

Quarterly report on consolidated results for the second financial quarter ended 31 December 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 cyclicity 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 except for:

- (i) the marked-to-market loss recognised on a financial asset (shares in Gindalbie Metals Ltd, a company listed on the Australian Stock Exchange) as tabled below:

	Current Year Quarter 31/12/08	Current Year To Date 31/12/08
Number of Gindalbie shares held by the Group	74,087,009	74,087,009
Gindalbie share price as at:		
31 December 2008 (AUD0.590)	RM1.387	RM1.387
30 September 2008 (AUD0.685)	RM1.869	-
30 June 2008 (AUD1.445)	-	RM4.484
Share price differential	(RM0.482)	(RM3.097)
Marked-to-market loss	RM35.8 million	RM229.5 million

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EXPLANATORY NOTES:

A4 Unusual items (cont'd)

- (ii) the impairment loss recognised on inventories of RM38.6 million, comprises RM21.1 million from cold rolling mill division and RM17.5 million from steel tube and steel mill division.

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

During the current financial quarter, the company repurchased 161,000 of its issued ordinary shares from the open market at an average price of RM0.55 per share. The shares repurchased are held as treasury shares.

- (iii) Conversion of warrants to ordinary shares

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

A7 Dividends paid

A first and final dividend of 4.0 sen per share, less 25% income tax, for the financial year ended 30 June 2008 was paid on 30 December 2008.

A8 Segmental reporting

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

	<u>Steel</u> <u>Manufacturing</u> RM'000	<u>Energy</u> RM'000	<u>Others</u> RM'000	<u>Elimination</u> RM'000	<u>Total</u> RM'000
External revenue	365,118	-	1,175	-	366,293
Inter-segment sales	-	-	4,866	(4,866)	-
Total Revenue	365,118	-	6,041	(4,866)	366,293
Segment Results					
Loss from operations	(20,678)	(1,431)	(168,544)	(15,983)	(206,636)

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.

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EXPLANATORY NOTES:

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 31 December 2008 have been marked-to-market (“MTM”) at AUD0.590 per share in accordance with the Group’s accounting policy on financial assets. As at 19 February 2009 (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 quoted at AUD0.625 per share. This translates into a reduction in unrealised loss of approximately RM1.5 million (net of tax), if the 74,087,009 Gindalbie shares were to be MTM on that date, after taking into account the increase in the allowance for shares under litigation of RM0.7 million (net of tax).

Save as disclosed above, there were no other material events occurring between 31 December 2008 and the date of this announcement that had not been reflected in the financial statements for the financial quarter ended 31 December 2008.

A11 Changes in the composition of the Group

There was no change in the composition of the Group during the current financial quarter.

A12 Contingent liabilities or contingent assets

There were no contingent liabilities or contingent assets as at the end of the financial quarter ended 31 December 2008 except for the disclosure of the material litigation made in Note B11.

A13 Capital Commitments

The details of capital commitment as at 31 December 2008 are as follows:

	RM’000
Property, plant and equipment	857,003

All of the above capital commitment is for the construction of a 160MW power plant in Thailand under a subsidiary, Siam Power Generation Public Company Ltd.

The financing for the above capital commitment has been secured.

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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 RM145.4 million for the 2nd quarter ended 31 December 2008, a decrease of 5% over the preceding year's corresponding quarter of RM153.1 million. The lower revenue attained is mainly due to a lower sales volume.

The Group registered a loss after tax of RM69.0 million for the quarter under review compared to a profit after tax of RM2.1 million in the same quarter of the preceding year. The decline of RM71.1million is principally due to:

- the decrease of RM16.7 million in gross profit triggered by lower revenue and higher raw material cost;
- in response to the drastic drop in global steel prices, the Group has recognised an impairment loss on inventories of RM38.6 million; and
- the fair value loss suffered on a financial asset (Gindalbie shares) amounting to RM27.0 million (net of tax), partly offset by a write back of allowance for shares under litigation of RM4.4 million (net of tax).

For the current quarter under review, the Company's principal subsidiary, Mycron Steel Berhad, posted a loss after tax of RM18.8 million, compared to a profit after tax of RM2.3 million achieved in the corresponding quarter of the preceding year. The reduced profit in the current quarter is primarily caused by the impairment loss on inventories of RM21.1 million.

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

The Group registered a loss before tax of RM84.5 million in the current quarter compared to a loss before tax of RM135.0 million in the immediate preceding quarter. The reduced loss of RM50.5 million is primarily due to:

- the reduction in fair value loss suffered on a financial asset (Gindalbie shares) of RM158.0 million, partly offset by a reduction in the write back of allowance for shares under litigation of RM37.2 million; and
- the gross profit decreased by RM65.3million as a result of impairment loss on inventories of RM38.6 million, along with a lower sales volume and a lower selling price.

B3 Prospects

The international steel prices and demand for steel products have been volatile and there is still a lack of visibility at this moment. The Group will continue to adopt a conservative approach in inventory management and also be more stringent in credit control. The Group anticipates that the challenging times ahead for the steel industry and the current global economic crisis, coupled with the drastic equities market downturn, will have a negative 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.

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

B5 Taxation

	Current Year Quarter 31/12/08 RM'000	Current Year To Date 31/12/08 RM'000
Income tax		
- current year	540	(1,274)
Deferred tax		
- current year	14,943	57,367
	15,483	56,093

The effective tax rate of the Group for the current quarter is lower than the statutory tax rate mainly because losses of subsidiaries not available for group relief and non-deductibility of certain expenses for tax purposes.

B6 Profit on sale of unquoted investments and / or properties

The profit on sale of a property was RM1.6 million for the financial period ended 31 December 2008.

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 31 December 2008:

	RM'000
Total investments cost	21,413
Total investments at book value	102,722
Total investments at current market value	102,722

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 31 December 2008 would have been as follows:

	RM'000
Total investments cost	11,272
Total investments at book value	54,074
Total investments at current market value	54,074

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

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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 19 February 2009 (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 31 December 2008 are as follows:

	<u>RM'000</u>
<u>Short-term borrowings:</u>	
Unsecured	256,068
Secured	<u>148,509</u>
	404,577
<u>Long-term borrowings:</u>	
Secured	<u>148,410</u>
Total borrowings	<u>552,987</u>

The Group's currency exposure of borrowings as at 31 December 2008 is as follows:

	<u>RM'000</u>
- Ringgit Malaysia	284,436
- US Dollar	140,873
- Australian Dollar	27,235
- Euro	35,085
- Thai Baht	<u>65,358</u>
Total borrowings	<u>552,987</u>

B10 Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of this announcement.

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 RM59.0 million (based on the exchange rate as at 31 December 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.

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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 RM27.3 million (based on the exchange rate as at 31 December 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 there is a breach of fiduciary duty on the part of the Banks to ascertain that the shares were not fraudulently transferred to them.
- (x) As at the date of this announcement, the Judge has not delivered his decision on this matter.
- (xi) As at 31 December 2008, an allowance for shares under litigation of RM3.5 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 RM3.5 million (net of tax), being the marked-to-market value of the shares as at 31 December 2008 and after taking into consideration the AUD12.0 million loan, which is inclusive of accrued interest owing to OPSL.

B12 Dividends

The Company did not declare any interim dividend in the current financial quarter.

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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 31/12/08 RM'000	Current year to date 31/12/08 RM'000
Loss attributable to shareholders	(60,519)	(156,109)
Weighted average no. of ordinary shares in issue ('000)	225,620	225,647
Basic loss per share (sen)	(26.82)	(69.18)

(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

26 February 2009