

## Notes

### 1. Accounting Policies & Methods

This quarterly financial report is prepared in accordance with MASB 26 “Interim Financial Reporting” and paragraph 9.22 of Bursa Malaysia Securities Berhad Listing Requirements and should be read in conjunction with the Group's financial statements for the year ended 31 December 2004.

The accounting policies and methods of computation are consistent with those adopted for the annual financial statements for the year ended 31 December 2004.

### 2. Audit Report

The preceding financial year's audit report was not qualified.

### 3. Seasonal or Cyclical Factors

The business operations of the Group are affected by both cyclical factors in the construction industry over the years and seasonal fluctuations such as festivities in the first quarter of each year.

### 4. Unusual Items

There were no unusual items in terms of nature, size, or incidence which affect assets, liabilities, equity, net income or cash flows for the current financial quarter except for the write down of inventory to net realisable values by certain subsidiaries amounting to RM3.7 million.

### 5. Changes in estimates

There have been no changes in estimates of amounts reported in prior financial year.

### 6. Debt and Equity Securities

There were no issuance, cancellations, repurchases, resale and repayment of debt and equity securities for current financial year to date other than as mentioned below:-

For the twelve months' period ended 31 December 2005, RM44,780,330 nominal amount of ICULS were converted into 43,476,042 ordinary shares of RM1.00 each.

### 7. Dividends

The interim tax exempt dividend of 2.5% (2004: 5% tax exempt) in respect of the current financial year was paid on 30 September 2005.

### 8. Primary Segment Revenue and Results

The Group's primary business segment, including its overseas associated companies, is that of the steel business. As such, the segment revenue and results are as disclosed in the condensed consolidated income statement.

### 9. Valuation of Property, Plant and Equipment

Valuations of property, plant and equipment have been brought forward, without amendment from the previous annual financial statements.

### 10. Material Subsequent Events

There were no material subsequent events that have not been reflected at the date of issue of this announcement.

**11. Changes in the Composition of the Group**

There were no changes in the composition of the Group for the current financial year to date.

**12. Changes in Contingent Liabilities or Contingent Assets**

There were no material changes in contingent liabilities or assets since the last annual balance sheet date.

**13. Tax Charge / (Credit)**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31.12.05 RM'000	31.12.04 RM'000	31.12.05 RM'000	31.12.04 RM'000
Current	(919)	1,217	1,214	6,080
Deferred	(3,882)	330	(3,235)	30,482
	<u>(4,801)</u>	<u>1,547</u>	<u>(2,021)</u>	<u>36,562</u>
Under/(Over) provision in prior period:				
-Current	58	57	(203)	57
-Deferred	(677)	4,202	2	357
-Real Property Gains Tax	-	366	(100)	366
Associated companies	(1,283)	971	(3,207)	1,743
	<u>(6,703)</u>	<u>7,143</u>	<u>(5,529)</u>	<u>39,103</u>

The Group's current year to date's effective tax rate is lower than the statutory tax rate mainly attributable to certain disallowed expenses and non-availability of Group tax relief for losses incurred by certain subsidiary companies.

**14. Sale of Unquoted Investments and/or Properties**

There were neither sales of unquoted investments nor properties for the current financial year to date.

**15. Quoted Securities**

(a) There were neither purchases nor disposals of quoted securities for the current financial year to date.

(b) Investments in quoted securities as at 31 December 2005:

	RM'000
At cost	7,224
Provision for diminution in value of investments	(6,045)
At book value	<u>1,179</u>
At market value	<u>1,517</u>

## 16. Status of Corporate Proposals

There was no corporate proposal announced that was not completed at the date of this announcement. Out of the total seven certificates of fitness for occupation (CFs) of properties owned by the Group to be obtained pursuant to the Company's ICULS issue completed in August 2003, six have been issued up to the previous quarter. The last CF, for Lots 6047, 6048 and 6049, has yet to be issued. The Securities Commission has granted an extension of time for compliance to October 31, 2006

## 17. Group Borrowings

(a) The total Group borrowings as at 31 December 2005 are unsecured and as follows:

	RM'000
Long Term Borrowings	263,655
Short Term Borrowings (Including overdraft of RM17,241,000)	696,771
	960,426

(b) Included in the above are US Dollars borrowings amounting to RM454.5 million.

## 18. Off Balance Sheet Financial Instruments

There were no material financial instruments with off balance sheet risk as at the date of issue of this quarterly report.

## 19. Changes in Material Litigation

Since the date of last annual balance sheet date, there has not arisen any material litigation up to the date of issue of this report.

## 20. Related Party Transactions

Significant transactions with related parties are as follows:

		12 months ended 31/12/05 RM'000
<b>Sales of goods to :</b>		
Hong Leong Company (Malaysia) Berhad Group	Enterprises controlled by the same enterprise which exercises significant influence over the Company	72,332
Hong Bee Group	Enterprises that are indirectly controlled by a Director of a subsidiary	79,172
Cheah Hong Inn Sdn. Bhd.	Enterprise in which a Director of a subsidiary has significant influence	42,631

		12 months ended 31/12/05 RM'000
Kim Company Sdn. Bhd.	Enterprise in which a Director of a subsidiary has significant influence	14,324
Chin Well Holdings Berhad Group	Enterprises that has a Director in common with the Company	98,264
NatSteel Ltd. Group*	Enterprises controlled by the same enterprise which exercises significant influence over the Company	230
Associated companies	Enterprises in which the Company has significant influence	
- NatSteel Trade International Pte. Ltd.		78,384
- Steel Industries (Sabah) Sdn. Bhd.		65,002
<b>Purchase of goods from :</b>		
NatSteel Ltd. Group*	Enterprises controlled by the same enterprise which exercises significant influence over the Company	10,544
Associated company	Enterprise in which the Company has significant influence	
- NatSteel Trade International Pte. Ltd.		508,243
<b>Service rendered by :</b>		
Su Hock Group	Enterprise in which substantial interest is owned indirectly by a Director, who is also a substantial shareholder of the Company	2,022

\* NatSteel Limited ceased to be a major shareholder of the Company with effect from 15 February 2005. However, the disclosure of the transactions is made pursuant to Paragraph 10.02(f) of the Listing Requirements which includes those major shareholders within the preceding 12 months.

## 21. Review of Performance

Prices continued to soften in the quarter. As a result, the Group's revenue decreased from RM556.0 million in last year's corresponding quarter to RM548.0 million despite higher sales volume. The Group posted a loss before taxation for the quarter of RM26.3 million as compared to profit before taxation of RM14.7 million in the preceding year's corresponding quarter. All the losses were attributable to our operating subsidiaries and oversea associates.

For the steel industry, 2005 became progressively tougher from the 2<sup>nd</sup> quarter. In the weak local construction market, margin was squeezed. In the international market, the drop in prices became severe as China turned into a net exporter of cheap construction grade steel.

## 22. Material Change in Profit/(Loss) Before Taxation Compared to Immediate Preceding Quarter

The Group's revenue decreased from the immediate preceding quarter's RM628.2 million to RM548.0 million in the quarter. The Group recorded loss before taxation of RM26.3 million in the quarter as compared to loss before taxation of RM20.5 million in the immediate preceding quarter, due to lower volume and margin.

## 23. Prospects

The scarcity of new construction projects locally in 2005 spills over to the 1<sup>st</sup> quarter of 2006. However, the 9<sup>th</sup> Malaysian Plan 2006-2010 due to be implemented in 2006 should provide a much needed impetus to the local construction market in the 2<sup>nd</sup> half of 2006.

In the international market, stock adjustment appears to be over and margin is likely to improve.

Barring unforeseen circumstances, the Board expects lower losses for the 1<sup>st</sup> quarter of 2006 and return to profitability for this financial year.

## 24. Loss Per Share

Basic loss per ordinary share

The calculation of basic loss per ordinary share for the current quarter is based on the net loss attributable to ordinary shareholders of RM18,306,000 and the weighted average number of ordinary shares outstanding during the quarter of 362,175,804.

The calculation of basic loss per ordinary share for the current year to date is based on the net loss attributable to ordinary shareholders of RM30,877,000 and the weighted average number of ordinary shares outstanding during the quarter of 345,720,659.

	Current Quarter	Current Year to Date
Net loss attributable to shareholders (RM'000)	(18,306)	(30,877)
Weighted average number of ordinary shares ('000)	362,176	345,721
Basic loss per ordinary share (sen)	(5.1)	(8.9)

#### Diluted loss per share

The calculation of diluted loss per ordinary share for the current quarter is based on the net loss attributable to ordinary shareholders (diluted) of RM18,187,000 and weighted average number of the ordinary shares (diluted) outstanding during the quarter of 419,417,549.

The calculation of diluted loss per ordinary share for the current year to date is based on the net loss attributable to ordinary shareholders (diluted) of RM30,191,000 and weighted average number of the ordinary shares (diluted) outstanding during the quarter of 419,417,549.

	Current Quarter	Current Year To Date
Net loss attributable to shareholders (RM'000)	(18,187)	(30,191)
Weighted average number of ordinary shares in issue during the current quarter/year ('000)	362,176	345,721
Adjustment for conversion of ICULS('000)	57,242	73,696
Weighted average number of ordinary shares (Diluted) ('000)	419,418	419,418
Fully diluted loss per ordinary share (sen)	(4.3)	(7.2)