EXPLANATORY NOTES

1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards ("MFRS"), MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("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 2011. 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 2011.

For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRSs"). The Group has adopted the MFRS Framework issued by the Malaysian accounting Standards Board ("MASB") with effect from 1 January 2012. This MFRS Framework was introduced by the MASB in order to fully converge Malaysia's existing FRS Framework with the International Financial Reporting Standards ("IFRS") Framework issued by the International Accounting Standards Board.

These interim financial statements are the Group's first MFRS compliant interim financial statements and hence MFRS 1: First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

The date of transition to the MFRS Framework is 1 January 2011. At that transition date, the Group reviewed its accounting policies and considered the transitional opportunities under MFRS 1. The impact of the transition from FRS to MFRS is described in Note 1.1 below.

1.1 Application of MFRS 1

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. As the requirement under FRS and MFRS are similar, the significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

(a) Business combination

MFRS 1 provides the option to apply MFRS 3: Business Combinations ("MFRS 3"), prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

<u>Acquisition before date of transition</u>
The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition:

i) The classification of former business combinations under FRS is maintained;
ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
iii) The carrying amount of goodwill recognised under FRS is not adjusted.

(b) Property, plant and equipment

The Group has previously adopted revaluation model for its property comprising land and buildings and revalue the assets every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value under FRS 116: Property, Plant and Equipment.

Upon transition to MFRS, the Group has elected to apply the optional exemption and measure all its property, plant and equipment using the cost model under MFRS 116: Property, Plant and Equipment. At the date of transition to MFRS, the Group uses previous revaluation at or before the date of transition as deemed cost. Accordingly, the revaluation reserves of RM121,724,845 at 1 January 2011, 30 June 2011 and 31 December 2011 were reclassified to other equity reserves. Both the revaluation reserves and other equity reserves were grouped under other reserves in the condensed consolidated statements of financial position.

(c) Investment Property

Under FRS 140: Investment Property, the Group measured its investment properties initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Upon transition to MFRS, the Group has elected to apply the optional exemption and measure all its investment properties using the cost model under MFRS 140: Investment Property. At the date of transition to MFRS, the Group uses previous fair value at or before the date of transition as deemed cost and apply the depreciation policy consistent with property, plant and equipment. As a result, the depreciation of investment properties of RM41,118 and RM82,236 were charged for the financial period ended 30 June 2011 and for the financial year ended 31 December 2011 respectively.

The reconciliations of financial statements for comparative periods and of financial statements at the date of transition reported under FRS and MFRS are provided below:-

<u>Condensed Consolidated Statements of Financial Position</u>

Reconciliation as at 1 January 2011

	FRS as at 1.1.2011 RM'000	**Effect of transition to MFRS RM'000**	**MFRS as at 1.1.2011 RM'000**
Within other reserves, the following reserves were affected:			
Revaluation reserves	121,725	(121,725)	-
Other equity reserves	-	121,725	121,725

Reconciliation as at 30 June 2011

	FRS as at 30.6.2011 RM'000	Effect of transition to MFRS RM'000	MFRS as at 30.6.2011 RM'000
Retained earnings	534,068	(41)	534,027
Investment properties	6,994	(41)	6,953
*** Within other reserves, the following reserves were affected:*			
Revaluation reserves	121,725	(121,725)	-
Other equity reserves	-	121,725	121,725

Reconciliation as at 31December 2011

	FRS as at 31.12.2011 RM'000	Effect of transition to MFRS RM'000	MFRS as at 31.12.2011 RM'000
Retained earnings	500,192	(82)	500,110
Investment properties	6,994	(82)	6,912
*** Within other reserves, the following reserves were affected:*			
Revaluation reserves	121,725	(121,725)	-
Other equity reserves	-	121,725	121,725

Condensed Consolidated Statements of Profit and Lass and Other Comprehensive Income

Reconciliation for the quarter ended 30 June 2011

	FRS for the 3 months ended 30.6.2011 RM'000	Effect of transition to MFRS RM'000	MFRS for the 3 months ended 30.6.2011 RM'000
Operating expenses	(510,957)	(20)	(510,977)
Profit before tax	39,108	(20)	39,088
Profit after tax	32,901	(20)	32,881

Reconciliation for the six months ended 30 June 2011

	FRS for the 6 months ended 30.6.2011 RM'000	Effect of transition to MFRS RM'000	MFRS for the 6 months ended 30.6.2011 RM'000
Operating expenses	(1,016,244)	(41)	(1,016,285)
Profit before tax	92,737	(41)	92,696
Profit after tax	75,565	(41)	75,524

Reconciliation for the financial year ended 31 December 2011

	FRS for the year ended 31.12.2011 RM'000	Effect of transition to MFRS RM'000	MFRS for the year ended 31.12.2011 RM'000
Operating expenses	(2,154,074)	(82)	(2,154,156)
Profit before tax	64,817	(82)	64,735
Profit after tax	62,195	(82)	62,113

1.2 MFRSs, Amendments to MFRSs and IC Interpretation issued but not yet effective

At the date of authorization of these interim financial statements, the following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group.

Effective for financial periods beginning on or after 1 July 2012

Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income

Effective for financial periods beginning on or after 1 January 2013

Amendments to MFRS 1	Government Loans
Amendments to MFRS 7	Disclosure – Offsetting Financial Assets and Financial Liabilities
MFRS 10	Consolidated Financial Statements
Amendments to MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
Amendments to MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Transition Guidance
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine
Improvements to MFRS	Annual Improvements 2009 – 2011 Cycle

Effective for financial periods beginning on or after 1 January 2014

Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities

Effective for financial periods beginning on or after 1 January 2015

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)

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 quarter and six months ended 30 June 2012.

4. NATURE AND AMOUNT OF CHANGES IN ESTIMATES

There were no major changes in estimates that had any material effect on the quarter and six months ended 30 June 2012 results.

5. DEBT AND EQUITY SECURITIES

During the quarter under review, there were no issuance, cancellation, repurchases, resale and repayments of debt and equity securities. As at 30 June 2012, out of the total 522,708,178 issued and fully paid ordinary shares, 21,576,500 shares were held as treasury shares at an average purchase price of RM3.27 per share. The share buyback transactions were financed by internally generated funds.

6. DIVIDENDS PAID

During the financial period ended 30 June 2012, the Company has paid a final single tier dividend of 3.50 sen per share in respect of the financial year ended 31 December 2011 amounting to RM 17,539,609 on 21 June 2012 (6 months ended 30 June 2011: 6.34 sen per share less income tax of 25%).

7. SEGMENTAL INFORMATION

The segment revenue, segment results and segment assets for the six months ended 30 June 2012 were as follows:-

	Manufacturing RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
REVENUE					
External sales	839,076	375,795	621		
Inter-company transactions	354,548	47,956	15,293	(417,797)	
Total sales	1,193,624	423,751	15,914	(417,797)	1,215,492
RESULTS					
Segment results	(27,301)	18,372	5,067	77	(3,785)
Finance cost					(14,906)
Interest income					829
Investing Results					19
Taxation					12,341
Profit for the year					(5,502)
ASSETS	2,304,151	607,218	1,032,350	(1,140,754)	2,802,965
LIABILITIES	1,516,026	456,245	51,006	(275,477)	1,747,800

8. PROFIT BEFORE TAX

	3 months ended 30.06.2012 RM'000	6 months ended 30.06.2012 RM'000
Profit before tax is arrived at after charging:		
Amortisation of intangible assets	138	277
Amortisation of prepaid lease payments	110	159
Depreciation of investment properties	12	32
Depreciation of property, plant and equipment	11,681	23,342
Fair value loss on derivative	33	33
Interest expenses	6,992	14,906
Loss on foreign exchange - unrealised	27,792	7,796
Property, plant and equipment written off	3	4
Reversal of allowance for inventories written down to net realisable value	(9,268)	(3,584)
and after crediting:		
Bad debts recovered	225	501
Gain on disposal of property, plant and equipment	2,661	2,662
Gain on foreign exchange - realised	4,845	10,198
Interest income	579	829
Rental income	15	15
Reversal on fair value loss derivative	2	0
Reversal of allowance for impairment losses of receivables	200	694

9. 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. Upon transition to MFRS, the Group used the previous revaluation at or before the date of transition as deemed cost for property, plant and equipment and investment properties.

10. 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.

11. CHANGES IN THE COMPOSITION OF THE GROUP

On 6 January 2012, the Company has incorporated a new wholly-owned subsidiary in Singapore under the name of Ann Joo Metal (Singapore) Pte. Ltd. with an issued and paid-up capital of SGD1.00 (RM2.44).

Save as disclosed above, there were no significant changes in the composition of the Group during the quarter and six months ended 30 June 2012.

12. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

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

13. CAPITAL COMMITMENTS

The capital commitments as at 30 June 2012 were as follows:

Commitments in respect of capital expenditure :

		RM'000
(a)	contracted but not provided for	45,888
(b)	approved but not contracted for	28,365

14. ASSETS CLASSIFIED AS HELD FOR SALE

The assets classified as held for sale are recognised at the lower of carrying amount or fair value. Major classes of assets classified as held for sale on the consolidated statements of financial position as at 30 June 2012 were as follows:-

	30.06.2012 RM'000
Property, plant and equipment	2,300
Investment properties	2,656

15. REVIEW OF PERFORMANCE

During the quarter under review, the Group recorded revenue of RM603.36 million, an increase of RM48.64 million or 9% as compared to the revenue of RM554.72 million for the corresponding quarter of the preceding year. For the first half of year 2012, the Group's revenue was RM1.21 billion, increased by RM103.63 million or 9% as compared to the revenue of RM1.11 billion for the first half of year 2011. The improved performance was mainly due to higher sales tonnages contributed by both Manufacturing and Trading Divisions despite a significant slowdown in global steel demand.

The Group posted a loss before tax ("LBT") of RM13.13 million for the current quarter as compared to a profit before tax ("PBT") of RM39.09 million for the corresponding quarter of the preceding year. On a year-to-date basis, the Group recorded a LBT of RM17.84 million as compared to PBT of RM92.70 million for the corresponding period of the preceding year. The current quarter loss was mainly attributable to an unrealised foreign exchange loss of RM27.79 million.

Manufacturing revenue increased by RM116.81 million to RM585.48 million in current quarter compared to revenue of RM468.67 million in the corresponding quarter of the preceding year. For the first half of year 2012, the segment revenue increased by RM169.64 million to RM1.19 billion. The higher revenue was a result of an improved domestic demand and higher export tonnage. The segment recorded loss of RM13.69 million in the current quarter, decreased by RM41.85 million compared to segment profit of RM28.16 million in the corresponding quarter of the preceding year. On a year-to-year basis, the division recorded a segment loss of RM27.30 million as compared to segment profit of RM70.86 million for the corresponding period of the preceding year. The segment loss was mainly due to an unrealised foreign exchange loss of RM19.67 million for the quarter under review.

Trading revenue increased by RM24.85 million to RM225.80 million in current quarter compared to RM200.95 million in the corresponding quarter of the preceding year. On a year-to-year basis, the segment revenue increased by RM45.50 million to RM423.75 million compared to RM378.25 million in the corresponding period of the preceding year. The increase in trading revenue was mainly due to higher sales tonnage as a result of continued market development efforts on the back of a stiff competitive market condition. The segment profits decreased by RM10.04 million to RM4.61 million for the current quarter and by RM12.78 million to RM18.37 million for the first half of the year was mainly due to recognition of an unrealised foreign exchange loss of RM8.12 million and RM4.04 million for the quarter and the six months period respectively.

16. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

The Group recorded revenue of RM603.36 million in the current quarter was RM8.77 million or 1% lower than the revenue of RM612.13 million for the preceding quarter. The slight decrease in revenue was mainly due to lower export tonnages that had been weighed down by a sluggish market condition. The Group registered a LBT of RM13.13 million for the current quarter compared to LBT of RM4.71 million for the preceding quarter. LBT was mainly attributable to unrealised foreign exchange loss of RM27.79 million despite an improved operational profit.

17. PROSPECT

International steel market continues to be challenging on the back of the weak global economy hindered by heightened Euro zone debt crisis, renewed downturn in US economy and slowing China economy. Looking ahead to the remaining period of the year, there are signs of recovery and market sentiments are expected to improve in anticipation of renewed growing steel demand and price rebound after the seasonal slowdown. China's steel demand is expected to progress in tandem with the rollout of the government's program to stimulate the construction activities with an objective to spur the economic growth. Steel demand of ASEAN countries in particular, continues to expand as reflected in the modest growth in the developing economies albeit at a slower pace.

Domestic steel consumption remains resilient supported by private sector investment and government spending on infrastructure, construction and property development activities despite the negative external environment. The steel sector performance is expected to be encouraging given the rollout of major projects under the Economic Transformation Program.

The Group expects the integration of its iron and steel production to optimize in the second half of the year, thus yield substantial operational synergies and enhance its competitiveness, especially the improvement in productivity and cost structure. In addition, strategic procurement activities and inventory management strategy will continue to be the key focus areas for performance improvement. Nevertheless, the Group performance for the remaining period of the year 2012 is heavily dependent on the global economic growth, in particular China.

18. 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 2012.

19. TAXATION

The tax figures comprise of:

	3 months ended 30.06.2012 RM'000	**6 months ended 30.06.2012 RM'000**
Income tax		
Current year taxation	2,832	5,159
Deferred tax		
Relating to origination and reversal of temporary differences	(11,244)	(17,500)
	(8,412)	(12,341)

The Group's effective tax rate for the current quarter and year-to-date was lower compared to statutory tax rate of 25%, mainly due to recognition of deferred tax for the loss made by certain operation companies coupled with the availability of tax incentives.

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 June 2012 were as follows:-

	RM'000
Short term borrowings :	
Secured	54,040
Unsecured	965,369
	1,019,409
Long term borrowing :	
Secured	486,710
Total borrowings	1,506,119

The Group's borrowings are denominated in Ringgit Malaysia, except for approximately RM758.06 million (USD238.54 million) of the above borrowings which are denominated in US dollars.

22. MATERIAL LITIGATION

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

23. DIVIDEND

The Board of Directors does not recommend any interim dividend for the current quarter ended 30 June 2012 (2nd quarter 2011: first interim tax exempt dividend of 4 sen per share).

24. 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 quarter and the six months ended 30 June 2012 as set out below:

		3 months ended 30.06.2012	6 months ended 30.06.2012
Total loss attributable to owners of the parent	(RM'000)	(4,919)	(5,960)
Weighted average number of ordinary shares in issue or issuable	('000)	501,132	501,141
Basic earnings per share	(sen)	(0.98)	(1.19)

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 quarter and the six months ended 30 June 2012 as set out below:

		3 months ended 30.06.2012	6 months ended 30.06.2012
Adjusted profit attributable to owners of the parent	(RM'000)	(1,253)	1,370
Adjusted weighted average number of ordinary shares in issue or issuable	('000)	762,484	762,494
Diluted earnings per share	(sen)	(0.16)	0.18

25. REALISED AND UNREALISED EARNINGS OR LOSSES DISCLOSURE

The retained earnings as at 30 June 2012 were analysed as follows:

	30.06.2012 RM'000	31.12.2011 RM'000
Total retained earnings of the Company and its subsidiaries:		
Realised	628,331	676,651
Unrealised	29,591	4,431
	657,922	681,082
Total share of retained earnings from an associated company		
Realised	252	233
Unrealised	(18)	(18)
	658,156	681,297
Less: Consolidation adjustments	(181,246)	(181,187)
Total group retained earnings	476,910	500,110

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 29 August 2012.

By Order of the Board
Leong Oi Wah (MAICSA 7023802)
Mabel Tio Mei Peng (MAICSA 7009237)
Company Secretaries
29 August 2012
Selangor Darul Ehsan