

**Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

**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:

- (i) the revenue recognition on the sale of electricity and steam as the power plant held under the Company’s subsidiary in Thailand has commenced operations; and
- (ii) 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
• Revised FRS 127	Consolidated and Separate Financial Statements
• 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
• Amendment to FRS 139	
• & IC Interpretation 9	Reassessment of Embedded Derivatives
• 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

**Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

**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.

## **Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

### **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 or loss 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 30/06/2011	Current Year To Date 30/06/2011
Number of Gindalbie shares held by the Group:		
At beginning of the quarter/period	2,000,000	39,000,000
Less: Shares disposed as per Note A4(ii)	(939,487)	(37,939,487)
At end of the quarter/period	1,060,513	1,060,513
Gindalbie share price as at:	RM	RM
30 June 2011 (AUD0.835)	2.664	2.664
31 March 2011 (AUD1.135)	3.495	-
30 June 2010 (AUD1.035)	-	2.832
Share price differential	(0.831)	(0.168)
MTM loss on shares held at end of the quarter/period	RM million (0.9)	RM million (0.2)
Less: MTM loss on shares disposed as per Note B7(i)	-	(0.6)
Total MTM loss	(0.9)	(0.8)

- (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).
- (iv) the disposal of 100% equity interest in Melewar Steel Ventures Ltd (“MSV”) as disclosed in Note B6.

#### **A5 Changes in estimates**

In the current financial quarter, the Group’s power generation segment applied a change in accounting estimate to more accurately reflect the electricity sales pursuant to the take or pay contracts with its power offtakers. The change in accounting estimate translates to a deferment in the recognition of revenue amounting to RM37.0 million consisting wholly of the shortfall in the minimum take obligation of one of its power offtakers.

#### **A6 Debts and equity securities**

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

#### **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.

**Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

**EXPLANATORY NOTES:**

**A8 Segmental reporting**

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

	<u>Steel Tube</u> <u>Manufacturing</u> RM'000	<u>Cold</u> <u>Rolling</u> RM'000	<u>Power</u> <u>Generation</u> RM'000	<u>Investment</u> <u>Holding</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>Revenue</u>						
Total revenue	214,654	413,632	129,936	6,075	20,426	784,723
Inter segment	(988)	(25,638)	-	(5,892)	(375)	(32,893)
External revenue	213,666	387,994	129,936	183	20,051	751,830
Segment results	7,577	2,991	(15,584)	9,696	130	4,810
Segment assets	223,053	420,924	908,945	50,238	21,402	1,624,562

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

	RM'000
Segment assets	1,624,562
Deferred tax assets	367
Tax recoverable	995
	<u>1,625,924</u>

**A9 Valuation of property, plant and equipment**

In June 2011, certain of the Group's property, plant and equipment were revalued by independent professional valuers based on open market values. The surplus arising from the revaluation, net of deferred tax, amounting to RM30.8 million was credited to the asset revaluation reserve.

**A10 Subsequent material events**

There were no other material events occurring between 30 June 2011 and the date of this announcement that had not been reflected in the financial statements for the financial quarter ended 30 June 2011.

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

Save as disclosed in the general announcement dated 24 June 2011, there were no other changes 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 30 June 2011.

**A13 Capital Commitments**

There were no capital commitments as at the end of the reporting quarter.

**Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

**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 RM213.3 million in the 4th quarter ended 30 June 2011, an increase of 7% over the preceding year's corresponding quarter of RM199.7 million. The increase in revenue mainly came from the power generation segment as the power plant held under a subsidiary in Thailand has commenced operations from January 2011. However, the revenue contributed by the steel tube manufacturing and cold rolling segments has decreased, mainly because of lower sales volume.

Notwithstanding an increase in revenue, the Group posted an operating loss of RM4.1 million in the current quarter. The decrease in profitability is primarily triggered by the change in accounting estimate mentioned in Note A5.

Despite being in an operating loss position, the loss before tax of RM12.2 million posted in the current quarter is much lower as compared to the loss before tax of RM21.2 million reported in the same quarter of the preceding year. The higher loss before tax registered in the 4th quarter ended 30 June 2010 was primarily due to the fair value loss on Gindalbie shares amounting to RM33.7 million.

For the quarter under review, the Company's principal subsidiary, Mycron Steel Berhad, registered a loss before tax of RM3.8 million, compared to a profit before tax of RM5.5 million in the corresponding quarter of the preceding year. The loss position is primarily contributed by a decreased sales volume, a lower sales margin and an adverse movement in foreign exchange differences.

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

The Group's revenue has decreased by 9% to RM213.3 million in the current quarter as compared to RM235.5 million in the immediate preceding quarter. The decrease in revenue is primarily triggered by the change in accounting estimate mentioned in Note A5.

Similarly, the drastic swing from a profit before tax of RM13.9 million in the immediate preceding quarter to a loss before tax of RM12.2 million in the current quarter is also mainly caused by the change in accounting estimate mentioned in Note A5.

**B3 Prospects**

**Steel Tube Manufacturing and Cold Rolling Segments**

The global economic outlook remains uncertain with the debt crisis in the EU countries and the US. Domestically, although market conditions stabilised in early 2011 when moderate re-stocking took place, the temporary uptrend was not due to economic recovery but mainly due to speculative buying as steel mills were trying to increase the prices. Stockists are still very cautious and careful in placing order and taking deliveries as the market demand for steel products are still low. The Group expects to achieve satisfactory results for the second half of the calendar year 2011 as we expect the market conditions to start improving. However, this would also depend on the health of the local as well as the global economy.

**Power Generation Segment**

The power generation segment which commenced operations in January 2011 has started to contribute revenue in the last two quarters. The performance of this segment should improve significantly in the new financial year in view of the anticipated increase in the power consumption of one of its major offtakers and in view of the full year of operations.

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

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

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

**B5 Taxation**

	Current Year Quarter 30/06/2011 RM'000	Current Year To Date 30/06/2011 RM'000
Income tax		
- current year	(840)	(2,391)
- over provision in prior year	495	451
Deferred tax		
- current year	491	305
	146	(1,635)

For the current financial quarter, the effective tax rate for the Group is lower than the statutory tax rate mainly because of the tax effects of income not taxable for tax purposes.

For the current financial year to date, the effective tax rate for the Group is higher than the statutory tax rate mainly because the losses of certain subsidiaries are not available for group relief.

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

In the current quarter, the Group had disposed its 100% equity interest in MSV and registered a gain on disposal of RM10,483,452. The gain on disposal represents the difference between the proceeds from disposal of RM7 and the net liabilities of MSV at the date of disposal amounting to RM10,483,445.

In addition, the Group had also disposed a property in the current financial quarter and registered a loss on disposal of RM180,000.

**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 30/06/2011 RM'000	Current Year To Date 30/06/2011 RM'000
Number of Gindalbie shares disposed	939,487	37,939,487
Total cash consideration	2,873	114,614
Less: Carrying value of the shares	(3,283)	(106,840)
(Loss)/ gain on disposal	(410)	7,774

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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)**

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

Disposal of M3nergy shares

	Current Year Quarter 30/06/2011	Current Year To Date 30/06/2011
Number of M3nergy shares disposed	-	28,249,678
Total cash consideration	RM'000 -	RM'000 52,262
Less: Carrying value of the shares	-	(50,419)
Gain on disposal	-	1,843

- (ii) Investment in quoted securities as at 30 June 2011:

	RM'000
Total investments at cost	307
Total investments at book value	2,825
Total investments at current market value	2,825

**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 30 June 2011 are as follows:

	RM'000
<u>Short-term borrowings:</u>	
Unsecured	77,819
Secured	<u>168,114</u>
	245,933
<u>Long-term borrowings:</u>	
Secured	<u>561,296</u>
Total borrowings	<u>807,229</u>

The Group's currency exposure of borrowings as at 30 June 2011 is as follows:

	RM'000
- Ringgit Malaysia	190,505
- US Dollar	31,106
- Euro	22,710
- Thai Baht	<u>562,908</u>
Total borrowings	<u>807,229</u>

**Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

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

**B9 Group borrowings and debt securities (continued)**

The net borrowings of the Group totaling RM721.2 million (after taking into consideration of the cash available amounting to RM86.0 million) translates to a gearing ratio of 1.33 times which is deemed to be within the norms of the steel industry.

As at 30 June 2011, a subsidiary of the Company has not met one of the financial covenant ratios set out in the loan agreements. Indulgences were obtained from two lenders prior to the reporting date while the indulgence from the third lender was received after the reporting date on 26 August 2011. As at the reporting date, the related long term borrowings of that subsidiary amounting to RM7.5 million has been reclassified to current liabilities.

**B10 Outstanding Derivatives**

The Group has entered into an Interest Rate Swap (“IRS”) contract to manage the exposure of its borrowings to interest rate risk. With the IRS contract, the Group receives interest at a floating rate based on 3-month Thai Baht floating-rate fix (“3mTHBFIX”) and pays interest at a fixed rate on the agreed notional principal amount. During the current financial quarter, the Group did not enter into any new IRS contracts.

The Group has also entered into a forward foreign currency exchange contract to manage the exposure to foreign exchange risk arising from future repayment of borrowings, denominated in foreign currency. During the current financial quarter, the Group did not enter into any new forward foreign currency exchange contracts.

As at 30 June 2011, 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	562,239	
- Less than 1 year		1,219
- 1 year to 3 years		3,365
<u>Forward Foreign Currency Exchange Contract</u>		
EUR	3,516	
- Less than 1 year		287

(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 contract to hedge the fluctuations in 3mTHBFIX and EUR/RM exchange rate. However, if the market interest rates and foreign currency rates move below the contracted rates, the Group is exposed to fair value risk and the losses shall be recognised in the income statement.



**Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2011**

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

**B10 Outstanding Derivatives (continued)**

- (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.

**B11 Off balance sheet financial instruments**

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

**B12 Realised and unrealised profits/losses disclosure**

	As at 30/06/2011 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	267,772
- Unrealised	(14,312)
	<u>253,460</u>
Less: Consolidation adjustments	<u>(38,073)</u>
Total group retained profits as per consolidated accounts	<u><u>215,387</u></u>

**B13 Material litigation**

Mycron Steel Berhad v Multi Resources Holdings Sdn Bhd  
(Kuala Lumpur High Court Suit 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.

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

**B13 Material litigation (continued)**

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 solicitor 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 and MSB was given a liberty to file afresh the suit in the High Court of Sabah and Sarawak. MSB appointed a solicitor from Sarawak to file afresh the suit. On 27 April 2011, MSB’s solicitor filed in the Writ of Summons and Statement of Claim to the High Court of Sabah and Sarawak. On 25 May 2011, the Defendant’s solicitor filed in their defence with the High Court of Sabah and Sarawak. On 2 August 2011, MSB’s solicitor filed in the reply to the Defendant’s defence with the High Court of Sabah and Sarawak. The High Court of Sabah and Sarawak had fixed 6 September 2011 as the next mention date.

MSB’s solicitor is 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.

**B14 Dividends**

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

**B15 Earnings per share**

(i) Basic earnings per ordinary share

	Current Year Quarter 30/06/2011 RM’000	Current Year To Date 30/06/2011 RM’000
(Loss)/profit attributable to owners of the Company	(9,880)	5,796
Weighted average no. of ordinary shares in issue (‘000)	225,523	225,523
Basic (loss)/earnings per share (sen)	(4.38)	2.57

(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  
 29 August 2011