

## **Quarterly report on consolidated results for the second financial quarter ended 31 December 2010**

### **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 2010.

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 2010.

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 2010 except for the adoption of the following FRS, Amendments to FRSs and Interpretations which are applicable to the Group:

#### **FRS, Amendments to FRSs and Interpretations**

- |                        |  |
|------------------------|--|
| • FRS 7                | Financial Instruments: Disclosures                           |
| • Revised FRS 3        | Business Combinations  |
| • Revised FRS 101      | Presentation of Financial Statements                         |
| • Revised FRS 123      | Borrowing Costs  |
| • Amendment to FRS 1   | First-time Adoption of Financial Reporting Standards         |
| • Amendment to FRS 5   | Non-current Assets Held for Sale and Discontinued Operations |
| • Amendment to FRS 107 | Statement of Cash Flows                                      |
| • Amendment to FRS 110 | Events After the Balance Sheet Date                          |
| • Amendment to FRS 116 | Property, Plant and Equipment                                |
| • Amendment to FRS 117 | Leases   |
| • Amendment to FRS 118 | Revenue  |
| • Amendment to FRS 119 | Employee Benefits  |
| • Amendment to FRS 127 | Consolidated and Separate Financial Statements               |
| • Amendment to FRS 128 | Investments in Associates                                    |
| • Amendment to FRS 131 | Interests in Joint Ventures                                  |
| • Amendment to FRS 132 | Financial Instruments: Presentation                          |
| • Amendment to FRS 134 | Interim Financial Reporting                                  |
| • Amendment to FRS 136 | Impairment of Assets   |
| • Amendment to FRS 138 | Intangible Assets  |
| • Amendment to FRS 139 | Eligible Hedged Items  |
| • Amendment to FRS 139 | Reclassification of Financial Assets                         |
| • Amendment to FRS 140 | Investment Property  |
| • IC Interpretation 9  | Reassessment of Embedded Derivatives                         |
| • IC Interpretation 10 | Interim Financial Reporting and Impairment                   |
| • IC Interpretation 11 | FRS 2 Group and Treasury Share Transactions                  |

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**EXPLANATORY NOTES:**

**A1 Accounting policies and basis of preparation (continued)**

The adoption of the above FRS, Amendments to FRSs and Interpretations does not have any impact on the financial statements of the Group except for the following:

Revised FRS 101 Presentation of Financial Statements

The revised standard prohibits the presentation of items of income and expense (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from ‘owner changes in equity’. All ‘non-owner changes in equity’ are required to be shown in a statement of comprehensive income which can be presented as a single statement or two statements (comprising the income statement and statement of comprehensive income). The Group has applied this standard retrospectively and has elected to present the statement of comprehensive income in two statements. In addition, the adoption of this standard has resulted in the balance sheet and cash flow statement now being renamed as statement of financial position and statement of cash flows respectively.

The adoption of this standard only impacted the form and content of the presentation of the Group’s financial statements.

Amendment to FRS 117 Leases

Amendment to FRS 117 clarifies on the classification of leases of land and buildings. Leasehold land is classified as a finance lease if the Group has substantially all the risks and rewards incidental to ownership. Previously, leasehold land was classified as an operating lease unless title is expected to pass to the lessee at the end of the lease term. Following the amendment to FRS 117, the classification of leasehold land has been changed from operating to finance lease. Accordingly, the Group has reclassified its leasehold land to property, plant and equipment rather than being separately classified under prepaid lease rental on the consolidated balance sheet. This change in classification has no effect on the results of the Group. The reclassification has been accounted for retrospectively in accordance with the transitional provision and certain comparative balances have been restated as follows:

30 June 2010	As previously reported RM’000	Effect of adopting Amendment to FRS 117 RM’000	As restated RM’000
Property, plant and equipment	1,037,713	33,987	1,071,700
Prepaid lease rental	33,987	(33,987)	-

**A2 Audit qualification**

The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2010 was not subject to any audit qualification.

**A3 Seasonality or cyclical 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.

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**EXPLANATORY NOTES:**

**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 (“MTM”) gain recognised on a financial asset (shares in Gindalbie Metals Ltd (“Gindalbie”), a company listed on the Australian Stock Exchange) as tabled below:

	Current Year Quarter 31/12/10	Current Year To Date 31/12/10
Number of Gindalbie shares held by the Group:		
At beginning of the quarter/period	15,400,000	39,000,000
Less: Shares disposed as per Note A4(ii)	(13,055,000)	(36,655,000)
At end of the quarter/period	2,345,000	2,345,000
	RM	RM
Gindalbie share price as at:		
31 December 2010 (AUD1.390)	4.315	4.315
30 September 2010 (AUD0.915)	2.699	-
30 June 2010 (AUD1.035)	-	2.832
Share price differential	1.616	1.483
	RM million	RM million
MTM gain on shares held at end of the quarter/period	3.8	3.5
Less: MTM loss up to 30 September 2010 on shares disposed during the current quarter as per Note B7(i)	-	(1.7)
	3.8	1.8

- (ii) the disposal of Gindalbie shares as disclosed in Note B7(i).
- (iii) the disposal of shares in M3nergy Berhad (“M3nergy”) as disclosed in Note B7(i).

**A5 Changes in estimates**

Not applicable to the Group.

**A6 Debts and equity securities**

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities during the current financial quarter.



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**EXPLANATORY NOTES:**

**A7 Dividends paid**

A first and final dividend of 2.0 sen per share, less 25% income tax, for the financial year ended 30 June 2010 was paid on 30 December 2010.

**A8 Segmental reporting**

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

	<u>Steel Tube Manufacturing</u> RM'000	<u>Cold Rolling</u> RM'000	<u>Power Generation</u> RM'000	<u>Investment Holding</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>Revenue</u>						
Total revenue	101,739	207,233	-	93	6,481	315,546
Inter segment	(351)	(12,142)	-	-	-	(12,493)
External revenue	101,388	195,091	-	93	6,481	303,053
Segment results	1,190	6,402	(7,783)	3,737	(443)	3,103
Segment assets	208,715	395,742	859,679	101,630	16,038	1,581,804

A reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	1,581,804
Associates	9,147
Deferred tax assets	367
Tax recoverable	985
	<u>1,592,303</u>

**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 2010.

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**EXPLANATORY NOTES:**

**A10 Subsequent material events**

There were no other material events occurring between 31 December 2010 and the date of this announcement that had not been reflected in the financial statements for the financial quarter ended 31 December 2010.

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

On 24 November 2010, Mperial Power Ltd, a wholly-owned subsidiary of the Company, has subscribed for an additional 0.32% equity interest in Siam Power Generation Public Company Ltd (“Siam Power”) for a cash consideration of THB124.0 million (approximately RM12.8 million), thereby increasing its total equity interest in Siam Power from 96.10% to 96.42%.

**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 2010.

**A13 Capital Commitments**

The details of capital commitment as at 31 December 2010 are as follows:

	RM'000
Property, plant and equipment	334,353

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

The financing for the above capital commitment has been secured.

**Quarterly report on consolidated results for the second financial quarter ended 31 December 2010**

**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 RM145.1 million for the 2nd quarter ended 31 December 2010, a decrease of 21% over the preceding year's corresponding quarter of RM183.6 million. The lower revenue attained is due to a lower sales volume.

The Group's operating profit has decreased by RM19.9 million, from RM21.9 million in the preceding year's corresponding quarter to RM2.0 million in the current quarter, mainly as a result of a lower gross profit.

The Group registered a profit before tax of RM9.5 million in the quarter under review as compared to a profit before tax of RM42.3 million for the same quarter of the preceding year. Apart from a lower operating profit, the decline in profitability is principally due to the sharp decrease of RM23.1 million in the fair value gain of a financial asset (Gindalbie shares), partially off set by the gain on disposal of a financial asset (Gindalbie shares) totaling RM11.1 million.

For the quarter under review, the Company's principal subsidiary, Mycron Steel Berhad, registered a profit before tax of RM0.5 million, compared to a profit before tax of RM15.5 million in the corresponding quarter of the preceding year. The reduced profit in the current quarter is primarily caused by a decline in sales volume and as a result, a lower gross profit.

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

The decrease of RM12.8 million in the Group's revenue, from RM157.9 million in the immediate preceding quarter to RM145.1 million in the current quarter, is triggered mainly by a reduced sales volume and a lower selling price. Despite a lower revenue and gross profit, the Group's operating profit has increased by RM1.3 million, from RM0.7 million to RM2.0 million. The increase in profitability is mainly due to foreign exchange gains. In addition, the Group's profit before tax has improved by RM15.9 million, from a loss before tax of RM6.4 million in the immediate preceding quarter to a profit before tax of RM9.5 million in the current quarter. The improved results is attributed mainly to the gain on disposal of a financial asset (Gindalbie shares) amounting to RM11.1 million and an increase of RM5.8 million in the fair value of a financial asset (Gindalbie shares).

**B3 Prospects**

The prevalent market scenario faced by the steel industry is the continued increase in prices of components for steel making such as iron ore and coal. Although there is some uptake in demand for steel products in the first quarter of calendar year 2011, some of this may be attributable to hedging purchases by stockists in anticipation of increases in raw material prices. Unless there is clear indication of improvement in real demand for steel products, the Group expects the business prospects for the rest of the financial year to remain challenging.

**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 31/12/10 RM'000	Current Year To Date 31/12/10 RM'000
Income tax		
- current year	(284)	(664)
- over provision in prior year	-	12
Deferred tax		
- current year	83	(945)
	<u>(201)</u>	<u>(1,597)</u>

For the current financial quarter, the effective tax rate for the Group is lower than the statutory tax rate mainly because no deferred tax is recognised on the fair value gain and the gain on disposal arising from a financial asset as it is not taxable under a foreign tax regime.

For the current financial year to date, the effective tax rate for the Group is higher than the statutory tax rate mainly because certain expenses are not deductible for tax purposes.

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

There was no sale of unquoted investments and/ or properties in the current financial quarter.

**B7 Purchase or disposal of quoted securities**

- (i) The details of the disposal of quoted securities in the current financial quarter and current financial year to date are as follows:

Disposal of Gindalbie shares

	Current Year Quarter 31/12/10 RM'000	Current Year To Date 31/12/10 RM'000
Number of Gindalbie shares disposed	13,055,000	36,655,000
Total cash consideration	46,318	110,276
Less: Carrying value of the shares	(35,239)	(102,069)
Gain on disposal	11,079	8,207

Disposal of M3nergy shares

	Current Year Quarter 31/12/10 RM'000	Current Year To Date 31/12/10 RM'000
Number of M3nergy shares disposed	-	28,249,678
Total cash consideration	-	52,262
Less: Carrying value of the shares	-	(50,419)
Gain on disposal	-	1,843

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

**B7 Purchase or disposal of quoted securities (continued)**

(ii) Investment in quoted securities as at 31 December 2010:

	RM'000
Total investments at cost	678
Total investments at book value	10,118
Total investments at current market value	10,118

**B8 Status of corporate proposals**

There were no corporate proposals announced but not completed as at the date of this announcement.

**B9 Group borrowings and debt securities**

The Group's borrowings as at 31 December 2010 are as follows:

	<u>RM'000</u>
<u>Short-term borrowings:</u>	
Unsecured	90,061
Secured	<u>139,969</u>
	230,030
<u>Long-term borrowings:</u>	
Secured	<u>615,835</u>
Total borrowings	<u>845,865</u>

The Group's currency exposure of borrowings as at 31 December 2010 is as follows:

	<u>RM'000</u>
- Ringgit Malaysia	198,583
- US Dollar	38,233
- Euro	24,252
- Thai Baht	<u>584,797</u>
Total borrowings	<u>845,865</u>

The net borrowings of the Group totaling RM728.2 million (after taking into consideration of the cash available amounting to RM117.6 million) translates to a gearing ratio of 1.40 times which is deemed to be within the norms of the steel industry.



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

**B10 Outstanding Derivatives**

On 13 December 2010, the Group entered into an Interest Rate Swap (“IRS”) contract to manage the exposure of its borrowings to interest risks. With the IRS contract, the Group receives interest at a floating rate based on 3-month Thai Baht floating-rate fix (“3mTHBFIX”) plus a spread and pays interest at a fixed rate of 5.78% per annum, quarterly for a period of 3 years from 31 December 2010 to 31 December 2013, on the agreed notional principal amount of THB5.8 billion.

The Group has also entered into forward foreign currency exchange contracts on 24 December 2010 and 29 December 2010 with notional values of EUR0.5 million and EUR0.4 million respectively, to manage the exposure to foreign exchange risk arising from future repayment of borrowings that are denominated in Euro.

As at 31 December 2010, the values and maturity analysis of the outstanding derivatives of the Group are as follows: -

	Contract/ Notional Value RM'000	Fair Value RM'000
<u>IRS Contract</u>		
THB		
- 1 year to 3 years	586,522	(3,822)
<u>Forward Foreign Currency Exchange Contracts</u>		
EUR		
- Less than 1 year	3,608	16

(i) Risk associated with the derivatives

Market risk

Market risk arises on changes in market interest rates and foreign currency rates. The Group entered into IRS contract and forward foreign currency exchange contracts to hedge the fluctuations in 3mTHBFIX and EUR/RM exchange rates. However, if the interest rate moves below 5.78% per annum, and EUR/RM exchange rates move below RM4.0965/EUR1.00 and RM4.0850/EUR1.00, the Group is exposed to fair value risk and the losses shall be recognised in the income statement.

(ii) Cash requirements of the derivatives

There is no cash movement from the Group to the counterparties when the IRS contract and the forward foreign currency exchange contracts are executed as the fees/costs associated with these derivatives are incorporated into the fixed interest rate and the contracted exchange rates.

(iii) Policies in place for mitigating or controlling the risk associated with the derivatives

The Group monitors the fluctuations in interest and foreign currency exchange rates closely with an objective to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge designated risk exposures of the underlying hedge items and does not enter into derivative financial instruments for speculative purposes. The Board of Directors regularly reviews the risk and approves the policy for managing the risk.

**Quarterly report on consolidated results for the second financial quarter ended 31 December 2010**

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

**B11 Off balance sheet financial instruments**

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

**B12 Material litigation**

Mycron Steel Berhad v Multi Resources Holdings Sdn Bhd  
(Kuala Lumpur High Court Suite No. D-22NCC-304-2010)

On 18 February 2010, the Company's subsidiary, Mycron Steel Berhad ("MSB") commenced legal action against Multi Resources Holdings Sdn Bhd ("Defendant") to recoup their cost of investment of RM17.0 million in PMP Galvanizers Sdn Bhd ("PMPG") as a result of non compliance of certain conditions by the Defendant pursuant to a shareholders' agreement entered in 2005. The Writ Summons and Statement of Claim were served on the Defendant by MSB's solicitors on 3 May 2010.

On 21 May 2010, the Defendant filed with the Kuala Lumpur High Court ("the Court") for a change in the jurisdiction for the case to be heard in Kuching and it was successful. Subsequently, MSB's solicitors had submitted an appeal to the Judge for the case to be heard in the Court in Kuala Lumpur. The Court had on 25 October 2010 dismissed MSB's appeal with a liberty to file afresh the suit in the High Court of Sabah and Sarawak. MSB had appointed a solicitor from Sarawak to file afresh the suit.

The solicitors are of the opinion that MSB has a good case against the Defendant. The amount of the claim is RM17.0 million.

Save as disclosed above, there was no material litigation pending as at the date of this announcement.

**B13 Dividends**

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

**B14 Earnings per share**

(i) Basic earnings per ordinary share

	Current Year Quarter 31/12/10 RM'000	Current Year To Date 31/12/10 RM'000
Earnings attributable to owners of the Company	9,402	1,944
Weighted average no. of ordinary shares in issue ('000)	225,523	225,523
Basic earnings per share (sen)	4.17	0.86

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.

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

**B15 Realised and unrealised profits/losses disclosure**

	As at 31/12/10 RM'000	As at 30/09/10 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	269,595	234,044
- Unrealised	(7,923)	18,990
	261,672	253,034
 Total share of retained profits from associated company:		
- Realised	43	43
- Unrealised	-	-
	43	43
 Less: Consolidation adjustments	(50,180)	(47,535)
 <b>Total group retained profits as per consolidated accounts</b>	<b>211,535</b>	<b>205,542</b>

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)  
 SOON LEH HONG (MIA 4704)  
 Secretaries  
 Kuala Lumpur  
 28 February 2011