Prestar Resources Berhad (123066-A)
Notes to the Interim Financial Report for the period ended 30 June 2006

1 Accounting policies and methods of computation

The interim financial statements have been prepared in accordance with the requirement of FRS 134: Interim Financial Reporting and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjuction with the Group's annual audited financial statements for the year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2005.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the most recent audited financial statements for the financial year ended 31 December 2005 except for the adoption of the following new or revised Financial Reporting Standards ("FRS") effective for the financial period beginning on 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 2,5,102,108,110,121,127,128,132,133,136,138 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRS are summarised as below:

(a) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRs 138.

The adoption of new FRS 3 has resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over 20 years. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on 1 Jan 2006. The transitional provisions of FRS 3, however, have required the Group to eliminate at 1 January 2006 the carrying amount of the accumulated amortisation of RM1,171,244 against the carrying amount of goodwill.The carrying amount of goodwill as at 1 January 2006 of RM1,769,883 ceased to be amortised. This has the effect of reducing the amortisation charges by RM36,764 in the current quarter.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in profit or loss. Prior to 1 January 2006, negative goodwill was amortised on a straight-line basis over 20 years. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of RM63,445 was derecognised with a corresponding increased in retained earnings.

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1 Accounting policies and methods of computation - continue

In addition, the useful lives of other intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Prior to 1 January 2006, intangible assets were considered to have a finite useful life and were stated at cost less accumulated amortisation and impairment losses. Under the new FRS 138, some of the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Intangible assets with indefinite useful lives are not amortised but instead, are tested for impairment annually. Other intangible assets of the Group with finite useful lives continue to be stated at cost less accumulated amortisation and impairment losses.

(b) FRS 101 : Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to the minority interest.

The presentation of the comparative financial statements of the Group have been restated to conform with the current period's presentation.

(c) FRS 140 : Investment Property

The Group has reclassified certain properties which are held for rental to external parties from property, plant and equipment to Investment Properties. The investment property is measured using the cost model. In accordance with FRS 140, investment property is separately classified on the balance sheet. In prior years, investment property was not separately classified and was presented as part of property, plant and equipment.

The following comparatives have been restated due to the adoption of revised FRS or have been reclassified to conform with the current year's presentation:

At 31 December 2005	Previously stated RM'000	FRS 3 note 1 (a) RM'000	FRS 140 note 1 (c) RM'000	Restated RM'000
Property, Plant and Equipme	116,551	-	-965	115,586
Investment Property	-	-	965	965
Intangible Assets	2,359	63	-	2,422
Retained Profits	57,041	63	-	57,104

2 Qualified audit report

The audit report of the most recent annual financial statement for the year ended 31 December 2005 was not qualified.

3 Seasonal or cyclicality factors

The Group faces minor seasonal fluctuations during the major festive seasons such as Hari Raya Aidilfitri and Chinese New Year celebrations.

4 The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence

There was no unusual items in the quarterly financial statement under review.

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5 Changes in estimates

The revised FRS 116 : Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least each financial year end. The Group revised the residual values and the estimated useful lives of certain property, plant and equipment with effect 1 January 2006. The revisions were accounted for as a change in accounting estimates and as a result, the estimated depreciation charges for the current quarter has been reduced by around RM0.8 million.

There are no other significant changes in the estimates of amount, which give a material effect in the current interim period.

6 Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

i) Share Buy-Back
Details of share buy-back for the financial year to date as below:

Month	(^) Price per share (RM)			(^) No. of shares repurchase	Total paid	No of shares held as treasury share
	Lowest	Highest	Average		RM'000	
Balance b/f	---	---	---	2,514,000	2,696	2,514,000
Apr 06	0.51	0.52	0.52	54,900	29	54,900
May 06	0.52	0.60	0.56	18,300	10	18,300
Jun 06	0.54	0.54	0.54	141,200	76	141,200
Balance c/f				2,728,400	2,811	2,728,400

There were no other issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter ended 30 June 2006.

7 Dividends paid (aggregate or per share) separately for ordinary share and other shares

There was no dividend paid for the current quarter ended 30 June 2006.

8 Segment Information for the current financial year to date

	Trading RM'000	Manufacturing RM'000	Investment RM'000	Elimination RM'000	Total RM'000
Revenue					
External Sales	**44,786**	**226,573**	**6**	**0**	**271,365**
Inter-segment revenue	407	28,127	3,727	-32,261	0
Total Revenue	45,193	254,700	3,733	-32,261	271,365
Segment Result	**2,069**	**14,988**	**2,306**	-1,724	**17,639**
Profit from operations					**17,639**
Finance Costs					-4,248
Interest Income					30
Share of profit/(loss) of associate					-8
Profit before taxation					**13,413**

No analysis by geographical area has been presented as the Group operates principally within Malaysia.

9 Valuations of property, plant and equipment

The valuation of land & buildings have been brought forward, without amendment from the previous annual financial statement.

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Notes to the Interim Financial Report for the period ended 30 June 2006

10 Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

In the opinion of the Directors, no item, transaction or event of a material nature has arisen during the period from the end of the reporting period to 24 August 2006, which is likely to affect substantially the results of the operations of the Group for the financial period ended 30 June 2006.

11 The effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations

There were no changes in the composition of the Company for the financial period under review.

12 Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

The contingent liabilities of the Company are as follows:	As at 30.6.2006 RM'000	As at 31.12.2005 RM'000
Guarantees to financial institutions for credit facilities granted to subsidiaries - unsecured	308,050	308,050
	308,050	**308,050**

13 Review of performance of the company and its principal subsidiaries for the current quarter and financial year to date (YTD)

Revenue for the current quarter and year-to-date were RM 144.4 million and RM 271.4 million respectively, a slight decrease of 0.2 % and 2 % over the same period last year. However,profit before tax for the current quarter improved by 20.3 % to RM 10.0 million due to better sales margin in line with recovering of selling prices as well as the improvement in internal production processes which further enhanced the bottom line results. However, YTD results for the current year were 28% below last year's performance due to strong steel selling prices in the first quarter of last year.

14 Material changes in the profit before taxation for the quarter reported on as compared with the immediate preceding quarter.

Group revenue increased by 13.8% from the immediate preceding quarter to RM 144.4 million for the current quarter. Profit before taxation increased from RM 3.4 million to RM 10.0 million for the current quarter. The improvement were in line with better selling prices as well as lower production costs per metric ton as a result of internal efficienies improvement exercise.

15 Prospects for the current financial year.

Market conditions remained volatile in view of rising commodity prices, interest and inflation rates amidst recovering steel prices. However, uncertainties in global steel prices , especially the China factor continue to hamper the smooth growth of the steel industry. Nevertheless, with the imminent take-off of the 9th Malaysian Plan, there are some signs of excitement and optimism in the domestic market. Therefore, barring any unforeseen circumstances, the Board expects the performance for the rest of the year to be satisfactory and the current year result will be much better than the prior year.

16 Variance of actual profit from forecast profit / profit guarantee

Not Applicable.

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Notes to the Interim Financial Report for the period ended 30 June 2006

17 Tax expenses

RM'000	Current Quarter 30/6/2006	Current Year To date 30/6/2006
- current taxation	2,814	3,661
- deferred taxation	984	908
- in respect of prior years	-12	-12
	3,786	4,557

The average effective tax rate of the Group for the current quarter and financial year to date is higher than the statutory tax rate as the tax losses of some subsidiaries cannot be set-off against the taxable profits of other subsidiaries.

18 Profit / (Losses) on sale of unquoted investments and/or properties

There is no sale of unquoted investments or properties for the current quarter and financial year to date.

19 Quoted securities

(a) Total purchases consideration and sale proceeds of quoted securities for the current quarter and financial year to date and profit/loss arising therefrom are as follows:

	Current Quarter 30/6/2006 RM'000	Year To date 30/6/2006 RM'000
Total Purchases	303	303
Total Sale Proceeds	299	299
Total Profit / (Loss)	-16	-16

(b) Investments in quoted securities as at 30 June 2006 are as follows :-

	RM'000
(i) At cost	738
(ii) At book value	454
(iii) At market value	521

20 (a) The status of corporate proposals announced but not completed at the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report.

(b) Where applicable, a brief explanation of the status of utilisation of proceeds raised from any corporate proposal.

The Company had on 24 May 2006 made annoucement to Bursa Malaysia that it entered into a MOU with Spur Reach Sdn Bhd, POSCO and POSCO Steel Service and Sales Co. Ltd. ("POSTEEL") for the intention of disposal of 5,300,00 ordinary shares of RM1.00 each held by the Company in Posmmit Steel Centre Sdn Bhd ("Posmmit") representing 37.86% of the total issued and paid-up share capital of Posmmit.

The transaction amount will be determined after the completion of the due diligence review of the assets and liabilities of Posmmit. The parties to the MOU are in the midst of finalising the terms and conditions of the agreement to be executed between the parties. Meanwhile, application to the approving authority , MITI has been submitted in Jun 2006 and is still pending its approval before further actions.

21 Group bank borrowings :

Total group borrowings as at 30 June 2006 are as follows :-	30.6.2006
Long term bank loans - Secured	RM'000
Total outstanding balances	2,564
Repayments due within the next 12 months	-1,250
Total - Long Term Bank Loans - Secured	**1,314**
Short term bank borrowings	
Secured :-	
Bank overdrafts	203
Revolving credits	1,500
Bankers' acceptance & commercial paper	69,529
Current portion of long term loan	1,250
Sub-total	72,482
Unsecured :-	
Bank overdrafts	653
Revolving credits	0
Bankers' acceptance	100,427
Sub-total	101,080
Total - Short Term Bank Borrowings	**173,562**

22 Financial instruments with off balance sheet risk at the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report.

Foreign currency contracts

As at 24 August 2006, the Group had the following outstanding foreign currency contracts to hedge its committed purchases and sales in foreign currencies.

Currency	Contract Amount ('000)	Equivaleny amount in Ringgit Malaysia ('000)	Expiry Dates
Bank Buy :			
USD USD	5,909	21,250	31/5/06 to 30/4/07
SGD SGD	250	573	13/10/06 to 29/9/06

There is minimal credit risk because these contracts were entered into with reputable banks. All gains and losses arising from forward foreign exchange contracts are dealt with through the Income Statement upon maturity.

23 Material litigation since the last annual balance sheet date which shall be made up to a date not earlier than 7 days from the date of issue of the quarterly report.

i) Posmmit Steel Centre Sdn Bhd (PSC) vs Mikuni Steel (M) Sdn Bhd (Mikuni)

Changes since last annual report date

Mikuni has been wound up pursuant to a winding-up order dated 2 November 2004. PSC has file its proof of debt with the Official Receiver on 3 August 2005 to recover the balance of the debts amounting to RM519,266. There were no changes in the status of litigation since the last annual balance sheet date as at 31 December 2005.

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Notes to the Interim Financial Report for the period ended 30 June 2006

23 Material litigation since the last annual balance sheet date which shall be made up to a date not earlier than 7 days from the date of issue of the quarterly report. (continue)

ii) Prestar Engineering Sdn Bhd (PESB) vs Timer Steel Fab (M) Sdn Bhd (TSF)

Changes since last annual report date

On 29 March 2006, PESB obtained a winding-up order against TSF via Winding-Up Petition (No. D8-28-896-2005) dated 12 December 2005. The sealed winding-up order has been extracted from the High Court and has thereafter been served on the Director General of Insolvency of Malaysia, Companies Commissions of Malaysia and Respondent respectively.Pursuant to Section 226(3) of the Companies Act 1965,the arbitration proceedings between PESB and TSF have been automatically stayed upon the issuance of the winding-up order. PESB has filed its proof of debt with the Official Receiver in respect of the Allocator fees as well as the amount claimed in the arbitration on 7 June 2006.

24 Dividend

The Directors do not recommend any interim dividend for the current quarter under review.

25 Earnings per share

	Current Quarter ended 30.6.2006
Basic	
Net profit attributable to ordinary shareholders (RM'000)	3,152
Number of ordinary shares as at 1 Jan 2006 after net off treasury shares	175,088
Effect of ESOS exercised	0
Effect of warrants exercised	0
Effect of shares repurchased	-129
Weighted average number of ordinary shares in issue	174,959
Basic earnings per share (sen)	**1.80**

Diluted

The diluted earnings per ordinary share is not presented for the current quarter as there is an anti-dilutive effect on the conversion of ESOS and Warrants to ordinary shares.

26 Capital commitments

	As at 30.6.2006 RM'000
Property, plant and equipment	
Authorised and contracted for	**9,112**
Authorised and not contracted for	**4,436**