Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

EXPLANATORY NOTES:

A1 **Basis of Preparation & Significant Accounting Policies**

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 2015 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 2015.

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 2015.

The Group have not adopted the following new standards, amendments to standards and interpretations that have been issued but not yet effective for its current financial year.

- Amendment to MFRS 11 'Joint arrangements' (effective from 1 January 2016)
- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' (effective from 1 January 2016)
- Amendments to MFRS 10 and MFRS 128 regarding sale or contribution of assets between an investor and its associate or joint venture (effective from 1 January 2016)
- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.
- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

The Group is of the opinion that the abovementioned new standards, amendments to standards and interpretations will not have any material financial impact to the Group upon their initial application when effective.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

EXPLANATORY NOTES:

A2 **Audit qualification**

The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2015 was not subject to any audit qualification.

A3 **Seasonality or cyclicality of operations**

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

A4 **Unusual items**

There are no unusual items affecting assets, liabilities, equity, net income or cash flows attributable to its nature, size or incidence during the current financial quarter.

A5 **Changes in estimates**

There are no changes in estimates that have any material effect on the financial results during the current financial quarter.

A6 **Debts and equity securities**

There are no issuances, cancellations, repurchases, or resale of the Company's equity securities during the current financial quarter.

The Group has a policy to maintain its Gearing Ratio (measured as interest bearing debts over equity adjusted for the exclusion of intangibles) at below 1.25 times.

	31/12/2015	30/6/2015
Total interest bearing debts in RM'million	220.8	266.1
Adjusted Equity in RM'million	414.4	405.7
Gearing Ratio	0.53	0.66

The Group's debt securities are mainly represented by the Cold Rolled subsidiary's debenture (around RM72 million) and the Steel Tube subsidiary's debenture (around RM41.9 million), whilst the remaining interest bearing debts are unsecured suppliers' trade credits extended to the respective operating subsidiaries (see Note B10). The operating subsidiaries complied with their respective Gearing Ratio covenants for the current financial quarter ended 31 December 2015.

A7 **Dividends paid**

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

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

EXPLANATORY NOTES:

A8 **Segmental reporting**

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

	Steel Tube	Cold Rolled	Investment Holding	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
Total revenue	106,063	178,218	-	9,262	293,543
Inter segment	(495)	(11,369)	-	-	(11,864)
External revenue	105,568	166,849	-	9,262	281,679
Pre-tax profit/(losses)	6,735	10,450	(6,502)	(412)	10,271
Segment assets	102,476	405,975	112,189	2,377	623,017

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	623,017
Amount owing by an associate	35,570
Deferred tax assets	2,751
Derivative assets	1,386
Tax recoverable	338
	663,062

The businesses of the Group are carried out entirely in Malaysia.

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

The valuation of property, plant and equipment has been brought forward from the audited financial statements for the financial year ended 30 June 2015 and adjusted for the current financial year's depreciation where applicable to reflect the current period's ending net carrying value.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

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 approximate 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 2015:

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)	-	2.8	-
as Assets (hedge accounted)	-	1,382.8	-
as Liabilities (hedge accounted)	-	(0.7)	-
Total	-	1,384.9	-

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

A11 **Investment in Associate**

The Company through a wholly owned subsidiary retains a 49% interest in Mperial Power Ltd ("Mperial') being the holding company for Siam Power Generation Public Company Ltd ("Siam Power"), Siam Power Phase 2 Company Ltd ("Siam Power 2"), Siam Power Phase 3 Company Ltd ("Siam Power 3"), and MPower TT Ltd – hereinafter referred to as the 'Power Associate' or the 'Power Group.'

The Power Group is no longer a material associate of MIG Group considering its' carrying investment value has been reduced to nil with its share of the said associate's losses since end-September 2014. The Group's continuing share of the Associate's subsequent losses is not recognised but is recorded for future set-off against any arising share of gains. Details of the Group's unrecognised share of the Power Associate losses amounting to RM145.3 million as at the close of the current quarter are as follows:

Investment in the Power Associate

	As at 31/12/2015 RM'000	As at 30/6/2015 RM'000
Carrying value at the beginning of the financial year	-	22,541
Unrecognised share of losses b/f	(84,844)	-
Share of Net Loss	(48,589)	(92,953)
Share of Other Comprehensive Loss	(11,832)	(14,432)
Unrecognised share of losses c/f at closing of the period	(145,265)	(84,844)

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

EXPLANATORY NOTES:

A11 **Investment in Associate** (continued)

It was disclosed at the close of the preceding financial year that a Memorandum of Understanding (MOU) executed by the Mperial with a counter-party interested to acquire the entire equity stake in the power subsidiaries (hereinafter referred to as "the Interested Buyer") was pending finalisation of contractual terms and conditions for a definitive agreement. The counter-party has on 16 November 2015 made a public announcement to the Stock Exchange of Thailand on its intention to acquire the power subsidiaries of Mperial and that it will hold an EGM (extraordinary general meeting) on 8 January 2016 to seek its shareholders' approval of the intended acquisition. On 8 December 2015, the counter-party made further announcement to the Stock Exchange of Thailand on the appointment of Independent Advisor for the intended acquisition and that the EGM be held on 26 February 2016 instead. The intended definitive agreement has not been signed as at the close of the current reporting quarter. See note A13 for subsequent-event update.

A12 **Significant events and transactions**

There are no significant events or transactions for the current quarter affecting the Group's financial position and performance of its entities.

The sharp decline of the Ringgit against the USD recorded in the 1st quarter (by around 17%) has stabilised and retraced marginally (by around 3%) in the 2nd quarter. The Group maintained a high hedging ratio averaging around 90% of its foreign currency exposure which substantially mitigated volatility in its foreign exchange translations over the last two quarters, as disclosed in Notes B5 and B11.

The safeguard petition filed in July 2015 by the dominant domestic hot rolled coil (HRC) supplier Megasteel in seeking protective duties of 40% (on top of the existing 15% import duties imposed) on imported HRC was scheduled for ruling in December 2015, but was postponed to 8 January 2016. The subsequent event ruling was negative against the petitioner. Had the ruling been positive, the Group's cold rolled and steel tube segments' performance for the remaining quarters of the current financial year would likely be negatively impacted.

A13 **Subsequent material events**

There are no material events occurring between 1 January 2016 and the issuance date of this interim financial report that warrant any adjustment for the current quarter ended 31 December 2015.

As at issuance date of this interim financial report, the intended definitive agreement on the disposal of the power business by the Associate as disclosed in Note A11 has not been executed due to delays at the counter-party. In this regard, the counter-party has on 9 February announced to the Stock Exchange of Thailand the postponement of the intended EGM to on or before 28 March 2016 to seek its shareholders' approval of the acquisition.

The Group made an announcement on 2 February 2016 that its 70% held engineering subsidiary has formalised the acceptance of an EPC (Engineering, Procurement and Construction) engagement for a total contract sum of RM83million which will cut across at least two financial periods (i.e. 2016 and 2017).

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

EXPLANATORY NOTES:

A14 **Changes in the composition of the Group**

There is no change to the composition of the Group during the current financial quarter.

A15 **Contingent liabilities or contingent assets**

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

A16 **Capital commitments**

There are no material capital commitments whether provided or not already provided for in the financial statements at the end of the reporting quarter.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

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 second quarter ended 31 December 2015, the Group registered a 20% lower total revenue of RM146.9 million as compared to RM183.5 million achieved in the preceding year's corresponding quarter. The decrease in revenue is mainly attributed to its Cold Rolled subsidiary's lower sales volume (down by 23%) and lower average selling price per tonne (down by 10.3%); whilst its Steel Tube subsidiary's revenue contribution is relatively flat. The sharp decline is a reflection of the current soft market conditions and the after-effects of the GST (Goods and Service Tax) implemented since April 2015.

Despite the weaker sales in the current quarter, the gross margin for the Cold Rolled and the Steel Tube operations are up by 8% and 4.8% respectively due to better spread between the average selling price and the average cost of raw materials consumed as compared to the preceding year's corresponding quarter. The better gross margin is partly attributable to synergistic cost benefits arising from the corporate reorganisation exercise (concluded in last April 2015). As a result, the Group recorded a higher gross profit of RM18.3 million for the current quarter as compared to the preceding year's corresponding quarter gross profit of RM10.6 million. The Group also achieved a higher operating profit of RM10 million for the current quarter as compared to an operating loss of RM2.5 million in the preceding year's corresponding quarter which was affected by higher net foreign exchange loss and one-off operating expenses relating to the Group's reorganisation exercise. Consequently, the Group recorded a pre-tax-profit of RM7 million (after-tax-profit of RM4.9 million) for the current quarter as compared to a pre-tax-loss of RM6 million (after-tax-loss of RM5.7 million) in the preceding year's corresponding quarter.

The Group recorded a higher EBITDA of RM15.1 million compared to the preceding year's corresponding quarter's EBITDA of RM2 million.

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

The Group's revenue at RM146.9 million for the current 2nd quarter is 9% higher compared to the immediate preceding 1st quarter at RM134.8 million due to the increase in higher sales volume from both its Cold Rolled and Steel Tube segments which are up by around 10.9% and 11.9% respectively. The higher sales volume is attributed to a traditionally lower 1st quarter which saddles the Ramadan and Hari Raya holidays; and to a certain extent higher stock-up demand in the 2nd quarter due to the impending decision on safeguard duties on imported HRC.

At the pre-tax level, the Group's operations registered a pre-tax profit of around RM7 million compared with the immediate preceding quarter's pre-tax profit of around RM3.3 million which was mainly attributed to the higher sales volume and lower foreign exchange loss (current quarter: loss of RM4 thousand; immediate preceding quarter: loss of RM0.9 million) as the weak Ringgit plateaued at all-times low. At the post-tax level, the Group recorded an after-tax net profit of RM4.9 million as compared to an after-tax loss of RM1.9 million in the immediate preceding quarter, bringing the total year-to-date net profit at around RM6.8 million despite the generally difficult market condition.

The Group recorded a higher EBITDA at RM15.1 million compared to the immediate preceding quarter's RM11.6 million.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

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

B3 **Prospects for the remaining financial year**

The negative factors currently weighing on the economy will likely continue into the remaining financial year even-though the pace of downslide may likely decelerate. The weak Ringgit and depressed primary commodity prices (e.g. metals and crude oil) appear to be nearing bottom, while the depressed domestic sentiment seems to have peaked and plateaued as adjustment to reality sets in. The domestic economy remains at risk of further deterioration as signs of renewed global economic slowdown amidst peak global debts have begun to unfold.

Specific to the Group's Cold-Rolled and Steel Tube operations, the Government's negative ruling on Megasteel's safeguard petition bodes well for the Group and the steel industry as a whole. Whilst competition from unfairly priced Chinese steel products will unlikely abate against the backdrop of economic slowdown in China and key global markets, the negative safeguard ruling coupled with the existing anti-dumping and trade measures accord a window for domestic rollers and tube makers to compete against alternative cheap imports. Asides from that, the domestic steel market is expected to remain soft and difficult in tandem with the stymied economy and rising costs of doing business for the remaining of the current financial year.

The Group's engineering arm, which has been a negative performer for the 1st half of the current financial year, may start to show some positive contribution for the remaining quarters as progress billings in relation to the significant EPC engagement as mentioned in Note A13 crystallize.

In summary, the Group's prospect-outlook for the balance of the financial year is expected to remain challenging and laden with uncertainties. Barring any external shocks, the Group's ability to continue delivering positive results for the remaining quarters depends on its steel subsidiaries' ability to sustain spreads above economic production and sales volume, and the conclusive disposal of the power business held by its Associate before the end of the current financial year.

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

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

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

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

	Current year quarter 31/12/2015 RM'000	Preceding year corresponding quarter 31/12/2014 RM'000	Current year to date 31/12/2015 RM'000	Preceding year corresponding period 31/12/2014 RM'000
Depreciation and amortisation	(5,046)	(4,466)	(10,031)	(8,866)
Interest expenses	(3,308)	(3,797)	(6,796)	(7,173)
Interest income	180	189	381	2,531
Foreign exchange gain/(loss)	3,159	(3,437)	(8,186)	(5,292)
FX forward (loss)/gain	(3,163)	656	7,305	1,962

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

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

B6 **Taxation**

Taxation comprises :

	Current year quarter 31/12/2015 RM'000	Preceding year corresponding quarter 31/12/2014 RM'000	Current year to date 31/12/2015 RM'000	Preceding year corresponding period 31/12/2014 RM'000
Current tax expense				
Current period	(1,095)	(459)	(1,556)	(611)
Deferred tax income				
Current period	(967)	863	(1,922)	1,610
	(2,062)	404	(3,478)	999

For the 'current year-to-date' tax expense is higher due to deferred tax liability adjustments.

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

The Group did not engage in any sale of unquoted investments and / or properties in the current financial quarter.

B8 **Purchase or disposal of quoted securities**

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

B9 **Status of corporate proposals**

There are no outstanding corporate proposals as at the date of this announcement.

B10 **Group borrowings and debt securities**

The Group's bank borrowings from lending institutions as at 31 December 2015, which are denominated entirely in Ringgit Malaysia, are as follows:

	RM'000
Short-term borrowings:	
Unsecured	10,221
Secured	103,176
	113,397
Long-term borrowings:	
Secured	8,471
	8,471
Total borrowings	121,868

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

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

Besides the above borrowings, the Group's Cold Rolled subsidiary (Mycron Steel CRC Sdn Bhd) and the Steel Tube subsidiary (Melewar Steel Tube Sdn. Bhd,) also draw on interest-bearing trade credits from their respective raw-coil suppliers with outstanding amounts of RM79.9 million and RM18.9 million respectively as at 31 December 2015. Inclusive of this, the Group's net gearing ratio as at 31 December 2015 is around 0.53 times.

B11 **Outstanding derivatives**

The Group's steel segments have 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 ("USD") and Japanese Yen ("JPY"); and certain sales denominated in Singapore Dollar ("SGD"). In this regard, the Group covers its foreign exchange exposure at a range between 80% to 90% of its exposure depending on the length of the forward period and the availability of FX facilities.

The Group designates eligible hedge relations on FX forwards incepted to cover its USD, JPY and/ or SGD exposure for the purpose of hedge accounting. These are designated as fair value hedges with the arising mark-to-market foreign currency fair value gain or 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 and JPY or accounts receivables in SGD) being 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 December 2015 are outline below:

Non-designated

FX Forward Contracts (SDG/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	175	532	2.8	0

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	22,708	96,805	1,382.8	0	Matching	22,708	n.a.	0	1,382.8

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 JPY	Short RM	Financial Asset	Financial Liability	Maturity	Short JPY	n.a.	Financial Asset	Financial Liability
Less than 1 year	450	17	0	0.7	Matching	450	n.a.	0.7	0

Besides the above unrealised positions, the Group has recorded a total realised net gain of around RM5.9 million from its FX Forward Contracts incepted for hedging purposes over the current financial year.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2015

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

B11 **Outstanding derivatives** (continued)

(i) Risk associated with the derivatives

Counter-Party Risk
The Forward FX contracts are entered into with domestic licensed financial institutions which have extended FX lines to the Group. 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 Forward FX contracts are incepted. Upon maturity of the Forward FX contracts, domestic currency is exchanged for the foreign currency to meet its obligations.

(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 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.

B12 **Off balance sheet financial instruments and commitments**

There are no off balance sheet financial instruments as at the date of this announcement except for bank guarantees issued amounting to RM3.4 million being security for the supply of hot rolled coil and inbound supply of services and utilities; and standby-letter-of-credit of around RM45.9 million for the power Phase 2 project (where the project's delivery deadline has been extended to June 2018) for due performance by its associate.

B13 **Realised and unrealised losses disclosure**

	As at 31/12/2015 RM'000	As at 30/06/2015 RM'000
Total retained losses of the Company and its subsidiaries:		
- Realised	(197,102)	(207,247)
- Unrealised	(28,570)	(25,430)
	(225,672)	(232,677)
Add: Consolidation adjustments	267,006	269,057
Total retained earnings as per consolidated accounts	41,334	36,380

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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)
This case relates to the Company's subsidiary, Mycron Steel Berhad ("MSB") successful legal action against Multi Resources Holdings Sdn Bhd ("Defendant") to recoup its 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. MSB was awarded the RM17 million claimed together with interest at 6% p.a. and cost (RM70,000) against the Defendant/ Respondent, Multi Resources Holdings on 12 February 2015. The Defendant is reported to be currently under receivership administration, and MSB is liaising with the appointed receivers for recovery. The probability of monetary recovery remains uncertain and no reversal of the full impairment previously made has been recognised.

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 **Earnings/(Loss) per share**

(i) Basic earnings/(loss) per ordinary share

	Current year quarter 31/12/2015	Preceding year corresponding quarter 31/12/2014	Current year to date 31/12/2015	Preceding year corresponding period 31/12/2014
Profit/(Loss) attributable to owners of the Company (RM'000)	3,475	(3,636)	4,954	(25,116)
Weighted average number of ordinary shares in issue (net of treasury shares) ('000)	225,523	225,523	225,523	225,523
Basic earnings/(loss) per share (sen)	**1.54**	**(1.62)**	**2.20**	**(11.14)**

(ii) Diluted earnings/(loss) per ordinary share
This is not applicable to the Group.

This interim financial report has been authorised for issue by the Board of Directors on the date set-forth below.

By order of the Board
LILY YIN KAM MAY (MAICSA 0878038)
Secretary
Kuala Lumpur
24 February 2016