SOUTHERN STEEL BERHAD (196301000443 (5283-X))

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2024

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year-To-Date	Preceding Year Corresponding Period
	31/12/2024 RM'000	31/12/2023 RM'000	31/12/2024 RM'000	31/12/2023 RM'000
Revenue	484,343	566,230	1,059,152	1,168,038
Cost of sales	(462,671)	(546,286)	(1,020,160)	(1,143,366)
Gross profit	21,672	19,944	38,992	24,672
Operating expenses	(30,492)	(27,605)	(60,099)	(56,581)
Other operating income	2,514	10,244	127	6,748
(Loss)/Profit from operations	(6,306)	2,583	(20,980)	(25,161)
Interest income	1,026	813	1,736	1,563
Finance costs	(9,098)	(11,255)	(19,619)	(21,916)
Share of loss in an associated company, net of tax	(144)	(714)	(192)	(722)
Loss before taxation	(14,522)	(8,573)	(39,055)	(46,236)
Taxation	937	70	1,579	183
Loss from continuing operations	(13,585)	(8,503)	(37,476)	(46,053)
Profit/(Loss) from a discontinued operation, net of tax **(N1)**	6,117	(2,318)	4,254	(4,307)
Loss for the period	(7,468)	(10,821)	(33,222)	(50,360)
(Loss)/Gain attributable to:				
Owners of the Company	(7,395)	(10,882)	(33,089)	(50,474)
Non-controlling interests	(73)	61	(133)	114
Loss for the period	(7,468)	(10,821)	(33,222)	(50,360)
Loss per ordinary share (sen):-				
(a) Basic	(1.24)	(1.83)	(5.55)	(8.47)
(b) Fully diluted	(1.24)	(1.83)	(5.55)	(8.47)

(N1) Southern HRC Sdn Bhd ("SHRC"), a wholly-owned subsidiary of the Company had ceased its hot rolled coil operation in the financial year ended 30 June 2020. Accordingly, the financial result of the operation is separately disclosed as a discontinued operation.

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Audited Financial Statements for the Financial Year Ended 30 June 2024.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2024 (cont'd)

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year-To-Date	Preceding Year Corresponding Period
	31/12/2024 RM'000	31/12/2023 RM'000	31/12/2024 RM'000	31/12/2023 RM'000
Loss for the period	(7,468)	(10,821)	(33,222)	(50,360)
Items that will not be reclassified subsequently to profit or loss				
(Loss)/Gain on fair value of equity instrument at fair value through other comprehensive income	(33)	(85)	(131)	49
Items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences for a foreign operation	5	1	5	(150)
Cash flow hedge	3,038	(475)	1,609	(352)
Total comprehensive expense for the period	(4,458)	(11,380)	(31,739)	(50,813)
Total comprehensive (expense)/income attributable to:				
Owners of the Company	(4,433)	(11,426)	(31,605)	(50,915)
Non-controlling interests	(25)	46	(134)	102
Total comprehensive expense for the period	(4,458)	(11,380)	(31,739)	(50,813)

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Audited Financial Statements for the Financial Year Ended 30 June 2024.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024

	As At End of Current Quarter 31/12/2024 RM'000	As At End of Preceding Financial Year 30/06/2024 RM'000
ASSETS		
Property, plant and equipment ("PPE")	364,011	375,125
Right-of-use assets ("ROU")	436,212	445,619
Goodwill on consolidation	30,256	30,256
Investments in an associated company	12,314	12,506
Other investments	282	413
Deferred tax assets	28,382	26,755
Tax credit receivable	2,261	2,313
Other receivables	-	143,452
Total non-current assets	873,718	1,036,439
Inventories	332,269	359,795
Trade and other receivables, including derivatives	131,903	167,752
Current tax assets	2,314	2,284
Cash and cash equivalents	122,294	86,742
Asset to be returned to vendor	-	193,132
Total current assets	588,780	809,705
TOTAL ASSETS	1,462,498	1,846,144
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	641,010	641,010
Reserves	(104,256)	(72,669)
	536,754	568,341
NON-CONTROLLING INTERESTS	5,995	6,129
TOTAL EQUITY	542,749	574,470
LIABILITIES		
Lease liabilities	7,191	7,457
Deferred tax liabilities	18,069	18,272
Deferred income	1,542	1,792
Employee benefits	28,208	28,063
Loans and borrowings	-	143,900
Total non-current liabilities	55,010	199,484

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024 (cont'd)

	As At End of Current Quarter 31/12/2024 RM'000	As At End of Preceding Financial Year 30/06/2024 RM'000
Lease liabilities	524	1,370
Employee benefits	1,068	912
Provisions	134	2,669
Trade and other payables, including derivatives	218,824	145,546
Contract liability	-	193,132
Loans and borrowings	644,189	728,561
Total current liabilities	864,739	1,072,190
TOTAL LIABILITIES	919,749	1,271,674
TOTAL EQUITY AND LIABILITIES	1,462,498	1,846,144
Net assets per share attributable to owners of the Company (RM)	0.90	0.95

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the Financial Year Ended 30 June 2024.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2024

	← Attributable to owners of the Company →									
	← Non-distributable →									
	Share capital	Reserve for own share	Revaluation reserve	Merger reserve	Hedging reserve	Executive share scheme reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Current year-to-date ended 31 December 2024	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 July 2024	641,010	(44)	402,194	30,000	159	55	(505,033)	568,341	6,129	574,470
Loss for the period	-	-	-	-	-	-	(33,089)	(33,089)	(133)	(33,222)
Other comprehensive income/(expense):										
- Loss on fair value of equity instruments	-	-	-	-	-	-	(131)	(131)	-	(131)
- Foreign currency translation differences	-	-	-	-	-	-	5	5	-	5
- Cash flow hedge	-	-	-	-	1,610	-	-	1,610	(1)	1,609
Total comprehensive income/(expense) for the period	-	-	-	-	1,610	-	(33,215)	(31,605)	(134)	(31,739)
Share-based payments	-	-	-	-	-	18	-	18	-	18
Total transactions with owners	-	-	-	-	-	18	-	18	-	18
At 31 December 2024	641,010	(44)	402,194	30,000	1,769	73	(538,248)	536,754	5,995	542,749

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2024 (cont'd)

	Attributable to owners of the Company										
	Non-distributable										
	Share capital	Reserve for own share	Revaluation reserve	Merger reserve	Exchange fluctuation reserve	Hedging reserve	Executive share scheme reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Preceding year corresponding period ended 31 December 2023	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 July 2023	641,010	(40)	402,194	30,000	1,889	24	1,273	(451,148)	625,202	6,130	631,332
(Loss)/Profit for the period	-	-	-	-	-	-	-	(50,474)	(50,474)	114	(50,360)
Other comprehensive income/(expense):											
- Gain on fair value of equity instruments	-	-	-	-	-	-	-	49	49	-	49
- Foreign currency translation differences	-	-	-	-	(1,888)	-	-	1,738	(150)	-	(150)
- Cash flow hedge	-	-	-	-	-	(340)	-	-	(340)	(12)	(352)
Total comprehensive (expense)/income for the period	-	-	-	-	(1,888)	(340)	-	(48,687)	(50,915)	102	(50,813)
Purchase of own shares	-	(44)	-	-	-	-	-	-	(44)	-	(44)
Share-based payments	-	-	-	-	-	-	1,193	-	1,193	-	1,193
Total transactions with owners	-	(44)	-	-	-	-	1,193	-	1,149	-	1,149
At 31 December 2023	641,010	(84)	402,194	30,000	1	(316)	2,466	(499,835)	575,436	6,232	581,668

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the Financial Year Ended 30 June 2024.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2024

	Current Year-To-Date 31/12/2024 RM'000	Preceding Year Corresponding Period 31/12/2023 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation		
Continuing operations	(39,055)	(46,236)
Discontinued operation	4,254	(4,307)
	(34,801)	(50,543)
Adjustments for:-		
Depreciation of PPE	12,729	13,975
Depreciation and amortisation of ROU	9,407	9,401
Net financing costs	17,884	20,353
Share of loss in an associated company, net of tax	192	722
Gain on arbitration settlement	(9,606)	-
Non-cash items	878	2,316
Operating profit/(loss) before changes in working capital	(3,317)	(3,776)
Changes in working capital		
Net change in current assets	65,231	54,668
Net change in current liabilities	70,608	(59,332)
Taxation paid, net	(229)	(196)
Finance costs paid	(19,620)	(21,916)
Retirement benefits paid	(1,002)	(896)
Interest income received	1,736	1,563
Net cash generated from/(used in) operating activities	113,407	(29,885)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of plant and equipment	(1,616)	(2,175)
Proceeds from disposal of plant and equipment	82	10
Proceeds from arbitration settlement	153,058	-
Net cash generated from/(used in) investing activities	151,524	(2,165)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment)/Drawdown of borrowings	(228,272)	17,112
Purchase of own shares	-	(44)
Payment of lease liabilities	(1,112)	(1,058)
Net cash (used in)/generated from financing activities	(229,384)	16,010
NET CHANGE IN CASH AND CASH EQUIVALENTS	35,547	(16,040)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	86,742	119,321
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON CASH HELD	5	(150)
CASH & CASH EQUIVALENTS AT END OF PERIOD	122,294	103,131

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2024 (cont'd)

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

	31/12/2024 RM'000	31/12/2023 RM'000
Deposits, cash and bank balances	122,294	103,131

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the Financial Year Ended 30 June 2024.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2024

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 Standard ("MFRS") 134 "Interim Financial Reporting" and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2024. This interim financial report also complies with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The accounting policies and presentation adopted for this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2024 except for the adoption of MFRSs, amendments and interpretations that are effective for the financial year beginning on or after 1 July 2024 which are applicable to the Group. The initial adoption of these applicable MFRSs, 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 during the quarter under review were 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**

During the quarter under review and financial year-to-date, there were no additional shares purchased by the Executive Share Scheme Trust ("ESS Trust"). The total number of Ordinary Shares in Southern Steel Berhad held by the ESS Trust as at 31 December 2024 were 88,119 shares.

There were no issuance of shares, share buy-back, shares cancellation, resale of treasury shares or repayments of debt or equity securities during the quarter under review and financial year-to-date.

7. **Dividend paid**

There was 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	Discontinued Hot rolled coil operation RM'000	Total RM'000
Segment (loss)/profit	(20,531)	(449)	4,255	(16,725)
Included in the measure of segment (loss)/profit are:				
Revenue from external customers	1,059,152	-	-	1,059,152
Depreciation of PPE	10,091	-	2,638	12,729
Depreciation and amortisation of ROU	8,968	439	-	9,407
Interest income	1,736	-	-	1,736
Finance cost	19,619	-	1	19,620

Reconciliation of reportable segment (loss)/profit

	RM'000
(Loss)/Profit	
Reportable segment	(16,725)
Profit from a discontinued operation (excluding interest income)	(4,255)
Loss from continuing operations	(20,980)
Interest income	1,736
Finance costs	(19,619)
Share of loss in an associated company, net of tax	(192)
Consolidated loss before taxation (excluding a discontinued operation)	(39,055)

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, restructurings and discontinuing operations.

11. **Contingent liabilities and contingent assets**

A wholly-owned subsidiary of the Company is in dispute with the Minister of Finance on the eligibility to claim for certain tax exemption. This has resulted in an additional tax (including penalty) amounted to RM15.5 million. The Board, as advised by the solicitors, is of the view that the Company is entitled to the tax exemption.

12. **Review of performance**

For the quarter under review, excluding a discontinued operation, the Group revenue was RM484 million and loss before taxation ("LBT") was RM15 million as compared with revenue and LBT of RM566 million and RM9 million respectively for the corresponding quarter of the preceding financial year ended 30 June 2024 ("FY2024").

The lower revenue and higher loss for the quarter was mainly due to lower selling prices and lower sales volume.

For the financial year-to-date, excluding a discontinued operation, the Group revenue was RM1,059 million and loss before taxation ("LBT") was RM39 million as compared with revenue and LBT of RM1,168 million and RM46 million respectively for the corresponding period of FY2024.

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For the cumulative 6 months to date, better margins have resulted in a lower loss.

13. **Material changes in loss before taxation against the immediate preceding quarter**

For the quarter under review, excluding a discontinued operation, Group revenue decreased from RM575 million to RM484 million mainly due to decrease in sales volume.

The Group LBT, excluding a discontinued operation, was RM15 million for the quarter under review as compared with LBT of RM25 million for the preceding quarter. The lower loss for the quarter was mainly attributable to higher margins.

14. **Prospects**

The recent announcement from the US government regarding a 25% tariff on all steel and aluminum imports, effective 12 March 2025, presents a challenge. The primary concern is the potential influx of steel redirected into Malaysia as suppliers seek to avoid such tariffs. This could exacerbate the existing issues of weak demand, structural overcapacity and declining prices in the domestic market. In response, the Company, together with other local industry players and the Malaysian Iron and Steel Industry Federation (MISIF), has engaged with the Ministry of Investment and Industry (MITI) to advocate for swift investigations into the import of low-priced steel products and to enforce anti-dumping tariffs when necessary. The Company will continue to monitor this evolving situation closely.

Amid the above challenges, the Company remains focused on strengthening its financial position. The successful completion of the recent corporate exercise on 16 Jan 2025 raised RM380 million in new capital. In addition, the Company undertook a comprehensive review of the Group's businesses and operational frameworks to identify strategic opportunities to strengthen its core competencies and optimise cost structures. The Company is formulating a set of strategic initiatives, which includes: -

a. the optimisation of cash management, which resulted in the Company's announcement on 12 February 2025 to vary the utilisation of the gross proceeds raised from the earlier corporate exercise;

b. exploring various options to upgrade its upstream steelmaking and rolling facilities to enhance productivity, improve operational and energy efficiency, increase its product range, including higher grade steel, and reduce carbon emissions, positioning the Group to be more resilient and competitive; and

14. **Prospects (cont'd)**

c. strengthening the Group's downstream operations through strategic partnerships and ventures to enhance and/or complement its existing operations. These collaborative initiatives may take the form of technical assistance, joint ventures, or other strategically suitable business arrangements. The Company will make the necessary announcements and obtain relevant approvals as required.

The Board is of the view that the strategic initiatives are well-positioned to unlock greater value and drive sustainable growth.

15. **Profit forecast/profit guarantee**

This note is not applicable.

16. **Loss before taxation**

	Current Year Quarter 31/12/2024 RM'000	Current Year-To-Date 31/12/2024 RM'000
Loss before taxation is arrived at after charging/(crediting):		
Continuing operations		
Depreciation of PPE	4,968	10,091
Depreciation and amortisation of ROU	4,704	9,407
Reversal of provision for inventories	(1,156)	(1,508)
Gain on foreign exchange	(4,436)	(1,248)
Fair value loss on derivative instruments	-	27
Gain on disposal of plant and equipment	(45)	(82)
Write-off of plant and equipment	-	1
Discontinued operation		
Depreciation of PPE	1,319	2,638
Gain on arbitration settlement	(9,606)	(9,606)

17. **Taxation**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31/12/2024 RM'000	Preceding Year Corresponding Quarter 31/12/2023 RM'000	Current Year-To-Date 31/12/2024 RM'000	Preceding Year Corresponding Period 31/12/2023 RM'000
Current taxation				
- Current year	97	1,054	251	1,827
Deferred taxation				
- Current year	(1,034)	(1,124)	(1,830)	(2,010)
	(937)	(70)	(1,579)	(183)

The current quarter tax credit mainly arose from the amortisation of deferred tax liabilities in respect of land revaluation surplus.

18. **Corporate proposals**

On 29 October 2024, Hong Leong Investment Bank Berhad, on behalf of the Board, announced that the Company proposed to undertake the following:

(i) proposed issuance of 752,057,840 new ordinary shares in Southern Steel Berhad ("SSB Shares") ("Issuance Shares") to Green Esteel Pte. Ltd. ("Esteel") at an issue price of RM0.42 per Issuance Share, representing approximately 50.10% of the enlarged issued share capital of the Company after completion of the Proposed Issuance of Shares and Proposed Private Placement ("Proposed Issuance of Shares");

(ii) proposed exemption under Paragraph 4.08(1)(b) of the Rules on Take-overs, Mergers and Compulsory Acquisitions for Esteel and its controlling shareholder, You Zhenhua, from the obligation to undertake a mandatory take-over offer to acquire all the remaining SSB Shares not already owned by them upon completion of the Proposed Issuance of Shares ("Proposed Exemption"); and

(iii) proposed private placement of up to 152,742,000 new SSB Shares ("Placement Shares") to third-party investor(s) at an issue price of RM0.42 per Placement Share, representing up to approximately 10.18% of the enlarged issued share capital of the Company after completion of the Proposed Issuance of Shares and Proposed Private Placement ("Proposed Private Placement").

Proposed Issuance of Shares, Proposed Exemption and Proposal Private Placement (collectively referred to as the "Proposals").

On 16 January 2025, Hong Leong Investment Bank Berhad, on behalf of the Board, announced that 752,057,840 Issuance Shares and 152,742,000 Placement Shares have been listed and quoted on the Main Market of Bursa Securities today, marking the completion of the Proposed Issuance of Shares and Proposed Private Placement. Pursuant to the completion of the Proposals, Esteel emerges as the new controlling shareholder of SSB and SSB in turn becomes a subsidiary of Esteel.

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

Save for the above, there are no other corporate proposals announced but not completed as at the date of this report.

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

Particulars of the Group's borrowings and debt securities as at 31 December 2024 are as follows:

	RM'000
Unsecured short-term borrowings	644,189

There were no borrowings denominated in foreign currencies as at 31 December 2024.

20. **Material Litigation**

Southern HRC Sdn Bhd ("SHRC"), a wholly-owned subsidiary of Southern Steel Berhad, on 7 July 2016 and 11 July 2016 terminated the contract between SHRC and Danieli & C. Officine Meccaniche S.p.A. ("Danieli") dated 16 June 2011 for the design, manufacture and supply of a "Thin Slab Casting Unit feeding directly a twin Steckel Mill" ("Plant") for the production of hot rolled coils ("Contract") and the Service Agreement No. 1 between SHRC, Danieli and Danieli Malaysia Sdn Bhd ("DMSB") dated 10 May 2014 ("Service Agreement") respectively.

i. Commencement of Arbitration Proceedings by SHRC

Following the termination of the Contract and Service Agreement, SHRC commenced arbitration proceedings against Danieli and DMSB. SHRC claimed several reliefs against Danieli and DMSB, including repayment of contract sum and damages for misrepresentation and breach of contract.

ii. Commencement of Arbitration Proceedings against SHRC by Danieli and DMSB

Danieli and DMSB also commenced arbitration proceedings against SHRC. Danieli and DMSB sought several declarations in relation to the Contract and the Service Agreement and claiming damages, interest and costs.

The aforementioned arbitration proceedings were consolidated ("First Arbitration") and heard by the same arbitral tribunal in Singapore.

iii. Commencement of Arbitration Proceedings against SHRC by Danieli Co. Ltd (a wholly owned subsidiary of Danieli) ("Danieli Thailand")

Danieli Thailand commenced arbitration proceedings against SHRC ("Second Arbitration").

Danieli Thailand claimed the sum of EUR2,800,000.00, being the balance purchase price of spare parts under a sale contract dated 24 December 2013 between SHRC and Danieli Thailand ("Sale Contract") plus interest and general damages.

The same arbitral tribunal for the First Arbitration also heard the Second Arbitration.

On 28 November 2019, the Tribunal decided and determined as follows:

A. The First Arbitration

The Tribunal decided in SHRC's favour and awarded, inter alia, the following:-

i) the Contract is rescinded;
ii) the Service Agreement is rescinded;
iii) Danieli and DMSB shall repay SHRC the Contract Price in the amount of EUR92,700,000 minus EUR15 million and RM270 million after taking into consideration the use of the Plant and its plausible diminution in value;
iv) Danieli and DMSB shall pay SHRC RM176,245,250 as damages for misrepresentation; and
v) in return, SHRC shall transfer the title to the Plant, together with additional equipment installed thereon, to Danieli.

(hereinafter called "First Award")

20. **Material Litigation (cont'd)**

B. The Second Arbitration

The Tribunal decided in Danieli Thailand's favour and awarded, inter alia, the sum of EUR2,795,796.98 ("Second Award") being the balance purchase price of spare parts under the Sale Contract.

First Award

Danieli and DMSB applied to the Singapore Courts to set aside the First Award. They were unsuccessful at the Singapore High Court. On appeal to the Singapore Court of Appeal ("CA"), the CA decided, inter alia, as follows ("**Singapore Court Judgment**"):-.

i) The CA dismissed Danieli's appeal in relation to the Transfer Order (the order where SHRC is to transfer the title of the Plant, together with additional equipment installed thereon, to Danieli);

ii) The CA dismissed Danieli's appeal in relation to the Repayment Order (the order where Danieli and DMSB are to pay SHRC the contract price in the amount of EUR92,700,000 minus EUR15 million and RM270 million after taking into consideration the use of the Plant and its plausible diminution in value); and

iii) The Court of Appeal allowed Danieli's appeal in relation to the Damages Order and set the Damages Order aside (the order where Danieli and DMSB are to pay SHRC RM176,245,250 as damages for misrepresentation).

On 4 August 2023, the Italian Court of Appeal allowed Danieli's challenge and revoked the recognition order of the First Award obtained by SHRC in Italy on 12 June 2020. SHRC has been advised by its Italian lawyer that the decision was based on technical grounds and does not deny SHRC the right to pursue recovery in Italy of the amounts due under the First Award which have not been set aside by the Singapore Court of Appeal. In October 2023, SHRC (i) filed an application for the recognition of the Singapore Court Judgment in Italy; and (ii) appealed to the Italian Supreme Court against the decision of the Italian Court of Appeal. On 10 April 2024, the Italian Court of Appeal delivered its decision and recognised the Singapore Court Judgment as enforceable in Italy. SHRC took steps to enforce the Singapore Court Judgment in Italy by freezing Danieli's bank accounts in Italy and attaching the receivable debts owed by Danieli's clients in Italy. Danieli is opposing and challenging the enforcement actions in Italy. In July 2024, the Court allowed Danieli's application to stay the enforcement actions in Italy. SHRC's appeal against the Court's decision was dismissed in October 2024. SHRC's next step in pursuing enforcement in Italy is pending the outcome of Danieli's challenge on the enforcement actions, which is fixed for hearing at the end of January 2025.

Separately, SHRC has also commenced enforcement actions in France and Luxembourg and obtained recognition orders of the First Award in France and Luxembourg on 30 January 2023 and 15 March 2023 respectively.

In France, the court bailiff has seized and attached (i) receivable debts owed by certain clients of Danieli in France and (ii) patents belonging to Danieli in France. In November 2023, the Court rejected Danieli's application to stay the enforcement actions in France. In October 2024, SHRC received EUR 423,837.29 as part of the enforcement actions in France.

20. **Material Litigation (cont'd)**

In Luxembourg, the court bailiff has seized (saisie arret conservatoire) the shares of two of Danieli's wholly owned subsidiaries, which are now frozen. In September 2023, the Court rejected Danieli's application for interim reliefs against the attachments in Luxembourg. In October 2024, the Court ordered Danieli to deposit EUR 37.18mil with Caisse de Consignation (a French bank) and ordered that this amount remains frozen until a final decision is made on Danieli's challenge against the recognition order of the First Award in Luxembourg. The shares of Danieli's subsidiaries in Luxembourg will be lifted as soon as the amount is deposited by Danieli. SHRC is seeking advice from its lawyers on the next course of action.

Danieli has filed appeals against the enforcement and recognition orders obtained in Luxembourg and France. In France, the hearing of Danieli's appeal is fixed on 4 February 2025, while in Luxembourg, no hearing date has been fixed yet. SHRC will continue to pursue enforcement of the First Award.

Second Award

On 3 January 2022, Danieli Thailand commenced proceedings against SHRC in the Malaysian Courts to recognise and enforce the Second Award in favour of Danieli Thailand against SHRC ("Danieli Thailand's Action"). SHRC is opposing and challenging Danieli Thailand's Action. A Court order recognising the Second Award as a judgment of the High Court ("Court Order") was served on SHRC on 15 January 2024. SHRC's application to set aside the Court Order was dismissed by the High Court on 8 October 2024. SHRC has filed an appeal against the decision and seeking advice from its lawyers on applying for a stay pending appeal.

Settlement

On 6 November 2024, SHRC had entered into a settlement agreement ("**Settlement Agreement**") with Danieli, DMSB and Danieli Thailand (collectively, "**Danieli Entities**"), to fully and finally settle the legal proceedings commenced in connection with the First Award and Second Award ("**Legal Proceedings**"). Pursuant to the terms of the Settlement Agreement:

(i) SHRC and Danieli Entities have deposited with an independent escrow stakeholder jointly appointed by SHRC and Danieli Entities ("**Escrow Stakeholder**"):

(a) letters of instructions to their respective lawyers to withdraw, discontinue and/or terminate, with prejudice, the respective Legal Proceedings initiated by them; and

(b) plant transfer agreement transferring ownership of the Plant to Danieli upon fulfilment of certain conditions ("**PTA**"),

(collectively called "**the Escrow Documents**").

Upon confirmation of receipt of the monies referred to in paragraphs (ii) and (iii) below by the relevant persons, the Escrow Stakeholder shall release (a) the Escrow Documents to the lawyers of the respective parties for them to proceed with the withdrawals, discontinuance or termination of the Legal Proceedings; and (b) the PTA to SHRC and Danieli Entities.

20. **Material Litigation (cont'd)**

Settlement (cont'd)

(ii) Danieli Entities shall make the following payments to SHRC's bank account:

(a) EUR28,378,376.56 and USD119,233.00 being the first settlement sum in respect of the Plant;

(b) EUR3,550,000 being 50% of the balance settlement sum of EUR7,100,000 in respect of the Plant; and

(c) EUR700,000 being 10% of the equipment price of EUR7 million for the purchase of certain fixed assets comprising unused spare parts and equipment ("**Equipment**") from SHRC.

(iii) Danieli Entities shall also pay EUR3,550,000, being the remaining balance settlement sum ("**Second Balance Settlement Payment**") into the Escrow Stakeholder's bank account to be released by the Escrow Stakeholder to SHRC after Danieli Entities have inspected the Plant and issued or deemed to issue a notice of clearance to the Escrow Stakeholder. In the event Danieli Entities claim that there are missing parts or components, and the matter cannot be resolved between the parties, the dispute shall be referred to an independent expert whose adjustment to the Second Balance Settlement Payment shall be final and binding on the parties.

(iv) Danieli Entities have agreed to purchase the Equipment from SHRC on an "as is where is" basis at the equipment price as described in subparagraph (ii)(c) above ("**Equipment Price**"). The Equipment Price is payable as follows:

(a) The First Equipment Price being 10% of the Equipment Price is payable upon signing of the Settlement Agreement, as mentioned in subparagraph (ii)(c) above;

(b) 45% of the Equipment Price upon Danieli Entities issuing a notice of clearance in respect of the Equipment. In the event Danieli Entities allege that there are missing parts or components, and the matter cannot be resolved by the parties, the dispute shall be referred to an independent expert whose adjustment to the Equipment Price shall be final and binding on the parties; and

(c) 45% of the Equipment Price (if there are no adjustments) prior to or upon removal of the Equipment by Danieli Entities from SHRC's site.

(v) SHRC will grant access to its site to Danieli Entities for Danieli Entities to dismantle and remove the Plant from SHRC's site with such access to last for a period ending on 6 November 2025.

20. **Material Litigation (cont'd)**

Settlement (cont'd)

On 12 November 2024,

1. SHRC has received the following payments by Danieli:
   a) EUR28,378,376.56 and USD119,233.00 being the First Settlement Sum in respect of the Plant;

   b) EUR3,550,000 being 50% of the Balance Settlement Sum of EUR7,100,000 in respect of the Plant; and

   c) EUR700,000 being 10% of the Equipment Price of EUR7,000,000 for the purchase of Equipment by Danieli Italy from SHRC.

2. The Escrow Stakeholder has received EUR3,550,000 in the Escrow Stakeholder's bank account to be released in accordance with Paragraph 2.2 of the Announcement.

3. Following the receipt of the abovementioned monies, the Settlement Agreement has now become effective and binding on the Parties.

On 3 February 2025, SHRC has received EUR3,550,000 being 50% of the Second Balance Settlement Sum of EUR7,100,000 in respect of the Plant by Escrow Stakeholder

On 14 February 2025, SHRC has received UR6,300,000 being 90% of the Equipment Price of EUR7,000,000 for the purchase of Equipment by Danieli Italy from SHRC

As such, SHRC has received full settlement sum under the settlement agreement.

21. **Dividend**

The Board does not recommend any interim dividend for the quarter ended 31 December 2024.

22. **Loss per ordinary share**

(a) Basic loss 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 RM7,395,000 (2nd quarter FY2024: RM10,882,000) by the weighted average number of ordinary shares during the quarter of 596,225,331 (2nd quarter FY2024: 596,143,850).

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 RM33,089,000 (FY2024: RM50,474,000) by the weighted average number of ordinary shares during the period of 596,225,331 (FY2023: 596,150,296).

	Weighted average number of ordinary shares			
	Individual Quarter		**Cumulative Quarter**	
\	**Current Year Quarter 31/12/2024 '000**	**Preceding Year Corresponding Quarter 31/12/2023 '000**	**Current Year-To-Date 31/12/2024 '000**	**Preceding Year Corresponding Period 31/12/2023 '000**
Issued ordinary shares at beginning of period	596,313	596,313	596,313	596,313
ESS Trust Shares held at beginning of period	(88)	(169)	(88)	(82)
	596,225	596,144	596,225	596,231
Effect of ESS Trust Shares purchased	-	-	-	(81)
Weighted average number of ordinary shares (basic)	596,225	596,144	596,225	596,150
Basic loss per ordinary share (sen)	(1.24)	(1.83)	(5.55)	(8.47)

(b) Diluted loss per ordinary share

The Group’s diluted loss per ordinary share in the quarter under review is the same as the basic loss per ordinary share since the Group does not have any anti-dilutive instrument.

23 **Derivatives**

The Group has entered into a number of forward foreign exchange contracts to hedge the cash flow risk in relation to the variations of cash flows arising from future forecasted transactions.

The forward foreign exchange contracts are stated at fair value using observable market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate.

As at 31 December 2024, the contract amount, fair value and maturity tenor of the forward foreign exchange contracts are as follows:

	Contract amount RM'000	Fair Value Assets/ (Liabilities) RM'000
Less than 1 year	153,395	1,742

Derivatives (which are classified as financial assets/liabilities) categorised as fair value through profit or loss are subsequently measured at their fair values with the gains/losses recognised in profit or loss. Net gain/loss arising from fair value changes of derivatives is as disclosed in Note 16.

There is no change to the type of derivative financial contracts entered into, cash requirements of the derivatives, risk associated with the derivatives and the risk management objectives and policies to mitigate these risks since the previous FY2024.

24. **Gains/losses arising from fair value changes of financial liabilities**

Other than derivatives which are classified as financial liabilities when they are at fair value loss position, the Group does not remeasure its financial liabilities at fair value after the initial recognition.

By Order of the Board
Southern Steel Berhad

Yeow Sze Min
Low Seow Wei
Company Secretaries

24 February 2025