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 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.

Acquisition before date of transition
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 September 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 RM20,559, RM61,677 and RM82,236 were charged for quarter and nine months ended 30 September 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:-

Condensed Consolidated Statements of Financial Position

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 September 2011

	FRS as at 30.9.2011 RM'000	Effect of transition to MFRS RM'000	MFRS as at 30.9.2011 RM'000
Retained earnings	489,450	(62)	489,388
Investment properties	6,994	(62)	6,932
*** 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 or Loss and Other Comprehensive Income

Reconciliation for the quarter ended 30 September 2011

	FRS for the 3 months ended 30.9.2011 RM'000	Effect of transition to MFRS RM'000	MFRS for the 3 months ended 30.9.2011 RM'000
Operating expenses	(653,857)	(21)	(653,878)
Loss before tax	(33,181)	(21)	(33,202)
Loss after tax	(24,416)	(21)	(24,437)

Reconciliation for the nine months ended 30 September 2011

	FRS for the 9 months ended 30.9.2011 RM'000	Effect of transition to MFRS RM'000	MFRS for the 9 months ended 30.9.2011 RM'000
Operating expenses	(1,662,322)	(62)	(1,662,384)
Profit before tax	59,556	(62)	59,494
Profit after tax	51,149	(62)	51,087

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 nine months ended 30 September 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 nine months ended 30 September 2012 results.

5. DEBT AND EQUITY SECURITIES

During the quarter under review, the Company repurchased 260,000 shares of its issued share capital from the open market at an average purchase price of RM1.36 per share. As at 30 September 2012, out of the total 522,708,178 issued and fully paid ordinary shares, 21,836,500 shares were held as treasury shares at an average purchase price of RM3.25 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 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 (9 months ended 30 September 2011: final dividend of 6.34 sen per share less income tax of 25% and first interim tax exempt dividend of 4 sen per share).

7. SEGMENTAL INFORMATION

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

	Manufacturing RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
REVENUE					
External sales	1,119,770	563,726	916		
Inter-company transactions	530,070	78,702	23,347	(632,119)	
Total sales	1,649,840	642,428	24,263	(632,119)	1,684,412
RESULTS					
Segment results	(74,326)	32,452	7,489	(24)	(34,409)
Finance cost					(22,296)
Interest income					1,455
Investing Results					36
Taxation					26,734
Profit for the year					(28,480)
ASSETS	2,279,807	626,717	1,031,446	(1,102,701)	2,835,269
LIABILITIES	1,523,966	466,562	49,527	(236,657)	1,803,398

8. PROFIT BEFORE TAX

	3 months ended 30.09.2012 RM'000	9 months ended 30.09.2012 RM'000
Profit before tax is arrived at after charging:		
Allowance for inventories written down to net realisable value	61,383	57,799
Amortisation of intangible assets	138	415
Amortisation of prepaid lease payments	49	209
Bad debts written off	34	34
Depreciation of investment properties	12	44
Depreciation of property, plant and equipment	11,711	35,053
Interest expenses	7,389	22,296
Loss on disposal of investment properties	7	7
Property, plant and equipment written off	0	4
and after crediting:		
Bad debts recovered	206	707
Dividend	1	1
Fair value gain on derivative	3	3
Gain on disposal of property, plant and equipment	392	3,054
Gain on foreign exchange - realised	4	10,202
Gain on foreign exchange - unrealised	24,725	16,929
Interest income	626	1,455
Reversal of allowance for impairment losses of receivables	286	980

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 nine months ended 30 September 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 September 2012 were as follows:

Commitments in respect of capital expenditure :

		RM'000
(a)	contracted but not provided for	40,738
(b)	approved but not contracted for	29,379

14. REVIEW OF PERFORMANCE

During the quarter under review, the Group recorded revenue of RM468.92 million, a decrease of RM156.28 million or 25% as compared to the revenue of RM625.20 million for the corresponding quarter of the preceding year. For the nine months ended 30 September 2012, the Group's revenue was RM1.68 billion, decreased by RM52.66 million or 3% as compared to the revenue of RM1.74 billion for the nine months of year 2011. This was mainly attributable to decreased export sales tonnage which was disrupted by sharp decline in international steel prices and lacklustre demand.

The Group posted a loss before tax ("LBT") of RM37.37 million for the current quarter as compared to LBT of RM33.20 million for the corresponding quarter of the preceding year. On a year-to-date basis, the Group recorded a LBT of RM55.21 million as compared to profit before tax ("PBT") of RM59.49 million for the corresponding period of the preceding year. The loss was mainly due to the recognition of an allowance for inventories written down to net realizable value of RM61.38 million and RM57.80 million for the current quarter and nine months ended 30 September 2012 respectively.

Manufacturing revenue decreased by RM267.36 million to RM456.22 million in current quarter compared to revenue of RM723.58 million in the corresponding quarter of the preceding year. For the nine months ended 30 September 2012, the segment revenue decreased by RM97.73 million to RM1.65 billion. Lower revenue was mainly due to decreased export sale tonnage coupled with lower selling prices of finished steel as a result of an influx of the imported China products. The division recorded segment loss of RM47.02 million for the current quarter as compared to segment loss of RM30.18 million for the corresponding quarter of the preceding year. On a year-to-date basis, the division posted segment loss of RM74.33 million as compared to segment profit of RM40.68 million for the corresponding period of the preceding year. The segment loss was mainly due to margin squeeze arising from the sharp decline in international steel prices and rampant dumping of construction steel mainly by Chinese mills globally thus resulted in the recognition of an allowance for inventories written down to net realizable value of RM59.90 million and RM56.42 million for the quarter and nine months ended 30 September 2012 respectively.

Trading revenue increased by RM44.23 million to RM218.68 million in the current quarter compared to RM174.45 million in the corresponding quarter of the preceding year. On a year-to-date basis, the segment revenue increased by RM89.72 million to RM642.43 million compared to RM552.71 million in the corresponding period of the preceding year. Higher revenue was mainly came from the improved demand from various economic sectors, in particular the oil and gas, palm oil refinery and shipbuilding. The segment profit increased by RM13.63 million to RM14.08 million for the current quarter as compared to segment profit of RM0.45 million for the corresponding quarter of the preceding year. On a year-to-date basis, the division recorded a profit of RM32.4 million as compared to segment profit of RM31.6 million for the corresponding period of the preceding year. This was mainly attributable to higher sales tonnage coupled with the recognition of an unrealized foreign exchange gain of RM8.15 million for the current quarter.

15. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

The Group posted revenue of RM468.92 million in the current quarter was RM134.44 million or 22% lower than the revenue of RM603.36 million for the preceding quarter. Lower revenue was mainly due to decreased export sales tonnage which was disrupted by sharp decline in international steel prices and sluggish demand. The Group registered a LBT of RM37.37 million for the current quarter compared to LBT of RM13.13 million for the preceding quarter. LBT was mainly attributable to margin squeeze arising from weakened steel prices thus also resulted in the recognition of an allowance for inventories written down to net realizable value of RM61.38 million for the current quarter despite an improved production efficiency was recorded.

16. PROSPECT

Global steel market continues to be weighed down by economic uncertainty arising from the debt crisis in Euro zone and a sharper than expected slowdown in China. Volatility and uncertainty persist in international steel market with sharp and more pronounced price correction pressured by seasonal factors and the global economic slowdown. Demand for construction steel is still strongly spurred by the commencement of the fiscal stimulus measures and infrastructure projects initiated by various governments of the emerging markets and developing countries to pump-prime the economy. Nevertheless, rampant dumping activities by Chinese mills will further dampen the recovery of steel prices.

As for the domestic market, the steel demand is relatively stable supported by the government and private sector spending on various construction activities and infrastructure projects. Nevertheless, the influx of imported China products particularly the wire rods remains the key market disturbance and is expected to continue with increasing import tonnage despite provisional anti-dumping duties have been imposed by the government. Domestic steel consumption is likely to improve further after the full swing of the construction activities and infrastructure projects under the Economic Transformation Program.

Given the challenging economic conditions and market outlook, the Group will continue its emphasis on productivity improvement program, effective execution of strategic procurement and inventory management policies. In addition, the Group will focus on the product development activities upon conclusion of the cost optimization and stabilization program for the integration of its iron and steel production processes. Nevertheless, the Group performance for the remaining period of the year 2012 is heavily dependent on the effectiveness of the anti-dumping measures initiated by the government to curb the import especially from China.

17. 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.

18. TAXATION

The tax expenses/(income) comprise of:

	3 months ended 30.09.2012 RM'000	**9 months ended 30.09.2012 RM'000**
Income tax		
Current year taxation	2,219	7,378
Underprovision in prior year	(68)	(68)
	2,151	7,310
Deferred tax		
Relating to origination and reversal of temporary differences	(15,471)	(32,971)
Overprovision in prior year	(1,073)	(1,073)
	(16,544)	(34,044)
	(14,393)	(26,734)

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.

19. STATUS OF CORPORATE PROPOSALS

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

20. GROUP BORROWINGS AND DEBT SECURITIES

The Group's borrowings as at 30 September 2012 were as follows:-

	RM'000
Short term borrowings :	
Secured	94,040
Unsecured	1,033,989
	1,128,029
Long term borrowing :	
Secured	443,200
Total borrowings	1,571,229

The Group's borrowings are denominated in Ringgit Malaysia, except for approximately RM587.99 million (USD191.71 million) of the above borrowings which are denominated in US dollars.

21. MATERIAL LITIGATION

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

22. DIVIDEND

The Board of Directors does not recommend any interim dividend for the current quarter ended 30 September 2012 (3rd quarter 2011: Nil).

23. 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 nine months ended 30 September 2012 as set out below:

		3 months ended 30.09.2012	9 months ended 30.09.2012
Total loss attributable to owners of the parent	(RM'000)	(23,070)	(29,029)
Weighted average number of ordinary shares in issue or issuable	('000)	501,108	501,130
Basic earnings per share	(sen)	(4.60)	(5.79)

For the purpose of calculating diluted EPS, the weighted average number of ordinary shares in issue has been adjusted for the dilutive effects of all potential conversion of any convertible securities issued during the quarter and nine months ended 30 September 2012 as set out below:

		3 months ended 30.09.2012	9 months ended 30.09.2012
Adjusted profit attributable to owners of the parent	(RM'000)	(19,365)	(17,993)
Adjusted weighted average number of ordinary shares in issue or issuable	('000)	762,461	762,483
Diluted earnings per share	(sen)	(2.54)	(2.36)

24. REALISED AND UNREALISED EARNINGS OR LOSSES DISCLOSURE

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

	30.09.2012 RM'000	31.12.2011 RM'000
Total retained earnings of the Company and its subsidiaries:		
Realised	564,873	676,651
Unrealised	70,932	4,431
	635,805	681,082
Total share of retained earnings from an associated company		
Realised	269	233
Unrealised	(18)	(18)
	636,056	681,297
Less: Consolidation adjustments	(181,440)	(181,187)
Total group retained earnings	454,616	500,110

25. STATUS OF AUDIT QUALIFICATION

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

26. 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 27 November 2012.

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