Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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 2017 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 2017.

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 2017, except for the following new amendments to the MRFS ("standards") effective from 1 January 2017 which the Group has adopted since the 1st quarter of the current financial year:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative which introduced additional disclosure on changes in liabilities arising from financing activities

- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' which clarify the requirements for recognizing deferred tax asset on unrealized losses arising from deductible temporary difference on asset carried at fair value.

The adoption of the above did not have any material impact on the Group's financial statements to-date.

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.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

- 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.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A1 **Basis of Preparation & Significant Accounting Policies** (continued)

Preliminary review indicates 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. The Group has since conducted detailed impact assessment on the two new standards coming into effect in the next financial year from 1 July 2018:

- MFRS 9
  The application of MFRS 9 is not expected to result in any material change to the Group's classification and measurement of its financial assets and liabilities; nor in its hedge accounting practices that are aligned with its risk management practices- compared to the requirements under MFRS139. The new "Expected Credit Loss" (ECL) model increases the scope for credit impairment with the additions of forward looking information and estimates. Given that the Group's credit risks are mainly concentrated in short-term trade receivables, the Group shall apply allowable practical-expedient in ECL provision based on a supportable "overdue-days matrix". Barring any unforeseeable development of adverse conditions which may negatively affect credit outlook, the adoption of the ECL model is not expected to result in material increase in credit impairment for the initial application period as well as on retrospective adjustments.

- MFRS 15
  The application of MFRS 15 is not expected to result in any material change to the timing and quantum of revenue recognition of the Group for the initial application period and the comparative retrospective period. The Group's steel businesses' nature of sales are mainly spot and/or near-term based on generic simplified contracts with single point fulfilment at fixed prices – which generally do not give rise to any contract assets or liabilities. The Group's engineering business entails customized contracts, usually with multi-point deliverables and milestone payments which may cut across multiple reporting periods and give rise to contract assets or liabilities. These contracts usually do not entail complications like distinguishable allocation of goods and services, separate warranties, packaged after-sales-service, or long-term financing features – which may result in revenue recognition differences under MFRS 15. Moreover, the existing engineering construction contracts are expected to complete within the current financial year.

A2 **Audit qualification**

The audit report of the Group in respect of the annual financial statements for the financial year ended 30 June 2017 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.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A5 **Changes in estimates**

There are no changes in estimates that have any material effect on the financial results during the current financial quarter. The Group's Engineering subsidiary's onerous construction contracts' estimated cost-to-completion are still within budgeted sums which were last revised at the preceding financial year-end. Details of these construction contracts and the movement in provisions are outlined below.

all in RM'000	Onerous Construction Contracts		
	Project # 1	Project # 2	Total
Original Project's Profits/(Loss) budget	9,000	1,500	10,500
Last Revised Project's Profits/(Loss) budget as at: 30/06/17	(87,060)	(12,175)	(99,235)
Recognised Project's Profits/(Loss) for the period:			
Financial year ended 30/6/16	(7,061)	158	(6,903)
Financial year ended 30/6/17	(71,607)	(12,333)	(83,940)
Current financial year-to-date 2018			
1st financial quarter ended 30/09/17	-	-	-
2nd financial quarter ended 31/12/17	-	-	-
	(78,668)	(12,175)	(90,843)
Recognised Project's LAD for the period:			
Financial year ended 30/6/17	(8,392)	-	(8,392)
Total recognised losses	(87,060)	(12,175)	(99,235)
Loss Provision reversed/(made) for the period:			
Financial year ended 30/6/16	(7,061)	-	(7,061)
Financial year ended 30/6/17	(10,685)	(3,262)	(13,947)
Current financial year-to-date 2018			
1st financial quarter ended 30/09/17	4,209	1,112	5,321
2nd financial quarter ended 31/12/17	2,980	570	3,550
	(10,557)	(1,580)	(12,137)
Loss Provision made on Project's LAD:			
Financial year ended 30/6/17	(8,392)	-	(8,392)
Recognised loss in provision	(18,949)	(1,580)	(20,529)
Percentage of completion based on cost incurred as at 31/12/17	87%	87%	

Both the construction contracts are expected to conclude in the remaining financial year.

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.

	31/12/2017	30/06/2017
Total interest bearing debts in RM'million	259.4	280.3
Adjusted Equity in RM'million	395.1	387.9
Gearing Ratio	0.66	0.72

Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A6 **Debts and equity securities** (continued)

Over the preceding reporting quarter, the Group's Engineering subsidiary incepted an unsecured outstanding debt of RM34.5 million to finance its onerous projects. The Group's other debt securities are mainly represented by the Cold Rolled subsidiary's debenture (around RM49.9 million) and the Steel Tube subsidiary's debenture (around RM12.6 million), whilst the remaining interest bearing debts are mostly unsecured suppliers' trade credits extended to the steel subsidiaries (see Note B10). The lower absolute gearing for the current financial quarter is attributed to the lower trade facilities & credits drawn to finance lower inventory carrying value of RM147.2 million (as compared to RM177.2 million as at 30 June 2017).

Debt covenants where applicable are in full compliance for the current financial quarter ended 31 December 2017.

A7 **Dividends paid**

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

A8 **Segmental reporting**

The Group's 'year-to-date' segmental information based on the nature-of-business 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	131,088	262,982	11,469	5,837	1,569	412,945
Inter segment	(886)	(15,200)	-	(5,837)	(1,524)	(23,447)
External revenue	130,202	247,782	11,469	-	45	389,498
Pre-tax profit/(losses)	12,504	8,050	(2,747)	(8,251)	837	10,393
Segment assets	198,254	422,460	10,216	113,396	2,651	746,977

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	746,977
Amount owing by associates	6,522
Deferred tax assets	1,929
Derivative financial asset	25
Tax recoverable	156
	755,609

Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A8 **Segmental reporting** (continued)

The businesses of the Group are carried out entirely in Malaysia. "Pre-tax Profit to Segment Assets Employed" percentage for the Steel Tube Segment at 6% is significantly higher than the Cold Rolled Segment's at 2% partly due to the fact that the Steel Tube Segment does not own the factories' land and building (fair valued at around RM100 million as at 30 June 2017) which are rented from the Company and sister company categorised under Investment Holding for a monthly rental sum of RM455,400 which is eliminated in the segmental reporting.

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 2017 and adjusted for depreciation where applicable to reflect the current period's ending net carrying value.

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 2017:

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)	-	24.7	-
as Assets (hedge accounted)	-	-	-
as Liabilities (not hedge accounted)	-	(58.7)	-
as Liabilities (hedge accounted)	-	(7,127.1)	-
Total	-	(7,161.1)	-

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

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Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A11 **Investment in Associates**

(i) Investment in the Power Associate

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

The Power Group is an immaterial associate of MIG Group based on its' carrying investment value which 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- such those for the current quarter.

Details of the Group's unrecognised share of the Power Associate's losses amounting to RM31.2 million at the close of the current financial quarter are as follows:

	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Unrecognised share of losses b/f	(28,948)	(189,707)
Share of Net (Loss)/Profit	(2,238)	147,443
Share of Other Comprehensive (Loss)/Income	(60)	13,316
Unrecognised share of losses c/f at closing of the period	(31,246)	(28,948)

It was reported in the 4th financial quarter of the preceding financial year that Mperial entered into a share-sale agreement with a Buyer to dispose its entire stake in Siam Power 2 for a minimum consideration of USD7.1 million (RM28.8 million), plus another USD2.9 million (RM11.7 million) for the extension of the performance guarantee's deadline to 1 May 2019 for the completion of the second phase 90MW development from the Electricity Generating Authority of Thailand ("EGAT") - which was duly obtained in the previous financial quarter.

As one of the share-sale agreement's condition precedent, the Buyer has in the current financial quarter issued a bank guarantee of THB384.8 million through Siam Power 2 to EGAT in substitution of those assets currently pledged by the Company in support of the said performance guarantee. At the close of the current financial quarter, the share-sale is pending completion.

The Company disposed its 49% equity-stake in Mperial to the controlling shareholder after the close of the current financial quarter. (See Note A13)

(ii) 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 ("MIL"), a company incorporated in Labuan, Malaysia. JNL's scope of business is in the trading of building tools and materials in Amersham, UK.

JNL ceased as an associate and became a wholly owned subsidiary of the Group following MIL's acquisition of the remaining 55% of the issued and paid up share capital of JNL from the controlling shareholders on 19 October 2017 (see Note A12(i)).

Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A11 **Investment in Associates** (continued)

(ii) Investment in Jack Nathan Limited ("JNL") (continued)

Details of the Group's unrecognised pre-acquisition share of JNL's losses amounting to RM492 thousand as at 19 October 2017 are as follows:

	As at 19/10/2017 RM'000	As at 30/06/2017 RM'000
Unrecognised share of losses b/f	(400)	(243)
Share of Net Loss	(95)	(145)
Share of Other Comprehensive Income/(Loss)	3	(12)
Unrecognised share of losses c/f	(492)	(400)

A12 **Significant events and transactions**

(i) Acquisition of controlling stake in JNL

The Group's wholly owned subsidiary Melewar Imperial Limited (MIL) has on 25 September 2017 entered into an Agreement to acquire the remaining 55 ordinary shares (representing 55% of the issued and paid up capital) in Jack Nathan Limited (JNL) from the controlling shareholders for a total cash consideration of GBP18,000 ("Acquisition Price"). The rationale for the acquisition is to allow for better effective control on the management and operations of JNL in furtherance of the Group's steel tube export to the UK market.

The acquisition was duly completed on 19 October 2017 ("Acquisition Date"), and JNL effectively becomes a wholly owned subsidiary of the Group. On Acquisition Date, MIL measured the underlying fair value of identifiable assets acquired and liabilities assumed from JNL. The tabulation below summarises the fair value of consideration paid, and the fair value of assets and liabilities assumed and recognised in a business combination.

As at 19 October 2017	Notes	GBP	RM
Cost of Business Combination			
Consideration transferred for 55% ordinary shares of JNL	a	18,000	101,075
Fair value of existing 45% equity interest held in JNL	b	14,727	82,698
Total fair value of investment	c	32,727	183,773
Amount recognized on identifiable Assets and Liabilities acquired	d		
Non-Financial Assets	e	29,492	163,838
Financial Assets	f	819	4,550
Financial Liabilities	g	(147,022)	(816,766)
Net Liability Assumed		(116,711)	(648,378)
Goodwill on acquistion	h	149,439	832,151

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Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A12 **Significant events and transactions** (continued)

(i) Acquisition of controlling stake in JNL (continued)

Notes

a. The acquisition price was determined based on arm's length negotiations with the sellers.
b. The acquisition price MIL paid for the 55 ordinary shares, confers a pro-rated fair value on the existing 45 ordinary shares held (which original investment cost at GBP45 has been fully impaired). This gives rise to a fair value gain for MIL at entity level on its existing equity interest held in JNL of the same amount.
c. Represents MIL's carrying fair value on of its entire equity interest in JNL on Acquisition Date.
d. In allocating the cost of business combination in JNL, no contingent liabilities or previously recognised intangible assets were identified.
e. Non-financial assets comprise of rented-property improvements which was fair valued by an independent party; furniture and fittings; office equipment; and pre-payments.
f. Financial Assets comprise of bank balance and credits. Cash accreting to the Group pursuant to the business combination is GBP719 (RM 3,994).
g. Financial Liabilities comprise mainly of an interest-free borrowing.
h. This goodwill is recognised as an asset in JNL on Acquisition Date.

At the close of the current financial quarter, the acquired goodwill was tested for impairment and a full loss provision was made and taken-up in the Group's Statement of Profit or Loss. JNL recorded a post-acquisition loss of GBP13,037 (RM72,408) in the current financial quarter.

(ii) Disposal of Property by the Company to an indirect subsidiary

On 20 November 2017 the Company announced that it has entered into a conditional agreement to dispose a factory leased land and buildings on Lot 53, Persiaran Selangor, Shah Alam (currently pending discharge as security-pledge for the SBLC mentioned in Note A13(i)) to its 71.26% indirectly held steel tube subsidiary Melewar Steel Tube Sdn Bhd ("MST") for a total consideration of RM26 million. The proposed disposal is not deemed as a 'related party transaction' under Bursa Malaysia's listing rules; and will not have any impact on the Group's net assets, earnings, or earnings per share for the period (as the disposal is at its carrying fair value to a party within the Group). The subject property is currently rented to MST for monthly rental sum of RM126,500, and the disposal will result in a loss of a source of rental income to the Company. The Company plans to utilise the disposal proceeds for its working capital and to meet possible financial obligations arising from corporate guarantees issued by the Company for the benefit of its wholly owned Engineering subsidiary (see Note B12). At the issuance date of this quarterly report, the disposal is still pending completion of various conditions.

A13 **Subsequent material events**

(i) Release of pledged securities

The Electricity Generating Authority of Thailand ("EGAT") has on 19 January 2018 released the performance guarantee of THB384.8 million (RM47.8 million) by the Power Associate's Siam Power 2 to deliver power supply to under the second phase's 90MW development before 30 June 2018. Correspondingly, the Company's pledged investment properties and deposits for a Standby Letter of Credit (SBLC) in support of the said performance guarantee has since been released and is currently under legal discharge.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A13 **Subsequent material events** (continued)

(ii) Disposal of the Power Associate

The Company through its wholly owned subsidiary has on 7 February 2018 ('disposal date') disposed its entire holdings of 49 ordinary shares representing 49% of the issued and paid-up capital of Mperial Power Ltd (Mperial) to the controlling shareholder E Power Pte Ltd for a total consideration of USD1 (RM3.91). The rationale for the disposal is for the Group to exit its associate holding in the Power business which is being divested. Mperial Group's shareholders' funds on disposal date is around negative RM55.8 million. The pro-forma impact arising from the completion of Mperial's divestment of SIPCO 2 for USD10 million would be insufficient to reverse the deficit shareholders' funds position of Mperial Group; and would be inadequate to eliminate the Group's unrecognised share of the Power Associate's accumulated losses. (See Note A11(i)). The disposal (of the remaining 49% associate interest in Mperial) is immaterial to the Company and the Group's financials for that reporting period.

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**

There are no contingent liabilities for the current financial quarter.

A16 **Capital commitments**

At the end of the current reporting quarter, the Group's in-direct Cold Rolled subsidiary has a balance outstanding capital commitment of around USD0.5 million (RM2.03 million) for the supply and installation of new motor-drives for its 'rolling mill'. The said capital commitment will be payable over three remaining milestones running into calendar year 2018.

Quarterly report on consolidated results for the second financial quarter ended 31 December 2017

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

B1 **Review of the performance of the Company and its principal subsidiaries**

	Individual Period (2nd quarter)		Changes		Cumulative Period		Changes	
	Current Year Quarter 31/12/2017	Preceding Year Corresponding Quarter 31/12/2016			Current Year To-date 31/12/2017	Preceding Year Corresponding Period 31/12/2016		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	203,198	182,881	20,317	11%	389,498	370,484	19,014	5%
Operating Profit/(loss)	7,826	(34,211)	42,037	-123%	16,820	(33,146)	49,966	-151%
Profit/(Loss) Before Interest and Tax	6,997	(34,211)	41,208	-120%	15,991	(33,146)	49,137	-148%
Profit/(Loss) Before Tax	4,262	(36,802)	41,064	-112%	10,393	(37,861)	48,254	-127%
Profit/(Loss) After Tax	2,825	(39,686)	42,511	-107%	6,438	(44,147)	50,585	-115%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	1,325	(42,778)	44,103	-103%	3,254	(50,871)	54,125	-106%

The Group's revenue for the second financial quarter ended 31 December 2017 registered a 11% higher revenue of RM203.2 million as compared to RM182.9 million achieved in the preceding year's corresponding quarter. At segment level comparison against the preceding year's corresponding quarter, the revenue contribution from the Cold Rolled segment has increased significantly by 26% whilst its Steel Tube segment dropped by 12% for the current financial quarter. The overall steel segments' higher revenue is attributed to higher average unit selling price by around 22% due to the run-up in raw steel prices. Sales volume in-comparison is relatively flat for the Cold Rolled segment whilst the Steel Tube segment is down by 26%.

The Group recorded a pre-tax profit of RM4.3 million for the current financial quarter compared to a pre-tax loss of RM39.7 million in the preceding year's corresponding quarter in the absence of further material losses from the Engineering segment given that full loss provisions on its' onerous construction contracts have been made in the preceding financial year. The Group's pre-tax profit for the current financial quarter is contributed mainly by the steel segments' pre-tax profits of RM9.7 million. Nevertheless, the steel segments' pre-tax profit for the current financial quarter is lower by 37% compared to the preceding financial quarter mainly due to weaker gross margin spread of its Steel Tube segment.

Despite a weaker performance of the Steel Tube segment due to lower sales volume and higher unit conversion cost from lower production volume, the Group managed to register an after-tax profit of RM2.8 million for the current quarter, of-which is a significant turnaround in comparison with the preceding year's corresponding quarter after-tax loss of RM42.8 million.

The Group recorded a higher EBITDA of RM12.8 million compared to the preceding year's corresponding quarter's LBITDA of RM29.3 million.

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

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

	Current Quarter 31/12/2017	Immediate Preceding Quarter 30/09/2017	Changes	
	RM'000	RM'000	RM'000	%
Revenue	203,198	186,300	16,898	9%
Operating Profit	7,826	8,994	(1,168)	-13%
Profit Before Interest and Tax	6,997	8,994	(1,997)	-22%
Profit Before Tax	4,262	6,131	(1,869)	-30%
Profit After Tax	2,825	3,613	(788)	-22%
Profit Attributable to Ordinary Equity Holders of the Parent	1,325	1,929	(604)	-31%

The Group's revenue for the current second quarter at RM203.2 million is 9% higher compared to the immediate preceding quarter's at RM186.3 million, due to higher contributions from its Cold Rolled segment (up by 19%) despite negative contribution from its Steel Tube segment (down by 3% due to lower sales volume) and Engineering segment (lower by 33% due to the tail-end of its construction projects). The Steel segments' overall revenue for the current financial quarter has increased by 11% as a result of higher unit selling price (of around 4%) and sales volume (of around 6%).

The Group registered a pre-tax profit of RM4.3 million compared with the immediate preceding quarter's pre-tax profit of RM6.1 million. The lower pre-tax profit for the current financial quarter is mainly due to the impairment loss on goodwill of RM0.8 million (arising from the fair valuation on the acquisition of a subsidiary (Note A12(i)) and lower margin contribution from the Steel Tube segment. At the post-tax level, the Group recorded a slightly lower net profit of RM2.8 million for the current quarter as compared to a net profit of RM3.6 million in the immediate preceding quarter.

The Group recorded a lower EBITDA of RM12.8 million compared to the immediate preceding quarter's EBITDA of RM14.0 million.

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

B3 Prospects for the remaining financial year

The Country's reported blistering annual GDP growth of 5.9% for the full fiscal year 2017 sets the stage for the imminent 14th general election in 2018. The growth momentum in 2018 is expected to remain strong between 5 to 5.5% with the recovery in crude oil prices, and on-going infrastructural investments. However, the economic growth is likely to remain narrow and unlikely to permeate across the general masses and a broad range of domestic consumer-centric businesses. Ground sentiments would likely continue to remain soft and cautious with heightened cost pressure and suppressed margins/ earnings.

On the Steel sector, regional outlook remains buoyant with continuing strong run on steel prices over the last six months. China's robust economy continues to sustain steel demand and support steel prices in the region. Iron-ore prices at the close of the current financial quarter were down by around 30% from the peak attained twelve months ago, whilst Hot Rolled Coil prices at the close of the current quarter were up around 3% over the same period. This widened margin spread benefitted upstream raw steel and HRC producers located abroad, and incentivized those with extended Cold Rolled Coil (CRC) manufacturing abroad to step-up production and sales in export markets where they can under-cut prices. In this regard, Malaysia witnessed increased CRC importation over the recent past quarters from countries like Vietnam, India, South Korea and Japan – at the expense of domestic CRC producers. This unfair pricing from imports coupled with increased operational costs from a combination of electric and gas tariff hikes, minimum wage hikes, foreign labor levy on employer, borrowing cost hike, and fuel cost hike have materially affected the sales and margins of mid-stream steel producers like the Group's CRC and Steel Tube businesses. The weaker performance of the Group for the current financial quarter compared with the preceding financial year's comparative quarter reflects the difficult business and market environment in-which it currently operates. To address the unfair competition, the Group's CRC subsidiary has teamed up with two other domestic CRC producers to seek remedial actions (including retrospective anti-dumping duties) from the Authorities against those perpetrator exporting nations.

The Group's Engineering subsidiary's two onerous construction contracts are at their tail-end and should be concluded in the remaining financial year. The Group is not expecting any significant contribution from the Engineering subsidiary apart from its overheads and debt-service costs as no new projects have been taken upon since. The wrap-up of these onerous projects will also entail 'commercial' close with the clients on variations and unscheduled works incurred that had contributed to the cost overrun, and any positive settlement arising thereof will serve towards recovery of past losses. In this regard, the subsidiary has submitted a total of RM41.2 million in unscheduled claims to the client which have yet to be recognised.

In view of the above, business outlook and prospects for the Group for the remaining financial year remains cautious given the myriad of challenges. Nevertheless, the Group hopes to sustain a positive performance from its steel segments for the remaining financial year, barring any severe external shocks. Any crystallization of remedial actions sought to prevent further unfair trade practices and product dumping from aboard in the steel segment; and/or any positive settlement of variation claims upon the conclusion of its engineering construction contracts would greatly improve outlook for the Group.

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 second financial quarter ended 31 December 2017

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

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

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

	Current year quarter 31/12/2017 RM'000	Preceding year corresponding quarter 31/12/2016 RM'000	Current year to-date 31/12/2017 RM'000	Preceding year corresponding period 31/12/2016 RM'000
Depreciation and amortisation	(5,005)	(4,933)	(9,989)	(9,850)
Interest expenses	(3,260)	(2,871)	(6,462)	(5,225)
Interest income	525	280	864	510
Loss provision made for onerous contract	-	(14,808)	-	(26,500)
Foreign exchange gain/(loss)	8,179	(8,731)	10,424	(13,209)
FX forward (loss)/gain	(7,596)	8,345	(9,695)	12,500

B6 **Taxation**

Taxation comprises:

	Current year quarter 31/12/2017 RM'000	Preceding year corresponding quarter 30/12/2016 RM'000	Current year to date 31/12/2017 RM'000	Preceding year corresponding period 31/12/2016 RM'000
Current tax expense				
Current period	(1,277)	(2,927)	(3,121)	(4,611)
Deferred tax income				
Current period	(160)	43	(834)	(1,675)
	(1,437)	(2,884)	(3,955)	(6,286)

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.

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

B9 **Status of corporate proposals**

In the preceding financial quarter on 23 August 2017, the Company had announced a proposed renounceable Rights Issue of 1-for-1 shares held with free detachable Warrants of 1-for-2 Rights Shares subscribed (“Rights Issue”).

The Company has on 22 December 2017 submitted to Bursa Malaysia the listing application of the proposed Rights Issue, and the draft circular to shareholders in-relation to the proposed rights issue coupled with the independent advisor’s letter (IAL) to shareholders on the proposed ‘mandatory general offer’ exemption application sought by the controlling shareholders of the Company. Bursa has on 22 January 2018, approved the Company’s listing application of the proposed Rights Issue with warrants and the draft circular. As at the date of release of this quarterly report, the Security Commission has yet to revert on its comments on the draft IAL. In that regard, the Company has sought and obtained from Bursa Malaysia on 15 February 2018, an extension of time for the dispatch of the circular to shareholders.

B10 **Group borrowings and debt securities**

The Group’s borrowings denominated entirely in Ringgit Malaysia from lending institutions as at 31 December 2017 undertaken by its Steel and Engineering subsidiaries are as follows:

	RM’000
Short-term borrowings	
Unsecured	3,876
Secured	90,057
	93,933
Long-term borrowings	
Secured	3,336
Total borrowings	97,269

Cash-flow movement in-relation to ‘changes in liabilities arising from financing activities’ on a year-to-date basis is outlined below:

	RM’000
Total Borrowings’ opening balance at 1 July 2017	113,515
Inflow from drawdown	46,442
Outflow on repayment	(65,448)
Non-cash movement	2,760
Closing balance at 31 December 2017	97,269

The Group’s Engineering subsidiary incepted a short-term borrowing of RM34.5 million to partly finance the completion of its onerous projects since the 1st quarter of the current financial year. The remaining borrowings are mainly short-term trade financing incepted by the indirect steel subsidiaries to finance raw materials procurement which are secured via their respective debentures with fixed and floating charges.

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

Based on the above borrowings, the Group's gearing ratio is around 0.25 times. Besides the said 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 RM82 million and RM80.1 million respectively as at 31 December 2017. Inclusive of these interest bearing trade credits, the Group's absolute gearing ratio as at 31 December 2017 is around 0.66 times.

B11 **Outstanding derivatives**

The Group 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 ("USD") and certain sales denominated in Singapore Dollar ("SGD"). In this regard, the Group covers its USD exposure at the range of 80% to 90% 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 31 December 2017 are outline below:

Non-designated

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	390	1,213	24.7	0.7

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	872	3,610	-	58.0

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	46,600	197,184	-	7,127.1	Matching	46,600	n.a.	7,127.1	-

Besides the above unrealised positions, the Group has recorded a total realised net loss of around RM2.5 million from its FX Forward Contracts incepted for hedging purposes over the current financial year.

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

B10 **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 the 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**

The Company has in March 2016 issued a corporate guarantee for the due performance of its wholly owned Engineering subsidiary to its client for a construction contract valued at RM83 million - which has since the financial year 2016 been determined to be onerous. On 14 March 2017, the Engineering subsidiary entered into a supplementary agreement with the Client for funding assistance (on the cost overruns beyond the contract sum) to complete the project with direct payments to selected sub-contractors and suppliers. The Company has on 16 March 2017 issued an additional corporate guarantee to the client as a condition for the aforementioned funding, estimated to reach RM40 million. As at the close of the current financial quarter, the amount owing by the subsidiary to Client for such advance and guaranteed by the Company stands at RM27.9 million.

The Company has also issued a corporate guarantee of RM28.2 million on loan facilities amounting to RM34.5 million taken by the Engineering subsidiary to finance the completion of the said onerous projects. The Engineering subsidiary is working on a combination of back-charge claims on sub-contractors and unscheduled variation claims from the clients to cover those cost overruns and project losses in-order to meet repayment obligation on those loans. The Company has also announced a proposed fund raising exercise which could potentially raise a maximum allocation of RM24 million towards repayment of those loan taken by the Engineering subsidiary. (See Note B10).

The potential economic outflow relating to the abovementioned corporate guarantees are duly reflected in the Group’s consolidated results with the full recognition of those onerous projects’ losses.

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

B13 **Realised and unrealised profits/(losses) disclosure**

	As at 31/12/2017 RM'000	As at 30/06/2017 RM'000
Total retained earnings/(accumulated losses) of the Company and its subsidiaries:		
- Realised	84,359	73,049
- Unrealised	(31,144)	(30,671)
	53,215	42,378
Add: Consolidation adjustments	(85,294)	(77,711)
Total accumulated losses as per consolidated accounts	(32,079)	(35,333)

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 **Earnings/(Loss) per share**

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

	Current year quarter 31/12/2017	Preceding year corresponding quarter 31/12/2016	Current year to date 31/12/2017	Preceding year corresponding period 31/12/2016
Profit/(Loss) attributable to owners of the Company (RM'000)	1,325	(42,778)	3,254	(50,871)
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)	**0.58**	**(18.97)**	**1.44**	**(22.56)**

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

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

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 February 2018