

## 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 2003.

The accounting policies and methods of computation are consistent with those adopted for the annual financial statements for the year ended 31 December 2003.

### 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.

### 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 nine months' period ended 30 September 2004, RM20,763,136 nominal amount of ICULS were converted into 20,158,373 ordinary shares of RM1.00 each.

### 7. Dividends

An interim dividend of 5% (tax exempt) (2003: nil) is approved and will be payable on 30 December 2004 to depositors registered in the Record of Depositors at the close of business on 6 December 2004.

### 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 except for the disposal of the three dormant subsidiaries and the acquisition of additional shares in an existing associated company, Southern NatSteel (Xiamen) Ltd as disclosed in the preceding quarter.

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

There were no material contingent liabilities or assets since the last annual balance sheet date except for the insurance claim for loss of profit received and disclosed in the quarter ended 31 March 2004.

**13. Tax Charge**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	30.09.04 RM'000	30.09.03 RM'000	30.09.04 RM'000	30.09.03 RM'000
Current	2,740	393	4,863	1,192
Deferred	7,570	5,651	30,152	16,942
	<u>10,310</u>	<u>6,044</u>	<u>35,015</u>	<u>18,134</u>
Under/(Over) provision in prior years	(5,299)	-	(3,827)	-
Associated companies	393	392	772	1,282
	<u>5,404</u>	<u>6,436</u>	<u>31,960</u>	<u>19,416</u>

The Group's current period effective tax rate is higher than the statutory tax rate mainly due to certain expenses which were not allowed for tax deduction.

**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 30 September 2004:

	RM'000
At cost	7,072
Provision for diminution in value of investments	( 6,045)
At book value	<u>1,027</u>
At market value	<u>2,952</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 (CFs) of properties owned by the Group to be obtained pursuant to the Company's ICULS issue completed in August 2003, five have been duly issued. The Group is currently seeking the approval of the Securities Commission to grant an extension of time for compliance with the deadline imposed to obtain the remaining two CFs.

**17. Group Borrowings**

(a) The total Group borrowings as at 30 September 2004 are unsecured and as follows:

	RM'000
Long Term Borrowings	343,329
Short Term Borrowings (Including overdraft of RM8,316,000)	<u>633,960</u>
	<u>977,289</u>

(b) Included in the above are US Dollars borrowing amounting to RM534.6 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:

		9 months ended 30/9/04 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	62,450
Hong Bee Group	Enterprises that are indirectly controlled by a Director of a subsidiary	51,563
Cheah Hong Inn Sdn. Bhd.	Enterprise in which a Director of a subsidiary has significant influence	35,624
Kim Company Sdn. Bhd.	Enterprise in which a Director of a subsidiary has significant influence	10,046
Chin Well Holdings Berhad Group	Enterprises that has a Director in common with the Company	107,883
NatSteel Ltd. Group	Enterprises controlled by the same enterprise which exercises significant influence over the Company	3,323
Associated companies	Enterprises in which the Company has significant influence	207,968
<b>Purchase of goods from :</b>		
NatSteel Ltd. Group	Enterprises controlled by the same enterprise which exercises significant influence over the Company	10,631
Southern Corporation (Nibong Tebal) Sdn. Bhd.	Enterprise in which the substantial interest is owned indirectly by a substantial shareholder of the Company	5,451

Associated company	Enterprise in which the Company has significant influence	526,971
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**Service rendered by :**

Su Hock Group	Enterprise in which substantial interest is owned indirectly by a Director, who is also a substantial shareholder of the Company	956
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**21. Review of Performance**

The current quarter's Group revenue increased to RM724.4 million from last year's corresponding quarter of RM542.9 million due to overall higher international and local selling prices. The current quarter's profit before taxation of RM34.7 million is higher as compared to RM13.0 million in last year corresponding quarter as a result of better performances of the Company and its subsidiaries.

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

Despite higher volume, the Group recorded a lower profit before tax of RM34.7million as compared to RM44.9 million in the immediate preceding quarter. The main reasons are lower selling price, higher scrap cost and slow down in construction activities.

**23. Prospects**

The outlook remains uncertain due to the volatility of the scrap cost and selling price. As the Malaysian Government starts to control its budget deficit, fewer major construction projects have been initiated in recent months. The domestic demand for construction steel has also declined.

The long festive break and exceptionally wet season in the fourth quarter have a further dampening effect on demand. However, the demand for industrial grade products and exports of the Group are expected to remain satisfactory.

The Board expects the fourth quarter to remain profitable, and the performance of this financial year to be significantly better than last year's.

**24. Earnings Per Share**

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the current quarter is based on the net profit attributable to ordinary shareholders of RM28,998,000 and the weighted average number of ordinary shares outstanding during the quarter of 298,731,129.

The calculation of basic earnings per ordinary share for the current year-to-date is based on the net profit attributable to ordinary shareholders of RM90,777,000 and the weighted average number of ordinary shares outstanding during the quarter of 298,731,129.

	Current Quarter RM'000	Current Year to Date RM'000
Net profit attributable to shareholders	28,998	90,777
Issued ordinary shares at beginning of the quarter/year	298,731	287,461
Effect of ordinary shares issued during the quarter/year	-	11,270
Weighted average number of ordinary shares	298,731	298,731
Basic earnings per ordinary share (sen)	9.7	30.4

#### Diluted earnings per share

The calculation of diluted earnings per ordinary share for the current quarter is based on the net profit attributable to ordinary shareholders (diluted) of RM29,292,000 and weighted average number of the ordinary shares (diluted) outstanding during the quarter of 419,417,560.

The calculation of diluted earnings per ordinary share for the current year-to-date is based on the net profit attributable to ordinary shareholders (diluted) of RM91,768,000 and weighted average number of the ordinary shares (diluted) outstanding during the quarter of 419,417,560.

	Current Quarter RM'000	Current Year To Date RM'000
Net profit attributable to shareholders	29,292	91,768
Issued ordinary shares at beginning of the year	287,461	287,461
Effect of ICULS	131,957	131,957
Weighted average number of ordinary shares (Diluted)	419,418	419,418
Fully diluted earnings per ordinary share (sen)	7.0	21.9