Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES:

A1 **Accounting policies and basis of preparation**

The Quarterly Report is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standard ("MFRS") 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements. This interim financial report also complies with IAS34. The report should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2012 which was prepared in accordance with the Financial Reporting Standard (FRS).

On November 19, 2011, MASB issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards Framework ("MFRS Framework") in conjunction with its planned convergence of FRSs with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on 1 January 2012.

The MFRS Framework is a fully IFRS-compliant framework, equivalent to IFRSs which is mandatory for adoption by all Entities Other than Private Entities for annual periods beginning on or after January 1, 2012, with the exception for Transitioning Entities. Transitioning Entities, being entities which are subject to the application of MFRS 141 Agriculture and/or Issues Committee Interpretation 15 Agreements for the Construction of Real Estate are given an option to defer adoption of the MFRS Framework for an additional one year. Transitioning Entities also includes those entities that consolidates, equity accounts or proportionately consolidates an entity that has chosen to continue to apply the FRS Framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group which is not Transitioning Entities will be required to and hereby apply MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards (MFRS 1) effective from 1 July 2012.

In addition, the financial statements comply with IFRS as issued by IASB.

The adoption of the MFRSs does not have significant financial impact on the interim financial statements of the Group except for the following:

<u>MFRS 116: Property, Plant and Equipment</u>

The Group has adopted FRS 116's revaluation model on its Property, Plant and Equipment (specifically land and buildings, plant and machinery) since financial year 2006 where net changes in valuation are taken-up as separate reserve in equity.

Upon transition to MFRS, the Group elected to apply the option to use its property, plant, and equipment's closing valuation for financial year ended 30 June 2012 as its deemed cost on 1 July 2012 of the financial year 2013. As such, the asset revaluation reserves as reported in the previous financial close at RM108.1 million was adjusted into retained earnings on the MFRS transition date.

The following comparative figures have been restated due to the adoption of the MFRS:

Reconciliation of Equity as at 1 July 2012

	---------------------------- Adjustments-------------------------		
		MFRS 116	
	At 30/06/2012	(NoteA2(a))	At 01/7/2012
	RM'000	RM'000	RM'000
Asset revaluation reserves	108,146	(108,146)	-
Retained earnings	78,640	108,146	186,786

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES:

A2 **Audit qualification**
The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2012 was not subject to any audit qualification.

A3 **Seasonality or cyclicality of operations**
The business of the Group is generally neither cyclical nor seasonal except for decreased activities during the Ramadan and Lunar New Year festive months.

A4 **Unusual items**
There were no items affecting the assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence except for the loss on disposal of available for sale financial asset ("G Steel shares") in Note B8 and the fair value gain or loss on derivatives as disclosed in Note B11(b).

A5 **Changes in estimates**
In the current financial quarter, there were no changes in estimates that had a material effect on the financial results.

A6 **Debts and equity securities**
There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities during the current financial quarter.

A7 **Dividends paid**
There was no dividend paid in the current financial quarter.

A8 **Segmental reporting**
Segmental information in respect of the Group's business segments is as follows:

	Steel Tube Manufacturing	Cold Rolling	Power Generation	Investment Holding	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue						
Total revenue	128,717	266,512	119,721	741	8,717	524,408
Inter segment	(463)	(12,590)	-	-	-	(13,053)
External revenue	128,254	253,922	119,721	741	8,717	511,355
Segment's pre-tax profit/(losses)	212	5,025	(40,921)	(792)	1,089	(35,387)
Segment assets	216,663	421,067	788,589	30,816	5,662	1,462,797

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	1,462,797
Deferred tax asset	3,311
Tax recoverable	697
	1,466,805

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES:

A9 **Valuation of property, plant and equipment**

The valuation of property, plant and equipment has been brought forward, without amendment from the audited financial statements for the financial year ended 30 June 2012.

A10 **Subsequent material events**

On 8 January 2013, Melewar Industrial Group Berhad (the Company) announced under Practice Note 1 of Bursa Listing Rules that its foreign subsidiary, Siam Power Generation Public Company Ltd ("Siam Power") has defaulted in principal and interest payments totaling approximately RM45.0 million to a consortium of bankers ("the Lenders") in Thailand. Siam Power has since on 31 January 2013 obtained from the Lenders indulgence of time up to 28 February 2013 on the defaulted Principal. As at the date of this announcement, the Lenders have not called on the default but have appointed Baker Tilly as an independent financial advisor to look into the restructuring of the loan in view of the impending completion of the restructuring of one of Siam Power's two major customers. This subsequent event has no impact on the financial statements for the quarter ended 31 December 2012, as the Siam Power's loan has been reclassified from non-current liabilities to current liabilities since the last Financial Year ended 30 June 2012. Siam Power's loan is on a non-recourse project financing without legal recourse against the Group or the Company. The Company has since the PN1 announcement sought and obtained the continuing support from its financiers.

A11 **Changes in the composition of the Group**

There were no changes in the composition of the Group during the current financial quarter.

A12 **Contingent liabilities or contingent assets**

The Group had in the financial year 2009, made a claim amounting to RM17,000,000 against a vendor as a result of non-compliance of certain conditions set out in the shareholders' agreement entered into with the said vendor. This amount was fully impaired over the last three financial years as the Directors were not virtually certain on its recoverability. Given that there is some progress in the litigation (see paragraph B14), the Directors are of the view that the Group has a reasonable chance of partial recovery against the vendor. As such, this is disclosed as a contingent asset not recognised in the financial statement as at the end of this reporting quarter.

A13 **Capital Commitments**

The details of capital commitment as at 31 December 2012 are as follows:

	RM'000
Plant and equipment – Approved and contracted for	1,153
Plant and equipment – Approved but not contracted for	21,160
Total	22,313

The above capital commitment is for the enhancement of cold rolling's plants productivity.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B1 **Review of the performance of the Company and its principal subsidiaries**

For the quarter ended 31 December 2012, the Group recorded total revenue of RM258 million as compared to RM217 million in the preceding year's corresponding quarter, representing an increase of 19%. The significant increase in revenue is mainly contributed by higher sales volume achieved by the cold rolling segment.

The Group recorded an operating profit of RM5 million for the quarter ended 31 December 2012 (a turnaround of RM10 million as compared to the preceding year's corresponding figures of RM5 million operating loss) mainly due to better gross margin contribution from its cold rolling segment. However, the quarter's operating profit remained inadequate to cover its net finance cost (totaling RM13 million of-which RM10 million is attributed to the Power segment) and other financial instrument losses/impairments (amounting to RM19 million attributed to the Power Segment), due to the operating loss contribution of RM3 million from the Power Segment. As a result, the Group registered a loss before tax of RM28 million for the quarter. But in comparison with the preceding year's corresponding quarter loss of RM32 million, this reporting quarter presents a RM4 million improvement at the pre-tax level.

For this reporting quarter, the power division registered a loss before tax of RM32 million due to its suspension of electricity supply to a key customer since December 2011; impairment loss on trade receivables due from that said key customer; and loss on disposal of "available for sale" quoted shares issued by the said key customer in a debt-to-equity conversion settlement in the previous financial year.

B2 **Material change in the loss before tax as compared with the immediate preceding quarter**

The Group's revenue has increased slightly by 2% to RM258 million in the current quarter as compared to RM254 million in the immediate preceding quarter. This is mainly due to a higher contribution from the cold rolling segment (up by RM13 million) but partially offset by the negative contribution from the power generation division (down by RM10 million) as a result of the said suspension of electricity supply to a customer in Thailand.

The Group registered a higher loss before tax by RM28 million as compared to the immediate preceding quarter loss of RM7 million, primarily due to the Power segment's impairment on trade receivables (about RM15 million); and the realised loss on disposal (about RM1 million) and fair value impairment loss (about RM3 million) of the said available-for-sale financial asset relating to the customer's shares in the current quarter.

B3 **Prospects**

The Group's business outlook for the steel divisions (i.e. Steel Tube and CRC) remains stable to positive in-view of the Government's on-going effort to address the Steel Industry's structural weaknesses. The Government has announced in January 2013 a new policy requiring domestic cold-rollers to purchase at least 50% of their HRC requirements from domestic source(s). Whilst we expect further announcement from the Government of related policies to plug import loopholes on CRCs and its downstream products, we cannot be certain of the aforementioned and the execution thereof. In that regard, the financial performance of the Group's steel divisions for the remaining of the current financial year hinges on the following:

- The divisions' ability to pass-on higher domestic HRC costs (compared to imported HRC) to customers;
- The CRC division's ability to continue to source commercially viable iron ore based HRC by obtaining the necessary import duty exemption for at least 50% of its annual requirement; and
- The Government's ability and pace to create a more leveled-playing field by plugging import loopholes and unfair trade practices on foreign CRCs and flat steel products.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B3 **Prospects** (continued)

Given the significant impact of the power division's performance on the Group's results, the financial performance of the Group for the coming quarters will hinge largely on the power division's ability to operate at or above breakeven capacity. This can be attained if its current endeavor to obtain the regulatory approval to sell its excess power capacity to the Electricity Generating Authority of Thailand is successful or the ongoing restructuring of a major customer is completed and they resume the off-take of power. The Power Division has entered into an MOU with a 3rd party on 15 January to dispose its 20% stake in Siam Power and its 60% rights to Phase 2, which should lead to the Group's partial exit of its Power operation in Thailand in FY14.

In view of the above, the Directors are of the opinion that the performance of the Group for the rest of the financial year ending 30 June 2013 will remain challenging.

B4 **Variance of actual profit from forecast profit**

The Group did not issue any profit forecast or profit guarantee.

B5 **(Loss)/profit before tax**

The following (expenses)/income have been (charged)/credited in arriving at (loss)/profit before tax:

	Current year quarter 31/12/2012 RM'000	Preceding year corresponding quarter 31/12/2011 RM'000	Current year to date 31/12/2012 RM'000	Preceding year corresponding period 31/12/2011 RM'000
Depreciation and amortisation	(12,496)	(13,127)	(24,960)	(26,248)
Foreign exchange gain/(loss)	40	(186)	(439)	(248)

B6 **Taxation**

	Current Quarter 31.12.12 RM'000	Current Year To Date 31.12.12 RM'000
Income tax		
– Current year	(471)	(761)
Deferred tax		
– Current year	(1,321)	(951)
	(1,792)	(1,712)

For the current financial quarter and year to date, the effective tax rate for the Group is higher than the statutory tax rate mainly because of:

- business losses of a subsidiary is not allowed to offset against future earnings;
- increase in deferred tax liabilities due to temporary differences; and
- certain expenses are not deductible for tax purposes.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B7 **Profit on sale of unquoted investments and / or properties**

There was no sale of unquoted investments and / or properties in the current financial quarter.

B8 **Purchase or disposal of quoted securities**

The details of the disposal of quoted securities in the current financial quarter and current year to date are as follows:

Disposal of G Steel shares

	Current Quarter 31/12/2012	Current Year To Date 31/12/2012
Number of G Steel shares disposed	946,544,146	946,544,146
	RM'000	RM'000
Total cash consideration	30,129	30,129
Less: Carrying value of the shares	(31,509)	(31,509)
Loss on disposal	(1,380)	(1,380)

B9 **Status of corporate proposals**

There were no corporate proposals announced but not completed as at the date of this announcement.

B10 **Group borrowings and debt securities**

The Group's borrowings as at 31 December 2012 are as follows:

	RM'000
Short-term borrowings:	
Unsecured	84,810
Secured	680,838
	765,648
Long-term borrowings:	
Unsecured	-
Secured	10,729
	10,729
Total borrowings	776,377

The Group's currency exposure of borrowings as at 31 December 2012 is as follows:

	RM'000
- Ringgit Malaysia	207,137
- US Dollar	12,202
- Euro	12,023
- Thai Baht	545,015
Total borrowings	776,377

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B11 **Outstanding Derivatives**

(a) Disclosure of Derivatives

The Group has entered into an Interest Rate Swap ("IRS") contract to manage the exposure of its borrowings to interest rate risk. With the IRS contract, the Group receives interest at a floating rate based on 3-month Thai Baht floating-rate fix ("3mTHBFIX") and pays interest at a fixed rate on the agreed notional principal amount. During the current financial quarter, the Group did not enter into any new IRS contracts. The fair value loss of the said IRS contract amounting to RM1.5million as at 31 December 2012 is determined and as advised by the counter-party bank.

The Group has also entered into forward foreign currency exchange contract to manage the exposure to foreign exchange risk arising from purchases of raw materials denominated in US Dollar. During the current financial quarter, the Group has entered into a forward foreign currency contract with a notional value of USD4.0 million. The fair value loss of the forward foreign currency exchange contract amounting to RM28,000 is determined by way of marking-to-market rates on the said notional amounts as at 31 December 2012.

As at 31 December 2012, the values and maturity analysis of the outstanding derivatives of the Group are as follows:

	Contract/ Notional Value RM'000	Fair Value RM'000
IRS Contract		
THB	570,653	
- Less than 1 year		(1,564)
Forward Foreign Currency Exchange Contracts		
USD	12,248	
- Less than 1 year		(28)

As the Group did not adopt hedge accounting, the changes in the fair value of the derivatives are recognised immediately in the profit or loss during the financial quarter.

(i) Risk associated with the derivatives

Counter-Party Risk
The derivatives are entered into with licensed financial institutions backed with ISDA agreement. The associated Counter-Party risk is negligible.

(ii) Cash requirements of the derivatives

There is no cash movement from the Group to the counterparties when the derivative contracts are incepted. Cash movement occurs on maturity or milestone dates of the derivative contracts in fulfillment of the intended hedging objectives.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B11 **Outstanding Derivatives** (continued)

(a) Disclosure of Derivatives (continued)

(iii) Policies in place for mitigating or controlling the risk associated with the derivatives

The Group uses derivative financial instruments to hedge specific risk exposures of the underlying hedge items and does not enter into derivative financial instruments for speculative purposes. The Group monitors the fluctuations in interest and foreign currency exchange rates closely with an objective to minimise potential adverse effects on the financial performance of the Group. The Board of Directors regularly reviews the risk and approves the policy for managing the risk.

(b) Fair value change of a financial liability

The details of fair value change of a financial liability for the current financial year ended 31 December 2012 is as follows:

Type of financial liability	Current quarter fair value loss RM'000	Current financial year-to-date fair value loss RM'000	Basis of fair value measurement	Reasons for the loss
Interest rate swap	(2,571)	(797)	Interest rates differential between fixed and floating rates	The interest rates differential between fixed and floating rates from the last measurement date of 30 June 2012 up to the respective maturity dates of the swap has moved unfavourably against the Group.
Forward foreign currency exchange contract	(65)	(28)	Foreign exchange differential between the contracted rate and the market forward rate	The foreign exchange rates differential between the contracted rate and the market forward rate from the last measurement date or contract date up to the respective maturity dates of the forward contracts have moved unfavourably for the Group.
	(2,636)	(825)		

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B12 **Off balance sheet financial instruments**

There were no off balance sheet financial instruments as at the date of this announcement except for bank guarantees issued amounting to RM8 million being securities for the supply of hot rolled coil, and inbound supply of services and utilities; and SBLC of around RM40 million issued in respect of the Power Division Phase 2 project.

B13 **Realised and unrealised profits/losses disclosure**

	As at 31/12/2012 RM'000	As at 30/06/2012 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	(46,400)	16,624
- Unrealised	88,728	(17,450)
	42,328	(826)
Add: Consolidation adjustments	106,716	79,466
Total group retained profits as per consolidated accounts	149,044	78,640

B14 **Material litigation**

Mycron Steel Berhad v Multi Resources Holdings Sdn Bhd
(Kuala Lumpur High Court Suit No. D-22NCC-304-2010)

On 18 February 2010, the Company's subsidiary, Mycron Steel Berhad ("MSB") commenced legal action against Multi Resources Holdings Sdn Bhd ("Defendant") to recoup their cost of investment of RM17.0 million in PMP Galvanizers Sdn Bhd ("PMPG") as a result of non compliance of certain conditions by the Defendant pursuant to a shareholders' agreement entered in 2005.

On 21 May 2010, the Defendant filed with the Kuala Lumpur High Court ("the Court") for a change in the jurisdiction for the case to be heard in Kuching and it was successful. Subsequently, MSB's solicitor submitted an appeal to the Judge for the case to be heard in the Court in Kuala Lumpur. The Court had on 25 October 2010 dismissed MSB's appeal and MSB was given a liberty to file afresh the suit in the High Court of Sabah and Sarawak. MSB appointed a solicitor from Sarawak to file afresh the suit. On 27 April 2011, MSB's solicitor filed in the Writ of Summons and Statement of Claim to the High Court of Sabah and Sarawak. On 25 May 2011, the Defendant's solicitor filed in their defence with the High Court of Sabah and Sarawak. On 2 August 2011, MSB's solicitor filed in the reply to the Defendant's defence with the High Court of Sabah and Sarawak. A rejoinder has been filed by the Defendant with the High Court of Sabah and Sarawak on 25 August 2011. On 3 October 2011, the High Court of Sabah and Sarawak had fixed 5 to 9 March 2012 for hearing. On 15 December 2011, the High Court of Sabah and Sarawak had rescheduled the hearing to 18 to 22 June 2012. On 18 June 2012, the High Court of Sabah and Sarawak had rescheduled the trial to 19 to 23 November 2012. On 19 November 2012, MSB's solicitor was notified by the Defendant's solicitor that they have been instructed by the Defendant to make an offer for an amicable out-of-court settlement with MSB. MSB did not accept the offer for an amicable out-of-court settlement. The case was fixed for mention on 4 January 2013, whilst the trial date has been adjourned to 16 January 2013. On the trial date, the MSB's witnesses had given the witness statements to the High Court of Sabah and Sarawak. The continuation of the trial is fixed on 17 to 19 April 2013.

MSB's solicitor is of the opinion that MSB has a fair case against the Defendant. The amount of the claim is RM17.0 million.

Save as disclosed above, there was no material litigation pending as at the date of this announcement.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2012

EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENTS – PART A OF APPENDIX 9B)

B15 **Dividends**

The Company did not declare any interim dividend in the current financial quarter.

B16 **Loss per share**

(i) Basic loss per ordinary share

	Current Year Quarter 31/12/2012 RM'000	Current Year To Date 31/12/2012 RM'000
Loss attributable to owners of the Company	(30,326)	(37,615)
Weighted average no. of ordinary shares in issue ('000)	225,523	225,523
Basic loss per share (sen)	(13.45)	(16.68)

(ii) Diluted loss per ordinary share

This is not applicable to the Group.

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)
SOON LEH HONG (MIA 4704)
Secretaries
Kuala Lumpur
27 February 2013