## ANN JOO RESOURCES BERHAD (371152-U)
## ("AJR" or "THE COMPANY")

**EXPLANATORY NOTES**

### 1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards ("FRS"), FRS 134 : Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Bhd ("Bursa Securities").

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2009. These explanatory notes attached to the 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 31 December 2009.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation adopted in audited financial statements for the financial year ended 31 December 2009, except for the following new and revised FRSs, IC Interpretations and Amendments to FRSs and IC Interpretation which are applicable to its financial statements:

FRS 7, Financial Instruments: Disclosures
FRS 8, Operating Segments
FRS 101, Presentation of Financial Statements (revised)
FRS 123, Borrowing Costs (revised)
FRS 139, Financial Instruments: Recognition and Measurement
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
Amendments to FRS 1 & FRS 127, First-time Adoption of Financial Reporting Standards and Consolidated Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations
Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7, Financial Instruments: Disclosures
Amendments to FRS 8, Operating Segments
Amendments to FRS 101, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to FRS 132, Financial Instruments: Presentation
- Puttable Financial Instruments and Obligations Arising on Liquidation
- Separation of Compound Instruments

Amendments to FRS 139, Financial Instruments: Recognition and Measurement
- Reclassification of Financial Assets
- Collective Assessment of Impairment for Banking Institutions

Improvements to FRSs (2009)
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
IC Interpretation 14, FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The principal effects of the changes in presentation, changes in methods of computation and in accounting policies resulting from the adoption of the new and revised FRSs, IC Interpretations and Amendments are set out below:

***FRS 101, Presentation of Financial Statements (revised)***

Prior to adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a statement of a changes in equity, a cash flow statement and notes to the financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements.

The gains and losses that were recognised directly in equity in the preceding year corresponding period are presented as components in other comprehensive income in the statement of comprehensive income. The total comprehensive income for preceding year corresponding period is presented separately and allocation is made to show the amount attributable to owners of the parent and minority interest.

The total comprehensive income for the period is presented as a one-line item in the statement of changes in equity.

The effects on the comparatives to the Group on adoption of FRS 101 are as follows:

| For the nine months ended 30 September 2009 | Income statement as previously reported RM'000 | Effects of adoption FRS 101 RM'000 | Statement of comprehensive income as restated RM'000 |
|---|---|---|---|
| Profit for the period | 7,449 | - | 7,449 |
| Other comprehensive income | - | 239 | 239 |
| Total comprehensive income | | | 7,688 |
| Total comprehensive loss attributable to: | | | |
| Owners of the parent | | | 9,055 |
| Minority interest | | | (1,367) |
| | | | 7,688 |

***FRS 139, Financial Instruments: Recognition and Measurement***

Prior to the adoption of FRS 139, financial derivatives were recognised on their settlement dates. Outstanding derivatives at the reporting date were not recognised. With the adoption of FRS 139, all financial assets and financial liabilities, including derivatives, are recognised at contract dates when, and only when the Company or any subsidiaries becomes a party to the contractual provisions of the instruments.

The measurement bases applied to the financial assets and financial liabilities in the prior financial year are changed to conform to the measurement standards of the FRS 139 in the current quarter. At initial recognition, all financial assets and financial liabilities are measured at their fair value plus in the case of financial instruments not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the instruments. Subsequent to their initial recognition, the financial assets and financial liabilities are measured as follows:

| | |
|---|---|
| • Financial instruments at fair value through profit or loss | At fair value through profit or loss |
| • Held-to-maturity investments | At amortised cost effective interest method |
| • Loans and receivables | At amortised cost effective interest method |
| • Available-for-sale investments | At fair value through other comprehensive income, unless fair value cannot be reliably measured, in which case, they are measured at cost |
| • Loans and other financial liabilities | At amortised cost effective interest method |

In accordance with FRS 139, the recognition, derecognition and measurement are applied prospectively from 1 January 2010. The effects of the remeasurement on 1 January 2010 of the financial assets and financial liabilities brought forward from the previous financial year are adjusted to the opening retained earnings as disclosed in the statement of changes in equity.

The adoption of the above new policies has the following effects:

| | Retained Earnings RM'000 |
|---|---|
| At 1 January 2010, as previously stated | 398,134 |
| Adjustments arising from adoption of FRS 139: | |
| - Fair value of equity securities classified as available-for-sale | (4) |
| - Recognition of derivatives previously not recognised | 32 |
| | 28 |
| At 1 January 2010, as restated | 398,162 |

***FRS 8, Operating Segments***

FRS 8 replaces FRS $114_{2004}$, Segment Reporting and requires the identification and reporting of operating segments based on internal reports that are regularly reviewed by the chief operating decision maker of the Group in order to allocate resources to the segment and to assess its performance. Currently, the Group presents segment information in respect of its business segments. Under FRS 8, the Group will present segment information in respect of its operating segments into manufacturing division, trading division and others.

***IC Interpretation 10, Interim Financial Reporting and Impairment***

IC Interpretation 10 prohibits the reversal of an impairment loss that has been recognised in an interim period during a financial year in respect of the following:

(a) goodwill;
(b) an investment in an equity instrument; or
(c) a financial asset carried at cost.

In accordance with the transitional provisions, the Group will apply IC Interpretation 10 to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date the Group first applied the measurement criteria of FRS 136, *Impairment of Assets* and FRS 139, *Financial Instruments: Recognition and Measurement* respectively.

The adoption of the other new and revised FRSs, IC Interpretations and Amendments has no material effect to the Group's consolidated financial statements of the quarter or the comparative consolidated financial statements of the prior financial year.

## 2. SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

Except for the major festive seasons when activities slow down, the pace of the Company's business generally moves in tandem with the performance of the economy.

## 3. NATURE AND AMOUNT OF UNUSUAL ITEMS

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial year-to-date.

## 4. NATURE AND AMOUNT OF CHANGES IN ESTIMATES

There were no major changes in estimates that have had material effect on the financial year-to-date results.

## 5. DEBT AND EQUITY SECURITIES

During the quarter under review, the Company repurchased 10,000 shares of its issued share capital from the open market at an average purchase price of RM 2.65 per share. As at 30 September 2010, out of the total 522,707,278 issued and fully paid ordinary shares, 20,590,800 shares were held as treasury shares at an average purchase price of RM 3.35 per share. The share buyback transactions were financed by internally generated funds.

Save as disclosed above, there were no issuances, cancellations, resale or repayments of debt and equity securities during the financial period under review.

## 6. DIVIDENDS PAID

During the financial period ended 30 September 2010, the Company has paid a final dividend of 3 sen per share less income tax of 25% in respect of the financial year ended 31 December 2009 amounting to RM 11,298,070 on 15 June 2010 and first interim dividend of 6 sen per share less income tax of 25% in respect of the financial year ending 31 December 2010 amounting to RM 22,595,241 on 9 September 2010.

## 7. SEGMENTAL INFORMATION

The segment revenue, segment results and segment assets for the financial period ended 30 September 2010 were as follows:

| | Manufacturing | Trading | Others | Elimination | Consolidated |
|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **REVENUE** | | | | | |
| External sales | 1,012,241 | 389,758 | 1,314 | | |
| Inter-company transactions | 125,791 | 103,426 | 225,772 | (454,990) | |
| Total sales | 1,138,032 | 493,184 | 227,086 | (454,990) | 1,403,312 |
| **RESULTS** | | | | | |
| Segment results | 124,814 | 24,503 | 211,160 | (209,213) | 151,264 |
| Finance cost | | | | | (15,079) |
| Interest income | | | | | 876 |
| Share of results of an associate | | | | | 349 |
| Taxation | | | | | (14,320) |
| Profit for the period | | | | | 123,090 |
| **ASSETS** | 2,121,883 | 440,607 | 1,015,040 | (1,115,919) | 2,461,611 |
| **LIABILITIES** | 1,242,629 | 295,202 | 178,687 | (263,354) | 1,453,164 |

## 8. VALUATION OF PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

The valuations of property, plant and equipment, prepaid lease payments and investment properties have been brought forward without amendments from the previous annual report.

## 9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE PERIOD

There has not arisen in the interval between the end of the current quarter under review and the date of this report, any item, transaction or event of a material and unusual nature likely in the opinion of the Board of Directors, to affect substantially the results of the operations of the Group for the current quarter in respect of which this announcement is made.

## 10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no significant changes in the composition of the Group during the financial year-to-date.

## 11. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the last annual reporting date.

## 12. CAPITAL COMMITMENTS

The capital commitments as at 30 September 2010 were as follows:

Commitments in respect of capital expenditure :

| | | RM'000 |
|---|---|---|
| (a) | contracted but not provided for | 121,132 |
| (b) | approved but not contracted for | 72,580 |

## 13. REVIEW OF PERFORMANCE

During the quarter under review, the Group recorded revenue of RM 333.93 million, lower by RM 48.25 million or 13% as compared to RM 382.19 million for the corresponding quarter of the preceding year. The decline in revenue in current quarter was mainly due to lower export tonnages on the back of lackluster international market conditions.

For the nine months of year 2010, the Group's revenue was RM 1.40 billion, increased by RM 376.7 million or 37% as compared to the revenue of RM 1.03 billion for the nine months of year 2009. The increase in revenue is contributed by an overall improved sales tonnages and recovery in selling price of various steel products.

The Group achieved a profit before tax ("PBT") of RM 13.52 million for the current quarter, RM 35.34 million or 72% lower than the PBT of RM 48.86 million for the corresponding quarter of the preceding year. The erosion of the Group's profitability was mainly due to higher cost of sales arising from higher raw materials costs despite continuous improvement in operational efficiency during the period under review.

On a year-to-date basis, the Group recorded a PBT of RM 137.41 million, RM127.00 mil or 1220% higher than the PBT of RM 10.41 million for the corresponding period of the preceding year. This significant improvement in profitability was mainly attributable to higher tonnage sold in both local and international market, coupled with better selling prices and improved cost structure arising from production efficiency.

## 14. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

The Group recorded revenue of RM 333.93 million for the current quarter was 44% lower than the revenue of RM 595.43 million for the preceding quarter. Correspondently, the Group registered a PBT of RM 13.52 million for the current quarter, RM 63.99 million or 83% lower than the PBT of RM 77.51 million for the preceding quarter. The decrease in revenue and PBT was mainly attributed to lower export tonnages amidst the escalated production costs arising from higher input costs.

## 15. PROSPECTS

The sentiments of the international market continue to improve and steel demand is expected to be resilient and to expand in tandem with the robust economic activities especially in the high-growth economies. The continued strong growth in most emerging economies and developing countries, particularly Asian region and B.R.I.C. countries are expected to drive the global steel consumption. In the short-term, steel market remains challenging influenced by the European sovereign debt crisis and volatile price movements.

Domestically, outlook for the steel industry is improving on the back of the anticipated spending for the infrastructure and development projects under the Tenth Malaysia Plan and the Economic Transformation Program. Mega projects such as the Klang Valley Mass Rapid Transit, Light Rail Transit Extension, Low Cost Carrier Terminal, six new expressway and many others will require vast amounts of steel.

The Group will continue to focus its market presence in the regions which have shown steady and stable recovery in steel consumption and remain committed to continuous productivity improvement, effective execution of strategic procurement and inventory management policies.

Amidst the financial turbulence facing the global economies and uncertain steel market conditions, the Board of Directors is of the opinion that, given continuous improvements in operational efficiency coupled with gradual recovery in steel prices, the performance of the Group will remain satisfactory in the remaining quarter of the year 2010. Going forward, the Group is confident to achieve a better performance for the year 2011, riding on an improved outlook in both domestic and international market.

## 16. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee for the financial year ending 31 December 2010.

## 17. TAXATION

The tax figures comprise:-

| | 3 months ended 30.09.2010 RM'000 | 9 months ended 30.09.2010 RM'000 |
|---|---|---|
| Malaysian taxation | | |
| - current year taxation | | |
| subsidiary companies | 1,176 | 13,983 |
| - deferred taxation | | |
| subsidiary companies | 2,596 | 337 |
| | 3,772 | 14,320 |

The Group's effective tax rate for the current quarter was marginally different from the statutory tax rate of 25% mainly due to non-deductibility of certain operating expenses for tax purposes.

The Group's effective tax rate for the financial year –to-date was lower compared to statutory tax rate of 25%, mainly due to the utilisation of tax benefits arising from the exemption of income for the value of increased exports under the Income Tax (Exemption) (No. 17) Order, 2005.

## 18. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

On 3 June 2010, the Company's subsidiary, Ann Joo Management Services Sdn Bhd ("AJMS"), completed the disposal of a piece of industrial land together with a single-storey office cum warehouse situated on Lot 2171, Section 66 Kuching Town Land District to TCT Property Sdn Bhd for the for a cash consideration of RM 2,200,000.

On 9 July 2010, the Company's subsidiary, Anshin Steel Industries Sdn Bhd, completed the disposal of a piece of industrial land located on Lot 9041, Kampung Tengah, 42000 Telok Gong, Klang, Selangor Darul Ehsan to Komill Land Sdn Bhd for a cash consideration of RM 2,457,132.44.

Save as disclosed above, there were no significant sales of unquoted investments and/or properties during the financial period under review.

## 19. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There were no purchases or disposals of quoted securities during the financial period under review.

The available-for-sale investments in quoted securities as at 30 September 2010 were as follows:-

| | | RM |
|---|---|---|
| (i) | at cost | 399,434 |
| (ii) | at carrying value | 222,005 |
| (iii) | at market value | 222,005 |

## 20. STATUS OF CORPORATE PROPOSALS

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

## 21. GROUP BORROWINGS AND DEBT SECURITIES

The Group's borrowings as at 30 September 2010 were as follows :-

| | RM'000 |
|---|---|
| Short term borrowings :- | |
| - Secured | 414,040 |
| - Unsecured | 811,929 |
| | 1,225,969 |
| Long term borrowing :- | |
| - Secured | 51,280 |
| Total borrowings | 1,277,249 |

The Group's total short term borrowings are denominated in Ringgit Malaysia, except for approximately RM 332.96 million (USD 107.81 million) of short-term borrowings which are unsecured and denominated in US dollars.

## 22. FINANCIAL INSTRUMENTS

The relevant accounting policies and the effects of the adoption of new accounting policies are disclosed in Note 1 Basis or Preparation.

The details of the outstanding derivative financial instruments as at 30 September 2010 are as follows :-

| Type of derivatives | Notional amount RM'000 | Cash requirements RM'000 | Fair value RM'000 | Fair value net loss RM'000 |
|---|---|---|---|---|
| Currency forward contracts | | | | |
| - less than 1 year | 2,296 | - | 2,279 | 17 |

The above currency forward contracts were executed with creditworthy financial institutions in Malaysia. The Group is of the view that the credit risk of non-performance by the financial institutions concerned is remote on the basis of their financial strength.

## 23. MATERIAL LITIGATION

There was no material litigation against the Group as at the date of this report.

## 24. DIVIDEND

The Board of Directors does not recommend any interim dividend for the current quarter ended 30 September 2010. (3rd quarter 2009: interim dividend of 3 sen per share less income tax of 25%).

## 25. EARNINGS PER SHARE

Basic EPS is calculated by dividing the profit attributable to owners of the parent for the period by the weighted average number of ordinary shares of the Company in issue during the current quarter and the financial year-to-date as set out below:-

| | | 3 months ended 30.09.2010 | 9 months ended 30.09.2010 |
|---|---|---|---|
| Total profit attributable to owners of the parent | (RM'000) | 10,359 | 122,728 |
| Weighted average number of ordinary shares in issue or issuable | ('000) | 502,121 | 502,227 |
| Basic earnings per share | (sen) | 2.06 | 24.44 |

For the purpose of calculating diluted EPS, the weighted average number of ordinary shares in issue have been adjusted for the dilutive effects of all potential conversion of any convertible securities issued during the current quarter and financial year-to-date as set out below:-

| | | 3 months ended 30.09.2010 | 9 months ended 30.09.2010 |
|---|---|---|---|
| Adjusted profit attributable to owners of the parent | (RM'000) | 14,064 | 133,725 |
| Adjusted weighted average number of ordinary shares in issue or issuable | ('000) | 763,474 | 763,581 |
| Diluted earnings per share | (sen) | 1.84 | 17.51 |

## 26. STATUS OF AUDIT QUALIFICATION

There was no audit qualification on the audit report of the preceding annual financial statements.

## 27. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 26 November 2010.

By Order of the Board
Leong Oi Wah (MAICSA 7023802)
Mabel Tio Mei Peng (MAICSA 7009237)
Company Secretaries
26 November 2010
Selangor Darul Ehsan