

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 DECEMBER 2012

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
	31/12/2012 RM'000	31/12/2011 RM'000 Restated	31/12/2012 RM'000	31/12/2011 RM'000 Restated
Revenue	692,543	928,842	1,396,656	1,662,846
Cost of sales	(662,020)	(902,001)	(1,319,413)	(1,573,072)
Gross profit	30,523	26,841	77,243	89,774
Operating expenses	(31,510)	(35,254)	(64,424)	(68,464)
Other operating income	1,192	11,142	5,186	7,426
Profit from operation	205	2,729	18,005	28,736
Finance costs	(6,776)	(9,049)	(14,567)	(17,395)
Share of (loss)/profit of associates	(3,466)	290	(4,868)	336
(Loss)/profit before taxation	(10,037)	(6,030)	(1,430)	11,677
Taxation	2,698	(75)	1,207	(4,195)
(Loss)/profit for the period	(7,339)	(6,105)	(223)	7,482
Attributable to:				
Owners of the company	(7,396)	(5,377)	(302)	8,683
Non-controlling interests	57	(728)	79	(1,201)
(Loss)/profit for the period	(7,339)	(6,105)	(223)	7,482
(Loss)/earnings per ordinary share (sen): -				
- Basic and fully diluted	(1.8)	(1.3)	(0.1)	2.1

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2012.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2012

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
	31/12/2012 RM'000	31/12/2011 RM'000 Restated	31/12/2012 RM'000	31/12/2011 RM'000 Restated
(Loss)/profit for the period	(7,339)	(6,105)	(223)	7,482
Fair value gain/(loss) on available-for-sale financial assets	2,380	2,403	4,519	(6,002)
Foreign currency translation differences for foreign operations	(260)	2,414	(1,536)	2,093
Total comprehensive (expense)/income for the period	(5,219)	(1,288)	2,760	3,573
Total comprehensive (expense)/income attributable to:				
Owners of the Company	(5,276)	(561)	2,682	4,779
Non-controlling interests	57	(727)	78	(1,206)
Total comprehensive (expense)/income for the period	(5,219)	(1,288)	2,760	3,573

The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2012.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	As At End of Current Quarter 31/12/2012 RM'000	Restated As at End of Preceding Financial Year 30/06/2012 RM'000	As at beginning of preceding Financial Year 01/07/2011 RM'000
ASSETS			
Property, plant and equipment	845,445	804,725	695,096
Goodwill on consolidation	30,256	48,991	48,991
Investment in associates	86,606	17,847	17,768
Other investments	34,642	31,510	2,771
Deferred tax assets	10,191	13,909	10,331
Tax credit receivables	17,022	18,044	22,136
Total non-current assets	1,024,162	935,026	797,093
Inventories	590,779	700,842	1,040,568
Trade and other receivables	202,815	228,534	252,348
Current tax assets	11,701	11,031	14,169
Derivative financial assets	-	-	199
Deposits, cash and bank balances	40,109	66,490	199,401
Total current assets	845,404	1,006,897	1,506,685
TOTAL ASSETS	1,869,566	1,941,923	2,303,778
EQUITY			
Share capital	411,467	411,467	411,467
Reserves	436,514	442,220	484,754
Total equity attributable to owners of the Company	847,981	853,687	896,221
Non-controlling interests	(1,449)	(1,527)	-
TOTAL EQUITY	846,532	852,160	896,221
LIABILITIES			
Borrowing	102,110	24,619	-
Retirement benefits	23,810	29,543	28,174
Deferred tax liabilities	23,986	19,790	29,026
Deferred income	19,848	20,611	22,136
Total non-current liabilities	169,754	94,563	79,336
Retirement benefits	700	725	772
Trade and other payables	189,503	266,547	294,574
Borrowings	663,021	727,850	1,032,870
Current tax liabilities	-	-	5
Derivative financial liabilities	56	78	-
Total current liabilities	853,280	995,200	1,328,221
TOTAL LIABILITIES	1,023,034	1,089,763	1,407,557
TOTAL EQUITY AND LIABILITIES	1,869,566	1,941,923	2,303,778
Net assets per share attributable to owners of the Company (RM)	2.02	2.03	2.14

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2012.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2012
(CONTINUED)**

	Attributable to owners of the Company						Total equity
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Fair value reserve	Exchange fluctuation reserve	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	411,467	35,852	30,000	50	3,221	-	884,275
At 1 July 2011, as previously reported	411,467	35,852	30,000	50	3,221	-	884,275
Effect of adoption of MFRS 1	-	-	-	-	-	-	11,946
At 1 July 2011, as restated	411,467	35,852	30,000	50	3,221	-	896,221
Preceding year corresponding period ended 31 December 2011							
Other comprehensive (expense)/income							
- fair value loss on available-for-sale financial assets	-	-	-	-	(5,997)	-	(5,997)
- foreign currency translation differences for foreign operations	-	-	-	-	-	2,093	2,093
Profit/(loss) for the period	-	-	-	-	-	8,683	8,683
Total comprehensive (expense)/income for the period	-	-	-	-	(5,997)	2,093	4,779
Dividends	-	-	-	-	-	(20,971)	(20,971)
At 31 December 2011, as restated	411,467	35,852	30,000	50	(2,776)	2,093	403,343
At 31 December 2012	411,467	35,852	30,000	50	3,221	8,683	896,221
At 31 December 2011, as restated	411,467	35,852	30,000	50	(2,776)	2,093	403,343
At 31 December 2012	411,467	35,852	30,000	50	3,221	8,683	896,221

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2012.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2012

	Current Year To-date	Restated Preceding Year Corresponding Period
	31/12/2012 RM'000	31/12/2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before taxation	(1,430)	11,677
Adjustments for:-		
Depreciation and amortisation	38,041	41,980
Net financing cost	14,345	17,007
Share of loss/(profit) of associate	4,868	(336)
Other non-cash items	(869)	7,457
Operating profit before changes in working capital	54,955	77,785
Changes in working capital		
Net change in current assets	79,024	34,060
Net change in current liabilities	(75,181)	(120,545)
Retirement benefits paid	(839)	(985)
Interest paid	(13,037)	(9,359)
Taxation paid	(2,432)	(16,342)
Net cash generated from/(used in) operating activities	42,490	(35,386)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	-	(33,895)
Acquisition of property, plant and equipment	(124,671)	(21,212)
Proceeds from disposal of property, plant and equipment	25	157
Investment in associates	(361)	-
Net cash inflow from disposal of subsidiaries	9,411	-
Interest received	142	296
Dividend received	7	367
Net cash used in investing activities	(115,447)	(54,287)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net drawdown of borrowings	56,077	41,538
Dividends paid	(8,388)	(20,971)
Net cash generated from financing activities	47,689	20,567
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,268)	(69,106)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	57,901	190,970
EFFECT ON FOREIGN EXCHANGE	(150)	(346)
CASH & CASH EQUIVALENTS AT END OF PERIOD	32,483	121,518

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2012 (CONTINUED)

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following statements of financial position amounts:

	31/12/2012 RM'000	31/12/2011 RM'000
Deposits, cash and bank balances	40,109	131,141
Bank overdraft	(7,626)	(9,623)
	<u>32,483</u>	<u>121,518</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2012.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

The figures have not been audited

1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134 “Interim Financial Reporting” and the applicable disclosure provisions of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial year ended 30 June 2012, which were prepared under the Financial Reporting Standards.

The accounting policies and presentation adopted for this interim report are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2012 except for the changes in accounting policies and presentation resulting from the following transitional exemption arising from the adoption of MFRS :

(a) Property, plant and equipment

The Group measured its property, plant and equipment (“PPE”) at cost, less any accumulated depreciation and any accumulated impairment losses. However, one of the subsidiaries measured its property at valuation, which basis valuation is adjusted at Group level to cost basis in line with the Group policy. Upon transition to MFRS, the Group has elected to apply the optional exemption for this subsidiary so that the entire Group has the uniform accounting policy of stating the PPE at cost. At the date of transition to MFRS, PPE stated at revalued amount in the aforesaid subsidiary was regarded as deemed cost and the relevant revaluation surplus was recognised to the retained earnings.

(b) Income tax

Previously, unutilised reinvestment allowance (“RA”) was not recognised as deferred tax assets (“DTA”). Upon transition to MFRS, the Group regarded the RA as analogous to a government grant, and hence the accounting treatment of IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” is being adopted. As at the date of transition, the unutilised RA was recognised as a tax credit receivables and deferred income accordingly.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

The figures have not been audited

1. Basis of preparation (Continued)

The reconciliation of financial statements for comparative periods and of financial statements at the date of transition under MFRS are provided below:

Condensed Consolidated Statements of Comprehensive Income

Reconciliation for the quarter ended 31 December 2011

	As previously reported for the quarter ended 31/12/2011 RM'000	Effect of adoption of MFRS		As restated for the quarter ended 31/12/2011 RM'000
		RM'000 Note 1(a)	RM'000 Note 1(b)	
Other operating expense	10,761	-	381	11,142
Loss before tax	(6,411)	-	381	(6,030)
Tax expenses	158	-	(233)	(75)
Loss after tax	(6,253)	-	148	(6,105)

Reconciliation for the six months ended 31 December 2011

	As previously reported for the year ended 31/12/2011 RM'000	Effect of adoption of MFRS		As restated for the year ended 31/12/2011 RM'000
		RM'000 Note 1(a)	RM'000 Note 1(b)	
Other operating income	6,664	-	762	7,426
Profit before tax	10,915	-	762	11,677
Tax expenses	(1,591)	-	(2,604)	(4,195)
Profit after tax	9,324	-	(1,842)	7,482

Condensed Consolidated Statements of Changes in Equity

Reconciliation of the affected financial caption reported as at 31 December 2011

	As previously reported at 31/12/2011 RM'000	Effect of adoption of MFRS		As restated At 31/12/2011 RM'000
		RM'000 Note 1(a)	RM'000 Note 1(b)	
Retained earnings	403,685	11,946	(1,842)	403,343

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012

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2. Qualification of audit report of the preceding annual financial statements

The audit report for the preceding annual financial statements was not qualified.

3. Seasonality or cyclicity of interim operations

The business operations of the Group are affected by both cyclical factors in the construction industry as well as festive seasons.

4. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence during the quarter under review and financial year-to-date.

5. Changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years

There were no changes in estimates of amounts reported in the prior financial years.

6. Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities during the quarter under review and financial year-to-date.

7. Dividend paid

During the financial year-to-date, the Company paid an interim dividend of 2.0 sen per share tax exempt amounting to RM8.4 million on 18 December 2012.

8. Operating Segments

The Group's segmental report for the financial year-to-date is as follows: -

	Steel products RM'000	Investment holding and others RM'000	Total RM'000
Segment profit	2,761	677	3,438

Included in the measure of segment profit are:

External revenue	1,395,754	902	1,396,656
Depreciation and amortisation	(38,029)	(12)	(38,041)
Finance cost	(14,567)	-	(14,567)

Reconciliation of segment profit to consolidated profit/(loss)

	RM'000
Reportable segments	3,438
Share of loss of associates	(4,868)
Consolidated loss before taxation	(1,430)

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9. Material events not reflected in the financial statements

There are no material subsequent events to be disclosed as at the date of this report.

10. Changes in the composition of the Group

There were no changes in the composition of the Group during the quarter under review, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

11. Review of performance

For the quarter under review, the Group had revenue of RM692.5 million and loss before taxation (“LBT”) of RM10.0 million respectively, compared with revenue of RM928.8 million and LBT of RM6.0 million in the corresponding quarter of the preceding financial year ended 30 June 2012. The decrease in revenue for the quarter under review was mainly due to lower selling price and sales volume. Higher loss before taxation was mainly due to lower other income and higher share of loss from associates.

For the period under review, the Group had revenue of RM1,396.7 million and LBT of RM1.4 million respectively compared with revenue of RM1,662.8 million and profit before taxation of RM11.7 million in the corresponding period of the preceding financial year ended 30 June 2012. The lower revenue and LBT were mainly due to the decrease in sales volume and lower margin.

12. Material changes in profit before taxation against the immediate preceding quarter

The Group’s revenue and LBT for the quarter under review were RM692.5 million and RM10.0 million respectively as compared with the preceding quarter’s revenue and profit before taxation of RM704.1 million and RM8.6 million respectively. The lower revenue was mainly due to lower selling price and lower margin which had resulted in loss for the quarter under review.

13. Prospects

Market sentiment and demand remain uncertain despite abatement in the Euro and debt crisis and resolution of the U.S fiscal cliff but not its debt ceiling. Nonetheless, China trade data has shown improvements, and iron ore prices have moved up significantly to initiate some firming of steel prices. In the local market, the final determination of the Malaysian government’s anti-dumping investigation against five countries is expected before the end of February. As such, the Board believes that the performance of the Group may see improvements towards the end of the financial year.

14. Profit forecast/profit guarantee

This note is not applicable.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2012
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15. Profit before taxation

	Current Year Quarter 31/12/2012 RM'000	Current Year To-date 31/12/2012 RM'000
Profit before taxation is arrived at after charging/(crediting) :-		
Finance income	(107)	(222)
Gross dividend income from other investments	-	(7)
Depreciation and amortization	18,814	38,041
(Reversal of)/allowance for impairment loss on trade receivables	(568)	492
Reversal of allowance for inventories obsolescence	(6,058)	(4,750)
Gain on disposal of subsidiaries	-	(4,781)
Loss on foreign exchange	384	1,995
Fair value loss/(gain) on derivative instruments	43	(37)
Impairment of property, plant and equipment	-	-

16. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31/12/2012 RM'000	Preceding Year Corresponding Quarter 31/12/2011 RM'000 Restated	Current Year To-date 31/12/2012 RM'000	Preceding Year Corresponding Period 31/12/2011 RM'000 Restated
Current taxation (Malaysian):				
- Current year	441	22	(2,956)	(2,268)
Deferred taxation:				
- Current year	2,257	(97)	4,163	(1,927)
	<u>2,698</u>	<u>(75)</u>	<u>1,207</u>	<u>(4,195)</u>

The Group's effective tax rate for the quarter under review was higher than statutory tax rate mainly due to certain expenses which are not tax deductible.

17. Corporate proposal

There are no corporate proposal announced but not completed as at the date of this report.

18. Group's borrowings and debt securities

Particulars of the Group's borrowings and debt securities as at 31 December 2012 are as follows: -

	RM'000
Unsecured long term borrowings	102,110
Unsecured short term borrowings	<u>663,021</u>
	<u>765,131</u>

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19. Changes in material litigation

There are no material litigations as at the date of this report.

20. Dividend

- (a) The Board does not recommend any interim dividend for the quarter ended 31 December 2012 of the financial year ending 30 June 2013 (2nd quarter 2011/2012: Nil).
- (b) For the financial year-to-date, a total dividend of 2.0 sen per share tax exempt (2011/2012: 5.0 sen per share tax exempt) has been declared and paid.

21. (Loss)/earnings per ordinary share

(a) Basic (loss)/earnings per ordinary share

The calculation of basic loss per ordinary share for the quarter under review is calculated by dividing the Group's loss attributable to owners of the Company of RM7,396,000 (2nd quarter 2011/2012 : RM5,377,000) and the weighted average number of ordinary shares during the quarter of 419,417,208 (2nd quarter 2011/2012 : 419,417,208).

The calculation of basic loss per ordinary share for the financial year-to-date is calculated by dividing the Group's loss attributable to owners of the Company of RM302,000 (financial year-to-date ended 31 December 2012 : profit attributable to owners of the Company of RM8,683,000) and the weighted average number of ordinary shares during the period of 419,417,208 (2011/2012 : 419,417,208).

(b) Diluted loss/(earnings) per ordinary share

The Group has no dilution in its earnings per ordinary share in the quarter under review/financial year-to-date as there are no dilutive potential ordinary shares.

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22. Realised and unrealised profits/(losses) disclosure

The retained earnings as at 31 December 2012 and 30 June 2012 are analysed as follows:-

	As At End of Current Quarter 31/12/2012 RM'000	Restated As At End of Preceding Financial Year 30/06/2012 RM'000
Total retained earnings of the Company and the subsidiaries:-		
-Realised	418,773	510,530
-Unrealised	(8,310)	(5,600)
	410,463	504,930
 Total share of retained earnings of associates:-		
- Realised	7,513	12,195
- Unrealised	152	152
	7,665	12,347
	418,128	517,277
 Less: Consolidation adjustments	(46,949)	(137,408)
 Total Group's retained earnings	371,179	379,869

By Order of the Board
Southern Steel Berhad

Ting Kok Keong
Company Secretary

Penang
30 January 2013