QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2014

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
	31/12/2014 RM'000	31/12/2013 RM'000	31/12/2014 RM'000	31/12/2013 RM'000
Revenue	632,850	705,779	1,243,587	1,383,731
Cost of sales	(632,997)	(652,691)	(1,236,695)	(1,293,154)
Gross (loss)/profit	(147)	53,088	6,892	90,577
Operating expenses	(30,993)	(35,337)	(62,733)	(68,745)
Other operating (expenses)/income	(4,209)	(1,849)	6,120	1,635
(Loss)/Profit from operation	(35,349)	15,902	(49,721)	23,467
Finance costs	(9,567)	(6,908)	(18,869)	(14,175)
Share of loss in associated companies, net of tax	(23,554)	(4,532)	(28,610)	(9,068)
(Loss)/Profit before taxation	(68,470)	4,462	(97,200)	224
Taxation	9,602	(2,041)	16,917	(1,798)
(Loss)/Profit for the period	(58,868)	2,421	(80,283)	(1,574)
(Loss)/Profit attributable to:				
Owners of the Company	(59,098)	2,260	(80,762)	(1,912)
Non-controlling interests	230	161	479	338
(Loss)/Profit for the period	(58,868)	2,421	(80,283)	(1,574)
(Loss)/Earnings per ordinary share (sen): -				
(a) Basic	(14.1)	0.5	(19.3)	(0.5)
(b) Fully diluted	N/A	N/A	N/A	N/A

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2014.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2014 (CONTINUED)

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
	31/12/2014 RM'000	31/12/2013 RM'000	31/12/2014 RM'000	31/12/2013 RM'000
(Loss)/Profit for the period	(58,868)	2,421	(80,283)	(1,574)
Loss on fair value of available-for-sale financial assets	(175)	(180)	(160)	(292)
Foreign currency translation differences for foreign operation	822	345	1,108	2,093
Total comprehensive (expense)/income for the period	(58,221)	2,586	(79,335)	227
Total comprehensive (expense)/income attributable to:				
Owners of the Company	(58,451)	2,425	(79,814)	(111)
Non-controlling interests	230	161	479	338
Total comprehensive (expense)/income for the period	(58,221)	2,586	(79,335)	227

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2014.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	As At End of Current Quarter	As at End of Preceding Financial Year
	31/12/2014 RM'000	30/06/2014 RM'000
ASSETS		
Property, plant and equipment	1,347,264	1,309,298
Goodwill on consolidation	30,256	30,256
Investments in associated companies	36,931	65,545
Other investments	707	861
Deferred tax assets	32,925	16,542
Tax credit receivables	16,637	16,637
Total non-current assets	1,464,720	1,439,139
Inventories	663,685	699,649
Trade and other receivables	213,152	202,204
Current tax assets	6,311	3,738
Derivative financial assets	673	673
Cash and cash equivalents	63,230	59,622
Total current assets	947,051	965,886
TOTAL ASSETS	2,411,771	2,405,025
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	419,417	419,417
Reserves	365,609	445,423
	785,026	864,840
Non-controlling interests	6,903	6,424
TOTAL EQUITY	791,929	871,264
LIABILITIES		
Deferred tax liabilities	27,184	29,086
Deferred income	15,533	16,295
Retirement benefits	27,041	25,692
Other payables	86,311	105,919
Borrowings	464,931	438,378
Total non-current liabilities	621,000	615,370
Retirement benefits	275	275
Trade and other payables	273,015	339,528
Borrowings	725,192	577,331
Derivative financial liabilities	193	664
Current tax liabilities	167	593
Total current liabilities	998,842	918,391
TOTAL LIABILITIES	1,619,842	1,533,761
TOTAL EQUITY AND LIABILITIES	2,411,771	2,405,025
Net assets per share attributable to owners of the Company (RM)	1.87	2.06

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2014.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2014

	← Attributable to owners of the Company →									
		← Non-distributable →					Distributable			
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Fair value reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current year-to-date ended 31 December 2014										
At 1 July 2014	419,417	35,852	30,000	50	399	3,446	375,676	864,840	6,424	871,264
(Loss)/Profit for the period	-	-	-	-	-	-	(80,762)	(80,762)	479	(80,283)
Other comprehensive (expenses)/income:										
- Loss on fair value of available-for-sale financial assets	-	-	-	-	(160)	-	-	(160)	-	(160)
- Foreign currency translation differences	-	-	-	-	-	1,108	-	1,108	-	1,108
Total comprehensive (expenses)/income for the period	-	-	-	-	(160)	1,108	(80,762)	(79,814)	479	(79,335)
At 31 December 2014	419,417	35,852	30,000	50	239	4,554	294,914	785,026	6,903	791,929

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2014 (CONTINUED)

	Attributable to owners of the Company									
	Non-distributable						Distributable			
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Fair value reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Preceding year corresponding period ended 31 December 2013										
At 1 July 2013	419,417	35,852	30,000	50	832	1,708	373,500	861,359	5,502	866,861
(Loss)/Profit for the period	-	-	-	-	-	-	(1,912)	(1,912)	338	(1,574)
Other comprehensive (expense)/income:										
- Loss on fair value of available-for-sale financial assets	-	-	-	-	(292)	-	-	(292)	-	(292)
- Foreign currency translation differences	-	-	-	-	-	2,093	-	2,093	-	2,093
Total comprehensive (expense)/income for the period	-	-	-	-	(292)	2,093	(1,912)	(111)	338	227
Total transactions with owners of the Company										
- Dividends	-	-	-	-	-	-	(8,388)	(8,388)	-	(8,388)
At 31 December 2013	419,417	35,852	30,000	50	540	3,801	363,200	852,860	5,840	858,700

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 2014.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2014

	Current Year To-date	Preceding Year Corresponding Period
	31/12/2014 RM'000	31/12/2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation	(97,200)	224
Adjustments for:-		
Depreciation and amortisation	34,639	35,695
Net financing costs	19,449	13,878
Share of loss in associated companies, net of tax	28,610	9,068
Non-cash items	12,818	(2,828)
Operating (loss)/profit before changes in working capital	(1,684)	56,037
Changes in working capital		
Net change in current assets	8,580	101,469
Net change in current liabilities	(84,753)	(46,283)
Taxation (paid)/refunded	(4,366)	5,140
Net financing costs paid	(18,607)	(13,348)
Retirement benefits paid	(133)	(137)
Dividend income received	282	7
Net cash (used in)/generated from operating activities	(100,681)	102,885
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(71,422)	(123,470)
Proceeds from disposal of property, plant and equipment	35	-
Net cash used in investing activities	(71,387)	(123,470)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to owners of the Company	-	(8,388)
Drawdown of borrowings	174,858	7,860
Net cash generated from/(used in) financing activities	174,858	(528)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,790	(21,113)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	58,548	83,410
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON CASH HELD	1,108	2,093
CASH & CASH EQUIVALENTS AT END OF PERIOD	62,446	64,390

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2014 (CONTINUED)

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

	31/12/2014 RM'000	31/12/2013 RM'000
Deposits, cash and bank balances	63,230	70,819
Bank overdrafts	(784)	(6,429)
	62,446	64,390

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2014.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

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 ("Bursa Securities") and should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2014. This interim financial report also complies with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

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 2014.

The Group has adopted the MFRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2014 and 1 July 2014 where applicable to the Group. The initial adoption of these applicable MFRS, amendments and interpretations do not have any material impact on the financial statements of the Group.

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 cyclicality 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 issuance of shares, share buy-back, share cancellations, resale of treasury shares and repayments of debts or equity securities during the quarter under review and financial year-to-date.

Subsequent to the quarter under review, as disclosed in Note 17, the Company has received valid acceptances and excess applications for a total of RM185,741,250 nominal value of 5-year 5% redeemable convertible unsecured loan stocks ("RCULS") at 100% of its nominal value ("Rights RCULS"), representing 88.57% of the total nominal value of Rights RCULS as at the close of acceptance and payment/excess application and payment for the rights issue of RCULS at 5.00 p.m. on 19 January 2015 ("Closing Date"). The Rights RCULS were subsequently allotted and listed on the Main Market of Bursa Securities on 27 January 2015 and 30 January 2015 respectively.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

7. **Dividend paid**

There were no dividend paid during the quarter under review and financial year-to-date.

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 loss	(48,652)	(1,069)	(49,721)
Included in the measure of segment loss are:			
Revenue from external customers	1,243,587	-	1,243,587
Depreciation and amortisation	34,629	10	34,639

Reconciliation of reportable segment loss

	RM'000
Loss	
Reportable segment	(49,721)
Finance costs	(18,869)
Share of loss in associated companies, net of tax	(28,610)
Consolidated loss before taxation	(97,200)

9. **Material events not reflected in the financial statements**

Except for the Corporate Proposals as disclosed in Note 17, 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, restructurings and discontinuing operations.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

11. **Review of performance**

For the quarter under review, the Group recorded a revenue of RM632.9 million and loss before taxation ("LBT") of RM68.5 million as compared with a revenue and profit before taxation ("PBT") of RM705.8 million and RM4.5 million respectively for the corresponding quarter of the preceding year ended 30 June 2014 ("FY 2014").

For the financial year-to-date, the Group recorded a revenue of RM1,243.6 million and LBT of RM97.2 million as compared with a revenue and PBT of RM1,383.7 million and RM0.2 million respectively for the corresponding period of FY 2014.

The higher losses incurred for the quarter under review and the financial year-to-date as compared with the corresponding quarter/period of FY 2014 were mainly attributable to further erosion of margins from lower selling prices. The losses at associated companies included our share of impairment loss of RM14 million.

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

For the quarter under review, the Group recorded a LBT of RM68.5 million as compared with a LBT of RM28.7 million in the preceding quarter. The higher LBT was mainly due to further erosion of margins and our share of higher losses from an associated company.

13. **Prospects**

The excess steel production capacity which causes the over supply globally will continue to weigh on steel prices. However, with the lower trending scrap prices and other cost mitigation measures taken, the Board expects the Group's performance to improve in the coming quarters.

14. **Profit forecast/profit guarantee**

This note is not applicable.

15. **Loss before taxation**

	Current Year Quarter 31/12/2014 RM'000	Current Year To-date 31/12/2014 RM'000
Loss before taxation is arrived at after charging/(crediting):		
Interest income	(93)	(240)
Gross dividend income from other investments	-	(7)
Depreciation and amortisation	17,309	34,639
(Reversal of impairment loss)/Impairment loss on trade receivables	(607)	43
Inventories written down	6,325	14,975
Loss/(Gain) on foreign exchange	4,186	(4,320)
Fair value loss/(gain) on derivative instruments	90	(517)
Gain on disposal of quoted/unquoted investments or properties	-	-
Impairment of properties, plant and equipment	-	-

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

16. **Taxation**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
	31/12/2014 RM'000	31/12/2013 RM'000	31/12/2014 RM'000	31/12/2013 RM'000
Current taxation (Malaysian):				
- Current year	1,061	2,480	1,366	4,378
Deferred taxation:				
- Current year	(10,663)	(1,192)	(18,283)	(3,548)
Utilisation of tax credit receivable arising from unutilised reinvestment allowances				
- Current year	-	753	-	968
	(9,602)	2,041	(16,917)	1,798

The Group's effective tax rate (excluding associated companies) approximates to statutory tax rate of 25% for the financial year-to-date.

17. **Corporate proposals**

Saved as disclosed below, there are no corporate proposals announced but not completed as at the date of this report.

On 30 April 2014, Hong Leong Investment Bank Berhad ("HLIB") announced, on behalf of Southern Steel Berhad ("SSB" or the "Company"), that the Company proposed to undertake the following:

(i) the Rights RCULS on the basis of RM1.00 nominal value of Rights RCULS for every two (2) existing ordinary shares of RM1.00 each held in SSB ("SSB Shares") on an entitlement date to be determined by the Board ("Rights Issue of RCULS"); and

(ii) an increase in the authorised share capital of SSB from RM502,000,000 divided into 500,000,000 SSB Shares and 2,000,000 preference shares of RM1.00 each in SSB ("Preference Shares") to RM802,000,000 divided into 800,000,000 SSB Shares and 2,000,000 Preference Shares ("Increase in Authorised Share Capital")

(the Rights Issue of RCULS and the Increase in Authorised Share Capital are collectively referred to as the "Corporate Exercises").

The Corporate Exercises are conditional upon approvals being obtained from the following:

(i) The Securities Commission Malaysia ("SC") for the issuance of the Rights RCULS, of which was obtained via its letter dated 17 October 2014.

(ii) Bursa Securities for the following:

(a) admission of the Rights RCULS to the Official List of Bursa Securities; and
(b) listing of and quotation for the Rights RCULS to be issued pursuant to the Rights Issue of RCULS and the new SSB Shares to be issued pursuant to the conversion of RCULS on the Main Market of Bursa Securities; and

The approval of Bursa Securities was obtained via its letter dated 15 October 2014.

(iii) The approval of the shareholders of SSB which was obtained at an extraordinary general meeting on 21 November 2014.

HLIB had, on 5 December 2014, announced on behalf of the Company that the Board had fixed the conversion price of the RCULS at RM1.05 ("Conversion Price"). The Conversion Price represented a discount of RM0.27 or 20.45% to the the 5-day volume-weighted average market price of the SSB Shares up to and including 4 December 2014, of RM1.32 ("5-day VWAMP"), and a discount of RM0.18 or 14.63% to the theoretical ex-rights price of RM1.23 (calculated based on the 5-day VWAMP).

HLIB had, on 26 January 2015, further announced on behalf of the Company that as at the Closing Date, the Company had received valid acceptances and excess applications for a total of RM185,741,250 nominal value of Rights RCULS, representing 88.57% of the total nominal value of the Rights RCULS.

17. **Corporate proposals (cont'd)**

The Rights RCULS were subsequently allotted and listed on the Main Market of Bursa Securities on 27 January 2015 and 30 January 2015 respectively. Following the admission of the Rights RCULS to the Official List of Bursa Securities and the listing of and quotation for the Rights RCULS on the Main Market of Bursa Securities on 30 January 2015, the Corporate Exercises were completed on even date.

The proceeds raised of RM185,741,250 from the Rights Issue of RCULS have been utilised in the following manners:

	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Balance of Proceeds to be Utilised RM'000
Repayment of bank borrowings	105,000	32,000	Within 3 months	73,000
Working capital	79,841	-	Within 12 months	79,841
Estimated expenses in relation to the Corporate Exercises	900	544	Within 3 months	356
Total	185,741	32,544		153,197

18. **Group's borrowings and debt securities**

Particulars of the Group's borrowings and debt securities as at 31 December 2014 are as follows: -

	RM'000
Unsecured long term borrowings	464,931
Unsecured short term borrowings	725,192
	1,190,123

There were no borrowings denominated in foreign currencies as at 31 December 2014.

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 2014 of the financial year ending 30 June 2015 (2nd quarter 2013/2014: Nil).

(b) For the financial year-to-date, no dividend has been declared (2013/2014: 2.0 sen per share tax exempt).

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

The figures have not been audited

21. **(Loss)/Earnings per ordinary share**

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

The 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 RM59,098,000 (2nd quarter 2013/2014 : profit attributable to owners of the Company of RM2,260,000) by the weighted average number of ordinary shares during the quarter of 419,417,208 (2nd quarter 2013/2014 : 419,417,208).

The 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 RM80,762,000 (2013/2014 : RM1,912,000) by the weighted average number of ordinary shares during the period of 419,417,208 (2013/2014 : 419,417,208).

(b) Diluted loss per ordinary share

The Group has no dilution in its loss per ordinary share in the quarter under review/financial year-to-date and preceding year corresponding quarter/period as there were no dilutive potential ordinary shares.

22. **Realised and unrealised profits/(losses) disclosure**

The breakdown of the retained earnings of the Group, into realised and unrealised profits/(losses) are as follows:

	As At End of Current Quarter 31/12/2014 RM'000	As At End of Preceding Financial Year 30/06/2014 RM'000
Total retained earnings of the Company and its subsidiaries:		
-realised	386,794	461,395
-unrealised	37,378	14,694
	424,172	476,089
Total share of retained earnings of associated companies:		
-realised	(49,081)	(23,562)
-unrealised	(34)	30
	(49,115)	(23,532)
Less: Consolidation adjustments	(80,143)	(76,881)
Group retained earnings	294,914	375,676

By Order of the Board
Southern Steel Berhad

Joanne Leong Wei Yin
Lee Wui Kien
Company Secretaries

Kuala Lumpur
11 February 2015