

Masteel

Putting The Steel into Malaysia's Growth



MALAYSIA STEEL WORKS (KL) BHD
(7878-V)



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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Thirty-Fourth Annual General Meeting of the Company will be held at Rebana 1 and 2, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Tuesday, 30 May 2006 at 3.00 p.m. to transact the following businesses:-

AGENDA

As Ordinary Business

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2005 together with the Directors' and Auditors' Reports thereon. Resolution 1
2. To declare a final dividend of 1.5 sen per share less 28% income tax in respect of the financial year ended 31 December 2005. Resolution 2
3. To approve the payment of Directors' Fees amounting to RM36,000 in respect of the financial year ended 31 December 2005. Resolution 3
4. To re-elect the Director, YBhg. Senator Dato' Ikhwan Salim bin Dato' Haji Sujak who is retiring under Article 79 of the Articles of Association of the Company. Resolution 4
5. To re-elect the Director, Mr Tai Hean Leng @ Tek Hean Leng who is retiring under Article 79 of the Articles of Association of the Company. Resolution 5
6. To re-appoint Messrs Singam & Yong as Auditors of the Company and to authorise the Directors to fix their remuneration. Resolution 6

As Special Business

To consider and, if thought fit, to pass the following Ordinary Resolutions:-

7. **Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares**

"That pursuant to Section 132D of the Companies Act, 1965, the Directors be and they are hereby authorised to issue shares in the Company at any time and from time to time until the conclusion of the next Annual General Meeting of the Company upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit provided that the aggregate number of shares to be issued does not exceed 10 per centum (10%) of the issued share capital of the Company for the time being, subject always to the approval of all the relevant regulatory bodies being obtained for such allotment and issue."

Resolution 7

NOTICE OF ANNUAL GENERAL MEETING

8. **Proposed Renewal of Shareholders' Mandate For Recurrent Related Party Transactions of a Revenue or Trading Nature ["Proposed Shareholders' Mandate"]**

"THAT subject always to the Companies Act, 1965, the Memorandum and Articles of Association of the Company and the Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and its subsidiaries, to enter and give effect to the recurrent related party transactions of a revenue or trading nature (hereinafter to be referred to as "Recurrent Transactions") with a Related Party, as stated in Section 3.3 of the Circular to Shareholders dated 8 May 2006, which are necessary for the day-to-day operations of the Company and its subsidiaries subject further to the following:-

- (i) the Recurrent Transactions contemplated are in the ordinary course of business and on normal commercial terms not more favourable to the related party than those generally available to the public, and are not to the detriment of the minority shareholders of the Company; and
- (ii) disclosure will be made in the Annual Report of the breakdown of the aggregate value of the Recurrent Transactions conducted pursuant to the Proposed Shareholders' Mandate during the financial year on the type of Recurrent Transactions made, the name of the related party involved in the Recurrent Transactions and their relationships with the Company.

AND THAT the approval is subject to annual renewal and shall only continue to be in force until:-

- (a) the conclusion of the next Annual General Meeting of the Company following the forthcoming Annual General Meeting of the Company at which the Proposed Shareholders' Mandate will be tabled;
- (b) the expiration of the period within which the next Annual General Meeting of the Company after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND FURTHER THAT the Directors of the Company be and are hereby authorised to do all acts and things to give full effect to the Recurrent Transactions contemplated and/or authorised by this resolution, as the Directors of the Company, in their absolute discretion, deem fit."

Resolution 8

NOTICE OF ANNUAL GENERAL MEETING

9. Proposed Share Buy-Back Mandate

"That subject always to the Companies Act, 1965, the Memorandum and Articles of Association of the Company and the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), authority be and is hereby given to the Company to buy-back its own shares through Bursa Securities and/or hold from time to time and at any time such amount of ordinary shares of RM0.50 each in the Company as may be determined by the Directors of the Company from time to time upon such terms and conditions as the Directors may deem fit and in the best interest of the Company ("Proposed Share Buy-Back") provided that:-

- a) the maximum number of shares to be purchased and/or held pursuant to this resolution does not exceed ten per centum (10%) of the issued and paid-up share capital of the Company; and
- b) the maximum amount of funds to be allocated by the Company in relation to the Proposed Share Buy-Back shall not exceed the sum of the retained profits and/or the share premium account of the Company based on the latest audited financial statements available up to the date of a transaction under the Proposed Share Buy-Back.

AND THAT, upon the purchase by the Company of its own shares, the Directors be and are hereby authorised to retain such shares so purchased as treasury shares or cancel the shares so purchased or retain part of the shares so purchased as treasury shares and cancel the remainder as they may deem fit in the best interest of the Company. The Directors are further authorised to distribute the treasury shares as dividends to the shareholders of the Company and/or resell the shares on Bursa Securities as they may deem fit in accordance with the relevant rules of Bursa Securities or subsequently cancel the treasury shares or any combination thereof;

AND THAT the approval is subject to annual renewal and shall only continue to be in force until:-

- (i) the conclusion of the next Annual General Meeting of the Company following the forthcoming Annual General Meeting of the Company at which the Proposed Share Buy-Back authority is renewed;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND FURTHER THAT the Directors of the Company be and are hereby authorised to do all acts and things to give full effect to the Proposed Share Buy-Back contemplated and/or authorised by this resolution, as the Directors of the Company, in their absolute discretion, deem fit."

Resolution 9

NOTICE OF ANNUAL GENERAL MEETING

Date Of Entitlement And Payment Of Final Dividend

NOTICE IS HEREBY GIVEN THAT subject to the approval of shareholders at the Thirty-Fourth Annual General Meeting, a final dividend of 1.5 sen per share less 28% income tax in respect of the financial year ended 31 December 2005 will be paid on 28 August 2006. The entitlement date for the said dividend shall be on 3 August 2006.

A Depositor shall qualify for entitlement to the dividend only in respect of:

- a. Shares transferred to the Depositor's securities account before 4.00 p.m. on 3 August 2006 in respect of transfers;
- b. Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

SAW BEE LEAN (MAICSA 0793472)

TAI YIT CHAN (MAICSA 7009143)

PAULINE NG PECK KUN (MAICSA 7029550)

Company Secretaries

Selangor Darul Ehsan

Date: 8 May 2006

NOTE:

1. A member (other than an Authorised Nominee as defined under the Securities Industry (Central Depositories), Act 1991) entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) Proxies to attend and vote on his (her) behalf. A Proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. Where a member appoints more than two (2) Proxies, the appointment shall be invalid unless he (she) specifies the proportions of his (her) holdings to be represented by each Proxy.
3. The Proxy Form shall be signed by the appointor or his (her) attorney duly authorised in writing or, if the member is a Corporation, must be executed under its common seal or by its duly authorised attorney or officer.
4. The instrument appointing a Proxy must be deposited at the Registered Office of the Company not less than 48 hours before the time set for the Meeting or at any adjournment thereof.

EXPLANATORY NOTES ON SPECIAL BUSINESS

Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares

The Resolution 7 proposed under item 7 of the Agenda, if passed, will empower the Directors to allot and issue shares in the Company up to an amount not exceeding in total ten per centum (10%) of the issued share capital of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

It is the intention of the Directors of the Company, if authorised by the shareholders under Resolution 7, to undertake a private placement of shares of not more than ten per centum (10%) of the issued share capital of the Company. The private placement was announced on 9 January 2006 and was approved by the Securities Commission ("SC"), SC on behalf of the Foreign Investment Committee, Bursa Malaysia Securities Berhad and the Ministry of International Trade and Industry on 14 February 2006, 21 February 2006 and 15 March 2006 respectively.

NOTICE OF ANNUAL GENERAL MEETING

Proposed Renewal of Shareholders' Mandate For Recurrent Related Party Transactions of a Revenue or Trading Nature ["Proposed Shareholders' Mandate"] and Proposed Share Buy-Back Mandate.

Further information on Resolution 8 and Resolution 9 are set out in the Circular to Shareholders dated 8 May 2006 which is despatched together with the Company's 2005 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Pursuant to paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

1. **Directors who are standing for re-election at the Thirty-Fourth Annual General Meeting of the Company** pursuant to Article 79 of the Articles of Association of the Company are as follows:-

* YBhg. Senator Dato' Ikhwan Salim bin Dato' Haji Sujak

* Mr Tai Hean Leng @ Tek Hean Leng

The details of the Directors seeking re-election are set out in their respective profiles, which appear in the Directors' Profile on pages 11 to 12 of this Annual Report. Their shareholdings in the Company are set out in the Analysis of Shareholdings, which appear on pages 53 to 54.

2. **Details of Board Meetings held in the financial year ended 31 December 2005**

A total of five (5) board meetings were held in the financial year ended 31 December 2005. The attendance of Directors at the board meetings held in the financial year ended 31 December 2005 are set out in page 17 of this Annual Report.

3. **Place, date and time of the Thirty-Fourth Annual General Meeting**

The Thirty-Fourth Annual General Meeting of the Company will be held at Rebana 1 and 2, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Tuesday, 30 May 2006 at 3.00 p.m.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Senator Dato' Ikhwan Salim Bin Dato' Haji Sujak
Tai Hean Leng @ Tek Hean Leng
Rosly Bin Aziz
Lee Kean Binh
Lim Kim Hai
Ng Wah Lok

SHARE REGISTRAR

Tenaga Koperat Sdn Bhd
20th Floor, Plaza Permata,
Jalan Kampar,
Off Jalan Tun Razak,
50400 Kuala Lumpur.
Tel: 03 - 4041 6522
Fax: 03 - 4042 6352

COMPANY SECRETARIES

Saw Bee Lean
Tai Yit Chan
Pauline Ng Peck Kun

AUDITORS

Singam & Yong
Chartered Accountants,
Suite 1607, 16th Floor,
Plaza Pengkalan, Jalan Tiong,
3rd Mile, Jalan Ipoh,
51100 Kuala Lumpur.

REGISTERED OFFICE

Unit 1009, 10th Floor, Amcorp Tower,
Amcorp Trade Centre,
No. 18, Jalan Persiaran Barat,
46050 Petaling Jaya,
Selangor Darul Ehsan.
Tel: 03 - 7955 7889
Fax: 03 - 7956 0389

PRINCIPAL BANKERS

EON Bank Berhad
RHB Bank Berhad
Standard Chartered Bank (M) Berhad
OCBC Bank (Malaysia) Berhad

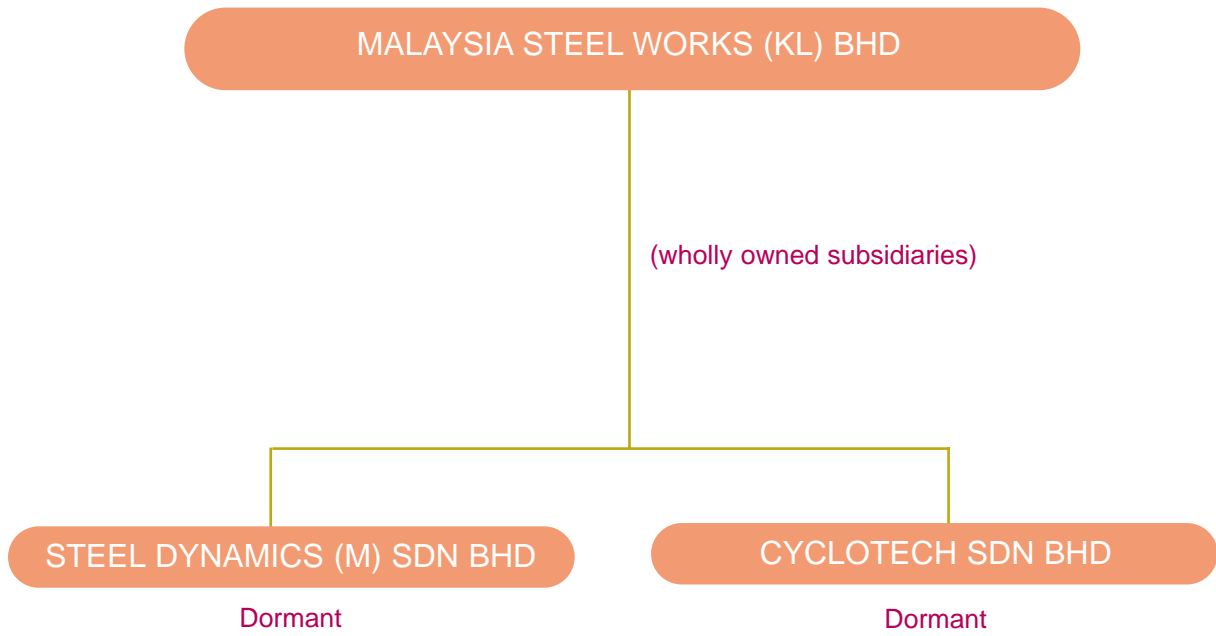
PRINCIPAL OFFICE

Lot 29C, Section 51,
Off Jalan Tandang,
46050 Petaling Jaya,
Selangor Darul Ehsan.
Tel: 03 - 7781 1611
Fax: 03 - 7781 3679 / 7781 5811

STOCK EXCHANGE LISTING

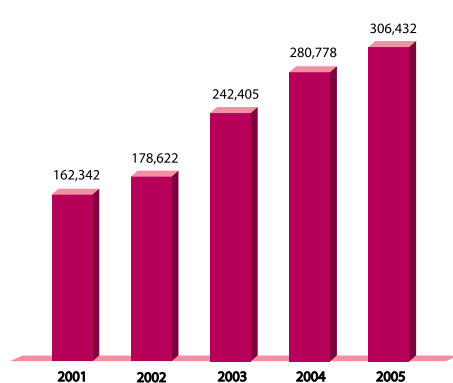
MAIN BOARD OF
BURSA MALAYSIA SECURITIES BERHAD

CORPORATE STRUCTURE

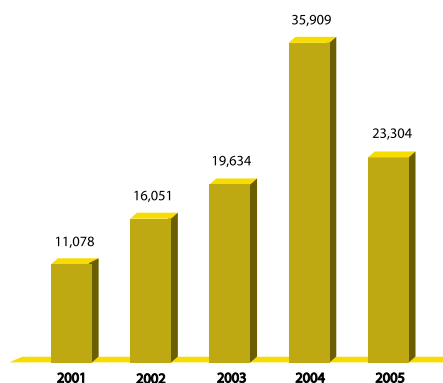


FINANCIAL HIGHLIGHTS

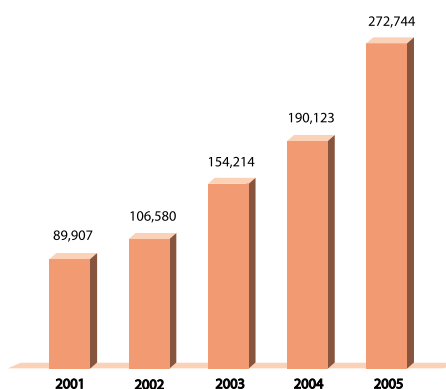
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Revenue	162,342	178,622	242,405	280,778	306,432
Profit before taxation	11,078	16,051	19,634	35,909	23,304
Net Profit for the financial year	11,078	16,051	19,634	35,909	23,304
Total Assets Employed	337,600	352,909	375,989	370,754	462,179
Total Shareholders' funds	89,907	106,580	154,214	190,123	272,744
Paid-up Share Capital	39,000	39,000	54,852	54,852	66,500
No. of Ordinary Shares in Issue ('000)	39,000	39,000	54,852	109,703	133,000
Net Tangible Assets per Share (RM)	2.31	2.73	2.81	1.73	2.05
Earnings per Share (sen)	28.41	41.16	40.69	44.54	17.78
Gross Dividend per Share (sen)	-	-	-	-	1.50



REVENUE
(RM '000)



PROFIT BEFORE TAXATION
(RM '000)



TOTAL SHAREHOLDERS' FUNDS
(RM '000)

DIRECTORS' PROFILES

SENATOR DATO' IKHWAN SALIM BIN DATO' HAJI SUJAK

aged 49, was redesignated as the Non-Executive Chairman of Masteel on 22 May 2003. He was a Non Executive Director of Masteel since 23 July 1998. He obtained a Bachelor of Science degree in Economics/Accounting in 1977 from Queen's University, Belfast, Ireland. He joined Nestle (M) Sdn Bhd as a Finance Executive in 1979. In 1980, he joined Bandar Management Sdn Bhd, a subsidiary of General Corporation Berhad as the Group Finance Planning Manager and upon restructuring his family's varied business operations in 1981, he was made the Director for the holding company, Jaya Holdings Sdn Bhd. In 2000, he was appointed as Executive Chairman/Director of Konsortium Jaringan Selangor Sdn Bhd and was also appointed as an Independent Director as well as Chairman of the audit committee of Glomac Berhad. Subsequently, he was appointed as Independent Director of Kumpulan Perangsang Selangor Berhad in 2001 and Ayer Hitam Tin Dredging Malaysia Berhad in 2003. He was also appointed as Chairman of audit committee and redesignated as the Chairman of Ayer Hitam Tin Dredging Malaysia Berhad in 2004. He was also a committee member of Automobile Association of Malaysia and the British Graduates Association of Malaysia. Since 2002, he has been a Council Member of the Petaling Jaya Municipal Council and is the Division Head of Petaling Jaya Utara Division of United Malay National Organisation. Dato' Ikhwan also sits on the Board of several private companies in Malaysia.

Dato' Ikhwan attended all five (5) Board meetings of the Company held during the financial year ended 31 December 2005.

TAI HEAN LENG @ TEK HEAN LENG

aged 42, was appointed as an Executive Director of Masteel on 25 April 1994. He is also the Managing Director/Chief Executive Officer of Masteel. He obtained a Bachelor of Science degree in Mechanical Engineering from University of Southern California in 1987 and a Master of Business Administration degree from the University of Hull, United Kingdom in 1993. He began his practical training in 1987 as a Plant Manager in charge of Malaysian Industrial Products Sdn Bhd, which produces LPG pressure vessel for the oil and gas industries. He is also involved in the formulation and implementation of Masteel's

corporate strategies as he is in charge of corporate planning, business expansion and operations. In his 19 years of business experience, he has successfully led the commissioning of a new meltshop in Klang. Mr Tai also sits on the Board of Steel Dynamics (M) Sdn Bhd and Cyclotech Sdn Bhd, wholly owned subsidiaries of Masteel.

Mr Tai attended all five (5) Board meetings of the Company held during the financial year ended 31 December 2005.

LEE KEAN BINH

aged 49, was appointed as an Executive Director of Masteel on 4 June 2003. He is a Fellow Chartered Management Accountant, an Associate Chartered Secretary by profession and a member of the Malaysian Institute of Accountants. He has more than 25 years of extensive local and international experience in management, accounting and secretarial matters. Upon graduation in 1981, he joined Messrs. Porter Gee & Co, a public accounting firm in London as an auditor until 1983 when he returned to Malaysia and joined Transwater Engineering Sdn Bhd as an Accountant and Office Manager until 1985. From 1985 to 1990, he was with Gas Pantai Timur Sdn Bhd as a Group Accountant and from 1990 to 1993, he was with Sitt Tatt Berhad as a Senior Manager in Finance and Administration cum Company Secretary. He joined Masteel in November 1993 as the Finance Manager.

Mr Lee attended all five (5) Board meetings of the Company held during the financial year ended 31 December 2005.

DIRECTORS' PROFILES

ROSLY BIN AZIZ

aged 47, was appointed as a Non-Executive Director of Masteel on 7 July 1997. He obtained a Bachelor of Economics (Honours) degree from Universiti Kebangsaan Malaysia in 1983 and joined Lembaga Pertubuhan Peladang (Ministry of Agriculture) as a Research Officer upon graduation. In 1984, he joined MIDA as an Economist for 12 years before joining Perusahaan Otomobil Kedua Sdn Bhd in 1996 where he is presently the Senior General Manager in the Procurement and Vendor Development Department.

Encik Rosly attended all five (5) Board meetings of the Company held during the financial year ended 31 December 2005.

LIM KIM HAI

aged 30, was appointed as an Independent Non-Executive Director of Masteel on 26 July 2004. He is a fellow member of the Association of Chartered Certified Accountants. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Taxation and Financial Planning Association of Malaysia. He joined Tan Che & Associates as an Audit and Tax Assistant in 1995. In 1997, he joined WK Hong & Co as an Audit and Tax Manager and was promoted to Associate Partner in 2002. He is also the Finance Director of GP Ocean Food Bhd and a member of the audit committee. He also sits on the Board of several private limited companies in Malaysia.

Mr Lim attended four (4) of the five (5) Board meetings of the Company held during the financial year ended 31 December 2005.

NG WAH LOK

aged 45, was appointed as an Independent Non-Executive Director of Masteel on 29 July 2004. He obtained his Bachelor of Engineering degree in 1984 and a Master degree in Engineering Science in 1989 from the University of Malaya. Upon graduation, he worked as a Project Engineer for a research project in the University of Malaya developing a hand pump to eradicate waterborne diseases in rural areas. In 1989, he joined Malaysian Industrial Products Sdn Bhd as a Project Engineer. In 1993, he was appointed as the General Manager of Masteel and was responsible for the upgrading of the rolling mill in Petaling Jaya and managed the expansion of the meltshop plant in Klang. In 1999, he resigned as Senior General Manager and alternate Director of Masteel. He is currently a Director of a private limited company and a public company in Malaysia.

Mr Ng attended all five (5) Board meetings of the Company held during the financial year ended 31 December 2005.

CHAIRMAN'S STATEMENT

FINANCIAL PERFORMANCE

The Year 2005 proved to be a challenging 12-month for Malaysia's steel industry marked by lower steel demand due to continuous contraction of the local construction industry and fluctuation in global steel prices.

Despite the challenging environment, Masteel recorded a revenue growth of 9.1% to RM306.4 million, and a Profit Before Tax of RM23.3 million, which was marginally lower than the adjusted Profit Before Tax of RM24.1 million for 2004.

SUSTAINED PROFITABILITY & DIVIDEND PAYMENT

The result of sustained profitability was achieved on the back of several strategic moves.

Since the second half of year 2005, the management has put in place aggressive cost-cutting measures ranging from switching to lower cost fuel type to investment in technology to reduce electricity consumption and increase production capacity.

With funds raised from the initial public offering, the company's borrowing was lowered, thereby reducing the overall gearing to about 0.56.

In terms of exports, a total of 21% of our products was sold to overseas markets, which includes new markets like Vietnam and Thailand last year.

In view of sustained profitability, the Board of Directors has proposed a dividend payment of 1.5 sen per share, which is not tax exempted for the financial year under review.

POSITIVE OUTLOOK FOR 2006

Looking forward, I am pleased to say that the outlook for Malaysia's steel industry in 2006 is positive.

The Ninth Malaysia Plan announced by our Prime Minister on 1 April 2006 is expected to boost the local construction industry for the next five (5) years. This prospect will augur well for the steel industry, which will see an increase as well as stable demand for



construction-based steel products in the next few years.

At Masteel, we will continue our efforts to reduce cost of production through the deployment of latest technology, and to intensify sales in the local and export markets.

ACKNOWLEDGEMENTS

With the positive outlook, I am confident that the management and staff of Masteel will continue to achieve sustained profitability, if not better results in year 2006.

I would like to take this opportunity to express my appreciation and gratitude to the management and staff for their commitment and efforts last year, and many thanks to our customers, business associates as well as the Government and regulatory bodies for their continuous support and guidance.

**SENATOR DATO' IKHWAN SALIM
BIN DATO' HAJI SUJAK**
Chairman

MANAGING DIRECTOR / CEO'S STATEMENT



PERFORMANCE REVIEW

For the year under review, the business environment in which the local steel industry operated in was more challenging as compared to the previous year. Overall demand of steel decreased and cost of raw materials and freight was affected by fuel price hike.

Against this background, Masteel achieved a turnover of RM306.4 million and a Profit Before Tax of RM23.3 million for the financial year ended 31 December 2005.

Compared to the previous year, the Company's revenue grew 9.1% from RM280.8 million, while Profit Before Tax decreased 35.1% from RM35.9 million, which included a RM11.8 million write-back of electricity arrears accrual in previous years. Not considering the write-back, the actual year-to-date reduction in Profit Before Tax was 3.3%.

OPERATION REVIEW

In terms of operation, the year was marked by strategic implementation of cost-cutting measures to increase both cost-efficiency and productivity in the manufacturing of our steel products. The objective was to utilise the best plant and process technology to produce quality steel products at the lowest production cost.

For our meltshop facilities in Bukit Raja, Klang, we had in earlier months of 2005 upgraded all existing machinery to be adapted to use natural gas. In June, the switch from liquefied petroleum gas to natural gas was successfully commissioned. This strategic move was expected to reduce the cost of production by about 10% per annum.

In August, an agreement was signed with Danieli & C SpA of Italy to provide the plant with the latest Supersonic Lancing System (SLS) technology, which would effect in a reduction in production cost by about 5%, and an increase in production capacity by 10% per annum. The technology will be fully utilised in the Bukit Raja plant by second half of 2006 to further enhance our operation's competitiveness.

OUTLOOK

The Malaysian Iron & Steel Industry Federation (MISIF) forecast the local steel industry to grow by 8% in 2006, based on recovery of construction sector. The overall outlook for 2006 is positive, as supported by the following factors:

1. Construction Industry Recovery

Under the Ninth Malaysia Plan, the Government has recently announced allocations of RM48.6 billion and RM18.4 billion for the development of infrastructure



MANAGING DIRECTOR / CEO'S STATEMENT



and housing projects respectively. The implementation of the plan, which will start in 2006, is expected to boost the local construction industry at an average of 3.5% for the next five years.

The steel industry is looking to benefit from the positive growth and re-bounce of the construction industry.

2. Positive Economic Outlook

The Bank Negara Malaysia projected a strong GDP growth of 6% for the year 2006, underpinned by stronger exports and resilient local demand.

3. Anticipation of Higher Steel Prices

Due to positive outlook in the construction sectors of ASEAN region, prices of steel is on the upswing in the first quarter of 2006. Overall, international steel price increased by 20% in the quarter.

In anticipation of a further increase in steel prices, the Board of Directors is cautiously optimistic of the Company's performance in 2006.

ACKNOWLEDGEMENTS

After a year of challenges, I wish to thank all the management and staff at Masteel for their contribution to our performance in 2005. On their behalf, I would also like to thank our customers and shareholders for their trust and support, as we continue to put our efforts to build a stronger Masteel for tomorrow and the long term.

TAI HEAN LENG

Managing Director/Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

Recognizing the importance of good governance as a fundamental part of discharging their responsibility, the Board of Directors have taken steps to evaluate the status of the Company's corporate governance policies and procedures. The Board is committed to ensure that good corporate governance is practiced and complied with throughout the Company within the framework as expounded by the principles and best practices as set out in the Malaysian Code of Corporate Governance ("the Code").

The manner in which the Corporate Governance framework is applied is summarized as follows:-

BOARD OF DIRECTORS

The Board has the overall responsibility for corporate governance, strategic direction, formulation of policies, implementing an appropriate system of risk management, ensuring the adequacy and integrity of the Group's system of internal control and overseeing the investment and business of the Group.

A brief description of each Director is presented in the profile of Directors on pages 11 to 12 of this Annual Report.

None of the Directors has family relationship with other directors/major shareholders, except for the Managing Director/Chief Executive Officer ("MD/CEO"), who is related to one of the major shareholder, and he does not have any conflict of interest with the Company.

COMPOSITION AND BALANCE

The Board currently has six (6) members, comprising two (2) Executive Directors, two (2) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors. Collectively, the Board of Directors brings a balance of skills and experience appropriate to the business owing to the diverse backgrounds in the business, finance, political and commercial field.

The composition of the Board ensures that Independent Non-Executive Directors will be able to exercise independent judgment on the affairs of the Company. The Chairman holds a Non-Independent Non-Executive position and is primarily responsible for the conduct of Board meetings and overseeing the implementation of the Board's decisions and policies. The Executive Directors, supported by the management staff, are closely involved in the Company's day-to-day operations.

BOARD MEETINGS AND SUPPLY OF INFORMATION

The Board meets on a quarterly basis, with additional meetings to be convened on an ad-hoc basis as and when necessary to consider corporate proposals or business issues that require the urgent decision of the Board. The Directors are provided with the agenda and full set of Board papers prior to the meeting and are free to seek any further information they considered necessary. Senior management staff are invited to attend the Board meetings to provide the Board with detailed explanations and clarifications on issues that are being considered during the Board meetings.

CORPORATE GOVERNANCE STATEMENT

NUMBER OF MEETINGS HELD AND ATTENDANCE AT MEETINGS

During the financial year ended 31 December 2005, five (5) board meetings were held and each Director has attended at least 50% of the total board meetings held during the financial year. The detail of attendance are as follows:-

Directors	Number of Attendance Achieved	Percentage (%)
Senator Dato' Ikhwan Salim bin Dato' Haji Sujak - Non-Independent Non-Executive Chairman	5 / 5	100
Tai Hean Leng @ Tek Hean Leng - Managing Director / Chief Executive Officer	5 / 5	100
Lee Kean Binh - Executive Director	5 / 5	100
Rosly bin Aziz - Non-Independent Non-Executive Director	5 / 5	100
Lim Kim Hai - Independent Non-Executive Director	4 / 5	80
Ng Wah Lok - Independent Non-Executive Director	5 / 5	100
Raja Shamsul Kamal bin R Shahrizzaman (Retired at the AGM held on 30th May 2005)	N/A	N/A

All Directors have access to the advice of Company Secretaries and may obtain independent professional advice at the Company's expense as and when necessary.

BOARD COMMITTEES

The Board delegates certain functions to several committees, namely Nomination Committee, Remuneration Committee and Audit Committee to support and assist in discharging its fiduciary duties and responsibilities. The respective Committee reports to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The Board may form other Committees delegated with specific authorities to act on their behalf. These Committees operate under approved terms of reference or guidelines, whenever required.

CORPORATE GOVERNANCE STATEMENT

i) **Nomination Committee**

The Nomination Committee comprises of three (3) members, all of whom are Non-Executive Directors with a majority being Independent Directors. The Nomination Committee is headed by Encik Rosly bin Aziz while the other members are Mr Lim Kim Hai and Mr Ng Wah Lok.

The duties of the Nomination Committee shall be to:-

- * recommend to the Board, candidates for all directorships. In making the recommendations, the Committee should also consider candidates proposed by the Managing Director/CEO, and within the bounds of practicability, by any other senior executives, Director or shareholder;
- * review annually the required mix of skills and experience of the Board, including the core competencies which Non-Executive Directors should bring to the Board;
- * assess annually the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director.

The Nomination Committee met once during the financial year ended 31 December 2005.

ii) **Remuneration Committee**

The Remuneration Committee comprises of three (3) members and is headed by Senator Dato' Ikhwan Salim bin Dato' Haji Sujak while Mr Lim Kim Hai and Mr Ng Wah Lok are members of the Remuneration Committee.

The duty of the Remuneration Committee shall be to recommend to the Board the remuneration of the Executive Directors in all its forms.

The Remuneration Committee met once during the financial year ended 31 December 2005.

iii) **Audit Committee**

The terms of reference of the Audit Committee are set out under the Audit Committee Report on pages 24 to 27 of this Annual Report.

RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board are subjected to re-election by shareholders at the next Annual General Meeting following their appointments. The Articles also provide that at least one-third (1/3) of the Directors shall retire by rotation at each Annual General Meeting and are eligible to offer themselves for re-election at the Annual General Meeting. All Directors are also to retire from office at least once in every three (3) years and the Directors to retire in each year shall be those who have been longest in office since their last elections.

The profile of Directors seeking for re-election can be found in pages 11 to 12 of this Annual Report.

CORPORATE GOVERNANCE STATEMENT

DIRECTOR'S TRAINING AND DEVELOPMENT

All members of the Board have completed the Mandatory Accreditation Programme conducted by Bursa Malaysia Training Sdn Bhd as required by the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The Continuing Education Programme ("CEP") has been repealed by Bursa Securities with effect from 1 January 2005. All the Directors have undergone the following training programs during the financial year ended 31 December 2005:-

- * Managing International Trade, Shipping Document & Procedures
- * Financial Reporting Standards
- * A Talk on Goods and Services Tax

DIRECTORS' REMUNERATION

The responsibilities for developing the remuneration policy and determining the remuneration packages of Executive Directors lie with the Remuneration Committee. Nevertheless, it is the ultimate responsibility of the Board to approve the remuneration of these Directors.

During the financial year, the Remuneration Committee had reviewed the remuneration packages for the Executive Directors, which reflect the level of risk, responsibility as well as the performance of the Company and considered the packages are well within the industry norm.

LEVEL AND MAKE UP

The remuneration of each Director is not disclosed due to security reason. The transparency and accountability aspects of corporate governance as applicable to Directors' remuneration recommended by the best practice of the Code are deemed appropriately complied with the following disclosures:-

1. The Directors' fees are subject to the approval by shareholders at the forthcoming Annual General Meeting of the Company.
2. Aggregate remuneration of Directors during the financial year can be categorized into the following components:-

	Directors' Fees (RM)	Directors' Salaries, Bonus and Other Emoluments (RM)	Directors' Allowances (RM)	Total (RM)
Executive Directors	12,000	691,686	-	703,686
Non-Executive Directors	24,000	-	179,343	203,343

Directors remuneration are broadly categorized as follows:

Range of remuneration	Number of Directors	
	Executive Directors	Non- Executive Directors
Up to RM50,000		4
RM100,001-RM150,000	1	
RM500,001-RM550,000	1	

(Note: None of the Directors received remuneration in the range of RM150,001 to RM500,000)

CORPORATE GOVERNANCE STATEMENT

SHAREHOLDERS

The Board recognizes the importance of maintaining transparency and accountability to its shareholders. Thus, maintains a high level of disclosure and communication with its shareholders through disclosure to Bursa Securities and to the press.

The Company's website, www.masteel.com.my is accessible by the shareholders, investors and members of the public to obtain information on the Company's press releases, corporate information, operation activities and financial performances.

The Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders. Shareholders are provided with an opportunity to participate in the question and answer session in which shareholders may raise questions pertaining to the business activities of the Company. All Directors are available to respond to questions from shareholders at the AGM.

The Board has identified Mr Lim Kim Hai as Senior Independent Director, to address any valid and appropriate issues raised by shareholders, if any, via his email address.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board aims to present a balanced, clear and meaningful assessment of the Company's financial position and prospects in all their reports to the shareholders, investors and regulatory authorities. This assessment is primarily provided through the annual financial statements, quarterly announcement of financial results to the shareholders as well as Chairman's statement and MD/CEO's statement on the review of the operations in the Annual Report. The Board is assisted by the Audit Committee which reviewed the Company's financial reporting process and ensure the quality of its financial reporting.

INTERNAL CONTROL

The Board acknowledges its overall responsibility for maintaining a sound system of internal control, which provides reasonable assurance of effective and efficient operations and compliance with laws and regulations as well as with the internal financial administration procedures and guidelines.

The Audit Committee also acts as the Risk Management Committee to identify and assess the risks and control measures within the Group.

The Statement of Internal Control is set out on pages 28 to 29 of this Annual Report.

RELATIONSHIP WITH THE AUDITORS

The Company has established and maintained an appropriate working relationship with the Company's external auditors Messrs. Singam & Yong, in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

CORPORATE GOVERNANCE STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT

The Board is required to present the financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs, the results and cash flows of the Group and of the Company.

The Board is satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2005, the Group has adopted the appropriate accounting policies and applied them consistently. The Board is also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

OTHER COMPLIANCE INFORMATION

(Pursuant to paragraph 9.25 (l) of the Listing Requirements of Bursa Securities.)

MATERIAL CONTRACTS

There were no material contracts of the Company involving Directors and/or major shareholders entered into since the end of the financial year except for the following:-

- (i) Licence Agreement dated 5 August 2004 entered into between Masteel and Soon Seng Company Sdn Bhd ("the Licensor") whereupon the Licensor has granted to Masteel, its future subsidiaries and associated Companies, a non-exclusive and non-transferable licence to use the Trade Mark No. 98-11148 in Class 6 in Malaysia at a fee of RM100 per year upon the terms and conditions therein contained. The terms of the agreement shall be for a period of five (5) years commencing from 5 August 2004 with an option to renew for a further term to be mutually agreed by the parties, unless terminated by either party by written notice. The agreement provides that, inter alia, Masteel shall indemnify the Licensor and its subsidiaries for any claims, losses, liabilities and damages, objection suits or allegations made by any person for alleged infringement proceedings, costs and expenses upon trademark rights owned or controlled by such person due to the used of the trademark.

ADDITIONAL COMPLIANCE INFORMATION

The following additional information is provided in compliance with the Listing Requirements:-

1. UTILISATION OF PROCEEDS

Between 7 February 2005 (date of listing of the Company on Bursa Securities) until 31 December 2005, the proceeds raised by the Company from its flotation exercise have been utilized in the following manner:-

	Total Proceeds (RM'000)	Utilised (RM'000)	Unutilised (RM'000)
Repayment of term loans	17,456	17,456	-
Capital expenditure	8,000	3,523	4,477
Listing expenses	2,500	2,500	-
Working capital	2,330	2,330	-
Total	30,286	25,809	4,477

CORPORATE GOVERNANCE STATEMENT

2. **SHARE BUY-BACK**

There was no share buy-back by the Company during the financial year under review.

3. **OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES**

No options, warrants and convertible securities were issued by the Company during the financial year under review.

4. **AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME**

During the financial year, the Company did not sponsor any ADR or GDR programme.

5. **IMPOSITION OF SANCTIONS AND/OR PENALTIES.**

There were no sanctions and/or penalties imposed on the Company, Directors or management by regulatory authorities.

6. **NON-AUDIT FEES**

There were no non-audit fees paid to any parties during the financial year.

7. **PROFIT ESTIMATES, FORECASTS AND PROJECTIONS**

The Company has achieved the revenue of RM306.4 million and profit before tax of RM23.3 million as compared to the forecasted revenue and profit before tax as stated in the prospectus dated 17 January 2005 of RM254.4 million and RM25.6 million respectively. The variance of 9.0% in profit before tax as compared to the forecasted result was mainly due to lower operating margin and higher finance cost during the financial year ended 31 December 2005.

8. **PROFIT GUARANTEE**

No profit guarantee was given by the Company for the financial year under review.

9. **MATERIAL CONTRACTS**

No material contracts were entered into by the Company involving Directors and Substantial Shareholders' interests other than those disclosed under Other Compliance Information sub heading (i).

10. **CONTRACTS RELATED TO LOANS**

There was no contract leading to a loan by the Company in respect of the preceding item.

CORPORATE GOVERNANCE STATEMENT

11. RECURRENT RELATED PARTY TRANSACTIONS

Significant related party transactions of the Company during the financial year are disclosed in Note 18 to the financial statements.

At the Thirty-Third AGM of the Company held on 30 May 2005, the Company had obtained the approval of its shareholders to enter into recurrent related party transactions of a revenue or trading nature, which are necessary for its day-to-day operations and in the ordinary course of its business with its related party, Soon Seng Co (Selangor) Sdn Bhd.

The said mandate is subject to annual renewal and shall only continue to be in force until the conclusion of the forthcoming AGM of the Company.

At the forthcoming AGM to be held on 30 May 2006, the Company intends to seek its shareholders' approval to renew the said mandate for recurrent related party transactions of a revenue or trading nature. The details of the shareholders' mandate to be sought will be furnished in the Circular to Shareholders dated 8 May 2006 accompanying this Annual Report.

12. REVALUATION OF LANDED PROPERTIES

The Company adopts a revaluation policy on its landed properties based on valuations conducted by an independent valuer on market value basis once in every five (5) years or whenever the value of the revalued assets differ materially from their fair value. During the financial year ended 31 December 2005, a revaluation was carried out on its landed properties by an independent valuer and is set out in Note 12 to the financial statements and on page 52 of this Annual Report.

AUDIT COMMITTEE'S REPORT

MEMBERS

The Audit Committee comprises of the following members:-

Name	Designation	Directorship
Mr Lim Kim Hai*	Chairman	Independent Non-Executive Director
Mr Lee Kean Binh*	Member	Executive Director
Mr Ng Wah Lok	Member	Independent Non-Executive Director

* Member of the Malaysian Institute of Accountants (MIA).

TERMS OF REFERENCE

1. OBJECTIVES

The objective of the Audit Committee is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall:-

- Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- Maintain open lines of communication between the Board of Directors, the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- Determine the adequacy of the Company's administrative, operating and accounting controls.

2. COMPOSITION

The Audit Committee shall be appointed by the Directors from among their number (pursuant to a resolution of the Board of Directors) which fulfills the following requirements:-

- the audit committee must be composed of no fewer than three (3) members;
- a majority of the audit committee must be independent directors; and
- at least one member of the audit committee:-
 - must be a member of the Malaysian Institute of Accountants; or
 - if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - * he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
 - * he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967, or
 - he must be a person who fulfills the requirements as may be prescribed by Bursa Malaysia Securities Berhad and/or other relevant authorities from time to time.

AUDIT COMMITTEE'S REPORT

The members of the Audit Committee shall elect a Chairman from among their number who shall be an independent director.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (c) above, the vacancy must be filled within three (3) months of that event.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

3. FUNCTIONS

The functions of the Audit Committee are as follows:-

- a) to review the following and report the same to the Board of Directors:-
 - i) with the external auditors, the audit plan;
 - ii) with the external auditors, his evaluation of the system of internal controls;
 - iii) with the external auditors, his audit report;
 - iv) the assistance given by the Company's employees to the external auditors; and
 - v) any related party transaction and conflict of interest situation that may arise within the Company including any transaction, procedure or course of conduct that raises questions of management integrity.
- b) To consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal;
- c) To discuss with the external auditor before the audit commences, the nature and scope of the audit; and ensure co-ordination where more than one audit firm is involved;
- d) To review the quarterly and year-end financial statements of the company, focusing particularly on:-
 - * Any changes in accounting policies and practices;
 - * Significant adjustments arising from the audit;
 - * The going concern assumption;
 - * Compliance with accounting standards and other legal requirements;
- e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
- f) To review the external auditor's management letter and management's response;
- g) To do the following where an internal audit function exists:-
 - * Review the adequacy of the scope, functions and resources of the internal audit function and that has the necessary authority to carry out its work;
 - * Review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
 - * Review any appraisal or assessment of the performance of members of the internal audit function;
 - * Approve any appointments or termination of senior staff members of the internal audit function;
 - * Inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

AUDIT COMMITTEE'S REPORT

- h) To consider the major findings of internal investigations and management's response;
- i) To consider other areas as defined by the Board;
- j) To perform any other functions or responsibilities as may be required of them as prescribed by Bursa Malaysia Securities Berhad or any other relevant authorities from time to time.

4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, whenever necessary and reasonable for the Company to perform its duties in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

5. MEETINGS

During the financial year under review, five (5) Audit Committee meetings were held for which full attendance were recorded for all the members of the Audit Committee:-

	Attendance
Mr Lim Kim Hai	5 / 5
Mr Lee Kean Binh	5 / 5
Mr Ng Wah Lok	5 / 5

6. SUMMARY OF AUDIT COMMITTEE ACTIVITIES

The Audit Committee carried out activities during the financial year ended 31 December 2005 in discharging its duties and responsibilities in accordance with its terms of reference which are as follows:-

Financial Results

Reviewed the quarterly reports and audited financial statements of the Company before recommending to the Board for consideration and approval.

Internal Audit

Recommended the establishment of an Internal Audit Department, Internal Audit Manual which sets out the department objectives, policy statement, internal audit scope of work, procedures, findings and thereafter making the necessary recommendations to the Board of Directors for consideration and approval.

With respect to the annual report, reviewed the Audit Committee's Report, Statement of Corporate Governance, Directors' Responsibility Statement, Statement of Internal Control and Circular to Shareholders for the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature and the Proposed Share Buy-Back Mandate, before recommending to the Board for approval.

AUDIT COMMITTEE'S REPORT

Reviewed and assessed new investments, business ventures, acquisition of asset before recommending to the Board for approval and adoption.

Corporate Governance

Conduct periodic reassessment and refinement on corporate governance before recommending to the Board for consideration and approval.

Risk Management

Reviewed and assessed the methodology of the Risk Management Framework before recommending to the Board for approval and adoption.

External Audit

Reviewed the statutory audit plan and scope of audit of external auditors.

Related Party Transactions

Reviewed the related party transactions entered into by the Company.

7. INTERNAL CONTROL FUNCTION

The Board acknowledges its responsibility for the Company's system of internal control and the need to review its adequacy and integrity regularly. However, such system is designed to manage rather than eliminate the risk of failure to achieve business objectives and the system by its nature can only provide reasonable but not absolute assurance against material misstatement, fraud or loss.

An overview of the state of internal control within the Company is set out in the Statement on Internal Control on pages 28 to 29 of this Annual Report.

STATEMENT OF INTERNAL CONTROL

Pursuant to paragraph 15.27(b) of the Listing Requirements of Bursa Securities, the Board of Directors is pleased to provide the following statement on the state of internal control of the Group for the financial year ended 31 December 2005, which has been prepared in accordance with the "Statement of Internal Control Guidance for Directors of Public Listed Companies" issued by the Institute of Internal Auditors Malaysia, and adopted by Bursa Securities.

BOARD RESPONSIBILITIES

In discharging its stewardship responsibilities, the Board recognizes that the internal control system in the Group:-

- * Is a logical and systematic method of identifying, analyzing, assessing, treating and monitoring the Company's risks;
- * Is a continuous and ongoing process;
- * Should be an integral part of the Company's management practices;
- * Enable the Company to not only minimize losses but maximize opportunities.

RISK MANAGEMENT

In dealing with its stewardship responsibilities, the Board of Directors recognizes that effective risk management is an integral part of good business management practice. The Board acknowledges that all areas of the Group's business activities involve some degree of risks and it is committed to ensure that the Group has an effective risk management framework, which allows the management to manage risks within defined risks parameters.

INTERNAL AUDIT

Internal Audit Report - Function

The Internal Audit Department ("IAD") reports directly to the Audit Committee ("AC"), to assist the AC to discharge its duties and responsibilities and to provide reports on the adequacy and effectiveness of risk management functions and internal controls in the Group.

Control and Monitoring Process

The IAD's scope covers audit planning, special investigations, liaison with the International Standard Organisation (ISO) - the Germanisher Lloyd Certification GmbH for ISO certification to ensure the various procedures are followed strictly. The IAD also aimed to focus on the following key areas of the Group's internal control system:-

- * Internal policies and systematic approach that are regularly updated to reflect changing risks including to clearly define the limit of authority.
- * Review of the key business variables and the monitoring of the achievement of the Group's performance on a quarterly basis by the Board and the Audit Committee.
- * Systematic procedure and continuous improvement with the objectives to maintain operational efficiency.

Internal audit reports incorporating audit recommendations and management responses with regards to audit findings relating to the weaknesses in the systems and controls of the respective operations, were reviewed at every AC meeting before recommending to the Board, its discussion, deliberation of the strategic issues facing the businesses and resolved on actions to mitigate such risks.

Further, the external auditors conduct annual statutory audit on the financial statements. Areas for improvement, if any, identified during the course of the statutory audit by the external auditors are brought to the attention of the AC.

STATEMENT OF INTERNAL CONTROL

The Board further reviews the minutes of the AC to assess the adequacy and effectiveness of the system of internal controls, financial and accounting control procedures, significant results, findings and the necessary recommendations made during AC meetings.

Besides that the Board also entrusts the daily running of the business to the MD/CEO and his management team. The MD/CEO plays a pivotal role in communicating the Board's expectations of the system of internal control to the management, where a clear organizational structure with defined lines of responsibility, delegation of authority, segregation of duties and information flow exist, to ensure decisions are made and actions taken by the appropriate person. This is achieved on a day-to-day basis, through active participation by the MD/CEO in the operations of the business as well as various management and operational level meetings being conducted where operational, production, financial risks are discussed and dealt with respectively. The MD/CEO will update the Board of any significant matters that require the Board's attention and/or approval.

Risk Management Framework ("RMF")

Besides primary ownership over effectiveness of the Group's internal control systems, the Board recognizes its responsibility over the principal risks of various aspects of the Group's business. For long term viability of the Group, it is crucial to achieve a critical balance between risks incurred and potential returns.

The Board has during the year under review, initiated and approved an in-house structured RMF to formalize the identification of principal risks which includes both internal and external factors that will affect the achievement of the Group's business objectives. Such framework will provide a structured and focused approach in managing the business risks and enables the company to adopt a risk based internal control system.

Conclusion

The Board remains committed towards keeping abreast with the ever-changing business environment in order to support the Group's business and operation. Cognisant of this fact, the Board will put in place appropriate measures, when necessary, to further enhance the internal control system of the Group.

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DIRECTORS' REPORT

The directors have pleasure in submitting their Annual Report made in accordance with a resolution of the directors, and the audited financial statements of the company for the financial year ended 31 December, 2005.

PRINCIPAL ACTIVITY

The principal activity of the Company is the manufacture of steel bars and steel billets. There has been no significant change in this activity during the financial year.

FINANCIAL RESULTS

	RM
Profit for the financial year after taxation	23,304,392
Unappropriated profit brought forward	110,122,539
UNAPPROPRIATED PROFIT CARRIED FORWARD	133,426,931

DIVIDENDS

No dividend has been paid or declared by the Company since 31 December, 2004. The Directors propose a first and final dividend of 1.5 sen per share on 133,000,000 ordinary shares of RM0.50/- each, less tax of 28%, amounting to RM1,436,400/- in respect of the current financial year. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company and has not been included as a liability in the financial statements.

RESERVES AND PROVISIONS

During the financial year, the freehold and leasehold land were revalued as of 30 September, 2005 by the Directors based on an independent valuation carried out by a professional firm of valuers using the "open market value" basis. The surplus amounting to RM31,030,160/- arising from the revaluation was credited to revaluation reserve account.

As disclosed in Note 11, there was a share premium amounting to RM16,638,598/- net of share issue expenses from the issue of the shares in the Company at a premium in current financial year. This amount has been transferred to share premium account.

There were no other material transfers to or from reserves or provisions during the financial year.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that action has been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and have satisfied themselves that all known bad debts have been written off and that adequate provision has been made for doubtful debts.

At the date of this report, the directors of the Company are not aware of any circumstances which would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

DIRECTORS' REPORT

CURRENT ASSETS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain whether any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Company and to the extent so ascertained were written down to an amount that they might be expected to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements misleading or inappropriate.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

As detailed in note 19 to the financial statements, there are pending litigation in respect of claims instituted against the Company. The contingent liability arising from the said claims amounts to approximately RM11.2 Million.

Apart from the above, at the date of this report, there does not exist:-

- i. any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person, or
- ii. any contingent liability in respect of the Company which has arisen since the end of the financial year.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the respective financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Company for the current financial year.

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up ordinary share capital from 109,703,000 shares to 133,000,000 ordinary shares of RM0.50/- each by way of issuance of 23,297,000 ordinary shares of RM0.50 each through a public issue at an issue price of RM1.30 per ordinary share for cash. The purpose of the issuance was for repayment of borrowings, capital expenditure and addition working capital.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SHAREHOLDINGS

The directors who served since the date of the last report and their shareholdings are as follows:-

	Ordinary shares of RM0.50/- each			Balance 31.12.2005
	Balance 1.1.2005	Bought	Sold	
Senator Dato' Ikhwan Salim Bin Dato' Haji Sujak	8,750,000	650,000	(1,750,000)	7,650,000
Tai Hean Leng @ Tek Hean Leng	-	2,091,500	(30,000)	2,061,500
Rosly Bin Aziz	8,750,000	252,000	(1,320,000)	7,682,000
Lee Kean Binh	-	819,000	(169,000)	650,000
Lim Kim Hai	-	133,000	(33,000)	100,000
Ng Wah Lok	-	80,000	-	80,000
Raja Shamsul Kamal Bin R. Shahruzzaman (Retired on 30/5/2005)	-	339,000	(143,000)	196,000

In accordance with the Company's Article of Association, Tai Heng Leng @ Tek Heng Leng and Senator Dato' Ikhwan Salim bin Dato' Haji Sujak retire pursuant to Article 79 at the forthcoming Annual General Meeting and being eligible, offers themselves for re-election.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither during nor at the end of the financial year, was the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

AUDITORS

The auditors, Messrs. Singam & Yong, have indicated their willingness to continue in office.

DATE OF AUTHORISATION OF ISSUE

The financial statements were authorised for issue by the Board of Directors on 24th April, 2006

Signed on behalf of the Board of Directors in
accordance with a resolution of the Directors

.....
SENATOR DATO' IKHWAN SALIM BIN DATO' HAJI SUJAK

.....
TAI HEAN LENG @ TEK HEAN LENG

Selangor Darul Ehsan,
24th April, 2006

STATEMENT BY DIRECTORS

In the opinion of the directors, the financial statements set out on pages 36 to 51 are drawn up so as to exhibit a true and fair view of the state of affairs of the Company as at 31 December, 2005 and of the profits and cash flows of the Company for the financial year then ended and have been properly drawn up in accordance with the applicable approved accounting standards in Malaysia.

This statement is made in accordance with a resolution of the Directors dated 24th April, 2006

Signed on behalf of the Board of Directors

SENATOR DATO' IKHWAN SALIM BIN DATO' HAJI SUJAK

TAI HEAN LENG @ TEK HEAN LENG

STATUTORY DECLARATION

I, Tai Hean Leng @ Tek Hean Leng, being the director primarily responsible for the financial management of Malaysia Steel Works (KL) Bhd., do solemnly and sincerely declare that to the best of my knowledge and belief the financial statements set out on pages 36 to 51 are correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
at Petaling Jaya in the Selangor
Darul Ehsan this 24th day of
April, 2006

Before me,

TAI HEAN LENG @ TEK HEAN LENG

.....
Commissioner for Oaths
M. KHANDIMADDI
(No. B106)

REPORT OF THE AUDITORS

To the Shareholders of
MALAYSIA STEEL WORKS (KL) BHD.

We have audited the financial statements of MALAYSIA STEEL WORKS (KL) BHD. set out on pages 36 to 51. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia and give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
 - (ii) the state of affairs of the Company as at 31 December, 2005 and of the profits and cash flows of the Company for the financial year then ended;

and

- b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

SINGAM & YONG
No. AF 0040
Chartered Accountants

GARY YONG YOON SHING
No. 633/03/07 (J/PH)
Partner

Kuala Lumpur,
24th April, 2006

BALANCE SHEET

31 DECEMBER, 2005

	Note	2005 RM	2004 RM
NON-CURRENT ASSETS			
Property, plant and equipment	2	317,010,763	262,984,089
Interest in subsidiary companies	3	55,843	–
Other investment	4	5,000,000	–
		<hr/>	<hr/>
		322,066,606	262,984,089
CURRENT ASSETS			
Inventories	5	55,047,789	48,367,306
Trade and other receivables	6	58,097,835	53,081,708
Fixed deposits with licensed banks		11,771,165	–
Cash and bank balances		15,195,816	6,321,173
		<hr/>	<hr/>
		140,112,605	107,770,187
Less:			
CURRENT LIABILITIES			
Trade and other payables	7	37,724,967	61,183,618
Bills payable	8	64,317,780	65,503,121
Fixed term loans – current portion	8	14,419,088	12,187,697
Hire purchase payables – current portion	9	171,476	82,862
		<hr/>	<hr/>
		116,633,311	138,957,298
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		23,479,294	(31,187,111)
		<hr/>	<hr/>
		345,545,900	231,796,978
CAPITAL AND RESERVES			
Share capital	10	66,500,000	54,851,500
Share premium	11	41,787,205	25,148,607
Revaluation reserves	12	31,030,160	–
Unappropriated profit carried forward		133,426,931	110,122,539
		<hr/>	<hr/>
SHAREHOLDERS' EQUITY		272,744,296	190,122,646
NON-CURRENT LIABILITIES			
Fixed term loans	8	72,109,495	41,455,839
Hire purchase payables	9	692,109	218,493
		<hr/>	<hr/>
		72,801,604	41,674,332
		<hr/>	<hr/>
		345,545,900	231,796,978
		<hr/>	<hr/>

The above balance sheet is to be read in conjunction with the notes to the financial statements on pages 40 - 51. The Auditors' Report is on page 35.

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER, 2005

	Note	2005 RM	2004 RM
Revenue	1(g)	306,432,116	280,777,731
Cost of sales		(255,452,871)	(221,250,474)
Gross profit		50,979,245	59,527,257
Other income	1(g)	192,618	279,995
Administrative expenses		(11,754,292)	(9,652,031)
Distribution expenses		(5,813,486)	(3,798,357)
Profit from operations		33,604,085	46,356,864
Finance expenses		(10,299,693)	(10,448,124)
Profit before taxation	13	23,304,392	35,908,740
Taxation	14	-	-
Net profit for the financial year		23,304,392	35,908,740

The above income statement is to be read in conjunction
with the notes to the financial statements on pages 40 - 51. The Auditors' Report is on page 35.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER, 2005

	Share premium RM	Share Capital RM	Revaluation Reserve RM	Retained profits RM	Total RM
At 1 January, 2004	25,148,607	54,851,500	–	74,213,799	154,213,906
Net profit for the financial year	–	–	–	35,908,740	35,908,740
At 31 December, 2004	25,148,607	54,851,500	–	110,122,539	190,122,646
Issue of shares	–	11,648,500	–	–	11,648,500
Share premium net of share issue expenses	16,638,598	–	–	–	16,638,598
Net profit for the financial year	–	–	–	23,304,392	23,304,392
Surplus on revaluation (Note 12)	–	–	31,030,160	–	31,030,160
At 31 December, 2005	41,787,205	66,500,000	31,030,160	133,426,931	272,744,296

The above statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 40 - 51. The Auditors' Report is on page 35.

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER, 2005

	2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation	23,304,392	35,908,740
Adjustments for:-		
Depreciation of property, plant and equipment	11,228,187	11,014,906
Bank and loans interest	9,087,525	10,033,038
Hire purchase interest	64,732	17,971
Operating profit before working capital changes	43,684,836	56,974,655
Increase in inventories	(6,680,483)	(12,560,537)
Decrease/(Increase) in trade and other receivables	(5,016,127)	9,708,231
Decrease in trade and other payables	(23,458,651)	(34,919,667)
(Decrease)/Increase in bills payable	(1,185,341)	1,018,851
Net cash generated from operations	7,344,234	20,221,533
Bank and loans interest paid	(9,087,525)	(10,033,038)
Net cash (outflow)/inflow from operating activities	(1,743,291)	10,188,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest in subsidiary companies	(55,843)	-
Other investment	(5,000,000)	-
Purchase of property, plant and equipment (Note 15)	(33,550,701)	(1,392,292)
Net cash outflow from investing activities	(38,606,544)	(1,392,292)
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of term loan	50,000,000	-
Repayment of fixed term loans	(17,114,953)	(7,215,643)
Repayment of hire purchase payables	(111,770)	(27,097)
Proceeds from issuance of shares, net of share issue expenses	28,287,098	-
Payment of hire purchase interest	(64,732)	(17,971)
Net cash inflow/(outflow) from financing activities	60,995,643	(7,260,711)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,645,808	1,535,492
Cash and cash equivalents brought forward	6,321,173	4,785,681
CASH AND CASH EQUIVALENTS CARRIED FORWARD (Note 17)	26,966,981	6,321,173

The above cash flow statement is to be read in conjunction with the notes to the financial statements on pages 40 - 51. The Auditors' Report is on page 35.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

1. ACCOUNTING POLICIES

(a) Accounting basis

The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain assets and are in compliance with applicable approved accounting standards and the provisions of the Companies Act 1965.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or at valuation less accumulated depreciation and accumulated impairment, if any. Depreciation is calculated to write off the cost of property, plant and equipment over their estimated useful lives on a straight line basis. Leasehold land is amortised over the period of the lease. The principal annual rates used for this purpose are as follows:-

Leasehold land	-	1/56 - 1/80
Factory/Freehold building	-	2% - 7.5%/5%
Plant and machinery	-	3% - 10%
Factory equipment, electrical installation, office equipment and furniture and fittings	-	7.5% - 20%
Motor vehicles	-	20%

The freehold and leasehold land stated at valuation are based on valuations by professional valuers on an open market value basis.

Certain plant and equipment which have been fully depreciated are shown at net book value of RM1/- each.

(c) Assets carried at revalued amounts

The accumulated depreciation of revalued assets have been eliminated and the net revalued amount has been treated as the new gross carrying amount.

(d) Assets acquired under hire purchase

Assets acquired under hire purchase arrangements are capitalised as plant and equipment and the corresponding obligations treated as liabilities. Finance charges are allocated to income statement to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

(e) Investments in subsidiaries and other investment

The Company's investment in subsidiaries and other investment are stated at cost less impairment losses (if any). Where there has been a decline other than temporary in value of an investment, such a decline is recognised as an expenses in the financial period in which the decline is identified.

On disposal of an investment property, the difference between the net disposal proceeds and its carrying amount is included in the income statement.

(f) Inventories

Inventories which comprise of raw materials and finished goods have been valued at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. The cost of finished goods comprise the cost of raw materials, direct labour, direct charge and a proportion of production overheads.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

(g) Trade receivables

Trade receivables are recognised and carried at original invoiced amount less provision for doubtful debts. An estimation for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(h) Provisions for liabilities

Provisions for liabilities are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to settle the obligation.

(i) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue from sale of goods is recognised upon delivery and customer acceptance.

Revenue of the Company represents sale of steel bars and steel billets and is recognised when the goods are delivered and invoiced.

Gain on disposal of plant and equipment and other income is recognised on an accrual basis unless collectibility is in doubt.

(j) Currency conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at the transaction dates. Assets and liabilities at the end of the financial year are translated at the rates of exchange ruling at that date and differences are taken to the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

Foreign currency	2005	2004
1 US Dollar	3.780	3.800
1 Singapore Dollar	2.271	2.300
1 Euro	4.487	5.173

(k) Impairment of assets

At each balance sheet date, the Company reviews the carrying amount of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. An impairment loss is recognised as an expense in the income statement immediately. Any subsequent increase in recoverable amount is recognised in the income statement.

(l) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item where applicable. The carrying amounts of the financial instruments approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

(m) Fair value

The carrying amounts of the Company's financial assets and liabilities recorded at the balance sheet are approximate to their fair values.

(n) Cash and cash equivalents

Cash and cash equivalents represent cash in hand, bank balances and fixed deposits with licensed banks.

(o) Income tax

Income tax on the profit for the financial year comprises of current and deferred tax. Current financial year tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is possible that future taxable profits will be available against which the asset can be utilised.

(p) Employee benefits

Short term benefits

Wages, salaries, bonuses and social security contribution are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plans

As required by law, companies in Malaysia make contributions to the statutory pension scheme, the Employees Provident Fund ("EPF").

2. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building RM	Leasehold land and building RM	Plant and machinery, factory and electrical equipment RM	Motor vehicles RM	Office equipment, furniture and fittings RM	Capital work in progress RM	Electrical installation RM	Total RM
2005								
Cost/Valuation								
At 1 January, 2005	189,000	58,951,077	298,192,818	1,247,736	1,123,291	-	175,908	359,879,830
Additions	-	159,654	11,411,266	817,950	89,774	21,746,057	-	34,224,701
Transfer	-	(1,441,406)	-	-	-	-	-	(1,441,406)
Revaluation surplus/(deficit)	(16,405)	31,046,205	-	-	-	-	-	31,030,160
At 31 December, 2005	172,955	88,715,530	309,604,084	2,065,686	1,213,065	21,746,057	175,908	423,693,285

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

	Freehold land and building RM	Leasehold land and building RM	Plant and machinery, factory and electrical equipment RM	Motor vehicles RM	Office equipment, furniture and fittings RM	Capital work in progress RM	Electrical installation RM	Total RM
2005								
Representing:								
At cost	107,955	26,215,530	309,604,084	2,065,686	1,213,065	21,746,057	175,908	361,128,285
At valuation	65,000	62,500,000	-	-	-	-	-	62,565,000
	172,955	88,715,530	309,604,084	2,065,686	1,213,065	21,746,057	175,908	423,693,285
Accumulated Depreciation								
At 1 January, 2005	44,981	6,653,472	88,213,756	885,262	994,370	-	103,900	96,895,741
Charge for the financial year	5,398	580,312	10,343,692	236,148	49,444	-	13,193	11,228,187
Transfer	-	(1,441,406)	-	-	-	-	-	(1,441,406)
At 31 December, 2005	50,379	5,792,378	98,557,448	1,121,410	1,043,814	-	117,093	106,682,522
Net Book Value								
At 31 December, 2005								
At cost	57,576	20,465,491	211,046,636	944,276	169,251	21,746,057	58,815	254,488,102
At valuation	65,000	62,457,661	-	-	-	-	-	62,522,661
	122,576	82,923,152	211,046,636	944,276	169,251	21,746,057	58,815	317,010,763
2004								
At 1 January, 2004	189,000	58,778,677	297,049,175	1,187,196	1,107,582	-	175,908	358,487,538
Additions	-	172,400	1,143,643	60,540	15,709	-	-	1,392,292
At 31 December, 2004	189,000	58,951,077	298,192,818	1,247,736	1,123,291	-	175,908	359,879,830
Accumulated Depreciation								
At 1 January, 2004	-	6,070,303	77,999,922	770,862	949,041	-	90,707	85,880,835
Charge for the financial year	44,981	583,169	10,213,834	114,400	45,329	-	13,193	11,014,906
At 31 December, 2004	44,981	6,653,472	88,213,756	885,262	994,370	-	103,900	96,895,741
Net Book Value								
At 31 December, 2004	144,019	52,297,605	209,979,062	362,474	128,921	-	72,008	262,984,089

Leasehold properties have an unexpired period of lease of more than fifty (50) years.

The net book value of motor vehicles acquired under hire purchase amounts to RM 944,273/- (2004 – RM362,471/-).

All of the property, plant and equipment of the Company have been charged to banks for credit facilities granted to the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

3. INTEREST IN SUBSIDIARY COMPANIES

	2005 RM	2004 RM
Unquoted shares at cost	4	-
Amount owing by subsidiaries	55,839	-
	55,843	-

These amounts are non-trade in nature, unsecured, interest free and with no fixed terms of repayment.

Details of subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Equity interest held (%)		Principal activities
		2005	2004	
*Steel Dynamics (M) Sdn. Bhd.	Malaysia	100%	-	Dormant
*Cyclotech Sdn. Bhd.	Malaysia	100%	-	Dormant

The financial statements of the subsidiary companies have not been consolidated as the directors are of the opinion that it is impracticable and would involve expenses and delay out of proportion to the value to members of the Company.

*Audited by other professional firm of chartered accountants.

4. OTHER INVESTMENT

Other investment represents the issuance of subordinated bonds with a financial institution as the asset backed securities pursuant to the Primary Collateralised Loan Obligation ("CLO") Transaction.

Details of subordinated bonds is as follow:

Stock code	Issue No	Coupon rate % P.A.	Maturity date	Balance RM
FJ050001	CAPONE	No fixed rate	20-09-2010	5,000,000

5. INVENTORIES

Details of inventories are as follows:-

	2005 RM	2004 RM
Raw materials	46,539,286	41,309,731
Finished goods	8,508,503	7,057,575
	55,047,789	48,367,306

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

6. TRADE AND OTHER RECEIVABLES

	2005 RM	2004 RM
Trade receivables		
- related parties	153,299	6,265
- non related parties	57,652,606	53,619,879
Less: Allowance for doubtful debts	(1,378,913)	(1,378,913)
	56,426,992	52,247,231
Other receivables	1,482,357	701,101
Deposits	188,486	133,376
	58,097,835	53,081,708

7. TRADE AND OTHER PAYABLES

	2005 RM	2004 RM
Trade payables		
- related parties	72,212	299,471
- non related parties	29,824,352	26,344,980
Accruals	6,865,808	33,745,242
Staff cost payable	904,435	793,725
Deposit	200	200
Other payables	57,960	-
	37,724,967	61,183,618

8. BANK FACILITIES

The bank facilities are secured by a first legal charge over the Company's lands and buildings, assignment over leasehold land, a third party charge on the properties of associated companies, lien on the fixed deposit of a third party and a registered debenture covering all fixed and floating assets of the Company. The facilities are additionally guaranteed by a major corporate shareholder and some individuals. The facilities carry interest rates which vary according to prevailing inter-bank offered rates or base lending rates, as the case may be. The rates vary between 7.13% to 10.5% (2004 – 7.5% to 10.5%) per annum.

Details of the term loans are as follows:-

	2005 RM	2004 RM
Repayable:		
Not later than 1 year	14,419,088	12,187,697
Later than 1 year and not later than 2 years	10,909,501	27,436,206
Later than 2 years and not later than 5 years	61,199,994	14,019,633
	86,528,583	53,643,536
Disclosed as:		
Current	14,419,088	12,187,697
Non current	72,109,495	41,455,839
	86,528,583	53,643,536

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

9. HIRE PURCHASE PAYABLES

Future minimum hire purchase payables are as follows:-

	2005 RM	2004 RM
Payable within 1 year	215,820	101,004
Payable within 2 to 5 years	624,594	265,415
Payable after 5 years	154,009	919
	<hr/> 994,423	<hr/> 367,338
Less: Interest in suspense	(130,838)	(65,983)
	<hr/> 863,585	<hr/> 301,355
Present value of hire purchase payables:		
Current	171,476	82,862
Non current	692,109	218,493
	<hr/> 863,585	<hr/> 301,355

The hire purchase payables bear interest at the effective rates between 4.84% to 9.34% (2004 – 3.50% to 5.00%) per annum.

Hire purchase interest has been applied using the sum of digit method for the current year compared to the simple interest method in previous years.

10. SHARE CAPITAL

	2005 RM	2004 RM
Authorised: 200,000,000 ordinary shares of RM0.50 each	100,000,000	100,000,000
Issued and fully paid: 109,703,000 ordinary shares of RM0.50/- each	54,851,500	54,851,500
Add : Issued during the financial year 23,297,000 ordinary shares of RM0.50/- each	11,648,500	-
	<hr/> 66,500,000	<hr/> 54,851,500

11. SHARE PREMIUM

	2005 RM	2004 RM
Balance as at 1 January	25,148,607	25,148,607
Add : Issue of 23,297,000 ordinary shares of RM0.50 at a premium of RM0.80 per ordinary share	18,637,600	-
Less : Share issue expenses	(1,999,002)	-
	<hr/> 16,638,598	<hr/> -
	<hr/> 41,787,205	<hr/> 25,148,607

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

12. REVALUATION RESERVES

Revaluation reserves represents the net surplus based on a valuation carried out by independent professional valuers of the Company's freehold and leasehold land as of 30 September, 2005.

	RM
Freehold land	
At historical cost	81,045
At valuation	65,000
	<hr/>
Deficit on revaluation	(16,045)
	<hr/>
Leasehold land	
At historical cost	31,453,795
At valuation	62,500,000
	<hr/>
Surplus on revaluation	31,046,205
	<hr/>
Net surplus on revaluation	<u>31,030,160</u>

13. PROFIT BEFORE TAXATION

Profit before taxation is arrived at:-

	2005 RM	2004 RM
After charging:		
Staff costs	12,348,781	11,114,905
Depreciation of property, plant and equipment	11,228,187	11,014,906
Bank and loan interest	9,087,525	10,033,038
Provision for doubtful debts	–	663,464
Hire of equipment	98,452	267,909
Directors' remuneration		
– Fees	36,000	85,600
– Salaries and bonus	620,310	295,200
– EPF	71,376	35,424
– Allowance	179,343	–
Rental	140,549	53,770
Auditors' remuneration	30,000	25,000
Hire purchase interest	64,732	17,971
	<hr/>	<hr/>
And crediting:		
Other income	73,737	279,995
Interest receivable	118,881	–
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

14. TAXATION AND DEFERRED TAXATION

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:-

	2005 RM	2004 RM
Profit before taxation	23,304,392	35,908,740
Taxation at Malaysian statutory tax rate of 28%	6,525,230	10,054,447
Income not subject to tax		-
Utilisation of capital allowances	(9,771,377)	(13,165,478)
Expenses not deductible for tax purposes	3,246,147	3,111,031
Tax expense for the financial year	NIL	NIL

There is no tax charge in respect of the profit for the financial year and previous financial year as the Company has sufficient unabsorbed capital allowances available for set-off.

Unabsorbed capital allowances are analysed as follows:

	2005 RM	2004 RM
Tax savings recognised during the financial year arising from: Utilisation of unabsorbed capital allowances brought forward from previous years	9,771,377	13,165,478
Unabsorbed capital allowances carried forward	8,816,227	10,931,088
Reinvestment allowance carried forward	58,398,495	58,398,495

Deferred tax assets have not been recognised in respect of these items as tabulated below, as they are available indefinitely for offset against future taxable profits of the Company in which those items arose.

	2005 RM	2004 RM
Unabsorbed capital allowances	8,816,227	10,938,318
Reinvestment allowance	58,398,495	58,398,495
Allowance for doubtful debts	380,096	380,096
	67,594,818	69,716,909

The carrying amount of property, plant and equipment and the corresponding tax base for the previous year is as follows:

	2005 RM	2004 RM
Carrying amount	231,993,728	197,122,999
Tax base	(61,800,528)	(76,909,427)
Temporary differences	170,193,200	120,213,572
Deferred tax liability @ 28% of temporary differences	47,654,096	33,659,800
Deferred tax liability on revaluation reserve	1,551,508	-
	49,205,604	33,659,800

Deferred tax liabilities have not been recognised as the directors are of the opinion that the effects of the temporary differences are unlikely to reverse in the foreseeable future due to the substantial amount of reinvestment allowance and unabsorbed capital allowances available to be utilised for offset.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

15. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Company acquired property, plant and equipment with aggregate cost of RM34,224,701/- (2004 – RM1,392,292/-) which are satisfied as follows:-

	2005 RM	2004 RM
Hire purchase financing	674,000	–
Cash payments	33,550,701	1,392,292
	<u>34,224,701</u>	<u>1,392,292</u>

16. SEGMENT INFORMATION

- a) Primary reporting format – by business segment

The Company is primarily organized in one business segment which is the manufacturing of steel bars and billets.

- b) Secondary reporting format – by geographical segments

The Company's business segments are managed into two(2) main geographical areas:-

Area	Sales		Total Assets		Capital Expenditure	
	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM
Malaysia	241,753,965	249,756,726	462,179,211	370,754,276	34,224,701	1,392,292
Outside Malaysia	64,678,151	31,021,005	–	–	–	–
Total	<u>306,432,116</u>	<u>280,777,731</u>	<u>462,179,211</u>	<u>370,754,276</u>	<u>34,224,701</u>	<u>1,392,292</u>

In determining the geographical segments of the Company, sales is based on the country in which the customers are located. Total assets and capital expenditure are determined based on where the assets are located.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the Cash Flow Statement at the end of the financial year comprise the following balance sheet items:-

	2005 RM	2004 RM
Fixed deposits with licensed banks	11,771,165	–
Cash balances	233,085	269,169
Bank balances	14,962,731	6,052,004
	<u>26,966,981</u>	<u>6,321,173</u>

18. RELATED PARTIES DISCLOSURES

In addition to the related parties disclosures mentioned elsewhere in the financial statements, set out below are significant related party disclosures. The related party transactions described below were undertaken on arms length basis, on normal commercial terms based on prevailing market price and are on terms not more favourable to unrelated parties.

Significant transactions with a related party are as follows:-

	2005 RM	2004 RM
Purchase of materials from:- Soon Seng Co (Selangor) Sdn. Bhd.	6,566,884	20,171,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

19. CONTINGENT LIABILITY

The following are pending litigation in respect of claims instituted against the Company:

- (i) Claim of RM1.23 million for the balance of the purchase price for goods sold. The Company has filed a defence and counter claim for damages of RM1.31 Million. The solicitors of the Company are of the opinion that the Company has a fair chance to succeed in the counter claim.
- (ii) Arbitration for letter of demand against the Company for RM2.44 Million is now pending instructions from the arbitrator on the filing of claims and counter-claims. The solicitors are of the opinion that the chances of succeeding in the claim proper are good.
- (iii) Claims of RM7.56 Million for goods sold and delivered. The solicitors of the Company are of the opinion that the claim will fail in court since there were no agreements whatsoever nor even any prior demand or claim made against the Company previously.

20. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the Company's net profit attributable to shareholders by the weighted average number of ordinary share in issue during the financial year.

	Company	
	2005 RM	2004 RM
Net profit attributable to shareholders	23,304,392	35,908,740
Weighted average number of ordinary shares	131,085,178	80,628,708
Basic earnings per share (sen)	17.78	44.54

(b) Diluted earnings per share scored

There is no diluted earnings per share in this financial year.

21. FINANCIAL MANAGEMENT RISK OBJECTIVES AND POLICIES

The Company's financial risk management policy is to ensure adequate financial resources are available for the development of the Company's business whilst managing its risk.

The main areas of risk faced by the Company and the policy in respect of the major areas of treasury activity are set out as follows:

- Credit risk

The credit risk is controlled and monitored by the directors of the Company.

- Interest rate risk

The borrowings of the Company are a mix of short term and long term borrowings for working capital and thus the exposure to interest rate risk is minimal.

- Liquidity and Cash Flow risk

The Company seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Company and a flexible borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Company's means to repay and refinance.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2005

22. EMPLOYEES

The average monthly number of persons employed by the Company during the financial year was as follows:-

	2005	2004
Administration	141	135
Production	226	181
	<hr/>	<hr/>
	367	316

23. DISTRIBUTABLE RESERVES

Pending the resolution of taxation matters with the Inland Revenue Board, there is an insufficiency of tax credit available to frank any distribution of the reserves as dividends.

24. CAPITAL COMMITMENTS

	2005 RM	2004 RM
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	27,915,300	-
Other	1,484,432	-
	<hr/>	<hr/>
	29,399,732	-
Approved but not contracted for:		
Property, plant and equipment	3,667,000	8,000,000

LIST OF PROPERTIES

Location	Existing Use	Approximate Age of Building years	Tenure	Land Area (Built-up Area)	Net Book Value (RM'000)	Date of Revaluation
HSD 161066 Lot No. PT29C Section 28 Town of Petaling Jaya, District of Petaling, Selangor Darul Ehsan	Office, factory and warehouse	23 years	Leasehold for 99 years expiring on 15.04.2067	130,897 sq. ft. (63,187 sq. ft.)	Land - 10,458 Building - 147	30.09.2005
Lot 2 of Parent Lot 13039, Kawasan Perusahaan Bukit Raja Mukim Kapar District of Klang Selangor Darul Ehsan	Office, factory and warehouse	5 years	Leasehold for 99 years (pending issuance of title to the land)	1,566,067 sq. ft. (187,220 sq. ft.)	Land - 52,000 Building - 20,318	30.09.2005
GRN 33304 Lot 3780 Mukim of Pasir Panjang, District of Port Dickson, Negeri Sembilan Darul Khusus	Bungalow	21 years	Freehold	5,403 sq. ft. (1,334 sq. ft)	Land - 65 Building - 58	30.09.2005

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2006

SHAREHOLDINGS BY RANGE GROUP

SIZE OF SHAREHOLDINGS	NO. OF SHARES	% OVER TOTAL SHARES	NO. OF SHAREHOLDERS	% OVER TOTAL SHAREHOLDERS
1 to 99 shares	50	0.00	1	0.02
100 to 1,000 shares	785,300	0.59	808	19.49
1,001 to 10,000 shares	12,502,624	9.40	2,616	63.10
10,001 to 100,000 shares	18,936,700	14.24	628	15.15
100,001 to 6,649,999 shares	44,029,810	33.11	90	2.17
6,650,000 shares and above	56,745,516	42.66	3	0.07
Total	133,000,000	100.00	4,146	100.00

THIRTY LARGEST SHAREHOLDERS

No	Investor Name/Beneficiary Name	No. of Shares	%
1	SOON SENG COMPANY SDN BHD	42,245,516	31.76
2	ROSLY BIN AZIZ	7,500,000	5.64
3	IKHWAN SALIM BIN SUJAK	7,000,000	5.26
4	LEMBAGA TABUNG ANGKATAN TENTERA	5,000,000	3.76
5	BUMIPUTRA-COMMERCE NOMINEES (TEMPATAN) SDN. BHD. COMMERCE ASSET VENTURES SDN BHD	2,206,472	1.66
6	TENG LI LING	2,097,700	1.58
7	NG TENG SONG	2,010,700	1.51
8	GOH PHAIK LYNN	2,000,000	1.50
9	KEMAJUAN REKACEKAP SDN BHD	2,000,000	1.50
10	MAYBAN NOMINEES (TEMPATAN) SDN BHD AMANAHRAYA-JMF ASSET MANAGEMENT SDN. BHD. FOR SH MOHD NASIMUDDIN KAMAL BIN SH MD AMIN	1,329,000	1.00
11	BUMIPUTRA-COMMERCE NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR TAI HEAN LENG @ TEK HEAN LENG (MSW ESOS)	1,200,000	0.90
12	COMMERCE TECHNOLOGY VENTURES SDN BHD	1,052,632	0.79
13	UNITED OVERSEAS NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM CHAI BENG	1,020,000	0.77
14	MAYBAN NOMINEES (TEMPATAN) SDN BHD AMANAHRAYA-JMF ASSET MANAGEMENT SDN. BHD. FOR NOORSHAH BINTI ISMAIL	1,000,000	0.75
15	TAI HO SENG @ TEH HOO SING	1,000,000	0.75
16	TAI CHET SIANG & SONS SENDIRIAN BERHAD	945,000	0.71
17	MAYBAN NOMINEES (TEMPATAN) SDN BHD AMANAHRAYA-JMF ASSET MANAGEMENT SDN. BHD. FOR MOHAMED NIZAM BIN ABDUL RAZAK	900,000	0.68
18	UBB (MALAYSIA) TRUSTEE BERHAD AS BENEFICIAL OWNER	900,000	0.68
19	TAI HEAN LENG @ TEK HEAN LENG	861,500	0.65
20	PARAMOUNT REAP SDN BHD	854,200	0.64
21	CHUA CHING GEH	660,300	0.50
22	BUMIPUTRA-COMMERCE NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR IKHWAN SALIM BIN SUJAK (MSW ESOS)	650,000	0.49
23	LEE KEAN BINH	650,000	0.49
24	MUSTAPHA BIN AB.WAHID	600,000	0.45

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2006

No	Investor Name/Beneficiary Name	No.of Shares	%
25	P.G.DORAISAMY A/L P.GOPAL	510,000	0.38
26	LABUAN REINSURANCE (L) LTD	500,000	0.38
27	MAYBAN NOMINEES (TEMPATAN) SDN BHD AMANAHRAYA-JMF ASSET MANAGEMENT SDN. BHD. FOR SYED ZAID BIN SYED JAFFAR ALBAR	500,000	0.38
28	CHOONG KIM SUN @ CHONG KAM SUN	465,700	0.35
29	HSBC NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR LEE BOON SIONG	425,000	0.32
30	KAF NOMINEES (TEMPATAN) SDN.BHD. KAF FUND MANAGEMENT SDN BHD FOR ABU TALIB BIN OTHMAN	400,000	0.30
		88,483,720	66.53

SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
Soon Seng Company Sdn Bhd	42,245,516	31.76	-	-
Senator Dato' Ikhwan Salim bin Dato' Haji Sujak	7,650,000	5.75	-	-
Rosly bin Aziz	7,500,000	5.64	-	-
Tai Ho Seng	1,000,000	0.75	*42,245,516	31.76
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	*42,245,516	31.76
Mohammad Tahir bin Md Yussof	-	-	*44,245,516	33.27
United Eastern Resources Sdn Bhd	-	-	*44,245,516	33.27
Datin Ng Pik Lian	-	-	*44,245,516	33.27
Tai May Chean	-	-	*44,245,516	33.27

* Deemed interested by virtue of Section 6A(4)(c) of the Companies Act, 1965

DIRECTORS' INTERESTS

Name of Director	Direct Interest		Indirect Interest	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
Senator Dato' Ikhwan Salim bin Dato' Haji Sujak	7,650,000	5.75	-	-
Tai Hean Leng @ Tek Hean Leng	2,061,500	1.55	-	-
Lee Kean Binh	650,000	0.49	-	-
Lim Kim Hai	100,000	0.08	-	-
Ng Wah Lok	-	-	-	-
Rosly bin Aziz	7,500,000	5.64	-	-

Masteel

MALAYSIA STEEL WORKS (KL) BHD

(Company No. 7878-V)
(Incorporated in Malaysia)

PROXY FORM

I/We,(NRIC No./Company No)
of
being a member/members of **MALAYSIA STEEL WORKS (KL) BHD** hereby appoint the Chairman of the meeting or
.....(NRIC No.....)
of.....
or failing him/her..... (NRIC No.)
of.....
as my/our Proxy(ies) to vote for me/us on my/our behalf at the Thirty-Fourth Annual General Meeting of the Company to be held at Rebana 1 and 2, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Tuesday, 30 May 2006 at 3.00 p.m. and at any adjournment thereof in respect of my/our shareholding in the manner indicated below:

NO.	RESOLUTIONS	FOR	AGAINST
Resolution 1	Adoption of the Audited Financial Statements for the financial year ended 31 December 2005 and Directors' and Auditors' Reports thereon		
Resolution 2	Declaration of a final dividend of 1.5 sen per share less 28% income tax in respect of the financial year ended 31 December 2005		
Resolution 3	Approval of Directors' Fees		
Resolution 4	Re-election of YBhg. Senator Dato' Ikhwan Salim bin Dato' Haji Sujak as Director		
Resolution 5	Re-election of Mr Tai Hean Leng @ Tek Hean Leng as Director		
Resolution 6	Re-appointment of Auditors		
Resolution 7	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares		
Resolution 8	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
Resolution 9	Proposed Share Buy-Back Mandate		

(Please indicate with an "X" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he thinks fit.)

Dated this day of 2006

.....
Signature of Shareholder or Common Seal

NOTE:-

1. A member (other than an Authorised Nominee as defined under the Securities Industry (Central Depositories) Act 1991) entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) Proxies to attend and vote on his (her) behalf. A Proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. Where a member appoints more than two (2) Proxies, the appointment shall be invalid unless he (she) specifies the proportions of his (her) holdings to be represented by each Proxy.
3. The Proxy Form shall be signed by the appointor or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer.
4. The instrument appointing a Proxy must be deposited at the Registered Office of the Company not less than 48 hours before the time set for the Meeting or at any adjournment thereof.

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STAMP

THE SECRETARY
MALAYSIA STEEL WORKS (KL) BHD
UNIT 1009, 10TH FLOOR, AMCORP TOWER
AMCORP TRADE CENTRE
NO. 18, JALAN PERSIARAN BARAT
46050 PETALING JAYA
SELANGOR DARUL EHSAN
MALAYSIA

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