Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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:

MFRS 1: First-time Adoption of MFRS and MFRS 116: Property, Plant and Equipment

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 2011 as its deemed cost on 1 July 2011 of the financial year 2012. As such, the asset revaluation reserves reported at RM102.1 million as at 30 June 2011 was credited into retained earnings on 1 July 2011 being the date of transition to MFRS along with the corresponding deferred tax liabilities.

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

Reconciliation of Equity as at 1 July 2011 (being the date of transition)

	---------------------------- Adjustments--------------------------		
	At 30/06/2011	MFRS 116	At 01/07/2011
	RM'000	RM'000	RM'000
Asset revaluation reserves	102,096	(102,096)	-
Retained earnings	215,516	136,128	351,644
Deferred tax liabilities/(assets)	31,215	(34,032)	(2,817)

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

EXPLANATORY NOTES:

A1 **Accounting policies and basis of preparation** (continued)

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

Reconciliation of Equity as at 1 July 2012 (being the previous financial close under FRS)

	---------------------------- Adjustments--------------------------		
	At 30/06/2012	MFRS 116	At 01/07/2012
	RM'000	RM'000	RM'000
Asset revaluation reserves	108,146	(100,963)	7,183
Retained earnings	78,640	134,995	213,635
Deferred tax liabilities/(assets)	28,674	(34,032)	(5,358)

MFRS 118: Revenue

The Group's Power subsidiary's billings on "capacity energy charges" to one of its customers (that has stopped production and power up-take since 2011) has not been taken up in "Revenue" for the current financial period/year on the grounds that it is improbable that any future economic benefits will flow-in arising from the same. Nevertheless, the Power subsidiary will continue to exercise its contractual rights on "capacity energy charges" billings. The comparative figures for the previous financial period/ year with regards to the aforementioned have been restated as follows:

	Before	Adjustment	After
Preceding Year Corresponding Quarter 30/06/12	RM'000	RM'000	RM'000
Revenue	277,963	(16,700)	261,263
Impairment loss on trade receivables	(21,474)	16,700	(4,774)
Preceding Year Corresponding Period 30/06/12			
Revenue	921,324	(16,700)	904,624
Impairment loss on trade receivables	(40,965)	16,700	(24,265)

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, the default interests in Note B10, the fair value loss on derivatives as disclosed in Note B11(b), and the impairment of the Power Plant and its related intangible assets in Note B1.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

EXPLANATORY NOTES:

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	261,950	513,116	217,118	1,511	16,300	1,009,995
Inter segment	(1,259)	(31,188)	-	-	-	(32,447)
External revenue	260,691	481,928	217,118	1,511	16,300	977,548
Segment's pre-tax profit/(losses)	5,895	13,032	(212,945)	(15,284)	1,175	(208,127)
Segment assets	231,704	434,584	713,358	19,255	2,704	1,401,605

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	1,401,605
Deferred tax asset	4,240
Derivative asset	173
Tax recoverable	592
	1,406,610

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. For the financial year ended 30 June 2013, valuation of property, plant and equipment was carried out and the resulting revaluation surplus/(deficit) is taken up in the financial statements.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

EXPLANATORY NOTES:

A10 **Subsequent material events**

There is no subsequent material event for this reporting quarter.

For the last reporting quarter, we have reported that 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. 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. For the current financial quarter, there has been no new development with regard to the PN1 Status as announced previously.

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's cold rolling subsidiary 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 said subsidiary 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 30 June 2013 are as follows:

	RM'000
Plant and equipment – Approved but not contracted for	14,100

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

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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 30 June 2013, the Group recorded a total revenue of RM224 million as compared to RM261 million achieved in the preceding year's corresponding quarter, representing a decrease of 14%. The significant decrease in revenue is mainly contributed by lower sales volume achieved by the power segment (down by 43%) and cold rolling segment (down by 10%). The cold rolling segment also had a ten (10) days of plant maintenance shutdown during this quarter which affected its revenue performance.

The Group recorded an operating loss of RM21.8 million for the quarter ended 30 June 2013 as compared to the preceding year's corresponding quarter's operating profit of RM17.0 million, mainly due to margin deterioration in the power segment. The power segment's significantly large impairment charge on its property, plant and equipment, and relating intangible assets totaling around RM80 million in this reporting quarter, adds to the quarter's pre-tax losses of RM123.4 million as compared to preceding year's corresponding quarter's pre-tax loss of RM68.3 million.

For this reporting quarter, the power division registered a pre-tax loss of RM120 million; the cold roll division a pre-tax profit of 5.0 million; and the steel tube division a pre-tax profit of 3.8 million.

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

The Group's revenue has decreased by 7% to RM224 million in the current quarter as compared to RM242 million in the immediate preceding quarter. This is mainly due to lower revenue contribution from the power segment (down by RM26.8 million) and cold rolling segment (down by RM2.6 million) though partially offset by higher revenue contribution from the steel tube segment (up by RM10.4 million).

Gross profit contribution from both the cold rolling and steel tube segments have increased by 8.2% and 1.6% respectively for the current quarter as compared to the immediate preceding quarter due to better gross margin per tonne achieved by both segments.

The Group registered a higher loss before tax of RM123.4 million as compared to the immediate preceding quarter loss of RM37.5 million, primarily due to the large impairment charges and higher operating losses incurred by the power segment.

B3 **Prospects**

The Group's business outlook for the steel divisions (i.e. Steel Tube and CRC) for the next financial year is mixed given the down-side risks attributable to domestic economic challenges as well as possible repercussion from regional and global economic instability. In particular, the Group is cautious of the significant weakening of the Ringgit following the downgrade of the Nation's sovereign credit rating outlook to negative in July 2013, and the probable consequential impact on imported inflation and domestic demand. Whilst the Government is likely to respond with remedial policies in the Nation's budget in Oct 2013 to address its fiscal and macro woes, certain arising policies (i.e. GST, energy subsidies removal, and etc.) and probable interest rates hike may contribute to increased costs of doing business with consequential impact on margins. In the absence of any interest rate hike, the weak Ringgit scenario will be prolonged with possible further outbound capital flight and slower economic growth. Any effort by the Government to slow-down its Economic Transformation Projects involving steel up-take along the steel value chain may also impact upstream CRC and mid-stream steel tube demand. China's high steel output may also continue to find ways into the Malaysian market to the disadvantage of domestic producers. Also, any external shocks from the increasingly volatile regional or global economies may further add pressure domestically.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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

B3 **Prospects** (continued)

Therefore, the steel divisions prospects for the next financial year hinges on the following:

- the severity of any likely economic and policies induced shock on domestic demand
- its ability to pass on higher imported or local raw material costs and other likely policies induced costs in the production to customers
- the Government's continuing effort to plug import loopholes on CRC and curtail unfair pricing

The Power division's woes in operating below breakeven capacity will continue to weigh down on the Group's consolidated performance. The recent recessionary quarters in Thailand have delayed the power resumption off-take by one of its two key customers until perhaps the 2nd half of FY14. The on-going drive by the industrial park owners to develop and tenant the Industrial Park served by Power Plant should augurs well for the plant's future power demand and its prospects. Nevertheless, the Group is still in the negotiation stages of disposing the Power business and of its plant, and hopes to conclude the same.

In view of the above, the Directors are of the opinion that the performance of the Group for the next financial year 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 31/06/2013 RM'000	Preceding year corresponding quarter 31/06/2012 RM'000	Current year to date 31/06/2013 RM'000	Preceding year corresponding period 31/06/2012 RM'000
Depreciation and amortisation	(12,581)	(13,081)	(50,147)	(52,229)
Foreign exchange gain/(loss)	(772)	1,090	(1,092)	959

B6 **Taxation**

	Current Quarter 30.06.13 RM'000	Current Year To Date 30.06.13 RM'000
Income tax		
- current year	(1,244)	(2,696)
- over provision in prior year	(203)	(203)
Deferred tax		
- current year	(1,634)	(3,234)
	(3,081)	(6,133)

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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

B6 **Taxation** (continued)

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.

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 financial year are as follows:

Disposal of G Steel shares

	Current Quarter 30/06/2013	Current Year 30/06/2013
Number of G Steel shares disposed	-	1,047,301,820
	RM’000	RM’000
Total cash consideration	-	35,767
Less: Carrying value of the shares	-	(40,040)
Loss on disposal	-	(4,273)

At the close of the current reporting period, the Group’s foreign subsidiary does not hold any more G Steel shares.

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 30 June 2013 are as follows:

	RM’000
Short-term borrowings:	
Unsecured	84,630
Secured	702,554
	787,184
Long-term borrowings:	
Unsecured	9,042
Secured	6,635
	15,677
Total borrowings	802,861

B10 **Group borrowings and debt securities** (continue)

The Group's currency exposure of borrowings as at 30 June 2013 is as follows:

	RM'000
- Ringgit Malaysia	230,465
- US Dollar	5,814
- Euro	9,207
- Thai Baht	557,375
Total borrowings	802,861

A subsidiary of the Group, Siam Power Generation Public Company Limited ("Siam Power"), was unable to make the principal and interest payments since December 2012. As a result of which, an additional default interests of RM16.5 million were charged by the lenders and duly recognised in the profit or loss during the current quarter, giving rise to a year-to-date total default interests of RM47.0 million.

B11 **Outstanding Derivatives**

(a) Disclosure of Derivatives

The Group's foreign subsidiary has entered into an Interest Rate Swap ("IRS") contract as part of the loan's condition to manage the interest rate risk exposure of its borrowings. With the IRS contract, the subsidiary 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 IRS contract was restructured as a result of the default in principal and interest payments in December 2012. The restructured IRS contract bears a revised fixed interest rate payment from 5.78% p.a. to 5.98% p.a. with a new expiry date from 30 September 2013 to 31 December 2013. The fair value loss of the said IRS contract amounting to RM2.8 million as at 30 June 2013 is determined and as advised by the counter-party bank.

The Group's steel subsidiary has also entered into forward foreign currency exchange contracts to manage the exposure to foreign exchange ("FX") risk arising future repayment of borrowings and purchases of raw materials denominated in foreign currencies. During the current financial quarter, the subsidiary has entered into a forward foreign currency contracts with a notional value of EUR0.8 million for the future repayment of borrowings. The fair value loss of the forward foreign currency exchange contracts amounting to RM173,447 is determined by way of marking-to-market rates on the said notional amounts as at 30 June 2013.

As at 30 June 2013, 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	582,440	
- Less than 1 year		(2,790)
Forward Foreign Currency Exchange Contracts		
EUR	3,131	
- Less than 1 year		173

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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

B11 **Outstanding Derivatives** (continued)

(a) Disclosure of Derivatives (continued)

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 current financial quarter.

(i) Risk associated with the derivatives

Counter-Party Risk

The derivatives are entered into with licensed financial institutions that have granted FX facilities to the Group, and where applicable are 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.

(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 quarter and year ended 30 June 2013 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	(1,672)	(3,757)	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.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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 RM17.3 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 30/06/2013 RM'000	As at 30/06/2012 RM'000
Total retained (losses)/profit of the Company and its subsidiaries:		
- Realised	(112,586)	117,587
- Unrealised	9,371	16,582
	(103,215)	134,169
Add: Consolidation adjustments	103,160	79,466
Total retained (losses)/profits as per consolidated accounts	(55)	213,635

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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

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. On 19 April 2013, MSB's solicitor was notified by the Defendant's solicitor that they have been instructed by the Defendant to make another offer for an amicable out-of-court settlement with MSB. MSB did not accept the 2nd offer for an amicable out-of-court settlement. The continuation of the trial is fixed on 20 to 21 June 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.

B15 **Dividends**

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

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2013

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

B16 **Loss per share**

(i) Basic loss per ordinary share

	Current Financial Year 30/06/2013 RM'000	Preceding Financial Year 30/06/2012 RM'000
Loss attributable to owners of the Company	(213,690)	(135,865)
Weighted average no. of ordinary shares in issue ('000)	225,523	225,523
Basic loss per share (sen)	(94.75)	(60.24)

(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
29 May 2013