

Prestar Resources Berhad (123066-A)
Notes to the Interim Financial Report for the period ended 30 June 2007

PART A: EXPLANATION NOTES AS PER FRS 134

A1 Accounting policies and methods of computation

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

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2006. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2006.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the most recent audited financial statements for the financial year ended 31 December 2006 except for the adoption of the following new or revised Financial Reporting Standards ("FRS") effective for the financial period beginning on 1 January 2007:

FRS 117	Leases (effective for annual period beginning on or after 1 October 2006)
FRS 124	Related Party Disclosure (effective for annual period beginning on or after 1 October 2006)

The Group has not adopted FRS 139 Financial Instruments: Recognition and Measurement as its effective date has been deferred.

The adoption of the above mentioned FRSs have no impact on the Group results for the period under review other than changes discussed below.

FRS 117: Leases

Prior to 1 January 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of the other assets. The land and buildings elements of the lease of land and buildings are considered separately for the purposes of lease classification. The up-front payments of leasehold interests are allocated between the land and the buildings elements in proportion to their relative fair values at the inception of the lease.

The Group has reclassified upfront payments of leasehold land as Prepaid Lease Payments and are amortised on a straight-line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land in accordance with transitional provisions of FRS 117. At 1 January 2007, the unamortised amount of leasehold land is retained as the surrogate carrying amount of Prepaid Lease Payments as allowed by the transitional provisions. The reclassification of leasehold land as Prepaid Lease Payments has been accounted for retrospectively and certain comparatives have been restated to reflect this application as discloses below. The adoption of this FRS has no effects on the income statement of the Group for the current quarter under review.

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FRS 117: Lease - continue

The following comparatives have been restated due to the adoption of FRS 117 and have been reclassified to conform with the current year's presentation:

	Previously Stated RM'000	Adoption of FRS 117 RM'000	Restated RM'000
<u>At 31 December 2006</u>			
Property, Plant and Equipment	129,133	(4,931)	124,202
Prepaid Lease Payment	-	4,931	4,931

A2 Seasonal or cyclicity factors

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

A3 The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence

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

A4 Changes in estimates

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

A5 Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

i) Employees' Share Option Scheme

The paid-up share capital of the Company has been increased from RM88,800,800 to RM90,452,450 as a result of the exercise of 3,303,300 option pursuant to the Company ESOS.

ii) Share Buy-Back

Details of share buy-back for the financial year to date as below:

Month	Price per share (RM)			No. of shares repurchase	Total paid	No. of shares held as treasury share
	Lowest	Highest	Average		RM'000	
Balance b/f				4,450,900	3,923	4,450,900
Feb 07	0.75	0.84	0.81	1,793,000	1,444	1,793,000
Mar 07	0.64	0.75	0.72	676,000	487	676,000
Balance c/f				6,919,900	5,854	6,919,900

There were no other issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter ended 30 June 2007.

A6 Dividends paid (aggregate or per share) separately for ordinary share and other shares

- (i) A First and Final Dividend of 5.0% less 27% tax amounting to 1.825 sen net per share in respect of the financial year ended 31 December 2006 was paid on 18 May 2007.
- (ii) An Interim dividend of 22% less 27% tax amounting to 8.03 sen net per share in respect of the year ending 31 December 2007 was paid on 18 May 2007.

A7 Segment Information for the current financial year to date

	Trading RM'000	Manufacturing RM'000	Investment RM'000	Elimination RM'000	Total RM'000
Revenue					
External Sales	56,262	156,146	740	0	213,148
Inter-segment revenue	439	22,313	4,527	(27,279)	0
Total Revenue	56,701	178,459	5,267	(27,279)	213,148
Segment Result	3,624	13,078	27,403	(17,101)	27,004
Profit from operations					27,004
Finance costs					(4,215)
Interest Income					106
Share of results of associate					1,001
Profit before tax					23,896

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

A8 Valuations of property, plant and equipment

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

A9 Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

There were no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the current quarter under review.

A10 The effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations

Changes in the composition of the Group for the current quarter ended 30 June 2007 was as follows:

Prestar Storage System Sdn Bhd (PSS)

PSS became a wholly owned subsidiary of Prestar on 15 June 2007 upon completion of the acquisition of 4.41% equity interest from a minority shareholder at a consideration of RM300,000 for 150,000 ordinary shares at par value of RM1.00 each .

A11 Changes in contingent liabilities or contingent assets since the last annual balance sheet date

The contingent liabilities of the Company as follows:	As at 30.6.2007 RM'000	As at 31.12.2006 RM'000
Guarantees to financial institutions for credit facilities granted to subsidiaries – unsecured	209,112	316,970
	<u>209,112</u>	<u>316,970</u>

A12 Capital commitments

	As at 30/6/2007 RM'000
Property, plant and equipment	
Authorised and contracted for	<u>43</u>
Authorised and not contracted for	<u>2,386</u>

Part B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (PART A OF APPENDIX 9B)

B1 Review of performance of the company and its principal subsidiaries for the current quarter and financial year to date (YTD)

Group revenue and profit before taxation (PBT) for the quarter under review were RM 104.6 million and RM 7.4 million respectively. These were 8.2% and 12.1 % higher than the Group revenue and PBT of the same period last year respectively (comparison based on adjusted figure after divestment of subsidiary equity). Similarly, YTD Group revenue and PBT were also improved over the same period last year. On the whole, the increase was due to better sales margin on pipes and stainless steel products at the earlier part of the period under review as well as the on-going improvement in operational efficiencies within the Group which continued to reduce production overhead and overall costs.

B2 Material changes in the profit before taxation for the quarter reported on as compared with the immediate preceding quarter

The Group achieved a Profit before taxation of RM 7.4 million for the quarter under review, this was substantially lower than RM16.5 million of the immediate preceding quarter as the prior quarter incorporated the capital gain on the disposal of equity of a subsidiary. Nevertheless, there was still an increase of 14% in PBT when compared the current quarter to the adjusted figure (without the capital gain) of immediate preceding quarter. This was mainly attributed to better sales margin in the earlier part of the second quarter.

B3 Prospects for the current financial year

Prices for most steel products, except stainless steel were relatively stable. Market reacted cautiously and remained passive, major break through will depend greatly on the spill over effects of major projects' take-off under 9MP and other mega projects. Nevertheless, the Board remains optimistic and expects the Group's current year performance to be better than the prior year.

B4 Variance of actual profit from forecast profit / profit guarantee

Not Applicable.

B5 Tax expenses

	Current Quarter	Current
RM'000	30/6/07	Year To Date
		30/6/07
Current taxation	1,834	3,824
Deferred taxation	531	689
In respect of prior years	(19)	(19)
	<u>2,346</u>	<u>4,494</u>

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

Included in year-to-date Other Operating Income a gain on disposal of shares in subsidiary is not subject to tax.

B6 Profit / (Losses) on sale of unquoted investments and/or properties

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

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B7 Quoted securities

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

	Current Quarter 30/6/07 RM'000	Year To date 30/6/07 RM'000
Total Purchases	0	0
Total Sale Proceeds	0	0
Total Profit / (Loss)	0	0

(b) Investments in quoted securities as at 30 June 2007 are as follows:-

	RM'000
(i) At cost	560
(ii) At book value	361
(iii) At market value	435

B8 (a) The status of corporate proposals announced but not completed at the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report.

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

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

(b) Status on utilization of proceeds from disposal of 5,300,000 shares of RM1.00 each representing 37.86% equity interest in Posmmit Steel Centre Sdn Bhd to POSCO Steel Service & Sales Co Ltd was completed and reported in first quarter 2007.

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B9 Group bank borrowings:

Total group borrowings as at 30 June 2007 are as follows:-

	30/6/2007 RM'000
<u>Long term bank loans – Secured</u>	
Total outstanding balances	0
Repayments due within the next 12 months	0
Total – Long Term Bank Loans – secured	0
<u>Short term bank borrowings</u>	
Secured:-	
Bank overdrafts	0
Revolving credits	1,500
Bankers' acceptance & commercial paper	75,226
Current portion of long term loan	0
Sub-total	76,726
Unsecured:-	
Bank overdrafts	2,843
Revolving credits	0
Bankers' acceptance	100,981
Sub-total	103,824
Total – Short Term Bank Borrowings	180,550

B10 Financial instruments with off balance sheet risk at the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report

Foreign currency contracts

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

Currency	Contract Amount ('000)	Equivalent amount in Ringgit Malaysia ('000)	Expiry Dates
Bank Buy:			
USD	3,347	11,674	28/8/07 to 30/6/08
SGD	299	658	30/8/07 to 28/12/07
BND	200	443	30/8/07 to 30/11/07

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

B11 Material litigation since the last annual balance sheet date which shall be made up to a date not earlier than 7 days from the date of issue of the quarterly report

As at 23 August 2007, there were no changes in material litigation, including the status of pending material litigation since the last annual balance sheet date of 31 December 2006.

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B12 Dividend

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

B13 Earnings per share

	Current Quarter Ended 30/6/2007
Basic	
Net profit attributable to ordinary shareholder (RM'000)	3,486
Number of ordinary shares as at 1 Jan 2007 after net off treasury shares	173,151
Effect of ESOS exercised	2,305
Effect of warrants exercised	0
Effect of shares repurchased	<u>(2,085)</u>
Weighted average number of ordinary shares in issue ('000)	173,371
Basic earnings per share (sen)	2.01

Diluted

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

B14 Report of auditors

The audit report of the most recent annual financial statement for the year ended 31 December 2006 was not qualified.