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 Main Market 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 2013. 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 2014.

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 2013, except for the following new and revised Amendments to MFRSs and Issue Committee Interpretations ("IC Interpretation") which are applicable to its financial statements:

1.1 Adoption of Amendments to MFRSs and IC Interpretation

Amendments to MFRS 10	Consolidated Financial Statements : Investment Entities
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Investment Entities
Amendments to MFRS 127	Separate Financial Statements: Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting levies
IC Interpretation 21	Levies

The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

1.2 MFRSs and Amendments to MFRSs issued but not yet effective

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

Effective for financial periods beginning on or after 1 July 2014

Amendments to MFRS 119	Defined Benefit Plans: Employee Contributions
Annual Improvements to MFRSs 2010 – 2012 Cycle	
Annual Improvements to MFRSs 2011 – 2013 Cycle	

Effective for financial periods beginning on or after 1 January 2016

MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants
Amendments to MFRS 127	Equity Method in Separate Financial Statements
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Annual Improvements to MFRSs 2012 – 2014 Cycle	

Effective for financial periods beginning on or after 1 January 2017

MFRS 15	Revenue from Contracts with Customers

Effective for financial periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments (IFRS 9 as issued by International Accounting Standards Board ("IASB") in July 2014)

Where applicable, the Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material effect to the financial statements of the Group upon their initial application.

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 year ended 31 December 2014.

4. NATURE AND AMOUNT OF CHANGES IN ESTIMATES

There were no major changes in estimates that have had any material effect on the quarter and year ended 31 December 2014 results.

5. DEBT AND EQUITY SECURITIES

During the quarter under review, there were no issuances, cancellations, repurchase, resale or repayments of debt and equity securities. As at 31 December 2014, out of the total 522,708,178 issued and fully paid ordinary shares, 22,107,300 shares were held as treasury shares at an average purchase price of RM3.23 per share. The share buyback transactions were financed by internally generated funds.

6. DIVIDENDS PAID

During the financial year ended 31 December 2014, the Company has paid an interim single-tier dividend of 2 sen per share in respect of the financial year ended 31 December 2014 amounting to RM10,012,418 on 30 June 2014 (31 December 2013: Nil).

7. SEGMENTAL INFORMATION

The segment revenue, segment results and segment assets for the year ended 31 December 2014 were as follows:-

	Manufacturing RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
REVENUE					
External sales	1,604,440	686,146	1,360		
Inter-company transactions	686,986	281,496	43,726	(1,012,208)	
Total sales	2,291,426	967,642	45,086	(1,012,208)	2,291,946
RESULTS					
Segment results	35,900	31,580	22,907	(11,503)	78,884
Finance cost					(56,318)
Interest income					2,425
Investing results					(20)
Taxation					(1,636)
Profit for the period					23,335
ASSETS	2,452,513	587,256	1,048,905	(1,372,759)	2,715,915
LIABILITIES	1,654,448	422,567	34,874	(459,413)	1,652,476

8. PROFIT BEFORE TAX

	3 months ended 31.12.2014 RM'000	12 months ended 31.12.2014 RM'000
Profit before tax is arrived at after charging:		
Allowance for impairment losses of receivables	2,846	6,454
Amortisation of prepaid lease payments	171	319
Depreciation of investment properties	12	47
Depreciation of property, plant and equipment	12,750	47,777
Interest expenses	14,782	56,318
Property, plant and equipment written off	469	469
(Reversal of)/ Inventories written down to net realisable value	(4,409)	8,918
Inventory written down	6,917	6,917
Allowance for diminution in value of raw material	3,369	5,541
Inventory written-off	851	7,275
and after crediting:		
Bad debts recovered	1	2
Bargain purchase gain on acquisition of subsidiary	-	35
Foreign exchange gain/(loss):		
- realised	479	10,182
- unrealised	(8,202)	(7,335)
Gain on disposal of property, plant and equipment	247	2,873

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

On 30 December 2013, a wholly-owned subsidiary of the Company, Ann Joo Metal Sdn. Bhd. ("AJM"), had entered into a Shares Sale Agreement ("SSA") with Cheong Soh Fan and Lee Chow Chin ("the Vendors") for the acquisition of the entire shareholdings in Deluxe Steel Service Centre Sdn. Bhd. ("DSSC") comprising 200,000 ordinary shares of RM1.00 each for a total cash consideration of RM2.00. The agreement was completed on 11 September 2014 and DSSC became a wholly-owned subsidiary of AJM accordingly.

Save as disclosed above, there were no significant changes in the composition of the Group during the financial period under review.

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 31 December 2014 were as follows:-

Commitments in respect of capital expenditure :

		RM'000
(a)	contracted but not provided for	12,638
(b)	approved but not contracted for	10,925

13. REVIEW OF PERFORMANCE

During the quarter under review, the Group recorded revenue of RM491.09 million, a decrease of RM162 million or 25% as compared to the revenue of RM653.09 million for the corresponding quarter of the preceding year. This was mainly due to lower sales tonnage and depressed selling prices of various steel products caused by surging imports. For the financial year ended 31 December 2014, the Group's revenue of RM2.29 billion, increased by RM136.57 million or 6% as compared to the revenue of RM2.16 billion for the preceding year. This was mainly attributable to higher tonnage sold notwithstanding depressed selling prices affected by the accelerated dumping activities by China's steel mills.

The Group posted a loss before tax ("LBT") of RM9.38 million for the current quarter as compared to a profit before tax ("PBT") of RM15.26 million for the corresponding quarter of the preceding year. The current quarter loss was mainly attributable to lower selling prices amidst the dumped imports undercutting the prices and the recognition of foreign exchange loss of RM7.72 million as a result of weakening in MYR against USD. Nevertheless, the Group recorded a PBT of RM24.97 million on a year-on-year basis as compared to PBT of RM4.48 million in the preceding year. Higher profitability was mainly attributable to improved operation profit arising from lower material cost and productivity improvement despite depressed selling price undercut by the dumped imports from China.

Manufacturing revenue decreased by RM145.52 million to RM320.33 million for the current quarter compared to RM465.85 million for the corresponding quarter of the preceding year. Lower revenue was mainly attributable to lower sales tonnage and depressed selling prices which have been severely affected by the influx of dumped import. On a year-on-year basis, the segment revenue increased by RM182.66 million to RM1.60 billion. The higher revenue was mainly attributable to higher sales tonnage especially the billets sales in the first half of the year while the higher sales tonnage for steel bars was supported by resilient local demand. The division recorded marginal loss of RM1.14 million for the current quarter against segment profit of RM20.16 million for the corresponding quarter of the preceding year. The current quarter loss mainly resulted from 1) lower selling prices suppressed by huge influx of the imported materials, 2) additional allowances for diminution in value of raw materials and inventories written down to net realisation value, 3) one-off payroll arrears of RM5.53 million upon the finalisation of collective agreement and 4) foreign exchange loss of RM6.27 million. On a year-on-year basis, the division recorded a segment profit of RM35.9 million as compared to segment profit of RM31.88 million for the preceding year. The higher profitability was mainly due to improved operation profit arising from lower material cost and productivity improvement despite depressed selling price affected by the rampant dumping by China's steel mills.

Trading revenue decreased by RM16.48 million to RM170.42 million for the current quarter compared to RM186.90 million for the corresponding quarter of the preceding year. On a year-on-year basis, the segment revenue decreased by RM46.66 million to RM686.15 million as compared to RM732.81 million in the preceding year. Lower revenue was due to depressed steel prices despite higher tonnage sold. The division recorded a segment profit of RM3.34 million for the current quarter against segment profit of RM8.07 million for the correspondence quarter of the preceding year. Lower profitability was due to lower selling price coupled with foreign exchange loss of RM1.52 million as a result of weakening in MYR against USD. Nevertheless, the division recorded a segment profit of RM31.58 million for the year as compared to segment profit of RM17.80 million in the preceding year. The improvement in the divisional profitability was mainly attributable to higher sales tonnage for market share expansion domestically and regionally despite depressed steel prices influenced by the dumped imports from China.

14. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

The Group posted revenue of RM491.09 million in the current quarter, RM17.37 million lower than the revenue of RM508.46 million for the preceding quarter. Lower revenue was mainly due to lower sales tonnage and depressed selling prices of various steel products. The Group registered a LBT of RM9.38 million for the current quarter as compared to a PBT of RM16.57 million for the preceding quarter. Loss for the current quarter was mainly attributable to 1) margin squeeze as a result of the exacerbated dumping activities by China's mills, 2) additional allowances for diminution in value of raw materials and inventories written down to net realisation value, 3) one-off payroll arrears of RM5.53 million upon the finalisation of collective agreement and 4) foreign exchange loss of RM7.72 million as a result of weakening in MYR against USD.

15. PROSPECT

Global steel prices are expected to remain sluggish in 2015 given the steel overcapacity that still plagues the world. The effectiveness of the cancellation of VAT rebate for boron-added alloy steel and the enforcement of the new version of environmental law has yet to be seen. China's mills have started to replace boron with other alloys, especially chromium, to continue to circumvent the export duty and enjoy VAT rebate. We expect that huge chromium-added materials from China will be flooding Malaysian market by March 2015 onwards.

Despite that domestic demand for construction steel is expected to remain resilient in 2015, the negative findings by MITI on trade actions against China for imported steel products announced recently are expected to put downward pressure on domestic selling prices due to the continuous uncontrollable dumping from China.

The Group will continue to strive for productivity improvement and uphold our position as the cost leader leveraging on the synergies of vertical integration of iron and steel production. The Group, together with other steel industry players, will continue to engage MITI in formulating effective measures to prevent circumvention of tax regime to gain artificial advantages by the China's exporters. Until and unless effective measures are put in place, the outlook of 2015 will remain very gloomy for the Malaysian steel industry.

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 2014.

17. TAXATION

The tax expenses comprise of:-

	3 months ended 31.12.2014 RM'000	12 months ended 31.12.2014 RM'000
Income tax		
Current period	1,827	8,217
Underprovision in prior year	(8)	171
	1,819	8,388
Deferred tax		
Current period	(3,541)	(6,374)
Overprovision in prior year	(74)	(378)
	(3,615)	(6,752)
	(1,796)	1,636

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

18. STATUS OF CORPORATE PROPOSALS

Save as disclosed in Note 10 under changes in the composition of the group, there were no corporate proposals announced but not completed as at the date of this report.

19. GROUP BORROWINGS AND DEBT SECURITIES

The Group's borrowings as at 31 December 2014 were as follows:-

	RM'000
Short term borrowings :	
Secured	84,480
Unsecured	1,099,059
	1,183,539
Long term borrowing :	
Secured	220,000
Total borrowings	1,403,539

The Group's borrowings are denominated in Ringgit Malaysia, except for approximately RM191.62 million (USD54.77 million) of the above borrowings which are denominated in US Dollar.

20. MATERIAL LITIGATION

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

21. DIVIDEND

On 26 February 2015, the Board of Directors recommended a Final Single Tier Dividend of 1 sen per share in respect of the financial year ended 31 December 2014 for the shareholders' approval in the forthcoming AGM. The entitlement date and payment date for the proposed final dividend will be determined and announced at a later date.

22. 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 year ended 31 December 2014 as set out below:

		3 months ended 31.12.2014	**12 months ended 31.12.2014**
Total (loss)/profit attributable to owners of the parent	(RM'000)	(7,583)	23,335
Weighted average number of ordinary shares in issue or issuable	('000)	500,601	500,619
Basic (loss)/earnings per share	(sen)	(1.51)	4.66

23. REALISED AND UNREALISED EARNINGS OR LOSSES DISCLOSURE

The retained earnings as at 31 December 2014 were analysed as follows:

	31.12.2014 RM'000	**31.12.2013 RM'000**
Total retained earnings of the Company and its subsidiaries:		
Realised	659,489	654,661
Unrealised	60,059	50,037
	719,548	704,698
Total share of retained earnings from an associated company		
Realised	8	28
	719,556	704,726
Less: Consolidation adjustments	(190,028)	(188,962)
Total group retained earnings	529,528	515,764

24. STATUS OF AUDIT QUALIFICATION

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

25. 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 February 2015.

By Order of the Board
Leong Oi Wah (MAICSA 7023802)
Mabel Tio Mei Peng (MAICSA 7009237)
Company Secretaries
26 February 2015
Selangor Darul Ehsan