

## REVIEW OF OPERATIONS

Note: "Profit or loss before interests, share of associates and taxation" is hereinafter referred to as "profit" or "loss".

Steel		
	2011 RM Million	2010 RM Million
Revenue	4,138	4,149
Profit	80	332
Product	Annual Rated Capacity (Million Metric Tons)	
HBI	0.9	
Billets/Molten Steel	3.1	
Steel Bars and Wire Rods	2.4	

Our Steel Division continued to contribute positively despite operating in a challenging environment. In the first half of this financial year, steel prices fell from their peak caused by oversupply in the global market whilst demand for steel remained low. Raw material prices, particularly iron ore, have risen sharply after the major iron ore producers changed their pricing mechanism in April 2010 amidst the growing demand from China. The spiralling raw material costs together with higher energy cost had impacted earnings for the first half year.

During the second half of the financial year, the steel market began to turnaround. Selling prices for steel products gradually recovered and outpaced the increase in raw material prices. Likewise, domestic demand for steel products improved in line with the increasing activity in the construction sector with the implementation of major infrastructure projects by the Malaysian Government. Overall, our Steel Division recorded a revenue of RM4.14 billion, a marginal decline from RM4.15 billion last year whilst operating profit was lower at RM80 million compared to RM332 million a year ago.

### Hot Briquetted Iron ("HBI")

Our HBI plant at Labuan continued to contribute significantly to the Group's performance despite the sharp rise in iron ore prices, the main raw material used in the production of HBI.

The change in the pricing mechanism of iron ore, from an annual pricing arrangement to a quarterly benchmark system by the major suppliers in April 2010 and the growing demand for the material by China had caused iron ore prices to rise by more than double from a year ago. Selling prices of HBI, however, increased at a much slower pace. This has reduced our earnings in the first half of the financial year.

By managing its working capital closely and efficiently, particularly in inventory control for both its raw materials and finished goods, the HBI operations was able to achieve an improved performance in the second half of the financial year. For the full year under review, our HBI operations posted a lower revenue and profit of RM926 million and RM142 million (2010: RM935 million and RM279 million) respectively.

### Long Products (Molten Steel, Billets, Steel Bars & Wire Rods)

For the first half of the financial year, the long products performance was adversely affected by the unfavourable situation of higher average raw material costs and almost stagnant selling prices. The soft demand for steel bars and wire rods amid the weak construction market had further eroded profit margins for the long products.

In the second half of the year, we experienced an increase in demand for steel products and gradual increase in selling prices of long products. Although sales of the Division had improved, it was however insufficient to offset the losses in the first half of the financial year. For the full year under review, the long products operations recorded a revenue and loss of RM3.17 billion and RM88 million (2010: RM3.17 billion and profit of RM31 million) respectively.

The inland waterway transportation system ("IWTS") project undertaken by the Division to transport raw materials to our steel complex in Banting via Sungai Langat river has contributed positively to the results of the Division. For the year under review, the IWTS recorded higher revenue and operating profit of RM43 million and RM26 million (2010: RM39 million and RM22 million) respectively.

Collectively, the Long Products operations recorded an operating loss of RM62 million against a profit of RM53 million in 2010.

Property Development		
	2011 RM Million	2010 RM Million
Revenue	37	34
Profit	9	26

The main contributor to the performance of the Division was the St Mary Residences CBD, a joint-venture with the Eastern & Oriental Group. This joint-venture's mixed integrated development project comprises 3 towers of 28-storey apartments, retail, and food and beverage theme outlets located at the site of the former St Mary's School in the Kuala Lumpur Central Business District. Since its launch in 2009, the project, offering 457 apartment units, has been well received due to its strategic location in the prime CBD-KLCC area, competitive pricing, developers' track record and attractive end-financing package.

<b>Building Materials</b>		
	<b>2011 RM Million</b>	<b>2010 RM Million</b>
Revenue	<b>689</b>	205
Profit	<b>18</b>	4

The Division continued to grow its revenue with higher sales and favourable sales mix this year. Its revenue and profit increased more than threefold driven by improved local market sentiments and strengthened working capital funded by partial proceeds from the disposal of Silverstone Berhad.

It is envisaged that the implementation of the Economic Transformation Programme will propel the Malaysian economy to grow at a faster pace and augurs well for the construction sector. However, the recent increase in electricity and gas prices have prompted fears of further increase in building material prices which may dampen the property and construction sector.

The Division is mindful of the challenges ahead, especially the volatility in prices of steel products and cement. The Division will endeavour to lower its operating expenses, improve operational efficiency and at the same time, improve its sales of higher margin products. We believe maintaining good rapport with our customers and suppliers is the key to success.

Moving forward, the Division will remain vigilant on the on-going growth of the construction sector and continue to contribute to the overall profitability of the Group.

<b>Petroleum Lubricants And Automotive Products</b>		
	<b>2011 RM Million</b>	<b>2010 RM Million</b>
Revenue	<b>70</b>	65
Profit	<b>11</b>	11

The Division continued its efforts to strengthen the business network with long term collaborative programmes to help our workshop customers be competitive and sustainable which are proving effective. Our investment in conventional equipment used in these programmes had been successful, and we have progressed into complementary workshop facilitation such as diagnostic scanners and Hi-Rev Business Systems to simplify our customers' operations and consequently, enabled them to run their businesses more efficiently. More importantly, with these initiatives, customers value our services and choose to remain as our business partners for the long term.

In February 2011, we had conducted the third annual 'Hi-Rev Technical Seminar' in Subang Jaya to keep our workshop customers abreast of automotive technical updates. The seminar is part of our continuous efforts to broaden our workshop customers' knowledge related to the automotive businesses and provide them the opportunity to listen to first-hand updates from experts in this industry.

The Division seeks to widen its revenue sources, and sees potential in developing a fuller range of industrial lubricants catering to the manufacturing sector. By introducing new and innovative products, we intend to support and improve these manufacturers' production efficiencies. In this regard, our research and development team regularly conducts research to develop suitable new products to meet our industrial customers' needs.

As key oil players are expected to complete their manufacturing facilities in the coming months, we anticipate the prices and supplies of base oil to improve in the near future. We will strive to ensure that our facilities are in place and ready for increased production, to capitalise and benefit from greater economies of scale which will improve margins further with the increased demand for our products and services.

<b>Tyre – Discontinued Operations</b>		
	<b>2011 RM Million</b>	<b>2010 RM Million</b>
Revenue	<b>441</b>	579
Profit	<b>9</b>	56

The tyre industry has become increasingly challenging and complex. The unprecedented increase in natural rubber prices and the escalation in other raw material costs posted great pressure on the profit margin. Technology trends are accelerating and require continuous investment in order to remain competitive in the global arena.

In Malaysia, the disposal of the 100% equity interest in Silverstone Berhad was completed on 10 December 2010. During the six-month period to the completion date, Silverstone Berhad contributed to the Group a revenue of RM218 million. Revenue for the period grew 5% from the preceding six-month period, driven by continued improving market sentiments in the local market and the recovering global economy. The divestment at a fairly attractive price had enabled the Group to realise and unlock the value of its investment in Silverstone Berhad.

In China, the disposal of 75% equity interest in Shandong Silverstone was completed on 29 June 2011. In the face of intensifying competition and soaring raw material prices, the performance of Shandong Silverstone had been less satisfactory during the period prior to its disposal. The disposal of Shandong Silverstone had offered an opportunity to the Group to unlock the value of its investment and to recoup its advances to Shandong Silverstone.