

## **Quarterly report on consolidated results for the second financial quarter ended 31 December 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 last 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 cyclicity of operations**

The business of the Group is generally neither cyclical nor seasonal except for decreased activities during the Ramadan and Chinese New Year festive months.

#### **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.

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**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, or resale of 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 RM573 million).

	31/12/2013	30/06/2013
Total interest bearing debts in RM'million	265.7	245.5
Shareholders' funds less intangibles in RM'million	257.5	322.2
Gearing Ratio	1.03	0.76

The Group's debt securities are mainly represented by the Cold Rolling subsidiary's debenture (RM 145.5 million) and the Power Generation subsidiary's debenture (THB5.7 billion). The remaining interest bearing debts are generally unsecured credits or trade facilities.

**A7 Dividends paid**

No dividend was declared or paid in the current financial quarter.

**A8 Segmental reporting**

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

	<u>Steel Tube</u> <u>Manufacturing</u> RM'000	<u>Cold</u> <u>Rolling</u> RM'000	<u>Power</u> <u>Generation</u> RM'000	<u>Investment</u> <u>Holding</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>Revenue</u>						
Total revenue	120,705	236,185	86,301	826	8,072	452,089
Inter segment	(926)	(12,518)	-	-	-	(13,444)
External revenue	119,779	223,667	86,301	826	8,072	438,645
Segment's pre-tax profit/(losses)	5,220	4,915	(72,562)	(3,688)	(724)	(66,839)
Segment assets	225,179	423,942	680,509	19,962	1,383	1,350,975

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	1,350,975
Deferred tax asset	3,212
Derivative asset	403
Tax recoverable	527
	<u>1,355,117</u>

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**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 2013.

**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 31 December 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

Foreign Currency Forwards

as Assets (not hedge accounted)

as Assets (hedge accounted)

as Liabilities (not hedge accounted)

Total

Fair Value RM'000		
Level 1	Level 2	Level 3
0	158.4	0
0	244.8	0
0	(6.4)	0
0	396.8	0

The Foreign Currency Forwards are fair valued by way of marking-to-market using reference bank's published forward rates.

**A11 Subsequent material events**

There were no material events occurring between 1 January 2014 and the date of this announcement that warrant adjustments to the financial statements for the current quarter ended 31 December 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 31 December 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.



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**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 current quarter ended 31 December 2013, the Group registered a lower total revenue of RM208 million as compared to RM258 million achieved in the preceding year's corresponding quarter, representing a sharp decrease of RM50 million or 19%. The decrease in revenue is mainly attributed to lower revenue contributions from the power division (46%), cold rolling segment (13%) and steel tube segment (10%) in the current quarter. The Power segment's sharp decline in sales is attributed to disruption in power output arising from interruption of gas supplies experienced in December.

As a result, the Group recorded an operating loss of around RM6 million for the current quarter ended 31 December 2013 as compared to the preceding year's corresponding quarter's operating profit of RM5 million, mainly due to a lower revenue and margin contribution from the power division.

This flows down to a higher pre-tax loss of RM32.5 million by the Group for the current quarter ended 31 December 2013, representing an increase of RM4.6 million (16%) as compared to the preceding year's corresponding quarter pre-tax loss of RM27.9 million. The higher pre-tax loss is also partly attributed to the default interest charges of RM15.8 million incurred by the power segment during the current quarter on the back of absence in impairment losses (RM 15.4 million) and loss on disposal of available-for-sale (RM1.4 million) as incurred in the preceding corresponding quarter.

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

The Group's revenue at RM208 million for the current quarter was 10% lower compared to the immediate preceding quarter at RM231 million, principally due to decline in sales volume recorded by the power segment (down by 47%) and the steel tube segment (down by 6%). Gross profit contribution from the power segment has drop by RM2.7 million (down by 27%) for the current quarter as compared to the immediate preceding quarter - due to reason as described in Note B1 above.

The Group registered a lower loss before tax of RM32.5 million as compared to the immediate preceding quarter pre-tax loss of RM34.4 million, primarily due to the cold rolling segment's foreign exchange gains of RM1.6 million recorded for the current quarter as compared to the immediate preceding quarter's foreign exchange losses of RM3.4 million.

**B3 Prospects for the remaining financial year**

For the steel segments, the Group expects demand for its cold-rolled coils (CRC) and steel tubes to be lower over the Lunar Chinese New Year festive period before picking-up in March for a moderate third quarter performance. The Group's outlook for the balance of the financial year remains cautious due to the generally soft domestic and global economic outlook coupled with rising market risks. At the domestic front, higher costs due to the Government's fiscal tightening, weak Ringgit, and imported inflation continue to add pressure on demand, sales, and margins. At the global front, the rush back to USD denominated assets has resulted in severe currency and economic problems in various emerging/developing economies, whilst the touted prognosis of the US and EU economies being back on the recovery path remains patchy.

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

**B3 Prospects (continued)**

Nevertheless, the Group expects demand for its steel products to remain relatively fair for its plants' utilization rate due to their respective market position and diversified base of industrial customers. Therefore, the Group's financial performance and prospect outlook for the remaining of the financial year for the steel businesses is generally mixed and hinges on the following:

- 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

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 this regard, the continuing losses from the Power segment will continue to deplete the Group's shareholders' equity on a consolidated basis to the extent that it may trigger the minimum required under Bursa's Practice Note 17 Section 2.1 (e.) within the current financial year.

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 31/12/2013 RM'000	Preceding year corresponding quarter 31/12/2012 RM'000	Current year to date 31/12/2013 RM'000	Preceding year corresponding period 31/12/2012 RM'000
Depreciation and amortisation	(12,653)	(12,496)	(25,407)	(24,960)
Interest expenses	(24,844)	(12,774)	(53,834)	(23,615)
Interest income	196	201	436	370
Foreign exchange gain/(loss)	1,434	40	(744)	(439)

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

**B6 Taxation**

Taxation comprises :

	Current year quarter 31/12/2013 RM'000	Preceding year corresponding quarter 31/12/2012 RM'000	Current year to date 31/12/2013 RM'000	Preceding year corresponding period 31/12/2012 RM'000
Current tax expense				
Current period	(954)	(471)	(2,057)	(761)
Under provision in prior year	4	-	4	-
Deferred tax income				
Current period	(46)	(1,321)	2,940	(951)
	<u>(996)</u>	<u>(1,792)</u>	<u>887</u>	<u>(1,712)</u>

For the current financial quarter, 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 and certain expenses are not deductible for tax purposes. Whilst for the year to date, tax credit arose mainly due to deferred tax liabilities adjustment.

**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 31 December 2013 are as follows:

	<u>RM'000</u>
<u>Short-term borrowings:</u>	
Unsecured	83,815
Secured	<u>708,209</u>
	<u>792,024</u>
<u>Long-term borrowings:</u>	
Secured	<u>2,125</u>
	<u>2,125</u>
Total borrowings	<u>794,149</u>



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

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

The Group’s currency exposure of borrowings as at 31 December 2013 is as follows:

	<u>RM’000</u>
- Ringgit Malaysia	226,687
- Euro	6,689
- Thai Baht	<u>560,773</u>
Total borrowings	<u>794,149</u>

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 RM15.8 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 RM73.6 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 USD9.8 million (RM32.3 million) as at 31 December 2013. Inclusive of this, the Group’s net gearing ratio as at 31 December 2013 is around 1.03 times.

**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.

On 17 October 2013, the IRS was terminated as a result of default in the payment due by the subsidiary. Consequently, an early termination amount of THB24 million was charged by the bank which comprised of THB14 million being the mark-to-market redemption sum and THB10 million being termination charges.

The Group’s steel segment has also entered into forward foreign currency exchange contracts (FX forwards) to manage its foreign currency exchange exposure arising from purchases of raw materials denominated in US Dollar, and certain sales denominated in SGD.

Since the preceding quarter, the steel segment has started to designate certain eligible hedge relations on FX forwards incepted to cover its USD and SGD exposure 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 or accounts receivables in SGD) been charged to the Statement of Profit or Loss.



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**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 31 December 2013 are outline below:

**Non-designated**

FX Forward Contracts (USD/RM) 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	2,127	6,878	158.4	0

FX Forward Contracts (SGD/RM) as non-designated hedging instrument				
	Notional Value '000		Fair Value RM'000	
Maturity	Short SGD	Long RM	Financial Asset	Financial Liability
Less than 1 year	673	1,743	0	6.4

**Designated**

FX Forward Contracts (USD/RM) 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	4,665	15,165	244.8	0	Matching	4,665	n.a.	0	244.8

(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 inception. 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.



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

**B11 Outstanding Derivatives (continued)**

(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 31 December 2013 is as follows:

Type of financial liability	Current quarter fair value loss RM'000	Current financial year-to-date fair value gain RM'000	Basis of fair value measurement	Reasons for the loss
Interest rate swap	(373)	-	Interest rates differential between fixed and floating rates	The fair value gain of the IRS for the 1st quarter ended is deemed realised upon the early termination of the IRS contract on 17 October 2013.
Forward foreign currency exchange contract	47	482	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 favourably for the Group.
	(326)	482		

**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 RM8.5 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.

During the current quarter, the Company issued a Corporate Guarantee to a Hot Rolled Coiled Supplier for trade credits amounting to USD14 million extended to its non-wholly owned cold rolled subsidiary. This is also separately disclosed under the requirements of Bursa's PN11-A.

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

**B13 Realised and unrealised losses disclosure**

	As at 31/12/2013 RM'000	As at 30/06/2013 RM'000
Total retained losses of the Company and its subsidiaries:		
- Realised	(206,342)	(140,376)
- Unrealised	(26,276)	(26,058)
	<u>(232,618)</u>	<u>(166,434)</u>
Add: Consolidation adjustments	128,265	128,239
	<u>128,265</u>	<u>128,239</u>
Total retained losses as per consolidated accounts	<u>(104,353)</u>	<u>(38,195)</u>

**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 has filed an appeal on 13 Nov 2013 against the Court's decision and the Defendant has filed a cross-appeal on 10 Jan 2014. MSB is now waiting for the Court to set a date for hearing.

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 or pay any interim dividend in the current financial quarter.

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**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 31/12/2013	Preceding year corresponding Quarter 31/12/2012	Current year to date 31/12/2013	Preceding year corresponding period 31/12/2012
Loss attributable to owners of the Company (RM'000)	(34,250)	(30,326)	(66,158)	(37,615)
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)	(15.19)	(13.45)	(29.34)	(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

26 February 2014