

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30TH JUNE 2012**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD TO DATE
	30/06/12	30/06/11	30/06/12	30/06/11
	RM'000	RM'000	RM'000	RM'000
Revenue	344,127	337,988	684,047	616,400
Operating expenses	(321,926)	(317,456)	(664,491)	(586,257)
Other expenses	-	(1,071)	-	(1,071)
Other income	944	-	2,239	817
Interest income	31	21	63	50
Finance cost	(4,275)	(4,089)	(7,827)	(7,769)
Share of results of associated company	(18)	-	(29)	(3)
Profit before tax	18,883	15,393	14,002	22,167
Taxation	108	86	108	(497)
Profit for the period	18,991	15,479	14,110	21,670
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	18,991	15,479	14,110	21,670
Profit and Total Comprehensive Income attributable to: Equity holders of the Company	18,991	15,479	14,110	21,670
Profit for the period	18,991	15,479	14,110	21,670
Earnings per share (sen)				
- Basic	9.02	7.35	6.70	10.29
- Diluted	7.58	5.97	5.63	8.36

The Unaudited Condensed Statement of Comprehensive Income should be read in conjunction with the Annual Financial Statement for the year ended 31st December 2011 and accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2012**

	30/06/12 RM'000	31/12/11 RM'000 (restated)	01/01/11 RM'000 (restated)
ASSETS			
<u>Non-Current Assets</u>			
Property, Plant & Equipment	459,545	470,273	436,195
Investment in Associate company	8,029	8,058	8,066
Other investment	-	-	4,000
	<u>467,574</u>	<u>478,331</u>	<u>448,261</u>
<u>Current Assets</u>			
Stocks	168,437	160,769	147,838
Debtors	223,426	203,027	179,799
Taxation recoverables	4,322	2,884	1,864
Short term deposit	13,500	16,000	4,243
Cash & bank balances	26,207	27,689	44,166
	<u>435,892</u>	<u>410,369</u>	<u>377,910</u>
TOTAL ASSETS	<u><u>903,466</u></u>	<u><u>888,700</u></u>	<u><u>826,171</u></u>
EQUITY AND LIABILITIES			
<u>Equity attributable to equity holders</u>			
Share capital	105,393	105,393	105,393
Share premium	31,198	31,198	31,198
Treasury shares	(233)	(233)	(30)
Warrants reserves	40,044	40,044	40,044
Retained profits	335,461	323,457	301,949
Total Equity	<u>511,863</u>	<u>499,859</u>	<u>478,554</u>
<u>Non-Current Liabilities</u>			
Long term borrowings	42,617	54,312	86,488
	<u>42,617</u>	<u>54,312</u>	<u>86,488</u>
<u>Current Liabilities</u>			
Creditors	110,394	98,087	89,360
Dividend payable	2,106	-	-
Taxation liabilities	-	-	247
Short term borrowings	236,486	236,442	171,522
	<u>348,986</u>	<u>334,529</u>	<u>261,129</u>
Total liabilities	<u>391,603</u>	<u>388,841</u>	<u>347,617</u>
TOTAL EQUITY AND LIABILITIES	<u><u>903,466</u></u>	<u><u>888,700</u></u>	<u><u>826,171</u></u>
Net Assets per share (RM)	2.43	2.37	2.27

The Unaudited Condensed Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2011 and accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE FINANCIAL PERIOD ENDED 30TH JUNE 2012**

	Current year 01/01/12 to 30/06/12 RM'000	Preceding Year 01/01/11 to 30/06/11 RM'000
Profit before tax	14,002	22,167
Adjustment for:		
Depreciation of property, plant and equipment	11,388	10,040
Interest expense	7,661	7,770
Gain on disposal of property, plant and equipment	(109)	-
Others	(2,754)	3
Operating profit before changes in working capital	30,188	39,980
Changes in working capital		
Net change in inventories	(7,668)	(35,461)
Net change in receivables	(17,616)	(327)
Net change in payables	12,307	(8,078)
Cash generated/(used) from operations	17,211	(3,886)
Interest paid	(7,351)	(7,380)
Income tax paid	(1,330)	(790)
Net cash inflow/(outflow) in operating activities	8,530	(12,056)
Investing activities		
Purchase of property, plant and equipment	(686)	(6,219)
Others	135	-
Net cash outflow in investing activities	(551)	(6,219)
Financing activities		
Bank borrowings	(10,928)	28,086
Share buyback	-	(174)
Finance lease interest paid	(310)	(390)
Net cash (outflow)/inflow from financing activities	(11,238)	27,522
Net (decrease)/increase in cash and cash equivalents	(3,259)	9,247
Cash and cash equivalents at beginning of the year	31,566	36,031
Cash and cash equivalents at end of the financial period	1 28,307	45,278
1 Cash and cash equivalents at end of the financial period comprise :		
Short term deposit	13,500	6,000
Cash and bank balances	26,207	44,898
Bank overdraft	(11,400)	(5,620)
	28,307	45,278

The Unaudited Condensed Statement of Cash Flow should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2011 and accompanying explanatory notes attached to the interim financial statements.

**THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30TH JUNE 2012**

	Attributable to equity holders of the Company						Total RM'000
	← Non-distributable →			Distributable			
	Share Capital RM'000	Share Premium RM'000	Warrant Reserves RM'000	Revaluation Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	
6 months ended 30th June 2012							
At 1st January 2012, as previously stated	105,393	31,198	40,044	31,030	292,427	(233)	499,859
Effect of transition to MFRS	-	-	-	(31,030)	31,030	-	-
At 1st January 2012, restate	105,393	31,198	40,044	-	323,457	(233)	499,859
Dividend declared in respect of financial year ended 31st December 2011	-	-	-	-	(2,106)	-	(2,106)
Total comprehensive income	-	-	-	-	14,110	-	14,110
At 30th June 2012	<u>105,393</u>	<u>31,198</u>	<u>40,044</u>	<u>-</u>	<u>335,461</u>	<u>(233)</u>	<u>511,863</u>
6 months ended 30th June 2011							
At 1st January 2011, as previously stated	105,393	31,198	40,044	31,030	270,919	(30)	478,554
Effect of transition to MFRS	-	-	-	(31,030)	31,030	-	-
At 1st January 2012, restate	105,393	31,198	40,044	-	301,949	(30)	478,554
Dividend declared in respect of financial year ended 31st December 2010	-	-	-	-	(2,843)	-	(2,843)
Total comprehensive income	-	-	-	-	21,670	-	21,670
Treasury shares	-	-	-	-	-	(174)	(174)
At 30th June 2011	<u>105,393</u>	<u>31,198</u>	<u>40,044</u>	<u>-</u>	<u>320,776</u>	<u>(204)</u>	<u>497,207</u>

The Unaudited Condensed Statement of Changes in Equity should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2011 and accompanying explanatory notes attached to the interim financial statements.

MALAYSIA STEEL WORKS (KL) BHD
(Company No. 7878-V)

EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORTING FOR THE QUARTER ENDED 30TH JUNE 2012

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance MFRS 134: Interim Financial Reporting issued by Malaysian Accounting Standards Board (“MASB”), International Accounting Standard (“IAS”) 134: Interim Financial Reporting issued by International Accounting Standard Board (“IASB”) and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31st December 2011, which were prepared under Financial Reporting Standards (“FRSs”). 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 year ended 31st December 2011.

With effect from 1st January 2012, the Group has adopted the MFRS framework issued by MASB. The MFRS framework introduced by the MASB has fully converged Malaysia’s existing FRS framework with the International Financial Reporting Standards (“IFRS”) framework issued by the IASB. The FRSs issued under the previous FRS framework were equivalent to the MFRSs issued under the MFRS framework, except there are some differences in relation to the transitional provisions and effective dates contained in certain of the FRSs. The financial effects of the convergence to the MFRS framework and any consequential changes in accounting policies as a result of the convergence are discussed in Note A2.

A2. Accounting Policies and Methods of Computation

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the audited financial statements for the year ended 31st December 2011, except as described below:

Property, plant and equipment

The Group has previously adopted the transitional provisions available on the first application of the MASB Approved Accounting Standard IAS (Revised) Property, Plant and Equipment which was effective for the periods ending on or after 1st September 1998. By virtue of this transitional provision, the Group has recorded the freehold and leasehold land at revalued amounts and had not adopted a policy of revaluation and continued to carry on the basis of their previous revaluations subject to continuity in its depreciation policy and requirement to write down the assets to their recoverable amounts for impairment adjustments.

Upon transition to MFRSs, the Group elected to apply the optional exemption to use that previous revaluation as deemed cost under MFRSs. The revaluation reserves of RM31,030,160 at 1st January 2011, 31st March 2011 and 31st December 2011 was reclassified to retained profits.

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

Reconciliation of equity as at 1st January 2011

	FRS as at 01/01/11 RM'000	Reclassification RM'000	MFRS as at 01/01/11 RM'000
Revaluation reserves	31,030	(31,030)	-
Retained profits	270,919	31,030	301,949

Reconciliation of equity as at 30th June 2011

	FRS as at 30/06/11 RM'000	Reclassification RM'000	MFRS as at 30/06/11 RM'000
Revaluation reserves	31,030	(31,030)	-
Retained profits	289,746	31,030	320,776

Reconciliation of equity as at 31st December 2011

	FRS as at 31/12/11 RM'000	Reclassification RM'000	MFRS as at 31/12/11 RM'000
Revaluation reserves	31,030	(31,030)	-
Retained profits	292,427	31,030	323,457

MFRSs, Amendments to MFRSs and IC Interpretations issued but not yet effective

The following MFRSs, Amendments to MFRSs and IC Interpretations have been issued by the MASB but are not yet effective, and have yet to be adopted by the Group:

MFRSs, Amendments to MFRSs and IC Interpretation	Effective for annual periods beginning on or after
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2015

Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

A3. Qualification of Financial Statements

The financial statements for the financial year ended 31st December 2011 was not qualified.

A4. Seasonal or Cyclical factors

The operations of the Company are subject to both cyclical factors in the construction industry as well as festive seasons.

A5. Extraordinary items

There are no extraordinary items for the financial period under review.

A6. Changes in Estimates

There have been no changes in the estimates of amount for the period under review.

A7. Debts and Equity Securities

There were no issuances, cancellation, repurchases, resale and repayment of debts and equity securities for the current quarter under review.

As at 30th June 2012, a total of 202,000 shares were held as treasury shares out of its total issued share capital of 210,786,666 shares at an average price of RM1.16 per share. The share buyback transactions were financed by internally generated funds.

A8. Dividend

No dividend was paid by the Company in the current quarter under review and financial year to date.

A9. Segmental reporting

The Group is primarily organised in one business segment namely manufacturing of steel bars and billets. The business segment analysed by geographical location of customers are as follows:

	Current Quarter ended RM'000	Current Year to-date ended RM'000
Revenue		
- Malaysia	284,936	542,334
- Outside Malaysia	59,191	141,713
	344,127	684,047

A10. Valuation

The valuations of the property, plant and equipment has been brought forward, without amendment, from the previous audited financial statements for the year ended 31st December 2011.

A11. Material subsequent events

There are no material subsequent events between the end of the current quarter under review and the date of this report.

A12. Changes in the composition of the Group

There was no change in the composition of the Group during the current quarter under review.

A13. Changes in contingent liabilities

The following are pending litigation in respect of claims instituted against the Company:-

- (i) Claims of RM7.56 million for goods sold and delivered together with interest. The solicitors of the Company are of the opinion that such a claim would fail in court since there appears to be no agreements whatsoever, nor any prior demand or claim made by supplier regarding the interests and that so long as the supplier has accepted periodical payments by the Company unequivocally, they cannot now insist that interest are due to them. The supplier had filed their Statement of Claim to which the Company had filed a Statement of Defence and Counterclaim. The supplier had filed their Defence to the Counterclaim on 1st September 2006 and their Summary Judgment Application on 19th June 2007. The said application was fixed for mention on 26th August 2008 and on this date this matter had been further adjourned to 23rd September 2008 for hearing. This matter was fixed for mention before the Deputy Registrar on 21st January 2009 and on this date this matter had been further adjourned to 22nd April 2009 for hearing. On 22nd April 2009, the court had directed the parties to file their respective submissions in court and fixed this matter for Decision on 13th August 2009.

On 13th August 2009, the High Court had dismissed Plaintiff's Summary Judgment application with costs. This matter was proceeded with Trial on 20th and 21st October 2010. On 26th November 2010, the High Court gave judgment in favour of the Plaintiff for the amount of RM4,341,746.71 and on 18th February 2010, the Company filed and served the Record of Appeal at the Court of Appeal. The said appeal came up for Hearing on 28th March 2012 and the said appeal was allowed in part. The Judgement sum was reduced to approximately RM2,705,589 and this amount has been accrued in the financial statements.

A14. Capital commitments

	30/06/12 RM'000
Property, plant and equipment	
- Approved and contracted for	1,684
- Approved but not contracted for	87,885
	89,569
	89,569

PART B:- ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of performance

The Group reported a profit before tax of RM18.88 million on the revenue of RM344.13 million for the current quarter compared to a profit before tax of RM15.39 million on the revenue of RM337.99 million for the previous year corresponding quarter. The marginal increase in revenue is mainly attributed to higher selling price. The Company recorded a profit mainly due to lower cost of production as a result of improved plant efficiency in the current quarter.

B2. Comparisons with immediate preceding quarter's results

The Group's revenue for the current quarter recorded a marginal increase of RM4.21 million to RM344.13 million in the current quarter due to higher selling price. The Group recorded a profit before tax of RM18.88 million as compared to a loss before tax of RM4.88 million in the immediate preceding quarter mainly due to higher selling price and lower cost of production as a result of the improved plant efficiency in the current quarter.

B3. Prospects

With the general softening of most steel prices caused by the decline of construction activities due to the European summer holidays and Ramadan fasting months, demand for the company's products are expected to be affected marginally.

The commencement of the RM500 million off take agreement with TRAFIGURA, an international trading house, will facilitate to cushion the slack in demand during this period.

The capacity utilization of the Company's plant remains high and barring any unforeseen circumstances, the Company is expected to perform satisfactorily in the ensuing quarters for this financial year.

B4. Profit forecast

The disclosure requirements for explanatory notes are not applicable as no profit forecast was published.

B5. Profit before taxation

	Current Quarter Ended RM'000	Current Year To-date Ended RM'000
Profit before taxation is arrived at after charging/(crediting):		
Unrealised foreign exchange gain	(776)	(2,611)
Realised foreign exchange (gain)/loss	(58)	481
Interest income	31	63
Gain on disposal of property, plant and equipment	109	109
Depreciation of property, plant and equipment	5,685	11,388
Interest expense	4,204	7,661
Provision/(Reversal) of doubtful debts	119	(171)

B6. Taxation

i) Taxation comprises:

	Current Quarter Ended RM'000	Current Year To-date Ended RM'000
<u>Malaysian income tax</u>		
Current year's provision	(108)	(108)

ii) Reconciliation of income tax expenses

	Current Quarter Ended RM'000	Current Year To-date Ended RM'000
Profit before taxation	18,883	14,002
Taxation at tax rate of 25%	4,721	3,501
Expenses not subject to tax	(658)	(1,002)
Utilization of unutilized reinvestment allowance	(1,888)	(1,888)
Over provision in prior years	(813)	(813)
Current year tax loss recognised	(1,475)	-
Others	5	94
	(108)	(108)

B7. (a) Status of corporate proposals

i) *Head of Joint venture Agreement (“Proposed Joint-Venture”)*

On 19 January 2011, the Board announced that the Company has entered into Head of Joint Venture Agreement with KUB Malaysia Berhad (“KUB”), a company listed on the Main Market of Bursa Malaysia Securities Berhad wherein the Company and KUB have agreed to combine their capabilities and resources related to the objective stated herein and are desirous to co-operate and collaborate with each other in the joint-venture company, Metropolitan Commuter Network Sdn Bhd (“MCN”) to pursue the rail transit network project in the Iskandar Malaysia.

Presently, MCN is awaiting a meeting with Ministry of Transport to retable its revised proposal based on the input from the respective Ministries.

(b) Status of utilization of proceed raised

Not applicable

B8. Borrowings

30/06/12
RM'000

Secured:

Short term borrowings	236,486
Long term borrowings	42,617
Total borrowings	279,103

The above borrowings are denominated in the following currencies:

	USD'000	RM'000
Ringgit Malaysia	-	275,875
US Dollar	1,000	3,228
		279,103

B9. Material litigations

The material litigations pending during the current period under review are as per disclosed in the followings:-

- (i) Claims of RM7.56 million for goods sold and delivered together with interest. The solicitors of the Company are of the opinion that such a claim would fail in court since there appears to be no agreements whatsoever, nor any prior demand or claim made by supplier regarding the interests and that so long as the supplier has accepted periodical payments by the Company unequivocally, they cannot now insist that interest are due to them. The supplier had filed their Statement of Claim to which the Company had filed a Statement of Defence and Counterclaim. The supplier had filed their Defence to the Counterclaim on 1st September 2006 and their Summary Judgment Application on 19th June 2007. The said application was fixed for mention on 26th August 2008 and on this date this matter had been further adjourned to 23rd September 2008 for hearing. This matter was fixed for mention before the Deputy Registrar on 21st January 2009 and on this date this matter had been further adjourned to 22nd April 2009 for hearing. On 22nd April 2009, the court had directed the parties to file their respective submissions in court and fixed this matter for Decision on 13th August 2009.

On 13th August 2009, the High Court had dismissed Plaintiff's Summary Judgment application with costs. This matter was proceeded with Trial on 20th and 21st October 2010. On 26th November 2010, the High Court gave judgment in favour of the Plaintiff for the amount of RM4,341,746.71 and on 18th February 2010, the Company filed and served the Record of Appeal at the Court of Appeal. The said appeal came up for Hearing on 28th March 2012 and the said appeal was allowed in part. The Judgement sum was reduced to approximately RM2,705,589 and this amount has been accrued in the financial statements.

B10. Dividend

No dividend has been proposed or declared by the Company during the current quarter under review.

A first and final single tier dividend of 1.00 sen per share in respect of the financial year ended 31st December 2011 had been approved by the shareholders at its 40th Annual General Meeting held on 28th June 2012.

For the previous corresponding period in respect of the financial year ended 31st December 2010, a first and final single tier dividend of 1.35 sen per share was paid to shareholders on 26th July 2011.

B11. Earnings per share (“EPS”)

(a) *Basic earnings per share*

The basic earnings per share of the Company is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

	Current Quarter Ended	Current Year To-date Ended
Profit attributable to ordinary shareholders (RM'000)	<u>18,991</u>	<u>14,110</u>
Weighted average number of ordinary shares in issue ('000)	<u>210,585</u>	<u>210,585</u>
Basic Earnings Per Share (sen)	<u>9.02</u>	<u>6.70</u>

(b) *Diluted earnings per share*

For the purpose of calculating diluted earnings per share, the weighted average numbers of shares in issue have been adjusted for the dilutive effects of all potential conversion of any convertible securities issued during the period as set out below:

	Current Quarter Ended	Current Year To-date Ended
Profit attributable to ordinary shareholders (RM'000)	<u>18,991</u>	<u>14,110</u>
Weighted average number of ordinary shares in issue ('000)	210,585	210,585
Effects of dilution ('000)	40,005	40,005
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>250,590</u>	<u>250,590</u>
Diluted Earnings Per Share (sen)	<u>7.58</u>	<u>5.63</u>

B12. Realised and unrealised profits disclosure

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	As at 30/06/12 RM'000	As at 31/12/11 RM'000
Total retained profits of the Company and its subsidiary :		
- Realised	333,209	322,970
- Unrealised	2,611	817
	<u>335,820</u>	<u>323,787</u>
Total share of accumulated losses from Associate :		
- Realised	(359)	(330)
Total Group retained profits as per consolidated accounts	<u>335,461</u>	<u>323,457</u>

B13. Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors.

By order of the Board