Quarterly report on consolidated results for the first financial quarter ended 30 September 2013

EXPLANATORY NOTES:

A1 **Accounting policies and basis of preparation**

This 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. In addition, the financial statements comply with IFRS as issued by IASB. The report should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2013 which was prepared in accordance with the MFRS.

The explanatory notes attached to the unaudited interim financial statements provide an explanation of events and transactions that are significant to understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2013.

The significant accounting policies and methods adopted for this unaudited interim financial report are consistent with those adopted for the audited financial statements for the financial year ended 30 June 2013.

The adoption of the following MFRSs and Amendments to MFRSs that came into effect on 1 January 2013 did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

- MFRS 10: "Consolidated Financial Statement" on changes relating to definition of control
- MFRS 11: "Joint Arrangement" on the determination of the type of joint arrangement
- MFRS 12: "Disclosure of Interest in Other Entities" on disclosure requirements replacing that of MFRS128
- MFRS 13: "Fair Value Measurement" on disclosure requirements
- MFRS 127: "Separate Financial Statement" revision
- MFRS 128: "Investments in Associates and Joint Ventures" revision
- MFRS 119: "Employee Benefits" amendments
- MFRS 7: "Financial Instruments: Disclosure" amendments
- MFRS 116: "Property, Plant and Equipment" amendments

The Group did not early adopt the following new standards, amendments to standards and IC interpretations that have been issued by the Malaysian Accounting Standards Board as these are effective for financial periods beginning on or after 1 January 2014.

- MFRS 132: "Financial Instruments: Presentation" amendments
- MFRS 9: "Financial Instruments" replacing MFRS 139

A2 **Audit qualification**

The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2013 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. The Ramadan month in August 2013 saddled this interim reporting period.

A4 **Unusual items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

Quarterly report on consolidated results for the first financial quarter ended 30 September 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.

The Group views its' equity (shareholders' fund) less intangible assets but plus interest bearing debts as capital resources and has a policy to maintain the ratio below 1.25 times excluding the project financing facilities granted to a subsidiary amounting to THB5.8 billion (about RM592 million).

	30/09/2013	30/06/2013
Total interest bearing debts in RM'million	244.6	245.5
Shareholders' funds less intangibles in RM'million	289.0	322.2
Gearing Ratio	0.85	0.76

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 RM'000	Cold Rolling RM'000	Power Generation RM'000	Investment Holding RM'000	Others RM'000	Total RM'000
Revenue						
Total revenue	62,232	112,200	56,506	407	4,321	235,666
Inter segment	(454)	(4,363)	-	-	-	(4,817)
External revenue	61,778	107,837	56,506	407	4,321	230,849
Segment's pre-tax profit/(losses)	2,765	66	(35,839)	(1,498)	151	(34,355)
Segment assets	221,792	419,726	735,528	19,535	1,766	1,398,347

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	1,398,347
Deferred tax asset	3,114
Derivative asset	987
Tax recoverable	528
	1,402,976

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 2013.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2013

EXPLANATORY NOTES:

A10 **Fair Value Measurement**

Except for the financial instruments disclosed below which are fair valued by valuation methods, the carrying value of short-term maturity financial instruments like cash deposits and bank balances, receivables, and short-term borrowings and payables approximates their fair values.

Financial instruments subjected to fair valuation methods are categorised into the following fair value hierarchy and are represented in the table below as at 30 September 2013:

Level 1: based on unadjusted quoted prices in active markets for identical assets and liabilities
Level 2: based on observable inputs not included within level 1
Level 3: based on unobservable inputs

Recurring fair value measurement	Fair Value RM'000		
Foreign Currency Forwards	Level 1	Level 2	Level 3
as Assets (not hedge accounted)	-	566.2	-
as Assets (hedge accounted)	-	420.6	-
as Liabilities (hedge accounted)	-	(378.5)	-
Interest Rate Swap (not hedge accounted)	-	(1,016.9)	-
Total	-	(408.6)	-

The Foreign Currency Forwards are fair valued by way of marking-to-market using reference bank's published forward rates whilst the Interest Rate Swap is determined using benchmark forward interest yield against the fixed rate on future swap points and discounted back to present value provided by the counter-party bank.

A11 **Subsequent material events**

There were no material events occurring between 1 October 2013 and the date of this announcement that warrant adjustments to the financial statements for the current quarter ended 30 September 2013.

There is no change to Melewar Industrial Group Bhd (the Company)'s PN1 status since 8 January 2013.

A12 **Changes in the composition of the Group**

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

A13 **Contingent liabilities or contingent assets**

There were no contingent liabilities or contingent assets as at the end of the reporting quarter.

A14 **Capital Commitments**

The details of capital commitment as at 30 September 2013 are as follows:

	RM'000
Plant and equipment – Approved but not contracted for	14,875

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

Quarterly report on consolidated results for the first financial quarter ended 30 September 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 first quarter of the current financial year ended 30 September 2013, the Group recorded a total revenue of RM230.8 million as compared to RM253.6 million achieved in the preceding year's corresponding quarter, representing a decrease of 9%. The decrease in revenue is mainly contributed by lower sales volume achieved by the steel tube segment (down by 1%), cold rolling segment (down by 5%), and the Power segment (down by 13%).

The Group recorded an operating loss of around RM4.6 million for the current quarter ended 30 September 2013 as compared with the preceding year's corresponding quarter's operating profit of RM3 million due to a lower sale revenue recognition in the power segment.

However, the Group recorded a significantly higher pre-tax loss of RM34.4 million for the current quarter ended 30 September 2013 as compared to the preceding year's corresponding quarter pre-tax loss of RM7.48 million partly due to higher interest charges of RM17.7 million incurred by the power segment arising from default interest charges.

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

The Group's revenue has increased slightly by 3% to RM230.8 million in the first quarter of the current financial year as compared to RM224 million in the immediate preceding quarter. The immediate preceding quarter's sales was lower due to the de-recognition of twelve months' power capacity charge to one of its Affected Customer as the corresponding inflow of economic benefit was determined to be improbable. Sales volume declined in the cold rolling segment (down by 1.7%) and the steel tube segment (down by 11%) during the current quarter as compared to the immediate preceding quarter, mainly due to the Ramadan month.

Gross profit contribution from both the cold rolling and steel tube segments also declined by 20% and 16% respectively for the current quarter as compared to the immediate preceding quarter achieved by both segments. The Power segment's gross loss contribution for the quarter is lower by 76% compared to the preceding quarter.

The Group registered a significantly lower loss before tax of RM34.4 million as compared to the immediate preceding quarter pre-tax loss of RM123.7 million, primarily due to the absence of impairment charges and higher operating losses incurred by the power segment during the preceding quarter.

B3 **Prospects**

For the steel segments, the Group expects demand for its cold-rolled coils (CRC) and steel tubes to pick-up moderately in the next quarter before tapering off towards the Chinese New Year period. The Group remains cautious of the generally softer undertone in the domestic economy following the fuel prices hike in early September and the Government's fiscal tightening budget towards gradual subsidies removal and a shift towards broader consumption based value-added tax by April 2015. On the external front, China's surplus steel output continues to add pricing pressure in the region and domestically. The USD which has since abetted against the Ringgit continues to show resilience, and any rumors on the quantitative easing program tapering-off may add volatility to business and margins – particularly for the CRC segment. Nevertheless, the Group expects domestic demand for its steel products to remain relatively healthy for its plant's utilization rate. Therefore, the Group's financial performance and prospect outlook for the remaining of the financial year is generally mixed and hinges on the followings:

- The severity of external factors induced impact on the domestic economy, particularly demand for its steel products
- The Group's ability to pass on higher costs of doing business in its selling prices to customers
- The Government's continuing effort to plug import loopholes on CRC and steel tubes, and curtails unfair pricing

Quarterly report on consolidated results for the first financial quarter ended 30 September 2013

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

B3 **Prospects** (continued)

The Power segment's woes in operating below breakeven capacity will continue to weigh down on the Group's consolidated performance. The prospect for turnaround of the Power segment's financial performance in the current financial year remains bleak, whilst the management's divestiture effort on its Power business has yet to yield any conclusion.

In view of the above, the Directors are of the opinion that the performance of the Group for the remaining periods of the current financial year will be challenging.

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

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

B5 **Loss before tax**

The following expenses have been charged in arriving at loss before tax:

	Current year quarter 30/09/2013 RM'000	Preceding year corresponding quarter 30/09/2012 RM'000	Current year to date 30/09/2013 RM'000	Preceding year corresponding period 30/09/2012 RM'000
Depreciation and amortisation	(12,754)	(12,464)	(12,754)	(12,464)
Foreign exchange loss	(2,178)	(479)	(2,178)	(479)

B6 **Taxation**

Taxation comprises :

	Current year quarter 30/09/2013 RM'000	Preceding year corresponding quarter 30/09/2012 RM'000	Current year to date 30/09/2013 RM'000	Preceding year corresponding period 30/09/2012 RM'000
Current tax expense				
Current period	(1,103)	(290)	(1,103)	(290)
Deferred tax income				
Current period	2,986	370	2,986	370
	1,883	80	1,883	80

For the current financial quarter and year to date, tax credit arose mainly due to higher decrease in deferred tax liabilities which exceeded taxes for the period.

<u>Quarterly report on consolidated results for the first financial quarter ended 30 September 2013</u>

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**

There were no purchases or disposals of quoted securities in the current financial quarter.

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 September 2013 are as follows:

	RM'000
Short-term borrowings:	
Unsecured	80,881
Secured	690,998
	771,879
Long-term borrowings:	
Secured	6,081
	6,081
Total borrowings	777,960

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

	RM'000
- Ringgit Malaysia	199,162
- US Dollar	2,343
- Euro	9,751
- Thai Baht	566,704
Total borrowings	777,960

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 RM17.7 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 RM59.7 million.

Another subsidiary of the Group, Mycron Steel CRC Sdn Bhd has drawn on interest-bearing-trade credits from a key hot-rolled-coil supplier with an outstanding amount of USD10.34 million (RM33.3 million) as at 30 September 2013. Inclusive of this, the Group's net gearing ratio as at 30 September 2013 is around 0.85 times.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2013

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

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. The IRS contract was restructured as a result of the default in principal and interest payments in December 2012 and 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 RM1.0million as at 30 September 2013 is determined and as advised by the counter-party bank.

As at 30 September 2013, the values and maturity analysis of the interest rate swap is as follow:

	Contract/ Notional Value RM'000	Fair Value RM'000
IRS Contract		
THB	536,959	
- Less than 1 year		(1,017)

As a non-adjusting event after the reporting date, the IRS was terminated on 17 October 2013 at a loss of THB24 million (RM2.4 million).

The Group's steel subsidiary has also entered into forward foreign currency exchange contracts (FX forwards) to manage its foreign currency exchange exposure arising from future repayment of borrowings denominated in Euro and purchase of raw materials denominated in US Dollar respectively.

For this reporting period, the subsidiary has started to designate certain eligible hedge relations on FX forwards incepted to cover its USD exposure on forward purchases of raw materials for the purpose of hedge accounting. These are designated as fair value hedge with the arising mark-to-market foreign currency fair value gain/ (loss) of both the hedging instruments (i.e. FX Forwards) and the hedged items (i.e. forward purchases of raw material and or accounts payables in USD) been charged to the Statement of Profit or Loss.

Details on outstanding derivative FX forward contracts for both the non-designated and designated for hedge accounting as at 30 September 2013 are outline below:

Non-designated

FX Forward Contracts as non-designated hedging instrument				
	Notional Value '000		Fair Value RM'000	
Maturity	Long USD	Short RM	Financial Asset	Financial Liability
Less than 1 year	4,898	15,836	195.3	-

FX Forward Contracts				
	Notional Value '000		Fair Value RM'000	
Maturity	Long Euro	Short RM	Financial Asset	Financial Liability
Less than 1 year	793.1	3,131	370.8	-

Quarterly report on consolidated results for the first financial quarter ended 30 September 2013

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

B11 **Outstanding Derivatives** (continued)

(a) Disclosure of Derivatives (continued)

Details on outstanding derivative FX forward contracts for both the non-designated and designated for hedge accounting as at 30 September 2013 are outline below: (continued)

Designated

FX Forward Contracts as designated hedging Instrument					Forward purchase of raw material and/or a/c payable as hedge items				
	Notional Value '000		Fair Value RM'000			Notional Value '000		Fair Value RM'000	
Maturity	Long USD	Short RM	Financial Asset	Financial Liability	Maturity	Short USD	n.a.	Financial Asset	Financial Liability
Less than 1 year	17,940	58,793	420.6	378.5	Matching	17,940	n.a.	378.5	420.6

(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 September 2013 is as follows:

Type of financial liability	Current quarter / YTD fair value gain RM'000	Basis of fair value measurement	Reasons for the gain
Interest rate swap ("IRS")	373	Interest rates differential between fixed and floating rates	The fair value loss of the IRS for the 1st quarter ended is lower than the fair value loss as at the preceding period (30 June 2013).

Quarterly report on consolidated results for the first financial quarter ended 30 September 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 RM8.3 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 losses disclosure**

	As at 30/09/2013 RM'000	As at 30/06/2013 RM'000
Total retained losses of the Company and its subsidiaries:		
- Realised	(175,399)	(140,376)
- Unrealised	(21,793)	(26,058)
	(197,192)	(166,434)
Add: Consolidation adjustments	127,089	128,239
Total retained losses as per consolidated accounts	(70,103)	(38,195)

B14 **Material litigation**

Mycron Steel Berhad v Multi Resources Holdings Sdn Bhd
(High Court of Sabah and Sarawak Suit No. KCH-22-80-2011)

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 successfully filed with the Kuala Lumpur High Court ("the Court") for a change in the jurisdiction for the case to be heard in Kuching. On 27 April 2011, MSB's solicitor filed the Writ of Summons and Statement of Claim to the High Court of Sabah and Sarawak. Hearings and trial of the case were conducted in the periods between 18 June 2012 to 21 June 2013, with the final submission made on 5 September 2013. The Court ruled on 18 Oct 2013 that MSB's claim be dismissed with cost of RM60,000 on the ground that MSB has failed to comply with a certain condition precedent requiring the MSB's nominee in the Board of PMPG to resign first before it is entitled to the claim against the Vendor. MSB is now considering its option to either appeal or file-a-fresh upon meeting the said condition precedent.

Save as disclosed above, the Group is not engaged in any material litigation, either as a plaintiff or defendant, claims or arbitration which have a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened against the Group or of any other facts likely to give rise to any proceedings which may materially and/or adversely affect the financial position and business of the Group 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 first financial quarter ended 30 September 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 year quarter 30/09/2013	Preceding year corresponding Quarter 30/09/2012	Current year to date 30/09/2013	Preceding year corresponding period 30/09/2012
Loss attributable to owners of the Company (RM'000)	(31,908)	(7,289)	(31,908)	(7,289)
Weighted average number of ordinary shares in issue (net of treasury shares) ('000)	225,523	225,523	225,523	225,523
Basic loss per share (sen)	(14.15)	(3.23)	(14.15)	(3.23)

(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
28 November 2013