Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

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 2016 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 2016.

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 2016, except for the following new amendments to the MRFS ("standards") effective from 1 January 2016 which the Group shall apply commencing from the current quarter:

- Amendments to MFRS 11 'Joint arrangements' which requires an investor to apply the principles of MFRS 3 'Business Combination' when it acquires an interest in a joint operation that constitutes a business

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' which clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment, or to calculate the consumption of the economic benefits embodied in an intangible asset unless demonstrated to be highly correlated – is not appropriate.

The adoption of the above did not have any financial impact on this quarterly report.

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

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017)
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017)
- 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.
- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

The Group is of the opinion that the abovementioned new standards, amendments to standards and interpretations are unlikely to have any material financial impact to the Group upon their initial application when effective.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

EXPLANATORY NOTES:

A2 **Audit qualification**

The audit report of the Group in respect of the financial statements for the financial year ended 30 June 2016 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 other than from the ‘change in estimate’ affecting net income as disclosed in Note A5 below.

A5 **Changes in estimates**

For the current quarter, the Group’s wholly owned Engineering subsidiary has to make an additional loss provision of RM11.7 million on-top of the loss provision made in the preceding financial year of RM7 million for an onerous project. The change in estimate is attributed to cost developments of the project over the current quarter which could not have been justified in the preceding financial period.

Besides the above, there are no other changes in estimates that have any material effect on the financial results during the current financial quarter.

A6 **Debts and equity securities**

Other than the cancellation of 1,232,600 treasury shares which represent all the treasury shares held by the Company during the current quarter, there are no other 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.

	30/09/2016	30/06/2016
Total interest bearing debts in RM’million	207.4	191.1
Adjusted Equity in RM’million	437.6	439.9
Gearing Ratio	0.47	0.43

The Group’s debt securities are mainly represented by the Cold Rolled subsidiary’s debenture (around RM71.5 million) and the Steel Tube subsidiary’s debenture (around RM35.7 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 30 September 2016.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

EXPLANATORY NOTES:

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	Cold Rolled	Engineering	Investment Holding	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue						
Total revenue	57,447	116,002	20,311	2,597	1,337	197,694
Inter segment	(285)	(6,668)	-	(2,597)	(541)	(10,091)
External revenue	57,162	109,334	20,311	-	796	187,603
Pre-tax profit/(losses)	7,081	8,251	(13,445)	(3,055)	109	(1,059)
Segment assets	138,083	406,053	14,435	108,568	2,620	669,759

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	669,759
Amount owing by an associate	34,024
Deferred tax assets	2,697
Derivative assets	2,667
Tax recoverable	260
	709,407

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 2016 and adjusted for depreciation where applicable to reflect the current period's ending net carrying value.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

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 30 September 2016:

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)	-	144.3	-
as Assets (hedge accounted)	-	2,522.7	-
as Liabilities (not hedge accounted)	-	(25.3)	-
Total	-	2,641.7	-

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

A11 **Investment in Associates**

Investment in the Power 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 an immaterial associate of MIG Group considering its' carrying investment value has been reduced to zero 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 on the Group's unrecognised share of the Power Associate's losses amounting to RM230.6 million as at the close of the current quarter are as follows:

	As at 30/09/2016 RM'000	As at 30/6/2016 RM'000
Unrecognised share of losses b/f	(189,707)	(84,844)
Share of Net Loss	(29,285)	(100,767)
Share of Other Comprehensive Loss	(11,633)	(4,096)
Unrecognised share of losses c/f at closing of the period	(230,625)	(189,707)

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

EXPLANATORY NOTES:

A11 **Investment in Power Associate** (continued)

Investment in the Power Associate (continued)

Mperial has on 5 September 2016 entered into a 'Transaction Agreement' with an external foreign party to dispose 78.4% equity stake in Siam Power inclusive of its bank debts to the latter for a total net consideration of THB334 million (approximately RM38.2million). An earnest deposit and partial payment totalling THB230 million (approximately RM26.2million) has been received by Mperial, and the transaction is expected to complete within a 12 months period. Mperial also informed that it is in an advance stage of discussion with a separate potential buyer for the disposal of Siam Power 2, and it hopes to clinch an agreement soon. The eventual disposal of Siam Power 2 by Mperial would also lead to the Group disposing its 49% equity interest in Mperial.

Investment in Jack Nathan Limited ("JNL")
The Group's 45% equity interest in JNL, a private limited company incorporated in the United Kingdom ("UK") is held through its wholly owned subsidiary Melewar Imperial Limited, a company incorporated in Labuan, Malaysia. JNL's scope of business is in the trading of building tools and materials in Amersham, UK. As at the close of the current financial quarter, the share of losses are not recognised by the Group but are recorded for future set-off against any arising share of future gains. Details of the Group's unrecognised share of JNL's losses for the current financial quarter amounting to RM149.7 thousand as at the close of the current quarter are as follows:

	As at 30/09/2016 RM	As at 30/6/2016 RM
Carrying value at date of investment	-	264
Unrecognised share of losses b/f	(243,022)	-
Share of Net Profit/(Loss)	93,282	(275,112)
Share of Other Comprehensive Income/(Loss)	52	31,826
Unrecognised share of losses c/f at closing of the period	(149,688)	(243.022)

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.

A13 **Subsequent material events**

There are no material events occurring between 1 October 2016 and the issuance date of this interim financial report that warrant any adjustment for the current quarter ended 30 September 2016.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

EXPLANATORY NOTES:

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

There are no changes 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 not already provided for in the financial statements at the end of the reporting quarter.

<u>Quarterly report on consolidated results for the first financial quarter ended 30 September 2016</u>

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 ended 30 September 2016, the Group registered a 39% higher total revenue of RM187.6 million as compared to RM134.8 million achieved in the preceding year's corresponding quarter. The increase in revenue is mainly attributed to the higher contribution from the Engineering subsidiary amounting to RM20.5 million compared to the preceding year's corresponding quarter of RM2.4 million. In comparison with the preceding year's corresponding quarter, both the sales volume and the average unit selling price for the Cold Rolled and Steel Tube subsidiaries are up by 27% and 11%; and 6% and 3%, respectively for the current quarter.

The Group suffered a loss before tax of RM1.1 million for the current quarter as compared to a profit before tax of RM3.3 million in the preceding year's corresponding quarter. The Cold Rolled and Steel Tube subsidiaries delivered strong performance for the current quarter with pre-tax profit contribution of RM8.2 million and RM5.4 million respectively (preceding year's corresponding quarter pre-tax profit at RM3.6 million and RM0.7 million respectively), mainly attributed to higher sales volume and unit selling price in both the subsidiaries for the current quarter. However the better performance of the steel operations is significantly negated by its Engineering subsidiary's pre-tax loss contribution of RM13.5 million for the current quarter (preceding year's corresponding quarter pre-tax loss of RM0.5 million) arising from additional loss-provision of onerous contract (as disclosed in Note A5). Consequently, the Group registered an after-tax loss of RM4.5 million for the current quarter, of-which is a significant setback in comparison with the preceding year's corresponding quarter profit-after-tax of RM1.9 million.

The Group recorded a lower EBITDA of RM6 million compared to the preceding year's corresponding quarter's EBITDA of RM11.6 million.

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

The Group's revenue for the current first quarter at RM187.6 million is 8.2% higher compared to the immediate preceding quarter at RM173.4 million despite the Ramadan and Hari Raya festive period saddling the current quarter. The higher revenue is attributed to the increase in unit selling price for the Cold Rolled subsidiary by 10% and the increase in sales volume for the Steel Tube subsidiary by 12%.

Despite the increase in revenue, the Group registered a pre-tax loss of RM1.1 million compared with the immediate preceding quarter's pre-tax profit of RM14.9 million excluding impairments/write-down of RM10 million. The pre-tax loss is mainly due to its Engineering subsidiary's significant pre-tax loss contribution of RM13.5 million for the current quarter (immediate preceding quarter pre-tax loss of RM9.9 million) arising from additional loss-provision of onerous contract (as disclosed in Note A5). The Group's steel operations' pre-tax profit contribution for the current quarter was also lower compared to the immediate preceding quarter mainly due to a lower spread between selling price and raw material in the Cold Rolled subsidiary. At the post-tax level, the Group recorded a net loss of RM4.5 million for the current quarter compared to a net profit of RM2.0 million in the immediate preceding quarter.

The Group recorded a lower EBITDA at RM6 million compared to the immediate preceding quarter's EBITDA of RM17 million.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

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

B3 **Prospects for the remaining financial year**

The already weak outlook of the domestic economy has been knocked down a few notches due to anticipated policy changes of the new US administration from its recently concluded 58th presidential election. Anticipated impact from policy changes affecting yields and a stronger USD, coupled with the negative global spotlight on myriad of domestic issues, knocked the already weak Ringgit to unprecedented low levels- which does not bode well for the country. Foreign capital flight aside, the badly shrunken Ringgit further pushes up costs, erode wealth, increases debt service obligations of the nation's foreign debts, and increases its sovereign credit risk.

Specific to the Group's steel businesses, the ramifications of the above-mentioned are generally negative. Besides the weak Ringgit which increases the landed cost of imported raw materials, Hot Rolled Coil prices in USD also saw sharp increases by more than 15% in the early 2nd quarter following the sharp increase in coking-coal prices by more than 70% over the current quarter. Even-though the Group's steel businesses' financial performance is not directly correlated with steel prices, such sharp movement in prices may affect demand and erode margins in the near-term. The acceleration of cost pushed inflation translates to higher production and operation cost which in the near-term may also erode margins. On the positive side, the wide industrial applications of the Group's flat steel products provide a relatively stable demand base –as the 'end consumer' output may benefit from the weaker Ringgit in export markets. On-going and planned mega infrastructural and construction projects in the country will also continue to provide a strong support for local steel demand.

The Engineering segment's negative contribution to the Group will likely persist for the remaining financial year, as the engineering subsidiary gives focus on completing its contractual work obligation within the revised cost budget which contributed to the onerous contract's significant loss provisions to-date.

In conclusion, the Group's prospect outlook for the remaining of the current financial year is generally negative principally due to the Engineering segment's negative contribution. The engineering subsidiary is engaging the client to seek variation claims, and any positive resolution arising from the aforementioned may improve the prospect of the Group for the remaining financial year.

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

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

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

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

	Current year quarter 30/09/2016 RM'000	Preceding year corresponding quarter 30/09/2015 RM'000	Current year to date 30/09/2016 RM'000	Preceding year corresponding period 30/09/2015 RM'000
Depreciation and amortisation	(4,917)	(4,985)	(4,917)	(4,985)
Interest expenses	(2,354)	(3,488)	(2,354)	(3,488)
Interest income	230	201	230	201
Foreign exchange loss	(4,478)	(11,345)	(4,478)	(11,345)
FX forward gain	4,155	10,468	4,155	10,468

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

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

B6 **Taxation**

Taxation comprises:

	Current year quarter 30/09/2016 RM'000	Preceding year corresponding quarter 30/09/2015 RM'000	Current year to date 30/09/2016 RM'000	Preceding year corresponding period 30/09/2015 RM'000
Current tax expense				
Current period	(1,684)	(461)	(1,684)	(461)
Deferred tax income				
Current period	(1,718)	(955)	(1,718)	(955)
	(3,402)	(1,416)	(3,402)	(1,416)

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 30 September 2016 undertaken by its Steel subsidiaries, which are denominated entirely in Ringgit Malaysia, are as follows:

	RM'000
Short-term borrowings:	
Unsecured	2,373
Secured	98,665
	101,038
Long-term borrowings:	
Unsecured	-
Secured	6,421
	6,421
Total borrowings	107,459

Quarterly report on consolidated results for the first financial quarter ended 30 September 2016

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 and the Steel Tube subsidiary also draw on interest-bearing trade credits from their respective raw-coil suppliers with outstanding amounts of RM63.8 million and RM36.1 million respectively as at 30 September 2016. Inclusive of this, the Group's net gearing ratio as at 30 September 2016 is around 0.47 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 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 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/ (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) 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 30 September 2016 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	585	1,758	-	25.3

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	1,840	7,511	144.3	-

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	33,163	135,655	2,522.7	-	Matching	33,163	n.a.	-	2,522.7

Besides the above unrealised positions, the Group has recorded a total realised net gain of around RM1.5 million from its FX Forward Contracts incepted for hedging purposes over the current financial year.

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 RM530,000 being security for the inbound supply of services and utilities; and a standby-letter-of-credit of around RM46 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. The Company has reviewed the position with its associate and is satisfied that the motion to uplift the said commitment is duly incorporated into its associate's terms of divestiture of its Siam Power 2 and that the associate is confident in getting the said delivery deadline extended if required.

The Company has also issued a corporate guarantee for the due performance of its wholly owned engineering subsidiary to its client under an EPC (or Engineering, Procurement, and Construction) contract valued at RM83 million which has been determined to be onerous since the preceding financial year. The Company has since reviewed the position of its corporate guarantee and is of the opinion that the likelihood of any call on the same remains unlikely as the engineering subsidiary is committed to fulfilling its contractual obligations to its client and that it has made additional loss provision in the current quarter (as disclosed in Note A5) with the view to complete the project.

B13 **Realised and unrealised losses disclosure**

	As at 30/09/2016 RM'000	As at 30/06/2016 RM'000
Total retained losses of the Company and its subsidiaries:		
- Realised	(161,328)	(152,927)
- Unrealised	(34,199)	(37,714)
	(195,527)	(190,641)
Add: Consolidation adjustments	229,912	234,870
Total retained earnings as per consolidated accounts	34,385	44,229

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

B14 **Material litigation**

The Group did 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)/Earnings per share**

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

	Current year quarter 30/09/2016	Preceding year corresponding quarter 30/09/2015	Current year to date 30/09/2016	Preceding year corresponding period 30/09/2015
(Loss)/Profit attributable to owners of the Company (RM'000)	(8,093)	1,479	(8,093)	1,479
Weighted average number of ordinary shares in issue (net of treasury shares) ('000)	225,523	225,523	225,523	225,523
Basic (loss)/earnings per share (sen)	**(3.59)**	**0.66**	**(3.59)**	**0.66**

(ii) Diluted (loss)/earnings 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
28 November 2016