Finance Director's Review

Amidst a contracting domestic construction industry, rising interest rates, escalating raw materials costs and adoption of new financial reporting guidelines, SunInc Group posted a net loss of RM11.3 million on revenue of RM2.1 billion for the 18 months' financial period ended 30 June 2006. Profit from operations for the period stood at RM123.3 million (2004: RM98.8 million) but was adversely affected by major non-recurring expenses.

These include the impairment of assets held for resale properties, plant and equipment of RM8.4 million and provision for diminution in value of investment in SunInfra of RM14.8 million. Notwithstanding the effect of these items, the Group would have reported profit from operations of RM146.5 million.

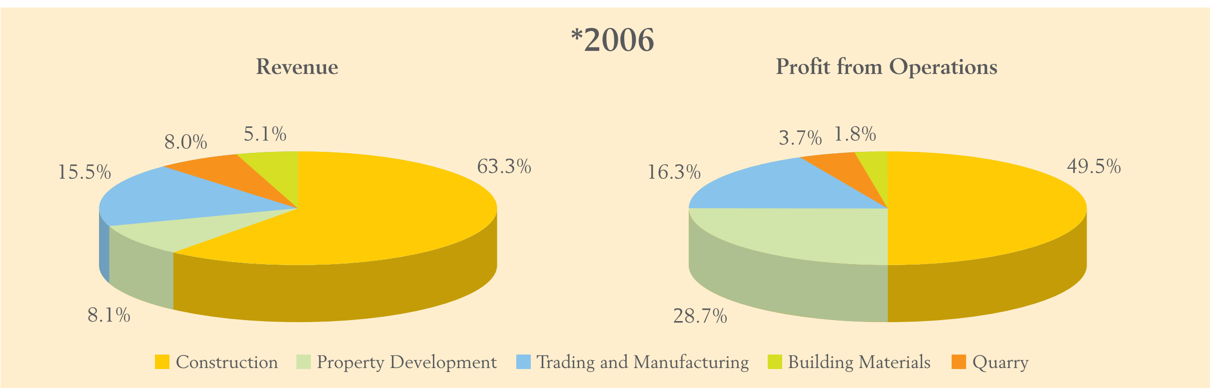
CONSOLIDATED INCOME STATEMENTS

	18 months 2006 RM million	12 months 2004 RM million
Revenue	2,057	1,497
Cost of sales	(1,667)	(1,207)
Gross profit	390	290
Other operating income	48	19
Operating expenses	(291)	(201)
Impairment losses	(24)	(9)
Profit from operations	123	99
Finance cost	(54)	(27)
Share of results of associated companies	(40)	(16)
Profit from ordinary activities before tax	29	56
Tax expense	(30)	2
(Loss)/profit after tax	(1)	58
Minority interest	(10)	(19)
Net (loss)/profit for the financial period/year	(11)	39
Basic (loss)/earnings per share (sen)	(2.09)	8.08
Operating profit margin	6%	7%
Profit from ordinary activities before tax over revenue	1%	4%
Net (loss)/profit over revenue	(1%)	3%

SEGMENTAL FINANCIAL REVIEW

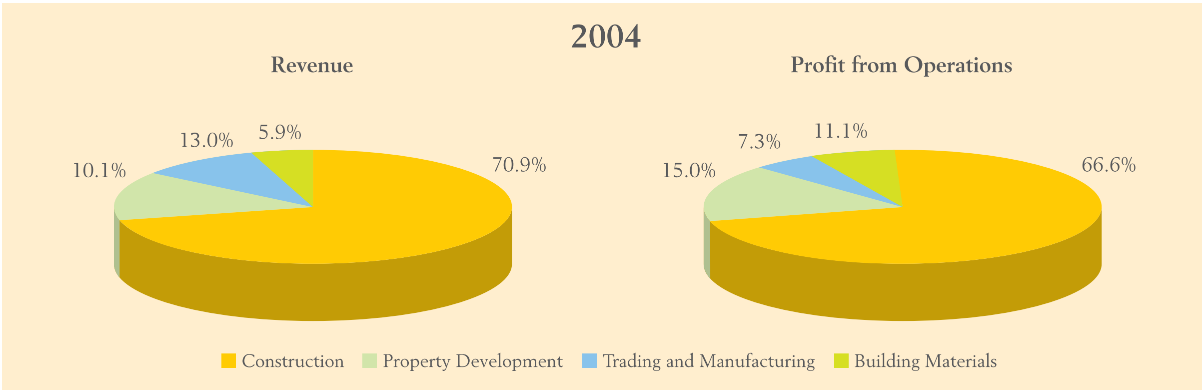
Year 2005 was a challenging period for the Malaysian construction industry with the sector shrinking 1.6%. The performance of the Group's construction and building materials divisions deteriorated in tandem with the overall market sentiment. Nonetheless, the Group's construction arm remained profitable and reported profit from operations of RM62.8 million on the back of revenue of RM1.3 billion (2004: RM82.3 million and RM1.1 billion).

The construction division's profits were comparatively lower than that reported in the previous financial year as most of the current projects are in the early stages of completion. Therefore, profits had not been recognised as the percentage of completion was below the recognition threshold.



* 18 months ended 30 June 2006

Finance Director's Review *(Cont'd)*



Despite the competitive environment, the construction division had remained resilient and managed to secure new projects amounting to RM2.1 billion during the financial period. With an outstanding order book as at 30 June 2006 of RM2.1 billion, the division is expected to continue to perform well in the coming years.

Due to the strong correlation with the construction industry, the Group's building materials division similarly reported lower profits of RM2.3 million on revenue of RM102.7 million (2004: RM13.7 million and RM88.3 million). The division suffered from a combination of lower demand due to sluggish construction activities and higher raw materials costs resulting from higher crude oil prices. The Group had, in the financial period, also incurred substantial relocation costs to transfer two Interlocking Concrete Pavers ("ICP") manufacturing plants to Dongguan and Shanghai as part of the Group's plan to diversify operations geographically. Furthermore, significant costs were incurred to set up a spun pile manufacturing facility in Zhuhai, China. The Group opines that there is a huge untapped market for both ICP and spun piles in China and the Group foresees these operations to demonstrate robust growth in years to come.

In the nearer future, the Group anticipates performance of both construction and building materials divisions to improve with new construction projects being rolled out under the 9th Malaysia Plan and Private Finance Initiatives ("PFI"). Budget 2007 had already allocated RM27.5 billion for projects under the 9th Malaysia Plan with PFI projects valuing RM4.0 billion expected to take off simultaneously. The Group eagerly awaits the implementation of the 9th Malaysia Plan and PFI projects as they are widely expected to be the catalysts to revive the flagging construction and other related industries. Moving forward, it is also envisioned that a significant proportion of the construction division's revenue will be derived from overseas ventures in view of the increasingly competitive domestic environment and a growing number of opportunities abroad afforded by the strengthening SunCon brand.

Disregarding the temporary setbacks of the 2 divisions, stellar performances were exhibited by the trading and manufacturing as well as the property development divisions. The trading and manufacturing division registered profits from operations of RM20.7 million on revenue of RM312.1 million (2004: RM9.1 million and RM194.0 million). On an annualised basis, profit from operations surged 51.6% and revenue was up by 7.3%. The improved performance is largely the product of the division's successful overseas market penetration strategy especially to Singapore, China and Indonesia with 39.5% of the division's profits derived from these foreign subsidiaries.

Meanwhile, the property development division notched revenue of RM163.0 million and profit from operations of RM36.4 million for financial period 2006 (2004: RM149.9 million and RM18.5 million). On an annualised basis, the increase in profit from operations was a commendable 31.2% mainly riding on the success of new launches in Sunway Batu Caves and Bangi Town Center.

In the period under review, the Group had re-entered the quarrying industry in Malaysia via the acquisition of Sunway Quarry Industries Sdn Bhd. The newly acquired company contributed favourably to the Group's results by generating revenue of RM159.7 million and profit from operations of RM4.7 million. With the Group planning new quarry operations both locally and abroad, this division is expected to be a major future growth engine.

The Group's associated company, SunInfra incurred further losses for the financial period ended 2006 with the Group sharing losses of RM43.9 million. As part of the efforts to improve the performance of SunInfra, the Group has hired a prominent consulting firm to advise on the restructuring of SunInfra and is in the final stages of negotiations with bondholders.

Early Adoption of IC 112, Consolidation-Special Purpose Entities

In accordance with the Group's policy of promoting better corporate governance and accountability to shareholders, the Group has chosen to early adopt financial reporting guidelines that are expected to have a material impact on the Group's financial performance. A consequence of this policy was the adoption of IC Interpretation 112, Consolidation – Special Purpose Entities ("IC 112") for the financial period 2006, in advance of regulatory requirements.

In 2004, the Group completed an asset-backed securitisation exercise involving the disposals of the entire equity interest of Coral White Sdn Bhd ("CWSB"), a wholly-owned indirect subsidiary of the Group, and a portfolio of commercial and residential properties to ABS Land & Properties Berhad ("ALP") for a total sale consideration of RM205.6 million which was satisfied by RM84.3 million cash and the issuance of RM121.3 million nominal value of subordinated class asset-backed securitisation notes.

Under the definitions set forth in IC 112, ALP is deemed to have met the definition of a "Special Purpose Entity" and is to be considered as part of the Group. Accordingly, ALP's results were consolidated and this resulted in a prior year adjustment of RM39.4 million arising mainly from the reversal of gains recognised on disposal of the assets to ALP and consolidation of prior year ALP losses.

Investment in Sunway Global Limited by Goldman Sachs Strategic Investments (Asia) L.L.C. ("Goldman Sachs")

A notable development in the year was the acquisition of a 20% stake by Goldman Sachs, a subsidiary of Goldman Sachs Group Inc. in Sunway Global Limited, the holding company for the Group's China investments. The alliance with Goldman Sachs, who already has a strong business presence in various industries in China, would benefit the Group by providing access to financial resources, business networks and human capital.

CONSOLIDATED CASH FLOW STATEMENTS

	18 months 2006 RM million	12 months 2004 RM million
Cash from operations	188	(4)
Tax paid	(36)	(24)
Tax refund	9	22
Interest received	4	5
Dividends received from other investments	0	1
Net cash flow from operating activities	165	0
Net cash flow from investing activities	(105)	(131)
Net cash flow from financing activities	22	133
Net increase in cash and cash equivalents	82	2

CASH FLOW STATEMENTS REVIEW

The increase in cash generated from operations was primarily due to the improved collection from customers and settlement of long outstanding debts.

The net cash outflow from investing activities was primarily due to the acquisition of Sunway Quarry Industries with a cash consideration of RM54.9 million as well as capital expenditure incurred for the Group's expansion to China.

As for financing activities, the Group obtained a syndicated term loan facility of RM360 million from a consortium of banks in early 2005. Proceeds from the facility were used to restructure the Group's short-term borrowings to a 6-year repayment term. In addition, Goldman Sachs granted RM25 million borrowings specifically for our investments in China. As at the end of financial period 2006, the Group's gearing ratio edged up to 0.89 times compared to 0.82 times in 2004, mainly as a consequence of reconsolidation of borrowings of ALP.

Mark Victor Rozario
Finance Director