment Act 1988;
- (ii) A sale and purchase agreement dated 12 March 2005 between Mycron Steel Berhad and Multi Resources Holdings Sdn Bhd for the acquisition of 15,000,000 ordinary shares of RM1.00 each in PMP Galvanisers Sdn Bhd for a cash consideration of RM17,000,000;

## FURTHER INFORMATION

- (iii) Underwriting agreement dated 1 April 2005 entered into between MIG and the Underwriter, namely Alliance Merchant Bank Berhad, for the underwriting of 22,772,400 warrants ("Warrants") or 68.3% of the total Warrants of up to 33,332,400 (based on the issued and paid-up share capital upon full exercise of the outstanding employee share option and 305,700 treasury shares being disposed in the open market) for an underwriting commission of 1.0% of the value of the underwritten Warrants of RM0.20 per Warrant;
- (iv) Deed Poll dated 12 April 2005 constituting the Warrants to be issued pursuant to the right issue of Warrants;
- (v) A share sale agreement dated 21 October 2005 entered into between M-Power and E Power for the acquisition of 82,500,000 SIPCO Shares, representing 55% of equity interest in SIPCO from E Power for a purchase consideration of USD22.0 million (equivalent to RM83.6 million based on the exchange rate of USD1.00:RM3.80). Both parties have mutually agreed to allow the agreement to lapse on 30 December 2005;
- (vi) A joint development agreement dated 21 October 2005 entered into between M-Power with SIPCO and Bangkok Partners Ltd to jointly develop the Power Plant Project. Both parties have mutually agreed to allow the agreement to lapse on 30 December 2005;
- (vii) A SSPA dated 30 December 2005 entered into between MPP and E Power acquiring 70% of equity interest in SIPCO from E Power for a purchase consideration of USD23.0 million (equivalent to RM87.4 million based on the exchange rate of USD1.00:RM3.80);
- (viii) A supplemental SSPA dated 22 June 2006 entered into between MPP and E Power to extend the completion date of the Proposed Acquisition to 30 September 2006 and to waive the condition precedent as provided in clause 3.6 of the SSPA, concerning the obtaining of an approval from the Ministry of Energy to extend the expiry of the concession to be no earlier than 31 December 2031 and to amend the condition for early termination of the concession by the Ministry of Energy on the company's failure to commence operation of at least 60MW instead of 150MW; and
- (ix) A PMS dated 15 March 2006 entered into between SIPCO and M-Power whereby M-Power was appointed as a project manager in relation to the nomination of the EPC Contractor, arranging the financing for the Project and overseeing the implementation of the construction and completion of the Project.

## 4.2 SIPCO

- (i) A PMS dated 15 March 2006 entered into between SIPCO and M-Power whereby M-Power shall be appointed as a project manager in relation to the nomination of the EPC Contractor, arranging the financing for the Project and overseeing the implementation of the construction and completion of the Project.

## FURTHER INFORMATION

## 5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the Registered Office of the Company at Suite 20.03, 20<sup>th</sup> Floor, Menara MAA, No. 12, Jalan Dewan Bahasa, 50460 Kuala Lumpur, up to a period of fourteen (14) days from the date of this Information Circular:

- (i) the Memorandum and Articles of Association of MIG;
- (ii) the Memorandum and Articles of Association of MPP;
- (iii) the Memorandum and Articles of Association of SIPCO;
- (iv) the audited financial statements of MIG for the past two (2) financial years ended 31 January 2005 to 2006;
- (v) the unaudited accounts of MIG for the second quarter ended 30 June 2006;
- (vi) the audited financial statements of SIPCO for the past two (2) financial years ended 30 June 2005 to 2006;
- (vii) the letter of consent referred to in Section 2 above; and
- (viii) the material contracts referred to in Section 4 above.