

**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 2010. 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 2010.

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 2010, 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 1, First-time Adoption of Financial Reporting Standards (revised)  
FRS 3, Business Combinations (revised)  
FRS 127, Consolidated and Separate Financial Statements (revised)  
Amendments to FRS 1, Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters  
Amendments to FRS 2, Share-based Payment and Group Cash-settled Share-based Payment Transactions  
Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations  
Amendments to FRS 7, Improving Disclosures about Financial Instruments  
Amendments to FRS 132, Financial Instruments: Presentation - Classification of Right Issues  
Amendments to FRS 138, Intangible Assets  
IC Interpretation 4, Determining Whether an Arrangement contains a Lease  
IC Interpretation 12, Service Concession Arrangements  
IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation  
IC Interpretation 17, Distributions of Non-cash Assets to Owners  
IC Interpretation 18, Transfers of Assets from Customers  
Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives  
Improvements to FRSs (2010)

The adoption of the new and revised FRSs, IC Interpretation and Amendments has no any 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, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities. As at 30 June 2011, out of the total 522,708,178 issued and fully paid ordinary shares, 20,610,800 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.

### 6. DIVIDENDS PAID

During the financial period ended 30 June 2011, the Company has paid a final dividend of 6.34 sen per share less income tax of 25% in respect of the financial year ended 31 December 2010 amounting to RM 23,874,720 on 16 June 2011 (6 months ended 30 June 2010: 3 sen per share less income tax of 25%).

### 7. SEGMENTAL INFORMATION

The segment revenue, segment results and segment assets for the financial period ended 30 June 2011 were as follows:

	Manufacturing RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
<b>REVENUE</b>					
External sales	775,585	335,703	576		
Inter-company transactions	248,397	42,550	15,573	(306,520)	
Total sales	<u>1,023,982</u>	<u>378,253</u>	<u>16,149</u>	<u>(306,520)</u>	<u>1,111,864</u>
<b>RESULTS</b>					
Segment results	70,831	31,156	4,806	(1,780)	105,013
Finance cost					(12,951)
Interest income					570
Investing Results					105
Taxation					(17,172)
Profit for the period					<u>75,565</u>
<b>ASSETS</b>					
	<u>2,288,156</u>	<u>551,429</u>	<u>1,014,309</u>	<u>(995,968)</u>	<u>2,857,926</u>
<b>LIABILITIES</b>					
	<u>1,375,003</u>	<u>396,295</u>	<u>99,333</u>	<u>(126,060)</u>	<u>1,744,571</u>

## **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**

The Company had, on 25 January 2011, entered into a Shares Sale Agreement with SHH Holdings Sdn. Bhd. and Chuan Huat Hardware Holdings Sdn. Bhd. to acquire 3,000,000 and 2,700,000 ordinary shares of RM1.00 each respectively in Anshin Steel Processor Sdn. Bhd. (“ASP”) for a cash consideration of RM2.10 per share totaling RM11,970,000. The acquisition was completed on 11 February 2011 and ASP became a wholly-owned subsidiary of the Company.

Save as disclosed above, 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 June 2011 were as follows:

Commitments in respect of capital expenditure :

	<u>RM'000</u>
(a) contracted but not provided for	85,933
(b) approved but not contracted for	45,218

### **13. REVIEW OF PERFORMANCE**

During the quarter under review, the Group recorded revenue of RM 554.72 million, a decrease of RM 40.71 million or 7% as compared to the revenue of RM 595.43 million for the corresponding quarter of the preceding year. This was mainly attributable to lower export tonnages as a result of disruption in demand growth momentum in the international market on the back of political unrest in Middle East and North Africa region in addition to the earthquake and tsunami disaster in Japan. For the first half of year 2011, the Group's revenue was RM 1.11 billion, a slight increase of RM 42.49 million or 4% as compared to the revenue of RM 1.07 billion for the first half of year 2010. The increase in revenue was mainly attributable to better steel prices and improved domestic demand.

The Group achieved a profit before tax ("PBT") of RM 39.11 million for the current quarter, RM 38.4 million or 50% lower than the PBT of RM 77.51 million for the corresponding quarter of the preceding year. On a year-to-date basis, the Group recorded a PBT of RM 92.74 million as compared to a PBT of RM 123.89 million for the corresponding period of the preceding year. Lower profitability was mainly due to depressed international steel prices while recognising higher input costs during the financial period under review.

### **14. VARIATION OF RESULTS AGAINST PRECEDING QUARTER**

The Group recorded revenue of RM 554.72 million for the current quarter was RM 2.43 million lower than the revenue of RM 557.15 million for the preceding quarter. Correspondently, the Group registered a PBT of RM 39.11 million for the current quarter, RM 14.52 million lower than the PBT of RM 53.63 million for the preceding quarter. The decrease in revenue and PBT was mainly attributable to sporadic weak demand internationally as the growth momentum was disrupted by political unrest in Middle East and North Africa region and the earthquake and tsunami disaster in Japan.

### **15. PROSPECTS**

The international market for construction steel is expected to be robust amid an anticipated strengthening of demand in the developing countries and emerging markets, in particular the Southeast Asia countries, Middle East region and Indian-subcontinent. The upswing momentum of construction steel consumption is expected to gather pace, supported by accelerated infrastructure investments, industrialization and urbanization processes of these countries.

Local steel demand is expected to remain strong in tandem with the accelerated pace of construction activities and infrastructure development projects under the Tenth Malaysia Plan and Economic Transformation Program which places significant emphasis on public transport system spending, such as the Second Penang Bridge, KLIA 2, LRT extensions and MRT lines.

With the culmination of our strategic investment positions upon the integration of the blast furnace and electric arc furnace operations, the Group is committed not only to improve its operational efficiency but also to provide steel products of uncompromising standards and quality. The Group will continue to strategize its approach in the pursuit of business growth in Malaysia as well as in the regional markets.

Riding on improved market sentiments and robust demand in both domestic and international market, the Group expects to continue to achieve satisfactory performance in the second half of year 2011.

## 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 2011.

## 17. TAXATION

The tax figures comprise:

	<b>3 months ended</b> <b>30.6.2011</b> <b>RM'000</b>	<b>6 months ended</b> <b>30.6.2011</b> <b>RM'000</b>
Malaysian taxation		
- current year taxation		
subsidiary companies	7,212	14,195
- deferred taxation		
subsidiary companies	(1,005)	2,977
	<u>6,207</u>	<u>17,172</u>

The Group's effective tax rate for the current quarter and year-to-date lower compared to statutory tax rate of 25%, mainly due to availability of tax incentives.

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

There was no sale 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 June 2011 were as follows:

	<b>RM</b>
(i) at cost	399,434
(ii) at carrying value	230,605
(iii) at market value	230,605

## 20. STATUS OF CORPORATE PROPOSALS

Ann Joo Integrated Steel Sdn Bhd ("AJIS"), the wholly-owned subsidiary of the Company, had on 10 February 2011 signed the transaction documents in relation to a proposed redeemable bonds of RM 500 million ("Bonds") with Affin Investment Bank Berhad ("Affin Investment") as the lead arranger, facility agent and issue agent together with Affin Bank Bhd, Alliance Investment Bank Bhd, OCBC Bank (Malaysia) Berhad and United Overseas Bank (Malaysia) Bhd as the joint lead managers for the Bonds and Pacific Trustees Berhad as the trustee and the security trustee for the Bonds. The Bonds shall have a tenure of up to five years from the date of first issuance.

The proceeds to be raised from the Bonds shall be utilised to refinance the amount drawn under AJIS's existing RM400.0 million Syndicated Revolving Credit Facility and the remaining RM100.0 million to part finance the construction and completion of AJIS's blast furnace project located in Seberang Perai, Penang.

The Securities Commission had vide its letter dated 27 December 2010 approved the Bonds application. On 9 May 2011, Affin Investment had submitted another application to Securities Commission to revise the principal terms and conditions of the Bonds and also to seek for an extension of a further three months from 26 June 2011 till 26 September 2011 for the issuance of Bonds. The Securities Commission had on 23 May 2011 approved the said applications. Subsequently, the Bonds have been fully issued by AJIS on 27 June 2011.

Save as disclosed above, 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 June 2011 were as follows:

	<u>RM'000</u>
Short term borrowings :	
- Secured	14,040
- Unsecured	992,046
	<u>1,006,086</u>
Long term borrowing :	
- Secured	<u>540,750</u>
Total borrowings	<u><u>1,546,836</u></u>

The Group's borrowings are denominated in Ringgit Malaysia, except for approximately RM472.18 million (USD156.05 million) of short-term borrowings which are unsecured and denominated in US dollars.

## 22. FINANCIAL INSTRUMENTS

The details of the outstanding derivative financial instruments of the Group with maturity date less than 1 year, as at 30 June 2011 are as follows:

<u>Type of derivatives</u>	<u>Notional amount</u> <u>RM'000</u>	<u>Fair value</u> <u>RM'000</u>	<u>Fair value</u> <u>net gain</u> <u>RM'000</u>
Forward foreign exchange contracts			
- buy SGD	3,032	3,031	1
- sell USD	6,052	6,042	(10)
		<u>6,042</u>	<u>(10)</u>

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

On 26 August 2011, the Board of Directors approved and declared a first interim tax exempt dividend of 4 sen per share in respect of the financial year ending 31 December 2011. The first interim dividend will be paid on 11 October 2011 to the Depositors registered in the Record of Depositors at the close of the business on 22 September 2011. (2nd quarter 2010: first interim dividend of 6 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:

		<u>3 months ended 30.6.2011</u>	<u>6 months ended 30.6.2011</u>
Total profit attributable to owners of the parent	(RM'000)	32,745	75,045
Weighted average number of ordinary shares in issue or issuable	('000)	502,097	502,104
Basic earnings per share	(sen)	<u>6.52</u>	<u>14.95</u>

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 the financial year-to-date as set out below:

		<u>3 months ended 30.6.2011</u>	<u>6 months ended 30.6.2011</u>
Adjusted profit attributable to owners of the parent	(RM'000)	36,410	82,335
Adjusted weighted average number of ordinary shares in issue or issuable	('000)	763,450	763,457
Diluted earnings per share	(sen)	<u>4.77</u>	<u>10.78</u>

## 26. REALISED AND UNREALISED EARNINGS OR LOSSES DISCLOSURE

The retained earnings as at 30 June 2011 is analysed as follows:

	<b>30.06.2011</b>	<b>31.03.2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained earnings of the Company and its subsidiaries:		
- Realised	708,411	683,095
- Unrealised	5,409	11,470
	<u>713,820</u>	<u>694,565</u>
Total share of retained earnings from an associated company		
- Realised	495	410
- Unrealised	-	-
	<u>714,315</u>	<u>694,975</u>
Less: Consolidation adjustments	<u>(180,247)</u>	<u>(169,777)</u>
Total group retained earnings	<u><u>534,068</u></u>	<u><u>525,198</u></u>

## 27. STATUS OF AUDIT QUALIFICATION

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

## 28. 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 August 2011.

By Order of the Board  
Leong Oi Wah (MAICSA 7023802)  
Mabel Tio Mei Peng (MAICSA 7009237)  
Company Secretaries  
26 August 2011  
Selangor Darul Ehsan