



Masteel
MALAYSIA STEEL WORKS (KL) BHD
(Company No. 7878-V)

*Putting The
Steel into
Malaysia's
Growth*



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ANNUAL REPORT 2006

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Thirty-Fifth 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 Thursday, 28 June 2007 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 2006 together with the Directors' and Auditors' Reports thereon. | <i>Ordinary Resolution 1</i> |
| 2. | To declare a first and final dividend of 2.1 sen per share less 27% taxation in respect of the financial year ended 31 December 2006. | <i>Ordinary Resolution 2</i> |
| 3. | To approve the payment of Directors' Fees amounting to RM36,000 in respect of the financial year ended 31 December 2006. | <i>Ordinary Resolution 3</i> |
| 4. | To re-elect the Director, Mr Lee Kean Binh who is retiring under Article 79 of the Articles of Association of the Company. | <i>Ordinary Resolution 4</i> |
| 5. | To re-elect the Director, Mr Ng Wah Lok who is retiring under Article 79 of the Articles of Association of the Company. | <i>Ordinary Resolution 5</i> |
| 6. | To re-elect the Director, Mr Lim Hoo Teck who is retiring under Article 84 of the Articles of Association of the Company. | <i>Ordinary Resolution 6</i> |
| 7. | To re-elect the Director, Mr Lau Yoke Leong who is retiring under Article 84 of the Articles of Association of the Company. | <i>Ordinary Resolution 7</i> |
| 8. | To re-appoint Messrs Singam & Yong as Auditors of the Company and to authorise the Directors to fix their remuneration. | <i>Ordinary Resolution 8</i> |

As Special Business

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

9. 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 ten 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."

Ordinary Resolution 9

NOTICE OF ANNUAL GENERAL MEETING

10. 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 (“Bursa Securities”), 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 the Related Parties as stated in Section 3.3 of the Circular to Shareholders dated 6 June 2007 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 which are not more favourable to the related parties 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 names of the related parties involved in each type of 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.”

Ordinary Resolution 10

NOTICE OF ANNUAL GENERAL MEETING

11. Proposed Renewal of Share Buy-Back Mandate

“THAT subject to the Companies Act, 1965 (“Act”), the Memorandum and Articles of Association of the Company, the Listing Requirements of Bursa Securities and the approvals of all relevant governmental and/or regulatory authorities (if any), the Company be and is hereby authorised to utilise an amount not exceeding the audited retained profits and/or share premium of the Company as at 31 December 2006 of RM162,004,971 and RM41,787,205 respectively to purchase such amount of ordinary shares of RM0.50 each in the Company (“Proposed Share Buy-Back”) as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares 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;

THAT an amount not exceeding the Company's share premium account and retained profits account be allocated by the Company for the Proposed Share Buy-Back;

THAT authority be and is hereby given to the Directors of the Company to decide at their absolute discretion to either retain the shares so purchased as treasury shares (as defined in Section 67A of the Act) and/or to cancel the shares so purchased and if retained as treasury shares, may resell the treasury shares and/or to distribute them as share dividend and/or subsequently cancel them;

THAT the authority conferred by this resolution will be effective immediately upon the passing of this resolution and will expire at:

- (i) the conclusion of the next Annual General Meeting (“AGM”) of the Company (being the Thirty-Sixth (“36th”) AGM of the Company), at which time the said authority will lapse unless by an ordinary resolution passed at a general meeting of the Company, the authority is renewed, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which the 36th AGM of the Company is required by law to be held; or
- (iii) revoked or varied by an ordinary resolution passed by the shareholders in a general meeting;

whichever occurs first but not so as to prejudice the completion of the purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and/or any other relevant governmental and/or regulatory authorities (if any);

AND THAT the Directors of the Company be authorised to take all steps necessary to implement, complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Renewal of Share Buy-Back Mandate as may be agreed or allowed by any relevant governmental and/or regulatory authority.”

Ordinary Resolution 11

NOTICE OF ANNUAL GENERAL MEETING

12. Proposed Amendments to the Articles Of Association

“THAT the deletions, alterations, modifications, variations and additions to the Articles of Association of the Company as set out in Appendix 4 of the Circular to Shareholders dated 6 June 2007 be and are hereby approved.”

Special Resolution 1

Date of Entitlement and Payment of First and Final Dividend

NOTICE IS HEREBY GIVEN THAT subject to the approval of shareholders at the Thirty-Fifth Annual General Meeting, a first and final dividend of 2.1 sen per share less 27% taxation in respect of the financial year ended 31 December 2006 will be paid on 18 September 2007. The entitlement date for the said dividend shall be 3 September 2007.

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 September 2007 in respect of transfers; and
- 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: 6 June 2007

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 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 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.

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY NOTES ON SPECIAL BUSINESS

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

The Ordinary Resolution 9 proposed under item 9 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 for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

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

Further information on Ordinary Resolution 10 is set out in the Circular to Shareholders dated 6 June 2007 which is despatched together with the Company's 2006 Annual Report.

Proposal Renewal of Share Buy-Back Mandate

Please refer to the Share Buy-Back Statement as set out in the Circular to Shareholders dated 6 June 2007 for further information.

Proposed Amendments to the Articles of Association

The Special Resolution 1 proposed under item 12 of the Agenda, if passed, will render the Articles of Association of the Company to be consistent with the recent changes made to the Listing Requirements of Bursa Securities and any prevailing laws, rules, regulations, orders, guidelines and requirements of the relevant authorities.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

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

Directors who are standing for re-election at the Thirty-Fifth Annual General Meeting of the Company are as follows:-

Pursuant to Article 79 of the Articles of Association of the Company

- Mr Lee Kean Binh
- Mr Ng Wah Lok

Pursuant to Article 84 of the Articles of Association of the Company

- Mr Lim Hoo Teck
- Mr Lau Yoke Leong

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 61 to 62.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Senator Dato' Ikhwan Salim bin Dato' Haji Sujak
(Chairman - Non-Independent Non-Executive)

Ng Wah Lok
(Independent Non-Executive Director)

Tai Hean Leng @ Tek Hean Leng
(Managing Director / Chief Executive Officer)

Lau Yoke Leong
(Executive Director)
(Appointed on 16.04.2007)

Lee Kean Binh
(Executive Director)

Rosly bin Aziz
(Non-Independent Non-Executive Director)
(Resigned on 16.04.2007)

Lim Hoo Teck
(Independent Non-Executive Director)

COMPANY SECRETARIES

Saw Bee Lean
Tai Yit Chan
Pauline Ng Peck Kun

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

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

AUDITORS

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

PRINCIPAL OFFICE

Wisma Masteel,
Lot 29C, Section 51,
Off Jalan Tandang,
46050 Petaling Jaya,
Selangor Darul Ehsan.
Tel: 03 - 7781 1611
Fax: 03 - 7781 5435

PRINCIPAL BANKERS

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

STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia Securities Berhad

CORPORATE STRUCTURE

Masteel

MALAYSIA STEEL WORKS (KL) BHD

www.masteel.com.my

(Company No. 7878-V)

(wholly owned subsidiaries)

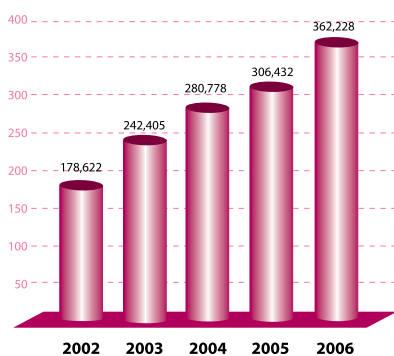
STEEL DYNAMICS (M) SDN BHD
(Company No. 690681-U)
- Dormant

BIO MOLECULAR INDUSTRIES SDN BHD
(Company No. 691229-K)
(Formerly known as Cyclotech Sdn Bhd)
Principal activities - Manufacturing and research and
development of radioisotopes and
radiopharmaceuticals products

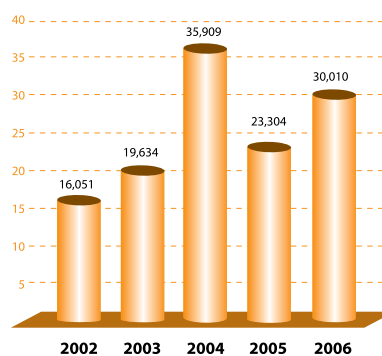
FINANCIAL HIGHLIGHTS

	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000
Revenue	178,622	242,405	280,778	306,432	362,228
Profit before taxation	16,051	19,634	35,909	23,304	30,010
Net Profit for the financial year	16,051	19,634	35,909	23,304	30,010
Total Assets Employed	352,909	375,989	370,754	462,179	567,868
Total Shareholders' funds	106,580	154,214	190,123	272,744	301,268
Paid-up Share Capital	39,000	54,852	54,852	66,500	66,500
No. of Ordinary Shares in Issue ('000)	39,000	54,852	109,703	133,000	133,000
Net Assets per Share (RM)	2.73	2.81	1.73	2.05	2.27
Earnings per Share (sen)	41.16	40.69	44.54	17.78	22.56
Gross Dividend per Share (sen)	—	—	—	1.50	2.10

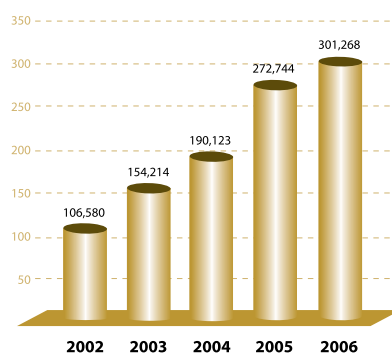
REVENUE
RM'000



PROFIT BEFORE TAXATION
RM'000



TOTAL SHAREHOLDERS' FUNDS
RM'000



DIRECTORS' PROFILES

Senator Dato' Ikhwan Salim bin Dato' Haji Sujak aged 50, Non-Executive Chairman since 22 May 2003 and 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. 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 City Council and is the Division Head of Petaling Jaya Utara Division of United Malay National Organisation. Dato' Ikhwan Salim bin Dato' Haji Sujak also sits on the Board of several private companies in Malaysia.

Dato' Ikhwan attended all 5 Board meetings of the Company held during the financial year ended 31 December 2006.

Tai Hean Leng @ Tek Hean Leng aged 43, 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 20 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 Bio Molecular Industries Sdn Bhd (formerly known as Cyclotech Sdn Bhd), wholly-owned subsidiaries of Masteel.

Mr Tai attended all 5 Board meetings of the Company held during the financial year ended 31 December 2006.

Lee Kean Binh aged 50, 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 Malaysia Institute of Accountants. He has more than 26 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 Group Accountant and from 1990 to 1993, he was with Sitt Tatt Berhad as Senior Manager in Finance and Administration cum Company Secretary. He joined Masteel in November 1993 as a Finance Manager.

Mr Lee attended all 5 Board meetings of the Company held during the financial year ended 31 December 2006.

Rosly bin Aziz aged 48, 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 13 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.

En Rosly attended 4 of the 5 Board meetings of the Company held during the financial year ended 31 December 2006. En Rosly resigned as a Director of Masteel on 16 April 2007.

DIRECTORS' PROFILES

Lim Hoo Teck aged 42, was appointed as an Independent Non-Executive Director of Masteel on 5 July 2006. He is a member of the Malaysian Institute of Accountants ("MIA"), Malaysian Institute of Taxation and Malaysian Institute of Certified Public Accountants. He is also a member of the Accounting & Auditing Committee, Financial Statements Review Committee, Small & Medium Practices Task Force of MIA and Disciplinary Committee Panel (Lembaga Tata tertib Peguam-Peguam) pursuant to the Legal Profession Act, 1976. He also acts as an Adjudicator for the 2006 National Annual Corporate Report Awards (NACRA) competition and a speaker for the Companies Commission of Malaysia's Corporate Directors' Training Programme. He started his accounting profession in 1984 as an Audit Assistant with Messrs Mustapha Law, where he served for 5 years. In 1989, he joined the international accounting firm of Price Waterhouse (now known as PricewaterhouseCoopers), Kuala Lumpur for about 2 years. He joined Coopers & Lybrand, Singapore as an Audit Manager in 1991. Currently, he is the Managing Partner in his two-partner audit practice, Messrs. Steven Lim & Associates. He has more than 15 years experience in public accounting which includes, handling large audits of multinational and public-listed companies as well as small and medium-sized audits for companies engaged in trading, manufacturing, banking, plantation, hotel, construction, property holding and service industries. He has also been involved in initial public offer (IPO) assignments, acquisition reviews and investigation works. He was the Independent Director as well as the Chairman of Nomination, Audit and Remuneration Committees of Elba Holdings Berhad from April 2005 to April 2007.

Mr Lim attended 2 of the 2 Board meetings of the Company held during the financial year ended 31 December 2006, during his appointment as a Director of Masteel since July 2006.

Ng Wah Lok aged 46, 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 Bukit Raja 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 2 unlisted public companies in Malaysia.

Mr Ng attended 4 of the 5 Board meetings of the Company held during the financial year ended 31 December 2006.

Lau Yoke Leong aged 38, was appointed as an Executive Director of Masteel on 16 April 2007. He joined Masteel as an Accountant in July 2000 and was promoted as Chief Accountant in June 2004. He is a Fellow Chartered Certified Accountant and a member of the Malaysian Institute of Accountants. He has 13 years of experience in various fields of accounting, audit, taxation and management matters as well as in-house training instructor on updating of accounting standards and audit software program, corporate restructuring, corporate exercise and due diligence assignments. He started his accounting profession in 1994 as an auditor with Messrs Ong & Wong. He completed the professional qualification from The Association of Chartered Certified Accountants in late 1995. Upon graduation in 1995, he joined another public accounting firm, Messrs T.H.Liew & Gan as an auditor before moving on to Messrs Deloitte Touche Tohmatsu as an auditor from 1996 to 1999. From 1999 to 2000, he was an accountant with Bell Management Services Sdn Bhd before joining Masteel. Mr Lau also sits on the Board of Bio Molecular Industries Sdn Bhd (formerly known as Cyclotech Sdn Bhd), a wholly-owned subsidiary of Masteel.

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the Annual Report and Financial Statements of Malaysia Steel Works (KL) Bhd ("Masteel") for the year ended 31 December 2006.

OVERVIEW

According to the Bank Negara Malaysia economic performance report, Malaysia's economy strengthened in 2006 with a 5.9% expansion in real gross domestic product (GDP). Both the services and manufacturing sectors continued to be the main drivers of growth. The construction sector saw a gradual recovery registering a positive growth by the final quarter of the year.

Domestic demand for steel in 2006 grew in tandem to the moderate growth in manufacturing and construction sectors. Overall, steel was traded at higher prices in the year due to increase in global steel prices.

The Southeast Asia region saw a significant reduction in supply of steel from China as a result of the country's tightening controls on steel exports. This drove ASEAN member countries to source steel supplies within the region.



FINANCIAL RESULTS

For the financial year ended 31 December 2006, Masteel reported a 18% year-on-year increase in revenue to RM362.2 million and an 29% year-on-year increase in profit after tax to RM30 million.

The healthy growth in both revenue and earnings was contributed by a combination of factors, namely the increase in domestic and regional demand of steel, higher selling prices, and onset of cost savings from production during the period.

DIVIDEND PAYMENT

In respect of the positive financial results, the Board is pleased to recommend a first and final dividend of 2.1 sen per share less 27% taxation totaling RM2,238,180.00 for the financial year ended 31 December 2006.

This proposed dividend is subject to the approval of shareholders at the Company's forthcoming Annual General Meeting.

OUTLOOK

The surge of global steel consumption and steel prices are expected to lead the industry into a more interesting business environment in 2007.

Singapore's casino/resorts mega-projects are expected to boost steel demand in the Southeast Asia region.

On the local front, we are optimistic that the Ninth Malaysia Plan outlining the Malaysian Government's efforts to boost the construction industry will further improve domestic demand of steel in 2007, barring any unforeseen circumstances. We are also optimistic that the Company will benefit from the Government's investment in the Iskandar Development Region in the State of Johor.

All the above mentioned prospects will augur well for the steel industry, which will see an increase in as well as stable demand of construction-based steel products in the next few years.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to express our sincere gratitude and appreciation for the support of our valued customers, business associates, bankers, government authorities and shareholders, and we look forward to your continued support in the future.

To all our management and staff, we thank you for your untiring efforts in helping the Company achieve its good performance for the financial year under review. My sincere thanks and appreciation also goes out to the Board members for their counsel and guidance during the past year.

Senator Dato' Ikhwan Salim bin Dato' Haji Sujak
Chairman

MANAGING DIRECTOR/CEO'S STATEMENT

PERFORMANCE REVIEW

For the financial year ended 31 December 2006, the Company recorded a revenue of RM362.2 million and a profit after tax of RM30 million. As compared to the previous year's turnover of RM306.4 million and post-tax profit of RM23.3 million, the financial year under review achieved an increase of 18% in revenue and 29% in earnings respectively.

In tandem with the steady growth in revenue and earnings, the Company's earnings per share also grew by 27% from 17.78 sen to 22.56 sen during the reviewed period.



The 4th strand caster and other upgrades were also fully implemented in the Bukit Raja plant by second quarter of 2006, resulting in a reduction in production cost and increase in production capacity by 10 percent per annum respectively.

CORPORATE DEVELOPMENT

On the corporate front, the Company completed a Private Placement exercise of 13 million new shares on the Main Board of Bursa Malaysia Securities Berhad on 29 January 2007.

OPERATION REVIEW

In terms of operation, the year saw the completion of strategic implementation of cost-cutting measures, and the realisation of tangible benefits from these implementations as reflected in the financial year's positive results.

Since 2005, we had invested in new technology to increase both cost-containment and improvement of productivity in the manufacturing of our steel products, so as to further enhance our operation's competitiveness.

For our meltshop facilities in Bukit Raja, Klang, we had upgraded all existing machinery to adapt to natural gas usage. This strategic move has helped to reduce the cost of production by about 10% last year.

OUTLOOK

Going forward into 2007, the performance of the Company is expected to further improve, barring any unforeseen circumstances, with the government's recent adjustment increasing the prices of steel bars and billets by 20%.

The Malaysian Iron & Steel Industry Federation (MISIF) forecast the local steel industry to grow by 10% in 2007, based on continuous recovery of construction sector. The overall outlook for 2007 is positive, as supported by the following factors:

1. *Positive Economic Outlook*

The Bank Negara Malaysia projected a continuous and steady GDP growth of 6% for the year 2007 with the construction, services and agriculture sectors being identified as three key sectors of growth.



MANAGING DIRECTOR/CEO'S STATEMENT

2. *Construction Industry Recovery*

The construction sector is projected to turn around in 2007 to register a growth of 3%, against a contraction of 0.5% in 2006.

Under the Ninth Malaysia Plan, the Government has allocated up to RM10 billion for the development of Southern Corridor in the State of Johor, which includes the development of a special economic zone known as the Iskandar Development Region. The implementation of the plan, which will start in 2007, is expected to boost the local construction industry.

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

3. *Export Potentials*

Singapore's highly profiled casino/resorts mega-project development plan will also augur well for Malaysia's steel industry due to our proximity to the island city.

4. *Foreign Exchange*

The strengthening of the Malaysian Ringgit against the US Dollar will reduce the cost of imported materials necessary for our manufacturing process, thereby benefiting our overall cost of production.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank all employees of the Company for their commitment, dedication and contribution in continuing to improve the Company's performance. On behalf of all members of the Company, I also want to thank our customers, business associates and shareholders for their valued support and continuing confidence in the Company and its management team.

Tai Hean Leng@Tek Hean Leng
Managing Director/Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

Recognizing the importance of good governance as a fundamental part of discharging their responsibilities, the Board of Directors have taken steps to evaluate the status of the Group's corporate governance policies and procedures. The Board is committed to ensure that good corporate governance is practiced and complied with throughout the Group 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 any other directors/major shareholders, except for the Managing Director/Chief Executive Officer ("MD/CEO"), who is related to one of the major shareholders, and he does not have any conflict of interest with the Group.

COMPOSITION AND BALANCE

The Board currently has six (6) members, comprising three (3) Executive Directors, two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

Collectively, the Board of Directors brings a balance of skills and experience appropriate to the business owing to their diverse background in 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 MEETING 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 2006, 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 details 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 (resigned on 16 April 2007)	4 / 5	80
Ng Wah Lok - Independent Non-Executive Director	4 / 5	80
Lim Hoo Teck - Independent Non-Executive Director (appointed on 5 July 2006)	2 / 2	100
Lim Kim Hai - Independent Non-Executive Director (resigned on 8 June 2006)	3 / 3	100

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 committees, namely Nomination Committee, Remuneration Committee and Audit Committee to support and assist in discharging its fiduciary duties and responsibilities. The respective committees report 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.

i) *Nomination Committee*

For the financial year ended 31 December 2006, the Nomination Committee comprises of three (3) members, all of whom are Non-Executive Directors with a majority being Independent Directors. The Nomination Committee was headed by Encik Rosly bin Aziz while the other two (2) members are Mr Lim Hoo Teck and Mr Ng Wah Lok.

With the resignation of Encik Rosly bin Aziz as Director of Masteel on 16 April 2007, Senator Dato' Ikhwan Salim bin Dato' Haji Sujak was appointed to head the Nomination Committee.

CORPORATE GOVERNANCE STATEMENT

The duties of the Nomination Committee is to:-

- recommend to the Board, candidates for all directorships. In making the recommendations, the Committee should also consider candidates proposed by the MD/CEO, and within the bounds of practicability, by any other senior executives, Directors or shareholders;
- 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 twice during the financial year ended 31 December 2006.

ii) *Remuneration Committee*

The Remuneration Committee comprises of three (3) members and is headed by Senator Dato' Ikhwan Salim bin Dato' Haji Sujak with Mr Lim Hoo Teck and Mr Ng Wah Lok being the other two (2) members.

The duty of the Remuneration Committee is to recommend to the Board the remuneration of the Executive Directors in all its forms and fees payable to Non-Executive Directors.

The Remuneration Committee met twice during the financial year ended 31 December 2006.

iii) *Audit Committee*

The terms of reference of the Audit Committee are set out under the Audit Committee's Report on pages 23 to 26 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 appointment. 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 election.

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

DIRECTORS' TRAINING AND DEVELOPMENT

All members of the Board have completed the Mandatory Accreditation Programme conducted by Bursatra Sdn Bhd (formerly known as Bursa Malaysia Training Sdn Bhd) as required by the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the year 2006. In addition, an orientation programme will be held for newly appointed directors to enable them to familiarise themselves with the Group's business and operation. During the year, this orientation programme was conducted for Mr Lim Hoo Teck.

During the year 2006, the Directors attended seminars or briefings conducted by the Regulatory Authorities or members of professional bodies or industries, in order to stay abreast with the latest developments and updates, and to enhance and fulfill their responsibilities as Directors of the Company.

CORPORATE GOVERNANCE STATEMENT

Seminars and briefings attended by the Directors during the year 2006 were as follows:

- Preparing 1st Quarter Report using the New/Revised Financial Reporting Standards
- Key Performance Indicators as a Management Tool
- An Understanding of Business Failure and Corporate Recovery : A Director's Perspective
- Highlights of the New Financial Reporting Standards in Malaysia
- International Conference on Exploring New Frontiers in Medicine and Health

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 reflects 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 individual 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 practices 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	922,348	–	934,348
Non-Executive Directors	24,000	–	210,402	234,402

Directors' remuneration are broadly categorized as follows:-

Range of remuneration	Number of Directors	
	Executive Directors	Non-Executive Directors
Up to RM50,000	–	3
RM100,001 – RM150,000	–	1
RM150,001 – RM200,000	1	–
RM700,001 – RM750,000	1	–

(Note: None of the Directors received remuneration other than the above range)

CORPORATE GOVERNANCE STATEMENT

SHAREHOLDERS

The Board recognizes the importance of maintaining transparency and accountability to its shareholders as a key element of good corporate governance and thus, maintains a high level of disclosure and communication with its shareholders through disclosure to the 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. The Directors are available to respond to questions from shareholders at the AGM.

The Board has identified Mr Ng Wah Lok as the Senior Independent Director, to address any valid and appropriate issues raised by shareholders, via his email address at nwl@masteel.com.my.

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 the 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 to oversee the Company's financial reporting process and 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 27 to 28 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.

The Audit Committee also meet up with the external auditors at least once a year without the presence of the Executive Directors, if deemed appropriate, and the Management as part of good governance practice.

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 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 2006, the Group has used 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.

CORPORATE GOVERNANCE STATEMENT

ADDITIONAL COMPLIANCE INFORMATION

The following additional information is provided in compliance with Paragraph 9.25 of the Listing Requirements as set out in Appendix 9C thereto:-

1. UTILISATION OF PROCEEDS

The Company had on 9 January 2006, announced to undertake a Private Placement of shares of not more than ten per centum (10%) of the issued share capital of the Company ("Private Placement") and was approved by the Securities Commission ("SC"), SC on behalf of the Foreign Investment Committee, Bursa Securities and the Ministry of International Trade and Industry on 14 February 2006, 21 February 2006 and 15 March 2006 respectively.

The Private Placement was completed on 29 January 2007 with the listing of 13 million Placement Shares issued pursuant to the Private Placement on the Main Board of Bursa Securities on 29 January 2007. The total issued share capital has since been increased to 146 million ordinary shares.

The proceeds raised by the Company from its Private Placement exercise have been utilized in the following manner for the financial period ended 31 March 2007:-

Description	Total Proceeds (RM'000)	Utilised (RM'000)	Unutilised (RM'000)
Payment to trade creditors	7,000	7,000	–
Payment to sundry creditors	5,000	5,000	–
Estimated expenses	350	350	–
Total	12,350	12,350	–

2. SHARE BUY-BACK

There was no share buyback 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

The amount of non-audit fees incurred for the services rendered to the Group by a company affiliated to the external auditors during the financial year was RM3,500.

7. VARIATION IN RESULTS

No profit estimate, forecast or projection were issued by the Company for the financial year under review.

8. PROFIT GUARANTEE

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

CORPORATE GOVERNANCE STATEMENT

9. 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:-

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 and 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 term 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.

10. CONTRACTS RELATED TO LOANS

There were no contracts leading to a loan by the Company in respect of the preceding item.

11. RECURRENT RELATED PARTIES TRANSACTIONS

Significant related party transactions of the Company during the financial year are disclosed in Note 17 to the financial statements.

At the Thirty-Fourth Annual General Meeting of the Company held on 30 May 2006, the Company had obtained a mandate from 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 28 June 2007, the Company intends to seek its shareholders' approval to renew the existing 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 6 June 2007 accompanying this Annual Report.

12. REVALUATION OF LANDED PROPERTIES

During the financial year ended 31 December 2006, no valuation was carried out on its landed properties as set out in Note 11 to the financial statements on page 54 and on page 60 of this Annual Report.

AUDIT COMMITTEE'S REPORT

MEMBERS

The Audit Committee comprises of the following members:-

Name	Designation	Directorship
Mr Lim Hoo Teck*	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:-

- a) Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- b) 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
- c) 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:-

- a) the audit committee must be composed of no fewer than 3 members;
- b) a majority of the audit committee must be independent directors; and
- c) at least one member of the audit committee:-
 - i) must be a member of the Malaysian Institute of Accountants; or
 - ii) 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
 - iii) 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.

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.

AUDIT COMMITTEE'S REPORT

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 auditor, 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 it 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.
- 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.

AUDIT COMMITTEE'S REPORT

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 Hoo Teck (appointed on 5 July 2006)	2 / 2
Mr Lee Kean Binh	5 / 5
Mr Ng Wah Lok	5 / 5
Mr Lim Kim Hai (resigned on 8 June 2006)	3 / 3

SUMMARY OF AUDIT COMMITTEE ACTIVITIES

The Audit Committee carried out activities during the financial year ended 31 December 2006 in discharging its duties and responsibilities in accordance with its Terms of Reference which are as follows:-

Financial Results

Reviewed the quarterly reports, audited financial statements with the adoption of the new Financial Reporting Standards for the Company before recommending to the Board for consideration and approval.

Internal Audit

Reviewed and assessed yearly internal audit plan, scope of audits, internal audit findings and areas for improvements and recommendations, if any.

With respect to the annual report, reviewed 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, before recommending to the Board for approval.

Reviewed and assessed new investments and business ventures 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.

AUDIT COMMITTEE'S REPORT

Risk Management

Reviewed and assessed the corporate restructuring of refinancing activities before recommending to the Board for approval and adoption.

External Audit

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

Related Party Transactions

Reviewed the related party transactions entered into by the Company.

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 27 to 28 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 2006, 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 risk;
- 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 risk and it is committed to ensure that the Group has an effective risk management framework, which allows the management to manage risk within defined risk parameters. All identified risk are dealt with and managed within limits and controls. These limits and controls are monitored closely and adjusted periodically, taking into account changes in market conditions, products and processes.

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 Germanischer Lloyd Certification GmbH for ISO certification to ensure the various procedures are followed strictly.

Meanwhile, the Board would advise the IAD to focus on the following key areas of the Group's internal control system:-

- A Strategic Business Plan to determine the overall direction of the Group;
- Analysis of actual performance against budgets;
- Documentation of the Group's processes in the Standard Operation Procedures (SOP) which will be regularly reviewed and updated, and to be implemented through ISO and QA accreditation programs.

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 and deliberation of the strategic issues facing the businesses, and resolve on actions to mitigate such risk. The AC also reviewed the yearly IA plan before recommending to the Board for approval.

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 risk 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 risk of various aspects of the Group's business. For long term viability of the Group, it is crucial to achieve a critical balance between risk incurred and potential returns.

The Board has a RMF to formalize the identification of principal risk 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 risk and enables the company to adopt a risk based internal control system.

As part of the continual efforts to enhance the day-to-day management of operational risk exposures, an improved system of internal control supported by modern system and tightened procedures to monitor and analyse transaction positions and documentation to minimize risk and losses arising from fraud has been designed and implemented. Reviews are also conducted on potential areas of threat and controls procedures to mitigate any risk and losses.

Furthermore, the Group mitigates any potential risk by having appropriate insurance policies coverage.

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

for the financial year ended 31 December, 2006

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 Group and the Company for the financial year ended 31 December, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is manufacturing of steel bars and steel billets.

The principal activities of one of the subsidiaries consist of manufacturing and research and development of radioisotopes and radiopharmaceuticals products for Positron Emission Tomography (PET).

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
Profit for the financial year	30,009,562	30,014,440
Attributable to: Equity holder of the Group and the Company	30,009,562	30,014,440

DIVIDENDS

The amount of dividends paid by the Company since 31 December, 2005 was as follows:

	RM
In respect of the financial year ended 31 December, 2005 as reported in the directors' report of that financial year:	
A first and final dividend of 1.5 sen per share less 28% taxation on 133,000,000 ordinary shares of RM0.50 each, paid on 28 August, 2006	1,436,400

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 December 2006, of 2.1 sen per share less 27% taxation on 146,000,000 ordinary shares of RM0.50 each, amounting to a net dividend payable of RM2,238,180 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December, 2007.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIRECTORS' REPORT

for the financial year ended 31 December, 2006

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and 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 Group and 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 Group and the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and 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 Group and 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 Group and the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

As detailed in Note 18 to the financial statements, there is pending litigation in respect of claims instituted against the Company. The contingent liability arising from the said claims amounts to approximately RM11.34 million.

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

- i. any charge on the assets of the Group and 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 Group and the Company which has arisen since the end of the financial year.

No contingent liability or other liability of the Group and 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 Group and the Company to meet their 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 Group and the Company which would render any amount stated in the respective financial statements misleading.

DIRECTORS' REPORT

for the financial year ended 31 December, 2006

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and 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 Group and the Company for the current financial year.

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 31.12.2006
	Balance 1.1.2006	Bought	Sold	
Senator Dato' Ikhwan Salim Bin Dato' Haji Sujak	7,650,000	-	-	7,650,000
Tai Hean Leng @ Tek Hean Leng	2,061,500	-	-	2,061,500
Lee Kean Binh	650,000	-	-	650,000
Ng Wah Lok	80,000	-	(80,000)	-
Lim Hoo Teck (Appointed on 5/7/2006)	-	-	-	-
Lau Yoke Leong (Appointed on 16/4/2007)	-	-	-	-
Lim Kim Hai (Resigned on 8/6/2006)	100,000	-	-	100,000
Rosly Bin Aziz (Resigned on 16/4/2007)	7,682,000	-	(182,000)	7,500,000

In accordance with the Company's Article of Association, Ng Wah Lok and Lee Kean Binh retire pursuant to Article 79 and Lim Hoo Teck and Lau Yoke Leong retire pursuant to Article 84 at the forthcoming Annual General Meeting and being eligible, offer 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 Company 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.

SUBSEQUENT EVENT

Details of a subsequent event are disclosed in Note 24 to the financial statements.

AUDITORS

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

DIRECTORS' REPORT

for the financial year ended 31 December, 2006

DATE OF AUTHORISATION OF ISSUE

The financial statements were authorised for issue by the Board of Directors on 26 April, 2007.

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,
26 April 2007

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the directors, the financial statements set out on pages 36 to 59 are drawn up so as to exhibit a true and fair view of the state of affairs of the Group and the Company as at 31 December, 2006 and of the profits and cash flows of the Group and the Company for the financial year then ended and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.

This statement is made in accordance with a resolution of the Directors dated 26 April, 2007.

Signed on behalf of the Board of Directors

SENATOR DATO' IKHWAN SALIM BIN DATO' HAJI SUJAK

TAI HEAN LENG @ TEK HEAN LENG

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

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 59 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 26th day of April,
2007

Before me,

M. KHANDIMADDI (NO. B106)

.....
Commissioner for Oaths

TAI HEAN LENG @ TEK HEAN LENG

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 59. These financial statements are the responsibility 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 applicable Approved Standards on Auditing in Malaysia. These standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of financial statements. 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 MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to 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;
and
 - (ii) the state of affairs of the Group and of the Company as at 31 December, 2006 and of the profits and cash flows of the Group and 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.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 3 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in the form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under Section 174(3) of the Act.

SINGAM & YONG
No. AF 0040
Chartered Accountants

GARY YONG YOON SHING
No. 633/03/09 (J/PH)
Partner

Kuala Lumpur,
26 April 2007

CONSOLIDATED BALANCE SHEET

- 31 December, 2006

	Note	2006 RM
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	2	361,371,830
Other investment	4	5,000,000
		366,371,830
CURRENT ASSETS		
Inventories	5	78,925,844
Trade and other receivables	6	84,565,494
Fixed deposits with licensed banks		8,201,644
Cash and bank balances		29,802,868
		201,495,850
TOTAL ASSETS		567,867,680
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	9	66,500,000
Share premium	10	41,787,205
Revaluation reserves	11	31,030,160
Retained profits		161,950,825
		301,268,190
SHAREHOLDERS' EQUITY		
		301,268,190
NON-CURRENT LIABILITY		
Borrowings	8	53,775,954
CURRENT LIABILITIES		
Trade and other payables	7	45,102,984
Borrowings	8	167,720,552
		212,823,536
TOTAL EQUITY AND LIABILITIES		567,867,680

The above consolidated balance sheet is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on page 35.

BALANCE SHEET

- 31 December, 2006

	Note	2006 RM	2005 RM
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	361,207,054	317,010,763
Investment in subsidiaries	3	4	4
Other investment	4	5,000,000	5,000,000
		<hr/>	<hr/>
		366,207,058	322,010,767
CURRENT ASSETS			
Inventories	5	78,925,844	55,047,789
Trade and other receivables	6	84,790,232	58,153,674
Fixed deposits with licensed banks		8,201,644	11,771,165
Cash and bank balances		29,796,048	15,195,816
		<hr/>	<hr/>
		201,713,768	140,168,444
TOTAL ASSETS			
		<hr/>	<hr/>
		567,920,826	462,179,211
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	9	66,500,000	66,500,000
Share premium	10	41,787,205	41,787,205
Revaluation reserves	11	31,030,160	31,030,160
Retained profits		162,004,971	133,426,931
		<hr/>	<hr/>
SHAREHOLDERS' EQUITY		301,322,336	272,744,296
NON-CURRENT LIABILITY			
Borrowings	8	53,775,954	72,801,604
CURRENT LIABILITIES			
Trade and other payables	7	45,101,984	37,724,967
Borrowings	8	167,720,552	78,908,344
		<hr/>	<hr/>
		212,822,536	116,633,311
TOTAL EQUITY AND LIABILITIES			
		<hr/>	<hr/>
		567,920,826	462,179,211

The above balance sheet is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on pages 35.

CONSOLIDATED INCOME STATEMENT

for the financial year ended 31 December, 2006

	Note	2006 RM
Revenue	1(p)	362,228,030
Cost of sales		(298,230,786)
Gross profit		63,997,244
Other income	1(p)	119,338
Administrative expenses		(14,277,776)
Distribution expenses		(5,307,438)
Profit from operations		44,531,368
Finance expenses		(14,521,502)
Profit before taxation	12	30,009,866
Taxation	13	(304)
Profit for the financial year		30,009,562

The above consolidated income statement is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on pages 35.

INCOME STATEMENT

for the financial year ended 31 December, 2006

	Note	2006 RM	2005 RM
Revenue	1(p)	362,228,030	306,432,116
Cost of sales		(298,230,786)	(255,452,871)
Gross profit		63,997,244	50,979,245
Other income	1(p)	119,338	192,618
Administrative expenses		(14,273,202)	(11,754,292)
Distribution expenses		(5,307,438)	(5,813,486)
Profit from operations		44,535,942	33,604,085
Finance expenses		(14,521,502)	(10,299,693)
Profit before taxation	12	30,014,440	23,304,392
Taxation	13	-	-
Profit for the financial year		30,014,440	23,304,392

The above income statement is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on pages 35.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December, 2006

	Share capital RM	Share premium RM	Revaluation reserves RM	Retained profits RM	Total RM
At 1 January, 2006	66,500,000	41,787,205	31,030,160	133,377,663	272,695,028
Profit for the financial year	–	–	–	30,009,562	30,009,562
Dividends paid	–	–	–	(1,436,400)	(1,436,400)
At 31 December, 2006	66,500,000	41,787,205	31,030,160	161,950,825	301,268,190

The above consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on page 35.

STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December, 2006

	Share capital RM	Share premium RM	Revaluation reserves RM	Retained profits RM	Total RM
At 1 January, 2005	54,851,500	25,148,607	–	110,122,539	190,122,646
Issue of shares (Note 9)	11,648,500	–	–	–	11,648,500
Share premium net of share issue expenses	–	16,638,598	–	–	16,638,598
Profit for the financial year	–	–	–	23,304,392	23,304,392
Surplus on revaluation (Note 11)	–	–	31,030,160	–	31,030,160
At 31 December, 2005	66,500,000	41,787,205	31,030,160	133,426,931	272,744,296
Profit for the financial year	–	–	–	30,014,440	30,014,440
Dividends paid	–	–	–	(1,436,400)	(1,436,400)
At 31 December, 2006	66,500,000	41,787,205	31,030,160	162,004,971	301,322,336

The above statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on pages 35.

CONSOLIDATED CASH FLOW STATEMENT

for the financial year ended 31 December, 2006

	2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	30,009,866
Adjustments for non-monetary items:-	
Depreciation of property, plant and equipment	12,277,648
Bank and loans interest	13,337,561
Finance lease interest	180,768
Fixed deposits interest	(119,338)
Operating profit before working capital changes	55,686,505
Increase in inventories	(23,878,055)
Increase in trade and other receivables	(26,467,660)
Increase in trade and other payables	7,377,017
Net cash generated from operations	12,717,807
Bank and loans interest paid	(13,337,561)
Tax paid	(1,572)
Net cash outflow from operating activities	(621,326)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment (Note 14)	(52,454,415)
Fixed deposits interest received	119,338
Net cash outflow from investing activities	(52,335,077)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in bankers acceptances	43,124,664
Drawdown of revolving credit	50,000,000
Repayment of finance lease liabilities	(370,736)
Repayment of fixed term loans	(36,528,583)
Payment of finance lease interest	(180,768)
Dividends paid	(1,436,400)
Net cash inflow from financing activities	54,608,177
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,651,774
Cash and cash equivalents brought forward	26,975,824
CASH AND CASH EQUIVALENTS CARRIED FORWARD (Note 16)	28,627,598

The above consolidated cash flow statement is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on pages 35.

CASH FLOW STATEMENT

for the financial year ended 31 December, 2006

	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	30,014,440	23,304,392
Adjustments for non-monetary items:-		
Depreciation of property, plant and equipment	12,277,648	11,228,187
Bank and loans interest	13,337,561	9,087,525
Finance lease interest	180,768	64,732
Fixed deposits interest	(119,338)	(118,881)
Operating profit before working capital changes	55,691,079	43,565,955
Increase in inventories	(23,878,055)	(6,680,483)
Increase in trade and other receivables	(26,636,559)	(5,016,127)
Increase/(Decrease) in trade and other payables	7,377,017	(23,514,490)
Net cash generated from operations	12,553,482	8,354,855
Bank and loans interest paid	(13,337,561)	(9,087,525)
Net cash outflow from operating activities	(784,079)	(732,670)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 14)	(52,289,639)	(33,550,701)
Fixed deposits interest received	119,338	118,881
Investment in subsidiaries	-	(4)
Other investment	-	(5,000,000)
Net cash outflow from investing activities	(52,170,301)	(38,431,824)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(Decrease) in bankers acceptances	43,124,664	(1,185,341)
Drawdown of revolving credit	50,000,000	-
Repayment of finance lease liabilities	(370,736)	(111,770)
Drawdown of fixed term loans	-	50,000,000
Repayment of fixed term loans	(36,528,583)	(17,114,953)
Proceeds from issuance of shares, net of share issue expenses	-	28,287,098
Payment of finance lease interest	(180,768)	(64,732)
Dividends paid	(1,436,400)	-
Net cash inflow from financing activities	54,608,177	59,810,302
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,653,797	20,645,808
Cash and cash equivalents brought forward	26,966,981	6,321,173
CASH AND CASH EQUIVALENTS CARRIED FORWARD (Note 16)	28,620,778	26,966,981

The above cash flow statement is to be read in conjunction with the notes to the financial statements on pages 44 to 59. The Auditors' Report is on pages 35.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

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 the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Company had adopted new and revised Financial Reporting Standards ("FRS") which are mandatory for the financial periods beginning on or after 1 January, 2006 as described fully in Note 1(b).

(b) Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2006, the Group adopted the followings FRSs which are mandatory for the financial periods beginning on or after 1 January 2006:

FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairments of Assets
FRS 138	Intangible Assets

The adoption of the above FRSs does not have significant impact on the financial statements of the Group.

(c) Significant Accounting Estimates and Judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key resources of estimation or uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

(i) Depreciation of Property, Plant and Equipment

The cost of property, plant and equipment are depreciated on straight-line basis over the useful lives of the property, plant and equipment. Management estimates the useful lives of the property, plant and equipment as stated in Note 1(e). These are common life expectancies applied in the industries. Change in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(ii) Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of the subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

(e) 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	—	10%
Motor vehicles	—	20%
Office equipment	—	15%
Furniture and fittings	—	15%
Electrical installation	—	7.5%

The freehold and leasehold lands stated at valuation are based on valuations by professional valuers on an open market value basis. Revaluations are performed every 5 years. Capital work-in-progress are not depreciated as these assets are not available for use.

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

(f) 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.

(g) Assets Acquired under Finance Lease

Assets acquired under finance lease 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 finance lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

(h) Investment 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, the difference between the net disposal proceeds and its carrying amount is included in the income statement.

(i) 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.

(j) 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.

(k) 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.

(l) Leases

Leases of property, plant and equipment are classified as finance lease where substantially all the risk and benefits incidental to the ownership of the assets, but not the legal ownership, are transferred to the Group.

Assets under finance lease are depreciated on a straight-line basis over the shorter of the lease terms or their useful lives. Lease interest is recognised as expenses in the income statement over the lease period so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

Other leases are classified as operating lease and the lease rental are recognised as an expense in the income statement on a straight-line basis over the lease periods.

(m) Trade Payables

Trade payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

(n) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

(o) *Equity Instruments*

Ordinary shares are classified as equity. Dividend on ordinary shares are recognised in equity in the period in which they are declared. The transaction costs of an equity accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

The consideration paid, including attributable transaction costs on repurchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of the treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

(p) *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 property, plant and equipment and other income is recognised on an accrual basis unless collectibility is in doubt.

(q) *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	2006 RM	2005 RM
1 US Dollar	3.565	3.780
100 Japanese Yen	2.967	3.229
1 Euro	4.699	4.487

(r) *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.

(s) *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 amount of the financial instruments approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

(t) Cash and Cash Equivalents

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

(u) 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.

(v) 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 Group. 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").

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

2. PROPERTY, PLANT AND EQUIPMENT

Group 2006	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	Electrical installation RM	Capital work in progress RM	Total RM
Cost/Valuation								
At 1 January, 2006	172,955	88,715,530	309,604,084	2,065,686	1,213,065	175,908	21,746,057	423,693,285
Additions	-	4,422,143	18,033,347	654,595	266,448	-	33,262,182	56,638,715
Transfers	-	-	24,109,381	-	-	-	(24,109,381)	-
At 31 December, 2006	172,955	93,137,673	351,746,812	2,720,281	1,479,513	175,908	30,898,858	480,332,000
Representing:								
At cost	107,955	30,637,673	351,746,812	2,720,281	1,479,513	175,908	30,898,858	417,767,000
At valuation	65,000	62,500,000	-	-	-	-	-	62,565,000
	172,955	93,137,673	351,746,812	2,720,281	1,479,513	175,908	30,898,858	480,332,000
Accumulated Depreciation								
At 1 January, 2006	50,379	5,792,378	98,557,448	1,121,410	1,043,814	117,093	-	106,682,522
Charge for the financial year	5,398	648,158	11,264,387	294,910	51,602	13,193	-	12,277,648
At 31 December, 2006	55,777	6,440,536	109,821,835	1,416,320	1,095,416	130,286	-	118,960,170
Net Book Value								
At 31 December, 2006								
At cost	52,178	24,408,830	241,924,977	1,303,961	384,097	45,622	30,898,858	299,018,523
At valuation	65,000	62,288,307	-	-	-	-	-	62,353,307
	117,178	86,697,137	241,924,977	1,303,961	384,097	45,622	30,898,858	361,371,830
Company 2006								
Cost/Valuation								
At 1 January, 2006	172,955	88,715,530	309,604,084	2,065,686	1,213,065	175,908	21,746,057	423,693,285
Additions	-	4,422,143	18,033,347	654,595	266,448	-	33,097,406	56,473,939
Transfers	-	-	24,109,381	-	-	-	(24,109,381)	-
At 31 December, 2006	172,955	93,137,673	351,746,812	2,720,281	1,479,513	175,908	30,734,082	480,167,224
Representing:								
At cost	107,955	30,637,673	351,746,812	2,720,281	1,479,513	175,908	30,734,082	417,602,224
At valuation	65,000	62,500,000	-	-	-	-	-	62,565,000
	172,955	93,137,673	351,746,812	2,720,281	1,479,513	175,908	30,734,082	480,167,224
Accumulated Depreciation								
At 1 January, 2006	50,379	5,792,378	98,557,448	1,121,410	1,043,814	117,093	-	106,682,522
Charge for the financial year	5,398	648,158	11,264,387	294,910	51,602	13,193	-	12,277,648
At 31 December, 2006	55,777	6,440,536	109,821,835	1,416,320	1,095,416	130,286	-	118,960,170
Net Book Value								
At 31 December, 2006								
At cost	52,178	24,408,830	241,924,977	1,303,961	384,097	45,622	30,734,082	298,853,747
At valuation	65,000	62,288,307	-	-	-	-	-	62,353,307
	117,178	86,697,137	241,924,977	1,303,961	384,097	45,622	30,734,082	361,207,054

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

Company 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	Electrical installation RM	Capital work in progress RM	Total RM
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
Transfers	-	(1,441,406)	-	-	-	-	-	(1,441,406)
Revaluation surplus/(deficit)	(16,045)	31,046,205	-	-	-	-	-	31,030,160
At 31 December, 2005	172,955	88,715,530	309,604,084	2,065,686	1,213,065	175,908	21,746,057	423,693,285
Representing:								
At cost	107,955	26,215,530	309,604,084	2,065,686	1,213,065	175,908	21,746,057	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	175,908	21,746,057	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
Transfers	-	(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	58,815	21,746,057	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	58,815	21,746,057	317,010,763

3. INVESTMENT IN SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares at cost	4	4

Details of subsidiaries are as follows:

Name of subsidiaries	Equity interest held (%)		Principal activities
	2006	2005	
*Steel Dynamics (M) Sdn. Bhd.	100%	100%	Dormant
*Bio Molecular Industries Sdn. Bhd. (Formerly known as Cyclotech Sdn. Bhd.)	100%	100%	Manufacturing and research and development of radioisotopes and radiopharmaceuticals products.

*Audited by other professional firm of chartered accountants.

All of the above subsidiaries were incorporated in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

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 are 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

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Raw materials	71,689,875	71,689,875	46,539,286
Finished goods	7,235,969	7,235,969	8,508,503
	<u>78,925,844</u>	<u>78,925,844</u>	<u>55,047,789</u>

6. TRADE AND OTHER RECEIVABLES

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Trade receivables			
- related parties	25,220	25,220	153,299
- non related parties	83,532,894	83,532,894	57,652,606
Less: Allowance for doubtful debts	(1,378,913)	(1,378,913)	(1,378,913)
	<u>82,179,201</u>	<u>82,179,201</u>	<u>56,426,992</u>
Amount due by subsidiaries (non-trade)	–	244,671	55,839
Other receivables	2,176,993	2,176,993	1,482,357
Deposits	209,300	189,367	188,486
	<u>84,565,494</u>	<u>84,790,232</u>	<u>58,153,674</u>

7. TRADE AND OTHER PAYABLES

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Trade payables			
- related parties	132,000	132,000	72,212
- non related parties	35,303,521	35,303,521	29,824,352
Accruals	8,645,395	8,644,395	6,865,808
Staff cost payable	1,021,868	1,021,868	904,435
Deposits	200	200	200
Other payables	–	–	57,960
	<u>45,102,984</u>	<u>45,101,984</u>	<u>37,724,967</u>

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

8. BORROWINGS

	Group 2006 RM	Company 2006 RM	2005 RM
Current			
Secured:			
Bank overdraft	9,376,914	9,376,914	–
Bankers acceptances	107,442,444	107,442,444	64,317,780
Revolving credit	50,000,000	50,000,000	–
Finance lease liabilities	901,194	901,194	171,476
Fixed term loans	–	–	14,419,088
	167,720,552	167,720,552	78,908,344
Non-current			
Secured:			
Finance lease liabilities	3,775,954	3,775,954	692,109
Fixed term loans	50,000,000	50,000,000	72,109,495
	53,775,954	53,775,954	72,801,604
Total Borrowings			
Bank overdraft	9,376,914	9,376,914	–
Bankers acceptances	107,442,444	107,442,444	64,317,780
Revolving credit	50,000,000	50,000,000	–
Finance lease liabilities	4,677,148	4,677,148	863,585
Fixed term loans	50,000,000	50,000,000	86,528,583
	221,496,506	221,496,506	151,709,948

The Group's repayment terms for borrowings are as follows:

	Group 2006 RM	Company 2006 RM	2005 RM
Not later than 1 year	167,720,552	167,720,552	78,908,344
Later than 1 year and not later than 5 years	3,775,954	3,775,954	11,601,610
Later than 5 years	50,000,000	50,000,000	61,199,994
	221,496,506	221,496,506	151,709,948

The interest rates incurred during the financial year for borrowings, excluding finance lease liabilities, ranged from 5.85% to 10.50% (2005: 7.13% to 10.50%) per annum.

The bank overdraft, bankers acceptances, revolving credit and fixed term loans are secured by the following:

- (a) negative pledge;
- (b) debenture over certain property, plant and equipment of the Company; and
- (c) first fixed charge over a leasehold land and building of the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Finance lease liabilities			
Not later than 1 year	1,356,245	1,356,245	215,820
Later than 1 year and not later than 2 years	4,331,556	4,331,556	624,594
Later than 2 years and not later than 5 years	136,023	136,023	154,009
	5,823,824	5,823,824	994,423
Less: Interest in suspense	(1,146,676)	(1,146,676)	(130,838)
	4,677,148	4,677,148	863,585
Present value of finance lease liabilities:			
Current	901,194	901,194	171,476
Non-current	3,775,954	3,775,954	692,109
	4,677,148	4,677,148	863,585

The finance lease liabilities bear interest at the effective rates between 4.62% to 9.65% (2005: 4.84% to 9.34%) per annum.

9. SHARE CAPITAL

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Authorised:			
200,000,000 ordinary shares of RM0.50 each	100,000,000	100,000,000	100,000,000
Issued and fully paid:			
133,000,000 (2005: 109,703,000) ordinary shares of RM0.50 each	66,500,000	66,500,000	54,851,500
Add : Issued during the financial year 23,297,000 ordinary shares of RM0.50 each	–	–	11,648,500
	66,500,000	66,500,000	66,500,000

10. SHARE PREMIUM

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Balance as at 1 January	41,787,205	41,787,205	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)
	–	–	16,638,598
Balance as at 31 December	41,787,205	41,787,205	41,787,205

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

11. REVALUATION RESERVES

Revaluation reserves represents the net surplus based on a valuation carried out by independent professional valuers of the Group and the Company's freehold and leasehold lands 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 lands	
At historical cost	31,453,795
At valuation	62,500,000
	<hr/>
Surplus on revaluation	31,046,205
	<hr/>
Net surplus on revaluation	31,030,160
	<hr/>

12. PROFIT BEFORE TAXATION

Profit before taxation is arrived at:

	Group 2006 RM	Company 2006 RM	2005 RM
After charging:			
Staff costs	14,377,214	14,377,214	12,598,960
Depreciation of property, plant and equipment	12,277,648	12,277,648	11,228,187
Bank and loans interest	13,337,561	13,337,561	9,087,525
Hire of equipment	90,130	90,130	98,452
Directors' remuneration – Fees	–	–	36,000
– Salaries and bonus	835,528	835,528	620,310
– EPF	86,820	86,820	71,376
– Allowance	210,402	210,402	179,343
Rental	203,624	203,624	140,549
Auditors' remuneration	41,000	40,000	30,000
Finance lease interest	180,768	180,768	64,732
	<hr/>	<hr/>	<hr/>
And crediting:			
Other income	–	–	73,737
Fixed deposits interest	119,338	119,338	118,881
	<hr/>	<hr/>	<hr/>
Staff costs consist of:			
Salaries, bonus, allowances and overtime	13,295,931	13,295,931	11,572,881
Contributions to defined contribution plan	909,140	909,140	855,984
Social security contributions	134,912	134,912	140,332
Other benefits	37,231	37,231	29,763
	<hr/>	<hr/>	<hr/>
	14,377,214	14,377,214	12,598,960
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

13. 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 Group and the Company is as follows:

	Group	Company	
	2006	2006	2005
	RM	RM	RM
Profit before taxation	30,009,866	30,014,440	23,304,392
Taxation at Malaysian statutory tax rate of 28%	8,402,762	8,404,043	6,525,230
Utilisation of previously unrecognised capital allowances	(9,809,781)	(9,811,062)	(9,771,377)
Underprovision in previous year	304	-	-
Expenses not deductible for tax purposes	1,407,019	1,407,019	3,246,147
Tax expense for the financial year	304	NIL	NIL

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

Unabsorbed capital allowances are analysed as follows:

	Company	
	2006	2005
	RM	RM
Tax savings recognised during the financial year arising from: Utilisation of unabsorbed capital allowances brought forward from previous years	8,766,247	9,771,377
Unabsorbed capital allowances carried forward	7,973,234	8,766,247
Reinvestment allowances carried forward	67,328,706	60,284,434

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.

	Company	
	2006	2005
	RM	RM
Unabsorbed capital allowances	7,973,234	8,766,247
Reinvestment allowance	67,328,706	60,284,434
Allowance for doubtful debts	380,096	380,096
	75,682,036	69,430,777

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

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

	Company	
	2006 RM	2005 RM
Carrying amount	240,248,631	231,993,728
Tax base	(71,711,109)	(61,800,528)
Temporary differences	168,537,522	170,193,200
Deferred tax liability @ 28% of temporary Differences	47,190,506	47,654,096
Deferred tax liability on revaluation reserve	1,551,508	1,551,508
	48,742,014	49,205,604

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.

14. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group and the Company acquired property, plant and equipment with aggregate cost of RM56,638,715 (2005: RM Nil) and RM56,473,939 (2005: RM34,224,701) respectively which are satisfied as follows:-

	Group	Company	
	2006 RM	2006 RM	2005 RM
Finance lease financing	4,184,300	4,184,300	674,000
Cash payments	52,454,415	52,289,639	33,550,701
	56,638,715	56,473,939	34,224,701

15. SEGMENT INFORMATION

a) Primary Reporting Format – by Business Segment

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

b) Secondary Reporting Format – by Geographical Segments

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

Area	Sales		Total Assets		Capital Expenditure	
	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM
Malaysia	285,810,448	241,753,965	567,867,680	462,179,211	56,638,715	34,224,701
Outside Malaysia	76,417,582	64,678,151	–	–	–	–
Total	362,228,030	306,432,116	567,867,680	462,179,211	56,638,715	34,224,701

In determining the geographical segments of the Group, 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. The comparative figures represent the amounts of the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

16. 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:-

	Group 2006 RM	Company 2006 RM	2005 RM
Fixed deposits with licensed banks	8,201,644	8,201,644	11,771,165
Bank balances	29,402,084	29,395,266	14,962,731
Cash balances	400,784	400,782	233,085
Bank overdraft	(9,376,914)	(9,376,914)	-
	28,627,598	28,620,778	26,966,981

17. 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:-

	Group 2006 RM	Company 2006 RM	2005 RM
Purchase of materials from:- Soon Seng Co (Selangor) Sdn. Bhd.	9,914,470	9,914,470	6,566,884

18. CONTINGENT LIABILITIES

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

- (i) Claim of RM1.34 million for the balance of the purchase price for goods sold. The Company has filed a defence and counter claim for damages of RM3.73 million. During the year, the court dismissed the claim and gave judgement in favour of the Company for the counter claim. Subsequently, the supplier filed an appeal against the judgement, which is still pending.
- (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.

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

19. EARNINGS PER SHARE

(a) Basic Earnings Per Share

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

	Group	
	2006 RM	2005 RM
Profit attributable to shareholders	30,009,562	23,304,392
Weighted average number of ordinary shares	133,000,000	131,085,178
Basic earnings per share (sen)	22.56	17.78

(b) Diluted Earnings Per Share

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

20. FINANCIAL MANAGEMENT RISK OBJECTIVES AND POLICIES

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

The main areas of risk faced by the Group 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 Group.

- **Interest Rate Risk**

The borrowings of the Group 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 Group seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Group 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 Group's means to repay and refinance.

- **Foreign Currency Risk**

The Group exposed to transactional currency risk primarily through purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars (USD), European Dollars (EURO) and Japanese Yen (YEN). Foreign exchange exposures in transactional currencies other than currencies of the operating entities are kept to an acceptable level. Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts.

21. FAIR VALUE OF FINANCIAL INSTRUMENT

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 December, 2006

22. CAPITAL COMMITMENTS

	Group 2006 RM	Company 2006 RM	2005 RM
Capital expenditure			
Approved and contracted for:			
Property, plant and equipment	3,669,171	2,672,518	27,915,300
Other	–	–	1,484,432
	3,669,171	2,672,518	29,399,732
Approved but not contracted for:			
Property, plant and equipment	–	–	3,667,000
	–	–	3,667,000

23. DISTRIBUTABLE RESERVES

Subject to agreement with Inland Revenue Board, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of gross dividends amounting to RM2,961,200 (2005: RM2,855,400) out of its retained earnings as at 31 December 2006.

24. SUBSEQUENT EVENT

On 24 January 2007, the Company increased its issued and paid-up ordinary shares from 133,000,000 shares to 146,000,000 ordinary shares of RM0.50 each by way of issuance of 13,000,000 ordinary shares of RM0.50 each at an issue price of RM0.95 per ordinary share for cash. The purpose of the issuance was for repayment of borrowings, capital expenditure and additional working capital.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation. There are no comparative figures for consolidated financial statements as this is the first year of consolidation.

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	24 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	6 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	22 years	Freehold	5,403 sq. ft. (1,334 sq. ft)	Land – 65 Building – 58	30.09.2005

ANALYSIS OF SHAREHOLDINGS

as at 30 April 2007

SHARE CAPITAL

Authorised Capital	:	RM100,000,000
Issued and Fully paid-up capital	:	RM73,000,000
Class of shares	:	Ordinary shares of RM0.50 each
Voting Rights	:	One (1) vote per ordinary share

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	796,224	0.55	825	18.03
1,001 to 10,000 shares	13,982,000	9.58	2,925	63.93
10,001 to 100,000 shares	24,489,800	16.77	731	15.98
100,001 to 7,299,999 shares	49,441,410	33.86	90	1.97
7,300,000 shares and above	57,290,516	39.24	3	0.07
Total	146,000,000	100.00	4,575	100.00

THIRTY LARGEST SHAREHOLDERS

No	Investors Name/Beneficiaries Name	No. of Shares	%
1	Soon Seng Company Sdn Bhd	42,245,516	28.94
2	Koperasi Permodalan Felda Berhad	7,545,000	5.17
3	Rosly Bin Aziz	7,500,000	5.14
4	Ikhwan Salim Bin Sujak	7,000,000	4.79
5	Lembaga Tabung Angkatan Tentera	4,450,000	3.05
6	Tai Hean Leng @ Tek Hean Leng	3,061,500	2.10
7	HLG Nominee (Asing) Sdn Bhd		
	- Hong Leong Fund Management Sdn Bhd for Asia Fountain Investment Company Limited	3,000,000	2.05
8	Paramount Reap Sdn Bhd	2,447,004	1.68
9	Kemajuan Rekacekap Sdn Bhd	2,000,000	1.37
10	HLG Nominee (Tempatan) Sdn Bhd		
	- Hong Leong Fund Management Sdn Bhd for Hong Leong Bank Berhad	1,800,000	1.23
11	Citigroup Nominees (Asing) Sdn Bhd		
	- FNIL for Capital Intelligence Limited	1,661,000	1.14
12	Ng Teng Song	1,313,900	0.90
13	KAF Nominees (Tempatan) Sdn Bhd		
	- KAF Fund Management Sdn Bhd for Abu Talib Bin Othman	1,235,000	0.85
14	Tai Ho Seng @ Teh Hoo Sing	1,000,000	0.68
15	Mayban Nominees (Tempatan) Sdn Bhd		
	- Amanahraya-JMF Asset Management Sdn Bhd for Noorshah Binti Ismail (C245-240115)	859,600	0.59
16	Mayban Nominees (Tempatan) Sdn Bhd		
	- Mayban Trustees Berhad for MAAKL Value Fund (950290)	820,000	0.56
17	HLG Nominee (Tempatan) Sdn Bhd		
	- Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Bhd (Life)	800,000	0.55
18	HSBC Nominees (Asing) Sdn Bhd		
	- Morgan Stanley & Co International Plc (Firm a/c)	700,000	0.48
19	CIMB Group Nominees (Tempatan) Sdn Bhd		
	- Pledged securities account for Ikhwan Salim bin Sujak (MSW ESOS)	650,000	0.45

ANALYSIS OF SHAREHOLDINGS

as at 30 April 2007

No	Investors Name/Beneficiaries Name	No. of Shares	%
20	Gan Seong Liam	600,000	0.41
21	Goh Choon Kim	573,000	0.39
22	Tai Chet Siang & Sons Sendirian Berhad	545,000	0.37
23	Public Nominees (Tempatan) Sdn Bhd		
	- Pledged securities account for Lee Mooi Kooi (AAA)	534,800	0.37
24	P.G.Doraisamy a/l P.Gopal	510,000	0.35
25	Lim Shiu Ho	456,400	0.31
26	HLG Nominee (Tempatan) Sdn Bhd		
	- Pledged securities account for Khoo Kay Chock	405,000	0.28
27	HLG Nominee (Tempatan) Sdn Bhd		
	- Hong Leong Fund Management Sdn Bhd for Hong Leong Foundation	400,000	0.27
28	HSBC Nominees (Tempatan) Sdn Bhd		
	- HSBC (M) Trustee Bhd for MAAKL Progress Fund (4082)	380,000	0.26
29	Mayban Nominees (Tempatan) Sdn Bhd		
	- Pledged securities account for Lee Ming Lee	370,000	0.25
30	Amanah Raya Nominees (Tempatan) Sdn Bhd		
	- Dana Johor	350,000	0.24
		95,212,720	65.21

DIRECTORS' INTERESTS

Name of Directors	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	5.24	-	-
Tai Hean Leng @ Tek Hean Leng	3,061,500	2.10	-	-
Lee Kean Binh	-	-	-	-
Lim Hoo Teck	-	-	-	-
Ng Wah Lok	-	-	-	-
Lau Yoke Leong	-	-	-	-

Substantial Shareholders

Soon Seng Company Sdn Bhd	42,245,516	28.94	-	-
Senator Dato' Ikhwan Salim bin Dato' Haji Sujak	7,650,000	5.24	-	-
Rosly bin Aziz	7,500,000	5.14	-	-
Tai Ho Seng @ Teh Hoo Sing	1,000,000	0.68	*42,245,516	28.94
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	*42,245,516	28.94
Mohammad Tahir bin Md Yussof	-	-	*44,245,516	30.31
Tai May Chean	-	-	*44,245,516	30.31

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

Masteel

MALAYSIA STEEL WORKS (KL) BHD

www.masteel.com.my

(Company No. 7878-V)

(Incorporated in Malaysia)

CDS account no. of authorised nominee

PROXY FORM

I/We, (NRIC No./Company No.....)
of.....
being a member 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-Fifth 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 Thursday, 28 June 2007 at 3.00 p.m. and at any adjournment thereof in respect of my/our shareholdings in the manner indicated below:

	RESOLUTIONS		FOR	AGAINST
1.	Adoption of the Audited Financial Statements for the financial year ended 31 December 2006 and Directors' and Auditors' Reports thereon	Ordinary Resolution 1		
2.	Declaration of first and final dividend of 2.1 sen per share less 27% taxation in respect of the financial year ended 31 December 2006	Ordinary Resolution 2		
3.	Approval of Directors' Fees	Ordinary Resolution 3		
4.	Re-election of Mr Lee Kean Binh as Director	Ordinary Resolution 4		
5.	Re-election of Mr Ng Wah Lok as Director	Ordinary Resolution 5		
6.	Re-election of Mr Lim Hoo Teck as Director	Ordinary Resolution 6		
7.	Re-election of Mr Lau Yoke Leong as Director	Ordinary Resolution 7		
8.	Re-appointment of Auditors	Ordinary Resolution 8		
9.	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares	Ordinary Resolution 9		
10.	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature	Ordinary Resolution 10		
11.	Proposed Renewal of Share Buy-Back Mandate	Ordinary Resolution 11		
12.	Proposed Amendments to Articles of Association	Special Resolution 1		

(Please indicate with an "X" in the spaces provided how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.)

Signature/Common Seal

Number of shares held: _____

Date: _____

For appointment of two proxies,
percentage of shareholdings to be
represented by the proxies:

	Percentage
Proxy 1	%
Proxy 2	%
Total	100%

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 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 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 (7878-V)
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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