

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

Amendments to FRS 7 Financial Instruments: Disclosures

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 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.

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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) impairment loss on trade receivables as disclosed in Note B3.
- (ii) fair value loss on derivatives as disclosed in Note B10(b).

A5 Changes in estimates

In the current financial quarter, there were no changes in estimates that had a material effect on the financial results.

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:

	<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	102,623	201,170	134,403	92	13,469	451,757
Inter segment	(519)	(15,941)	-	-	(300)	(16,760)
External revenue	<u>102,104</u>	<u>185,229</u>	<u>134,403</u>	<u>92</u>	<u>13,169</u>	<u>434,997</u>
Segment results	<u>(1,203)</u>	<u>(3,902)</u>	<u>(40,044)</u>	<u>(3,776)</u>	<u>382</u>	<u>(48,543)</u>
Segment assets	<u>213,031</u>	<u>421,600</u>	<u>886,448</u>	<u>44,725</u>	<u>23,415</u>	<u>1,589,219</u>

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

	RM'000
Segment assets	1,589,219
Deferred tax assets	358
Tax recoverable	1,118
	<u>1,590,695</u>

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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 January 2012 and the date of this announcement that had not been reflected in the financial statements for the financial quarter ended 31 December 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 31 December 2011.

A13 Capital Commitments

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

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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 RM217 million in the 2nd quarter ended 31 December 2011, representing an increase of 49% over the preceding year's corresponding quarter of RM145 million. The increase in revenue is mainly contributed by the power generation segment since the commencement of operations in January 2011 as well as the higher sales volume recorded by the steel tube and cold rolling segments.

Despite the higher revenue, the Group posted an operating loss of RM5 million in the current quarter. The operating loss is primarily caused by the temporary suspension of electricity supply to a customer in Thailand as a result of the technical and payment issues. The operating loss is also due to increased raw material costs in the steel tube and cold rolling segments.

For the quarter under review, the Group registered a loss before tax of RM32 million compared to a profit before tax of RM10 million in the corresponding quarter of the preceding year. Apart from the operating loss, the loss before taxation is also contributed by the impairment loss on a trade receivable and interest expense incurred by the power segment amounting to RM16 million and RM8 million respectively.

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

The Group's revenue decreased by 1% to RM217 million in the current quarter as compared to RM218 million in the immediate preceding quarter. The decrease in revenue is primarily due to reduction in revenue contribution from the power generation segment which is partially offset by higher sales contributions from the steel tube and cold rolling segments.

The Group registered a loss before tax of RM32 million in the current quarter as compared to a loss before tax of RM16 million in the immediate preceding quarter. The higher loss before tax is mainly due to the temporary suspension of electricity supply to a customer in Thailand and higher impairment loss on trade receivables of RM12 million.

B3 Prospects

Steel Tube Manufacturing and Cold Rolling Segments

The domestic steel demand remained weak during the quarter and is not expected to improve significantly in the coming quarter. Accordingly, the Group foresees the coming quarters will remain challenging.

Power Generation Segment

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. The customer, a major public-listed steel mill in Thailand, has not been able to pay our electricity charges on time. As at 31 December 2011, the outstanding amount due from the customer was RM38 million (net of impairment). Pending the completion of their restructuring, the Company had, on 25 November 2011, temporarily suspended the electricity supply to the customer. Accordingly, the performance of this segment in the coming quarter is not expected to improve. In addition, further impairment on the trade receivable will be required should the customer fails to pay within the remaining quarters of this financial year ended 30 June 2012.

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 31/12/2011 RM'000	Current Year To Date 31/12/2011 RM'000
Income tax		
- current year	(217)	(493)
Deferred tax		
- current year	1,804	1,685
	1,587	1,192

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

There was no sale of unquoted investments and/ or properties 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 31/12/2011	Current Year To Date 31/12/2011
Number of Gindalbie shares disposed	-	1,060,513
	RM'000	RM'000
Total cash consideration	-	2,778
Less: Carrying value of the shares	-	(2,825)
Loss on disposal	-	(47)

B8 Status of corporate proposals

Corporate Exercise

The Company has announced on 31 January 2012 the followings:

- (i) a proposed share capital reduction via cancellation of RM0.75 of the par value of every existing ordinary share of RM1.00 each in the issued and paid-up capital of the Company;
- (ii) a proposed renounceable rights issue of 150,348,539 new ordinary shares of RM0.25 at an indicative issue price of RM0.40 per Right Share on the basis of two (2) Right Shares for every three (3) existing shares of the Company.

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

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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 31 December 2011 are as follows:

	<u>RM'000</u>
<u>Short-term borrowings:</u>	
Unsecured	75,381
Secured	<u>198,522</u>
	<u>273,903</u>
<u>Long-term borrowings:</u>	
Unsecured	3,370
Secured	<u>529,715</u>
	<u>533,085</u>
 Total borrowings	 <u>806,988</u>

The Group's currency exposure of borrowings as at 31 December 2011 is as follows:

	<u>RM'000</u>
- Ringgit Malaysia	218,487
- US Dollar	25,962
- Euro	18,238
- Thai Baht	<u>544,301</u>
Total borrowings	<u>806,988</u>

The net borrowings of the Group totaling RM763.3 million (after taking into consideration of the cash available amounting to RM43.7 million) translates to a gearing ratio of 1.49 times which is deemed to be within the norms of the steel industry.

As at 31 December 2011, the Group via its subsidiary Siam Power Generation Public Company Ltd has an outstanding term loan amounting to RM544 million. Under the terms of the loan agreement, the subsidiary is required to service the interest on a quarterly basis and repay the principal on a bi-annual basis. The next principal and interest payments amounting to RM25 million will be due on 31 March 2012. As mentioned in Note B3 above, as a result of the delay in payment by a customer, the subsidiary's cash flow has being affected adversely and accordingly, the subsidiary may have difficulty in meeting its principal repayment obligation of RM17 million due on 31 March 2012. The Group is taking the necessary steps including seeking indulgence from the lenders to defer the principal repayment. In the event the indulgence from the lenders is not obtained by 31 March 2012, the Group will be prescribed under Practice Note 1 pursuant to the Bursa's listing requirements on 31 March 2012. The said loan is a project finance loan with limited recourse and the Group has met all its obligations as the sponsor and therefore, the Group has no further financial obligations in respect of the subsidiary's term loan or the subsidiary's commitments to the lenders.

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

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.

As at 31 December 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	555,029	
- Less than 1 year		(481)
- 1 year to 2 years		(668)
<u>Forward Foreign Currency Exchange Contracts</u>		
USD	20,743	
- Less than 1 year		(124)

(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 USD/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.

(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.

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

B10 Outstanding Derivatives (continued)

(a) Disclosure of Derivatives (continued)

(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.

(b) Fair value change of a financial liability

The details of fair value change of a financial liability for the current financial year ended 31 December 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	(906)	(7,139)	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.
Forward foreign currency exchange contracts	(616)	(124)	Foreign exchange differential between the contracted rate and the market forward rate	The foreign exchange rates differential between the contracted rate and the market forward rate from the last measurement date or contract date up to the respective maturity dates of the forward contracts have moved unfavourably for the Group.
	(1,522)	(7,263)		

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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 Realised and unrealised profits/losses disclosure

	As at 31/12/2011 RM'000	As at 30/06/2011 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	103,667	139,338
- Unrealised	(22,085)	(14,321)
	81,582	125,017
 Add: Consolidation adjustments	 90,319	 90,499
 Total group retained profits as per consolidated accounts	 171,901	 215,516

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. On 15 December 2011, the High Court of Sabah and Sarawak had rescheduled the hearing to 18 to 22 June 2012.

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.

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

B15 Loss per share

(i) Basic loss per ordinary share

	Current Year Quarter 31/12/2011 RM'000	Current Year To Date 31/12/2011 RM'000
Loss attributable to owners of the Company	(28,569)	(44,223)
Weighted average no. of ordinary shares in issue ('000)	225,523	225,523
Basic loss per share (sen)	(12.67)	(19.61)

(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

28 February 2012