Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES:

A1 **Accounting policies and basis of preparation**

The Quarterly Report is unaudited and has been prepared in accordance with the Financial Reporting Standard ("FRS") 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements. The report should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2008.

The explanatory notes attached to the unaudited interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2008.

The accounting policies and methods of computation adopted in the unaudited interim financial statements are consistent with those adopted for the audited financial statements for the financial year ended 30 June 2008.

A2 **Audit qualification**

The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2008 was not subject to any audit qualification.

A3 **Seasonality or cyclicality of operations**

The business of the Group is generally neither cyclical nor seasonal except for decreased activities during the Ramadan and Lunar New Year festive months.

A4 **Unusual items**

There were no items affecting the assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the financial quarter ended 30 September 2008 except for:

(i) fair value loss of RM137.6 million (net of tax) recognised on a financial asset which is marked-to-market in accordance with the Group's accounting policy on financial assets; and

(ii) allowance for shares under litigation of RM7.9 million, of which the details are explained in Note B11.

A5 **Changes in estimates**

Not applicable to the Group.

A6 **Issuances and repayment of debts and equity securities**

(i) Employee Share Option Scheme ("ESOS")

There was no issuance of shares pursuant to the Company's ESOS during the current financial quarter.

(ii) Share buy-back

There was no repurchase of own shares during the current financial quarter.

(iii) Conversion of warrants to ordinary shares

There was no conversion of warrants to ordinary shares during the current financial quarter.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES:

A7 **Dividends paid**
No dividend was paid during the current financial quarter.

A8 **Segmental reporting**
Segmental information in respect of the Group's business segments is as follows:

	Steel Manufacturing	Energy	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	220,041	-	881	-	220,922
Inter-segment sales	-	-	77	(77)	-
Total Revenue	220,041	-	958	(77)	220,922
Segment Results					
Profit from operations	17,781	2,525	(145,279)	(2,692)	(127,665)

A9 **Valuation of property, plant and equipment**
The valuation of property, plant and equipment has been brought forward, without amendment from the audited financial statements for the financial year ended 30 June 2008.

A10 **Subsequent material events**
Impact of the movement of Gindalbie Metals Ltd ("Gindalbie") share price to the Group's financial performance

The 74,087,009 Gindalbie shares held by the Group as at 30 September 2008 have been marked-to-market ("MTM") at AUD0.685 per share in accordance with the Group's accounting policy on financial assets. As at 17 November 2008 (the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report), the share price of Gindalbie was stated at AUD0.415 per share. This represents additional unrealised loss of approximately RM43.1 million (net of tax), if the 74,087,009 Gindalbie shares were to be MTM on that date, after taking into account the decrease in the allowance for shares under litigation of RM7.9 million (net of tax).

Save as disclosed above, there were no other material events occurring between 30 September 2008 and the date of this announcement that had not been reflected in the financial statements for the financial quarter ended 30 September 2008.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES:

A11 **Changes in the composition of the Group**

On 9 July 2008, Mperial Power Ltd ("Mperial"), a wholly owned subsidiary of the Company, completed the acquisition of an additional 25.03% equity interest in Siam Power Generation Public Company Ltd ("SIPCO") for a total cash consideration of USD11.3 million (RM36.2 million). The acquisition has effectively increased Mperial's shareholding in SIPCO from 70.00% to 95.03%.

A12 **Contingent liabilities or contingent assets**

There were no contingent liabilities or contingent assets as at the end of the financial quarter ended 30 September 2008 except for the disclosure of the material litigation made in Note B11 and the following:

(i) As at 30 September 2008, the total guarantees extended by the Company to banks amounted to RM68,393,420 for banking facilities extended to its subsidiaries of which, RM19,812,274 has been drawn down.

(ii) SIPCO entered into a contract with a gas supplier, PTT Power Company Ltd in Thailand in 2006 under which SIPCO agreed to:

- make a payment of THB100 million or approximately RM9.4 million over a period of 7 years. As at 30 September 2008, an amount of THB30 million or approximately RM2.8 million has been paid while the remaining amount has been recognised as a liability; and

- take or pay for the value of gas not less than THB15.8 billion or approximately RM1.5 billion within 10 years from the date SIPCO begins commercial operations in October 2010.

A13 **Capital commitments**

The details of the commitments as at 30 September 2008 are as follows:

	RM'000
Property, plant and equipment	864,606

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B1 **Review of the performance of the Company and its principal subsidiaries**

The Group recorded a total revenue of RM220.9 million for the 1st quarter ended 30 September 2008, a significant increase of 59% over the preceding year's corresponding quarter of RM138.9 million, on the back of a higher sales volume of steel related products.

Notwithstanding the increase in total revenue, the Group recorded a loss after tax of RM94.4 million for the quarter under review compared to a profit after tax of RM8.9 million in the preceding year's corresponding quarter. The decline of RM103.3 million is attributable mainly to the fair value loss suffered on a financial asset of RM137.6 million (net of tax), partly offset by a write back of allowance for shares under litigation of RM30.5 million (net of tax).

For the current quarter under review, the Company's principal subsidiary, Mycron Steel Berhad, posted a profit after tax of RM3.2 million, which is RM1.3 million or 68% higher than the RM1.9 million achieved in the corresponding quarter of the preceding year. The better performance attained is principally due to a 70% increase in the total revenue from RM79.8 million to RM136.0 million, contributed mainly by a higher sales volume.

B2 **Material change in the profit before tax as compared with the immediate preceding quarter**

The Group registered a loss before tax of RM135.0 million in the current quarter compared to a profit before tax of RM116.5 million in the immediate preceding quarter. The drop of RM251.5 million is principally due to the fair value loss suffered on a financial asset of RM193.7 million, which is partly offset by a write back of allowance for shares under litigation of RM44.0 million in the quarter under review, whereas a fair value gain on a financial asset of RM180.2 million was recognised and an allowance of RM60.4 million was made for shares under litigation in the immediate preceding quarter.

B3 **Prospects**

The Directors are of the opinion that international steel prices and demand for steel products will continue to soften for the rest of 2008 and probably stabilise in the 1st half of 2009. In view of the above, the Group will adopt a more cautious approach in inventory management and also be more stringent in credit control. The Group anticipates that the challenging times ahead for the steel industry, the current financial meltdown and the drastic equities market downturn, will have an adverse impact on the results of the Group for the financial year ending 30 June 2009.

B4 **Variance of actual profit from forecast profit**

The Group did not issue any profit forecast or profit guarantee.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B5 **Taxation**

	Current Year Quarter 30/09/08 RM'000	Current Year To Date 30/09/08 RM'000
Income tax		
- current year	(1,814)	(1,814)
Deferred tax		
- current year	42,424	42,424
	40,610	40,610

The effective tax rate of the Group for the current quarter and current year to date is higher than the statutory tax rate mainly due to the reversal of deferred tax liability on the fair value loss suffered on a financial asset, at a foreign tax rate higher than the statutory rate.

B6 **Profit on sale of unquoted investments and / or properties**

This is not applicable to the Group for the current financial quarter.

B7 **Purchase or disposal of quoted securities**

(i) There was no purchase or disposal of quoted securities during the current financial quarter.

(ii) Investment in quoted securities as at 30 September 2008:

	RM'000
Total investments cost	21,413
Total investments at book value	138,496
Total investments at current market value	138,496

On the basis that the 35,087,009 shares in Gindalbie are not recoverable as mentioned in Note B11, the investment in quoted securities as at 30 September 2008 would have been as follows:

	RM'000
Total investments cost	11,272
Total investments at book value	72,905
Total investments at current market value	72,905

The Group has made adequate provision for the 35,087,009 shares in Gindalbie which is disclosed in Note A4 and Note B11.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B8 **Status of corporate proposals**

There were no corporate proposals announced but not completed as at 17 November 2008 (the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report).

B9 **Group borrowings and debt securities**

The Group's borrowings as at 30 September 2008 are as follows:

	RM'000
Short-term borrowings:	
Unsecured	149,789
Secured	235,141
	384,930
Long-term borrowings:	
Secured	148,845
Total borrowings	533,775

The Group's currency exposure of borrowings as at 30 September 2008 is as follows:

	RM'000
- Ringgit Malaysia	274,982
- US Dollar	127,303
- Australian Dollar	31,035
- Euro	39,960
- Thai Baht	60,495
Total borrowings	533,775

B10 **Off balance sheet financial instruments**

There were no financial instruments with off balance sheet risks as at 17 November 2008.

B11 **Material litigation**

There is no material litigation pending as at the date of this announcement except for the following:

Melewar Steel Ventures Ltd vs ANZ Banking Group Ltd
Supreme Court of NSW No. 2149/2008

(i) The Company's wholly owned subsidiary companies, Melewar Steel Ventures Ltd ("MSV") and M-Power TT Ltd own 40,087,009 and 34,000,000 ordinary shares in Gindalbie respectively, representing a combined equity interest of 14.46% in Gindalbie.

(ii) MSV had been granted an Equity Finance Facility of AUD24.0 million, which is equivalent to RM67.2 million (based on the exchange rate as at 30 September 2008) in October 2007 from Opes Prime Stockbroking Ltd ("OPSL").

(iii) MSV was informed on 28 March 2008 that OPSL had appointed a voluntary administrator to look into the affairs of OPSL. Following the appointment of the voluntary administrator, a secured creditor, ANZ Banking Group Ltd ("ANZ"), appointed receivers and managers in respect of the OPSL Group.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B11 **Material litigation (cont'd)**

(iv) As at 31 March 2008, MSV had pledged 35,087,009 Gindalbie shares against an outstanding loan of AUD11.1 million which is equivalent to RM31.1 million (based on the exchange rate as at 30 September 2008).

(v) Out of the 35,087,009 Gindalbie shares pledged with OPSL, the secured lender of OPSL has claimed ownership over 32,000,000 Gindalbie shares and the remaining 3,087,009 Gindalbie shares are currently held by Green Frog Nominees Pty Limited, a subsidiary of OPSL.

(vi) MSV applied for a court injunction ("the Court Injunction") against ANZ, the secured lender of OPSL, vide a Supreme Court of NSW No. 2149/2008 order to restrain ANZ from selling any of the 35,087,009 Gindalbie shares pledged with OPSL by MSV, which was granted on 2 April 2008. However, the Court Injunction was subsequently dissolved by the Court of Appeal in Sydney, Australia on 18 April 2008.

(vii) MSV proceeded to file a claim against ANZ and OPSL and their respective nominees for the recovery of the 35,087,009 Gindalbie shares. MSV had on 5 June 2008 amended its Statement of Claim to include Merrill Lynch International (Australia) ("Merrill Lynch") as one of the defendants.

(viii) Subsequently, MSV filed a motion to amend its Statement of Claim while Merrill Lynch also filed a motion to strike out MSV's Statement of Claim.

(ix) The motion was finally heard on 26 September 2008 where both Merrill Lynch and ANZ (the "Banks") presented their application to strike out MSV's claim. MSV countered the application on the basis that the conduct of OPSL was fraudulent and all allegations against OPSL ought to be allowed to go through a full trial.

(x) The Judge reserved his decision to a later date which in the normal course, should be in 1 to 2 months' time.

(xi) As at 30 September 2008, an allowance for shares under litigation of RM7.9 million (net of tax) has been made. The additional financial impact should MSV be unable to recover the 35,087,009 Gindalbie shares amounts to approximately RM7.9 million (net of tax), being the marked-to-market value of the shares as at 30 September 2008 and after taking into consideration the AUD11.7 million loan, which is inclusive of accrued interest owing to OPSL.

B12 **Dividends**

The Board of Directors had on 26 August 2008, recommended a first and final dividend of 4.0 sen per share, less 25% income tax, for the financial year ended 30 June 2008. The proposed dividend is subject to shareholders' approval at the forthcoming Annual General Meeting, which is to be held on 9 December 2008.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2008

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B13 **Earnings per share**

(i) Basic earnings per ordinary share

	Current year quarter 30/09/08 RM'000	Current year to date 30/09/08 RM'000
Loss attributable to shareholders	(95,591)	(95,591)
Weighted average no. of ordinary shares in issue ('000)	225,673	225,673
Basic loss per share (sen)	(42.36)	(42.36)

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)
SOON LEH HONG (MIA 4704)
Secretaries
Kuala Lumpur
24 November 2008