Prestar Resources Berhad (123066-A)

Notes to the Interim Financial Report for the period ended 31 December 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 Accounting 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.

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 Equipment	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.

Prestar Resources Berhad (123066-A)

Notes to the Interim Financial Report for the period ended 31 December 2006

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
Jul 06	0.54	0.56	0.55	53,000	29	53,000
Nov 06	0.62	0.68	0.65	1,195,500	780	1,195,500
Dec 06	0.61	0.66	0.64	474,000	302	474,000
Balance c/f				4,450,900	3,922	4,450,900

There were no other issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter ended 31 December 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 31 December 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	**94,664**	**432,767**	**12**	**0**	**527,443**
Inter-segment revenue	960	52,618	10,270	-63,848	0
Total Revenue	95,624	485,385	10,282	-63,848	527,443
Segment Result	**6,503**	**30,628**	**4,491**	-2,711	**38,911**
Profit from operations					**38,911**
Finance Costs					-9,497
Interest Income					75
Share of profit/(loss) of associate					-16
Profit before taxation					**29,473**

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.

Prestar Resources Berhad **(123066-A)**
Notes to the Interim Financial Report for the period ended 31 December 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 23 Feb 2007, which is likely to affect substantially the results of the operations of the Group for the financial period ended 31 December 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 31.12.2006 RM'000	As at 31.12.2005 RM'000
Guarantees to financial institutions for credit facilities granted to subsidiaries - unsecured	316,970	308,050
	316,970	308,050

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

Group revenue for the current quarter and year-to-date were RM 121.7 million and RM 527.4 million respectively,a slight decrease of 4.5 % and 1.1 % over the same period last year. Nevertheless , net profit for the financial year-to-date improved to RM 11.2 million with the current quarter posted a net gain of RM 2.3 million.The improvement in profits for the period under review were mainly attributed to higher sales margin during the earlier part of the year, on-going costs cutting exercises and improvement in operational efficiencies.

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

Group revenue for the current quarter were RM 121.7 million, 9.4% lower than the immediate preceding quarter's RM 134.3 million. Profit before tax were RM 6.5 million , 32 % lower when compared to RM 9.6 million of the preceding quarter.The reduction in the profit before tax were mainly due to impairment losses on assets of a subsidiary and lower sales margins due to uncertainties in steel prices during the quarter under review.

15 Prospects for the current financial year.

Year 2007 is abounded with favourable news such as growing domestic demand in line with the implementation of the 9th Malaysian Plan and forecasted stable steel prices in the middle term. Within the Group,stainless steel pipes are expected to be rolled out in the second quarter while the enhanced strategic alliance with POSCO is expected to further improve the bottom-line through higher value-add activities. The Board expects the current year performance to be much better .

16 Variance of actual profit from forecast profit / profit guarantee

Not Applicable.

Prestar Resources Berhad **(123066-A)**
Notes to the Interim Financial Report for the period ended 31 December 2006

17 Tax expenses

RM'000	Current Quarter 31/12/2006	Current Year To date 31/12/2006
- current taxation	1,118	7,757
- deferred taxation	970	1,751
- in respect of prior years	36	-16
	2,124	9,492

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 31/12/2006 RM'000	Year To date 31/12/2006 RM'000
Total Purchases	0	393
Total Sale Proceeds	0	384
Total Profit / (Loss)	0	-13

(b) Investments in quoted securities as at 31 Dec 2006 are as follows :-

	RM'000
(i) At cost	746
(ii) At book value	483
(iii) At market value	501

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.

(a) There was no corporate proposal announced and pending completion.

(b) Proposed utilisation of proceeds from disposal of 5,300,000 shares of RM1.00 each representing 37.86% equity interest in Posmmit Steel Centre Sdn Bhd to POSCO Steel Service & Sales Co Ltd

	Proposed utilisation RM'000	Amount utilised RM'000
Repayment of bank borrowings	24,000	-
Working capital	5,256	3,500
Defray expenses relating to the disposal	250	124
	29,506	3,624

21 Group bank borrowings :

Total group borrowings as at 31 Dec 2006 are as follows :-	**31.12.2006**
Long term bank loans - Secured	RM'000
Total outstanding balances	0
Repayments due within the next 12 months	0
Total - Long Term Bank Loans - Secured	**0**
Short term bank borrowings	
Secured :-	
Bank overdrafts	537
Revolving credits	1,500
Bankers' acceptance & commercial paper	62,258
Current portion of long term loan	0
Sub-total	64,295
Unsecured :-	
Bank overdrafts	5,003
Revolving credits	0
Bankers' acceptance	132,513
Sub-total	137,516
Total - Short Term Bank Borrowings	**201,811**

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 23 February 2007, the Group had the following outstanding foreign currency contracts to hedge its committed purchases and sales in foreign currencies.

Currency	Contract Amount ('000)	Equivalent amount in Ringgit Malaysia ('000)	Expiry Dates
Bank Buy :			
USD	4,677	16,718	28/02/07 to 31/10/07
SGD	209	472	28/02/07 to 26/06/07

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 filed 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.

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. There was no changes in the status of litigation since the last report on 30 June 2006.

24 Dividend

The Directors recommend a final dividend of 5% less tax amounting to RM3,160,000 in respect of the year ended 31 December 2006, subject to shareholders' approval at the forthcoming Annual General Meeting of the Company.

25 Earnings per share

	Current Quarter ended 31.12.2006
Basic	
Net profit attributable to ordinary shareholders (RM'000)	2,321
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	-306
Weighted average number of ordinary shares in issue ('000)	174,782
Basic earnings per share (sen)	**1.33**

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 31.12.2006 RM'000
Property, plant and equipment	
Authorised and contracted for	**4,333**
Authorised and not contracted for	**2,386**