Quarterly report on consolidated results for the third financial quarter ended 31 March 2014

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 the 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 cyclicality 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).

	31/03/2014	30/06/2013
Total interest bearing debts in RM'million	285.8	245.5
Shareholders' funds less intangibles in RM'million	233.0	322.2
Gearing Ratio	1.23	0.76

The Group's debt securities are mainly represented by the Cold Rolling subsidiary's debenture (RM139.0 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:

	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	171,401	348,974	144,635	1,235	11,791	678,036
Inter segment	(1,352)	(18,119)	-	-	-	(19,471)
External revenue	170,049	330,855	144,635	1,235	11,791	658,565
Segment's pre-tax profit/(losses)	5,218	2,972	(86,437)	(13,918)	536	(91,629)
Segment assets	216,192	456,215	723,045	21,131	419	1,417,002

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	1,417,002
Deferred tax asset	3,262
Tax recoverable	62
	1,420,326

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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 March 2014:

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 Liabilities (not hedge accounted)	0	117.8	0
as Assets (hedge accounted)	0	0	0
as Liabilities (hedge accounted)	0	339.0	0
Total	0	456.8	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**

Reference is made to the announcements dated 4 April 2014 and 30 April 2014 in relation to the disposal of 51% stake in Mperial Power Ltd ("Mperial") to E Power Pte Ltd by Melewar Steel Engineering Sdn Bhd, a subsidiary of the Company. The disposal was completed on 30 April 2014 and as a result thereof Mperial and its subsidiaries namely Siam Power Generation Public Company Ltd ("Siam Power"), Siam Power Phase 2 Company Ltd and Siam Power Phase 3 Company Ltd (hereinafter referred to as the Power Group) ceased to be sub-subsidiaries of the Company. Mperial has been reclassified as an associate company with effect from 1 May 2014. In line with the changes in definition of "control" under MFRS 10, the Company will no longer be required to consolidate the financial performance of the Power Group but to account as a component of its "Investment in Associate Companies". Since Siam Power is a subsidiary of an associate company, the Company is no longer bound by Practice Note 1 and henceforth, the declaration of PN1 by the Company vide its announcement dated 8 January 2013 is no longer applicable.

Quarterly report on consolidated results for the third financial quarter ended 31 March 2014

EXPLANATORY NOTES:

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 March 2014 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 third financial quarter ended 31 March 2014

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 March 2014, the Group registered a lower total revenue of RM220 million as compared to RM242 million achieved in the preceding year's corresponding quarter, representing a sharp decrease of RM22 million or 9%. The decrease in revenue is mainly attributed to lower revenue contributions from the steel tube division (18%), cold rolling segment (7%) and power segment (6%) in the current quarter.

Despite lower revenue achieved in the current quarter, the Group recorded an operating gain of RM12.6 million for the current quarter ended 31 March 2014 as compared to the preceding year's corresponding quarter's operating profit of RM0.6 million. This is contributed largely by the power segment's partial recognition of the take-or-pay electricity revenue amounting to RM22.8 million during the current quarter. The steel segments' operating profit for the current quarter is lower than the preceding year's corresponding quarter by around RM5.6 million (where Steel Tube is lower by RM1.9 million and Cold Rolling is lower by RM3.7 million) primarily due to a mix of lower volume (for both Steel Tube and Cold Roll) and thinner gross margin (for the Cold Roll).

The net impact is a lower pre-tax loss of RM24.8 million by the Group for the current quarter ended 31 March 2014 as compared to the preceding year's corresponding quarter pre-tax loss of RM49.3 million. The lower pre-tax loss is also partly attributed to lower default interest charges by RM13 million.

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

The Group's revenue at RM220 million for the current quarter was 6% higher compared to the immediate preceding quarter at RM208 million, principally due to partial recognition of the take-or-pay electricity revenue recorded by the power segment as described in Note B1 above.

The impact of the additional revenue has also contributed positively to the gross profit margin as well, which has been increased significantly from RM20.9 million for the current quarter as compared to the immediate preceding quarter of RM3.5 million. The steel segments recorded a lower operating profit for the current quarter due to the Chinese New Year festive period as compared to the preceding quarter (where Steel Tube is lower by RM2.5 million and Cold Rolling is lower by RM6.4 million).

At the pre-tax level, the Group registered a lower loss of RM24.8 million as compared to the immediate preceding quarter loss of RM32.5 million.

B3 **Prospects for the remaining financial year**

For the steel segments, the Group is of the view that the soft market environment coupled with intense margin/ pricing pressure as experienced in the recent quarters will likely continue into the last quarter of the current financial year. The anemic domestic demand amid rising costs, volatile foreign exchange rates, and pricing pressure from unfair competition from within the country and abroad have generally capped the Group's Cold Roll targeted production volume and unit contribution margin - which are trailing behind the preceding financial year's (where volume is down by 7% and unit gross margin is down by 9%). Similarly, the Steel Tube segment's lower sales volume (down around 10% from last financial year) is not expected to pick-up for the remaining financial year; whilst its' higher unit gross margin attained (up around 30% from last financial year) is expected to narrow for the remaining financial year.

B3 **Prospects** (continued)

Whilst the Group would intensify its effort to push up its steel segments' performance for the full financial year, the prospect outlook for the last quarter remains cautious and hinges on the following:

- The Government's continuing effort to plug import loopholes on CRC and steel tubes, and curtails unfair pricing
- Improvement to regional and domestic demand for end-products made from domestic tubes and cold roll coils
- The Group's continuing ability to pass on higher costs of doing business in its steel output selling prices to customers.

For the Power segment, Siam Power's below breakeven operating capacity continues to weigh down on the Group's consolidated performance. However, the current quarter entailed new development with Siam Power's Affected Customer who made a notification dated 17 February 2014 to the Stock Exchange of Thailand on its securing of trade financing and production off-take agreements which would enable it to resume production soon. The Affected Customer began to acquire some power supply from Siam Power for resumption trial runs in mid-April; and as of to-date, it is reported to have resumed production at partial capacity.

As disclosed in Notes A11, the Group has in April 2014 divested 51% stake in Mperial Power Ltd – the immediate holding company of the Power operation. The divestiture is expected to be positive accreting to the Group's consolidated shareholders' funds as the Power group will no longer be consolidated but be accounted as Investment in Associate. This will also curtail the imminent possibility of the Group's consolidated shareholders' equity hitting below the minimum required under Bursa's Practice Note 17 Section 2.1 (e.) due to the consolidation of the Power segment's continuing losses.

Having relinquished its' control over the Power operation which prospect outlook remains uncertain, the Group will continue with its divestiture plan and will intensify its search for investors until a complete exit. As disclosed in Notes B9, the last quarter also marks the completion of the Group's first phase steel restructuring with the consolidation of its steel tube business under a single entity. Whilst this will not materially impact the consolidated results of the Group for the current financial year, this will pave way for future restructuring exercise to better unlock value.

In view of the above, the Directors are of the opinion that the performance of the Group for the last quarter of the financial year will likely to remain subdued but may yield some gains at consolidated level attributable to the 51% stake divestiture of the Power holding company.

B4 **Variance of actual profit from forecast profit**
The Group did not issue any profit forecast or profit guarantee.

Quarterly report on consolidated results for the third financial quarter ended 31 March 2014

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

B5 **Loss before tax**

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

	Current year quarter 31/3/2014 RM'000	Preceding year corresponding quarter 31/3/2013 RM'000	Current year to date 31/3/2014 RM'000	Preceding year corresponding period 31/3/2013 RM'000
Depreciation and amortisation	(12,440)	(12,606)	(37,847)	(37,566)
Interest expenses	(36,476)	(40,709)	(90,310)	(64,324)
Interest income	272	189	708	559
Foreign exchange gain/(loss)	148	119	(596)	(320)

B6 **Taxation**

Taxation comprises :

	Current year quarter 31/3/2014 RM'000	Preceding year corresponding quarter 31/3/2013 RM'000	Current year to date 31/3/2014 RM'000	Preceding year corresponding period 31/3/2013 RM'000
Current tax expense				
Current period	(400)	(657)	(2,457)	(1,418)
Under provision in prior year	(26)	(34)	(22)	(34)
Deferred tax income				
Current period	779	(649)	3,719	(1,600)
	353	(1,340)	1,240	(3,052)

For the current financial quarter and current 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.

Quarterly report on consolidated results for the third financial quarter ended 31 March 2014

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

B9 **Status of corporate proposals**

Reference is made to its announcements dated 15 January 2014, 17 April 2014 and 2 May 2014 in relation to the internal reorganization where the steel tube trading, sales and marketing business in the Company is sold to its' wholly owned subsidiary- Melewar Steel Tube Sdn Bhd- pursuant to a Business Transfer Agreement (BTA) dated 15 January 2014. The Conditions Precedent as set out in the BTA has been fulfilled with effect from 16 April 2014. Within the context of the BTA, the date 16 April 2014 is now deemed as the "Unconditional Date" and pursuant to the provisions as set out in clause 6 of the BTA, all the specific tasks needed for the completion of the BTA in relation to the Proposed Internal Reorganisation have to all practical extent been executed as at end of 30 April 2014.

B10 **Group borrowings and debt securities**

The Group's borrowings as at 31 March 2014 are as follows:

	RM'000
Short-term borrowings:	
Unsecured	81,822
Secured	705,184
	787,006
Long-term borrowings:	
Secured	1,531
	1,531
Total borrowings	788,537

The Group's currency exposure of borrowings as at 31 March 2014 is as follows:

	RM'000
- Ringgit Malaysia	217,790
- Euro	6,641
- Thai Baht	564,106
Total borrowings	788,537

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 RM17.5 million were charged by the lenders and duly recognised in the profit or loss during the current quarter, giving rise to a total cumulative default interests of RM96.9 million.

Another subsidiary of the Group, Mycron Steel CRC Sdn Bhd has drawn on interest-bearing-trade credits from key hot-rolled-coil suppliers with an outstanding amount of USD18.4 million (RM61.4 million) as at 31 March 2014. Inclusive of this, the Group's net gearing ratio as at 31 March 2014 is around 1.23 times.

Quarterly report on consolidated results for the third financial quarter ended 31 March 2014

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

B11 **Outstanding Derivatives**

(a) Disclosure of Derivatives

The Group's steel segment has 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 beginning of the current financial year, 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.

Details on outstanding derivative FX forward contracts for both the non-designated and designated for hedge accounting as at 31 March 2014 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	6,633	21,982	0	117.8

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	7,911	26,436	0	339.0	Matching	7,911	n.a.	339.0	0

(i) Risk associated with the derivatives

<u>Counter-Party Risk</u>
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.

Quarterly report on consolidated results for the third financial quarter ended 31 March 2014

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 March 2014 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
Forward foreign currency exchange contract	(778)	(296)	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 against the Group.
	(778)	(296)		

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 RM7.4 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. On 21 January 2014, the Company has also given an undertaking to a Thai bank for the issuance of a guarantee amounting to THB132 million to a gas supplier as a security for due performance by its Power subsidiary.

B13 **Realised and unrealised losses disclosure**

	As at 31/3/2014 RM'000	As at 30/06/2013 RM'000
Total retained losses of the Company and its subsidiaries:		
- Realised	(231,361)	(140,376)
- Unrealised	(26,560)	(26,058)
	(257,921)	(166,434)
Add: Consolidation adjustments	129,999	128,239
Total retained losses as per consolidated accounts	(127,922)	(38,195)

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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
(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.

B16 **Loss per share**
(i) Basic loss per ordinary share

	Current year quarter 31/3/2014	Preceding year corresponding Quarter 31/3/2013	Current year to date 31/3/2014	Preceding year corresponding period 31/3/2013
Loss attributable to owners of the Company (RM'000)	(23,569)	(50,276)	(89,727)	(87,891)
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)	(10.45)	(22.29)	(39.79)	(38.97)

(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 2014