Quarterly report on consolidated results for the first financial quarter ended 30 September 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 2011.

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 2011.

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 2011 except for the adoption of the following FRS, Amendments to FRSs and Interpretations which are applicable to the Group:

FRSs, Amendments to FRSs and Interepretations

- Amendments to FRS 7 — Improving Disclosures about Financial Instruments
- Improvements to FRSs (2010)
  - Amendments to FRS 3 — Business Combinations
  - Amendments to FRS 7 — Financial Instruments: Disclosures
  - Amendments to FRS 101 — Presentation of Financial Statements
  - Amendments to FRS 121 — The Effects of Changes in Foreign Exchange Rates
  - Amendments to FRS 132 — Financial Instruments: Presentation
  - Amendments to FRS 134 — Interim Financial Reporting
  - Amendments to FRS 139 — Financial Instruments: Recognition and Measurement
- IC Interpretation 4 — Determining Whether an Arrangement contains a Lease

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

<u>Amendments to FRS 7 Financial Instruments: Disclosures</u>

The amendment promotes enhanced disclosure on fair value measurement of financial instruments via introduction of the concept of the fair value hierarchy. There is no financial impact on the results of the Group as these changes only effect disclosures.

A2 **Audit qualification**

The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2011 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.

Quarterly report on consolidated results for the first financial quarter ended 30 September 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 disposal of a leasehold apartment in London as disclosed in Note B6.

(ii) the disposal of Gindalbie shares as disclosed in Note B7.

(iii) fair value loss on derivatives as disclosed in Note B10(b).

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.

A7 **Dividends paid**
There was no dividend paid in the current financial quarter.

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

	Steel Tube Manufacturing	Cold Rolling	Power Generation	Investment Holding	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue						
Total revenue	50,292	92,380	75,823	45	7,742	226,282
Inter segment	(248)	(7,353)	-	-	(225)	(7,826)
External revenue	50,044	85,027	75,823	45	7,517	218,456
Segment results	(52)	(1,058)	(13,323)	(2,109)	62	(16,480)
Segment assets	195,843	381,115	949,407	45,276	21,153	1,592,794

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

	RM'000
Segment assets	1,592,794
Deferred tax assets	358
Derivative assets	2,014
Tax recoverable	1,097
	1,596,263

Quarterly report on consolidated results for the first financial quarter ended 30 September 2011

EXPLANATORY NOTES:

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 2011.

A10 **Subsequent material events**
Saved as disclosed in Note B8 below, there were no other material events occurring between 1 October 2011 and the date of this announcement that had not been reflected in the financial statements for the financial quarter ended 30 September 2011.

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 30 September 2011.

A13 **Capital Commitments**
There were no capital commitments as at the end of the reporting quarter.

Quarterly report on consolidated results for the first financial quarter ended 30 September 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 RM218 million in the 1st quarter ended 30 September 2011, an increase of 38% over the preceding year's corresponding quarter of RM158 million. The increase in revenue is mainly contributed by the power generation segment since the commencement of operations in January 2011. The increase in revenue from the power generation segment is partially offset by the lower sales recorded from the steel tube manufacturing and cold rolling segments.

The Group's operating profit has improved by RM4 million in the current quarter, which is primarily due to the absence of the foreign exchange losses and power plant pre-operating expenses incurred in the preceding year's corresponding quarter. However, the Group registered a higher loss before tax by RM10 million as compared to preceding year's corresponding quarter. The increase is mainly due to the fair value loss on interest rate swap of RM6 million and impairment loss on trade receivables of RM4 million.

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

The Group's revenue increased by 1% to RM218 million in the current quarter as compared to RM216 million in the immediate preceding quarter. The increase in revenue is primarily due to higher revenue contribution from the power generation segment which is offset by lower sales contributions from the steel tube manufacturing and cold rolling segments.

The Group registered a loss before tax of RM16 million in the current quarter as compared to a loss before tax of RM12 million in the immediate preceding quarter. The higher loss before tax is mainly attributable to the fair value loss on derivatives which is partially offset by a higher gross profit in the current quarter and the absence of a one-off gain on disposal of a subsidiary.

B3 **Prospects**

<u>Steel Tube Manufacturing and Cold Rolling Segments</u>

The global economic outlook remains uncertain with the debt crisis in the EU countries. Domestically, the demand for steel tube and cold rolled coils remains soft during the quarter and is expected to improve slowly in the coming quarter. Nonetheless, the Group will continue to adopt the conservative approach in inventory management as well as its credit control.

<u>Power Generation Segment</u>

The power generation segment which commenced operations in January 2011 has started to contribute revenue since its commencement. However, one of our major power offtakers is in the midst of a capital and financial restructuring, which is expected to be completed only in early 2012. The said offtaker, which is major public-listed steel mill in Thailand, is expected to re-commence full production only after the completion of its restructuring. The performance of this segment should, therefore, improve from the 3rd quarter of our financial year in view of the expected increase in the power consumption.

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 2011

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

B5 **Taxation**

	Current Year Quarter 30/09/2011 RM'000	Current Year To Date 30/09/2011 RM'000
Income tax		
- current year	(276)	(276)
Deferred tax		
- current year	(119)	(119)
	(395)	(395)

For the current financial quarter and year to date, the effective tax rate for the Group is higher than the statutory tax rate mainly because of:

- the non-deductibility of the fair value loss on derivatives;
- business losses of a subsidiary is not allowed to offset against future earnings; and
- certain expenses are not deductible for tax purposes.

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

The Group had disposed a leasehold apartment in London on 1 July 2011 and registered a gain of RM112,000 in the current financial quarter.

B7 **Purchase or disposal of quoted securities**

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 30/09/2011	Current Year To Date 30/09/2011
Number of Gindalbie shares disposed	1,060,513	1,060,513
	RM'000	RM'000
Total cash consideration	2,778	2,778
Less: Carrying value of the shares	(2,825)	(2,825)
Loss on disposal	(47)	(47)

B8 **Status of corporate proposals**

Corporate Exercise

The Company has announced on 21 October 2011, a proposed renounceable two-call rights issue up to 151,170,272 Right Shares at an indicative issue price of RM1.00 per Right Share on the basis of two (2) Right Shares for every three (3) existing shares of the Company held.

Saved as disclosed above, there were no corporate proposals announced but not completed as at the date of this announcement.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2011

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

B9 **Group borrowings and debt securities**

The Group's borrowings as at 30 September 2011 are as follows:

	RM'000
Short-term borrowings:	
Unsecured	58,029
Secured	156,886
	214,915
Long-term borrowings:	
Unsecured	3,370
Secured	568,561
	571,931
Total borrowings	786,846

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

	RM'000
- Ringgit Malaysia	160,947
- US Dollar	29,400
- Euro	22,435
- Thai Baht	574,064
Total borrowings	786,846

The net borrowings of the Group totaling RM732.4 million (after taking into consideration of the cash available amounting to RM54.5 million) translates to a gearing ratio of 1.37 times which is deemed to be within the norms of the steel industry.

As at 30 September 2011, a subsidiary of the Company has not met one of the financial covenant ratios set out in the loan agreements. However, indulgences were obtained from the lenders for the twelve months ending 30 June 2012, prior to the reporting date. Accordingly, no reclassification from long- term borrowings to current liabilities has been made as at the reporting date.

B10 **Outstanding Derivatives**

(a) Disclosure of 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 forward foreign currency exchange contracts to manage the exposure to foreign exchange risk arising from future repayment of borrowings and purchase of raw materials, denominated in foreign currencies. During the current financial quarter, the Group has entered into forward foreign currency contracts with notional values of USD6.5 million for the purchase of its raw materials.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2011

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

B10 **Outstanding Derivatives** (continued)

(a) Disclosure of Derivatives (continued)

As at 30 September 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
IRS Contract		
THB	584,907	
- Less than 1 year		(2,411)
- 1 year to 2 years		1,235
Forward Foreign Currency Exchange Contracts		
EUR	3,516	
- Less than 1 year		229
USD	20,021	
- Less than 1 year		550

(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, EUR/RM and USD/RM exchange rates. 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.

(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 first financial quarter ended 30 September 2011

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

B10 **Outstanding Derivatives** (continued)

(b) Fair value change of a financial liability

The details of fair value change of a financial liability for the current financial year ended 30 September 2011 is as follows:

Type of financial liability	Current quarter fair value loss RM'000	Current financial year-to-date fair value loss RM'000	Basis of fair value measurement	Reasons for the loss
Interest rate swap	(6,233)	(6,233)	Interest rates differential between fixed and floating rates	The interest rates differential between fixed and floating rates from the last measurement date of 30 June 2011 up to the respective maturity dates of the swap has moved unfavourably against the Group.

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 30/09/2011 RM'000	As at 30/06/2011 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	141,864	139,338
- Unrealised	(24,152)	(14,321)
	117,712	125,017
Add: Consolidation adjustments	82,758	90,499
Total group retained profits as per consolidated accounts	200,470	215,516

Quarterly report on consolidated results for the first financial quarter ended 30 September 2011

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

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.

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. A rejoinder has been filed by the Defendant with the High Court of Sabah and Sarawak on 25 August 2011. On 3 October 2011, the High Court of Sabah and Sarawak had fixed 5 to 9 March 2012 for hearing.

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 dividend in the current financial quarter.

B15 **Loss per share**

(i) Basic loss per ordinary share

	Current Year Quarter 30/09/2011 RM'000	Current Year To Date 30/09/2011 RM'000
Loss attributable to owners of the Company	(15,654)	(15,654)
Weighted average no. of ordinary shares in issue ('000)	225,523	225,523
Basic loss per share (sen)	(6.94)	(6.94)

(ii) Diluted loss 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
25 November 2011