

Notes

1. Accounting Policies & Methods

This quarterly financial report is prepared in accordance with Financial Reporting Standards (“FRS”) 134 “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 2005.

The accounting policies and methods of computation are consistent with those adopted for the annual financial statements for the year ended 31 December 2005 and in line with the new FRS adopted by Malaysia Accounting Standard Board effective 1 January 2006.

With the adoption of FRS 3 “Business Combination”, goodwill on consolidation is no longer required to be amortized. Previously, a yearly amortization of RM3.8 million was charged to income statement.

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 items of unusual nature, size, or incidence which affect assets, liabilities, equity, net income or cash flows except for the reduction in deferred taxation liabilities of prior periods as explained in paragraph 14.

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 2006, RM206,000 nominal amount of ICULS were converted into 200,000 ordinary shares of RM1.00 each.

7. Dividends

There was no dividend paid for the current year to date.

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 proposed disposals of certain associated companies disclosed in paragraph 12.

12. Non-current Assets Classified as Held For Sale

On 27 September 2006, the Company entered into three conditional sale and purchase agreements for the proposed disposals of its entire equity interest of 40% in NatSteel Trade International Pte Ltd, 50% in Southern NatSteel (Xiamen) Limited and 22.6% in NatSteelVina Company Ltd to NatSteel Asia Pte Ltd, on a willing-buyer willing-seller basis for a total cash consideration of S\$29 million ("Proposed Disposals"). The decision to divest these associated companies is to enable the Group to focus all its resources into its Malaysian business operations, and conserving its funds to only invest in venture that the Group has controlling stake to ensure good returns. Based on the share of results of the above-mentioned associated companies up to the current quarter, there is no impairment loss to be recognized. The Proposed Disposals are expected to be completed by 1st quarter of 2007. Share of results of the oversea associated companies included in the unaudited condensed income statement for current quarter is a loss of RM503,000 (30.9.05: Loss of RM5,051,000) and for the 9 months period, loss of RM2,513,000 (30.9.05: Loss of RM2,177,000).

13. Changes in Contingent Liabilities or Contingent Assets

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

14. Tax Charge / (Credit)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	30/9/06	30/9/05	30/9/06	30/9/05
	RM'000	RM'000	RM'000	RM'000
Current	(93)	16	323	2,133
Deferred	709	(683)	4,543	647
	<u>616</u>	<u>(667)</u>	<u>4,866</u>	<u>2,780</u>
Under/(Over) provision in prior period:				
-Current	52	(261)	52	(261)
-Deferred (Note)	(25,782)	598	(25,415)	679
-Real Property Gains Tax	-	(100)	-	(100)
	<u>(25,114)</u>	<u>(430)</u>	<u>(20,497)</u>	<u>3,098</u>

The Group's current year to date's effective tax rate is lower than the statutory tax rate mainly attributable to utilization of reinvestment allowance.

(Note):

The over provisions of deferred tax in prior period were mainly due to the following reasons:

(a) Tax credit claimed under the "Income Tax (Exemption) (No.17) Order 2005 for Significant Increase in Exports" for years of assessment 2003 and 2004. The net impact of the tax credit claimed by the Company amounted to approximately RM22 million was allowed to be carried forward and set off against the deferred tax liabilities.

(b) Effect on taxation arising from reduction in corporate tax rates of one percent each for the two subsequent fiscal years of 2007 and 2008. The net impact of deferred taxation written back amounted to approximately RM3 million.

15. Sale of Unquoted Investments and/or Properties

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

16. 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 2006:

	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>2,640</u>

17. Status of Corporate Proposals

(a) There was no corporate proposal announced that was not completed at the date of this announcement except for the proposed disposals of certain associated companies announced on 27 September, 2006. The Proposed Disposals are subject to the approval of shareholders and the relevant authorities.

(b) 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. Application has been submitted to the Securities Commission for further extension of time for compliance to October 31, 2008.

18. Group Borrowings

(a) The total Group borrowings as at 30 September 2006 are unsecured and as follows:

	RM'000
Long Term Borrowings	218,473
Short Term Borrowings (Including overdraft of RM 24,821,000)	<u>635,063</u>
	<u>853,536</u>

(b) Included in the above are US Dollars borrowings amounting to RM 354 million.

19. Off Balance Sheet Financial Instruments

Forward foreign currency exchange contracts are entered into by the Group to manage exposures to fluctuations in foreign currency exchange rate on specific transactions.

(a) The forward foreign currency exchange contract which was entered into by the Group to limit its exposure on cash flows generated from anticipated transactions denominated in foreign currency is as follows:

<u>Currency</u>	<u>Contracted amount</u>	<u>RM'000</u>	<u>Nature</u>
	<u>'000</u>	<u>Equivalent</u>	
S\$	26,100	59,888	Proceeds for proposed disposals of associated companies

The contracts mature within 1 month with option to renew.

Transactions in foreign currencies hedged by forward foreign exchange contracts are converted into Ringgit Malaysia at the rates specified in such forward contracts. Monetary assets and liabilities denominated in foreign currencies covered by forward exchange contracts are translated into Ringgit Malaysia at rates specified in those contracts.

(b) Credit Risk

The above forward foreign exchange contracts are executed with a credit worthy financial institution in Malaysia. The Directors are of the view that the possibility of non-performance by the financial institutions concerned is remote on the basis of their financial strength.

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

20. Changes in Material Litigation

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

21. Related Party Transactions

Significant transactions with related parties are as follows:

		9 months ended 30/9/06 RM'000
Sales of goods to :		
Hong Leong Company (Malaysia) Berhad Group	Enterprises controlled by the same enterprise which exercises significant influence over the Company	47,679
Hong Bee Group	Enterprises that are indirectly controlled by a Director of a subsidiary	93,470
Cheah Hong Inn Sdn. Bhd.	Enterprise in which a Director of a subsidiary has significant influence	43,975
Kim Company Sdn. Bhd.	Enterprise in which a Director of a subsidiary has significant influence	11,064
Chin Well Holdings Berhad Group	Enterprises that has a Director in common with the Company	99,178
Associated company - Steel Industries (Sabah) Sdn. Bhd.	Enterprises in which the Company has significant influence	26,688
Purchase of goods from :		
Associated company	Enterprise in which the Company has significant influence	

- NatSteel Trade International
Pte. Ltd.

447,111

Service rendered by :
Su Hock Group

Enterprises in which substantial
interest is owned indirectly by a
Director, who is also a substantial
shareholder of the Company

1,030

22. Review of Performance

The Group had slightly higher revenue of RM633 million when compared to the RM628 million achieved in last year's corresponding quarter due to higher selling prices. The resulting better margin contributed to the significant improvement in profit before taxation ("PBT") of RM32 million as compared to the loss before taxation of RM20 million in the corresponding quarter. The higher profit after taxation of RM57 million in the current quarter was mainly due to reduction in deferred taxation liabilities as explained in paragraph 14.

The Group registered PBT of RM48 million for the current financial year to date as compared to a loss of RM12 million in the corresponding period last year. The improvement was mainly due to better selling prices and margin.

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

The Group's revenue increased from RM612 million in the immediate preceding quarter to RM633 million in the current quarter mainly due to stronger selling prices. As a result, the Group recorded a higher profit before taxation of RM32 million as compared to RM24 million in the immediate preceding quarter.

24. Prospects

The better prices prevailing in the past few months have weakened towards the end of the 3rd quarter and are unlikely to improve over the rest of this year. The Board expects the performance of the year to be satisfactory.

25. 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 RM 56,405,000 and the weighted average number of ordinary shares outstanding during the quarter of 362,286,674.

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 RM 68,557,000 and the weighted average number of ordinary shares outstanding during the quarter of 362,213,167.

	Current Quarter	Current Year to Date
Net profit attributable to shareholders (RM'000)	56,405	68,557
Weighted average number of ordinary shares ('000)	362,287	362,213
Basic profit per ordinary share (sen)	15.6	18.9

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 RM 56,493,000 and weighted average number of the ordinary shares (diluted) outstanding during the quarter of 419,417,542.

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 RM 68,853,000 and weighted average number of the ordinary shares (diluted) outstanding during the quarter of 419,417,542.

	Current Quarter	Current Year To Date
Net profit attributable to shareholders (RM'000)	<u>56,493</u>	<u>68,853</u>
Weighted average number of ordinary shares in issue during the current quarter/year ('000)	362,176	362,176
Adjustment for conversion of ICULS ('000)	<u>57,242</u>	<u>57,242</u>
Weighted average number of ordinary shares (Diluted) ('000)	<u>419,418</u>	<u>419,418</u>
Fully diluted profit per ordinary share (sen)	<u>13.5</u>	<u>16.4</u>