Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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 MFRS ("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.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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 in the preceding quarter 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". The adoption of the ECL model is not expected to increase credit impairment on initial application that would render the ending impairment allowance under MFRS139 different from the opening loss allowances determined under MFRS 9.

- MFRS 15
  The application of MFRS 15 is not expected to result in any change to the timing and quantum of revenue recognition of the Group – compared to the requirements under MFRS 118 and 111. The Group's steel products conform to industry standards and specifications, and are sold mainly on spot and/or short-term forward 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 customised 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. The Group elects to adopt the "cumulative effect method" for outstanding contracts at the date of initial application, but it is not expecting any opening adjustment resulting from the aforementioned.

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. The current financial year's 1st and 4th quarters coincided with the Ramadan festive months in July 2017 and again in June 2018.

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 fourth financial quarter ended 30 June 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A5 **Changes in estimates**

For the current fourth-quarter ended 30 June 2018, the Engineering subsidiary reviewed the position of its on-going onerous construction contracts and has made material changes on estimates in relation to budgeted cost-to-completion and movement in provisions as 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)
30/06/18	(79,053)	(15,282)	(94,335)
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)
Financial year ended 30/6/18	11,304	(1,422)	9,882
	(67,364)	(13,597)	(80,961)
Recognised Project's LAD & DLP for the period:			
Financial year ended 30/6/17	(8,392)	-	(8,392)
Financial year ended 30/6/18	(3,297)	(1,685)	(4,982)
Total recognised losses	(79,053)	(15,282)	(94,335)
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)
Financial year ended 30/6/18	17,075	2,655	19,730
	(671)	(607)	(1,278)
Loss Provision made on Project's LAD & DLP:			
Financial year ended 30/6/17	(8,392)	-	(8,392)
Financial year ended 30/6/18	(3,297)	(1,685)	(4,982)
Recognised losses in provision	(12,360)	(2,292)	(14,652)
Percentage of completion based on cost incurred as at 30/06/18	99.0%	95.5%	

Project #1

As at 30 June 2018, Project #1's percentage-of-completion (based on cost) has been aligned to technical completion at 99% resulting in a write-back of cost provision of RM11.3 million in the current financial quarter. The project comprises of two phases, where the Client had signed-off the Certificate of Completion for Phase 1 on 2 May 2018 and Phase 2 on 13 August 2018 (after the close of the current financial period). As the project enters into the Defects Liability Period (DLP) in the next financial year, the subsidiary made a provision of RM3.2 million at the close of the current financial quarter based on reliable estimates of probable economic outflows in meeting its DLP obligations.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A5 **Changes in estimates** (continued)

The Engineering subsidiary's unscheduled variation claims (beyond the contracted sum) against the client which has not been recognised in its books remain the same as reported in the last quarter at RM74 million. As at 30 June 2018, the amount owing to the Client for advances made on costs incurred on the project stands at RM36.5 million. The status on the RM8.3 million Liquidated Ascertained Damages (LAD) provision made in the preceding financial year remains unchanged as at the close of the current financial year. On completion of the project in the 1st Quarter of the next financial year, the Engineering subsidiary will engage the Client for a commercial-close in determining the net settlement sum and the disposition of the LAD.

Project # 2
As at 30 June 2018, Project #2's percentage-of-completion stands at 95% with further increase in budgeted cost-to-completion estimates by RM1.4 million plus a maximum provision of contractual LAD of RM1.3 million for the current quarter.

The project comprises of two phases. The 1st phase is technically completed but its completion certification by the client has encountered some issues which may only be conclusively tested as an integrated solution with the 2nd phase -which is rescheduled to be completed only by the 2nd Quarter of the next financial year due to further rectification works. In anticipation of the project entering into the Defects Liability Period (DLP) in the middle of the next financial year, the subsidiary made a provision of RM0.4 million at the close of the current financial quarter based on reliable estimates of probable economic outflows in meeting its DLP obligations.

In-addition to the above, the Engineering subsidiary made a credit impairment of RM1.4 million at the close of the current financial quarter on the total outstanding and overdue receivables of RM4 million from the client – due to back-claim disputes.

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.

	30/06/2018	30/06/2017
Total interest bearing debts in RM'million	147.3	280.3
Adjusted Equity in RM'million	402.4	387.9
Absolute Gearing Ratio	0.37	0.72

For the current financial quarter, the Group's engineering subsidiary has unsecured borrowings (incepted to finance its onerous projects) of RM26.9 million. The Group's other debt securities are mainly represented by the Cold Rolled subsidiary's debenture (around RM77.9 million) and the Steel Tube subsidiary's debenture (around RM14.3 million), whilst the remaining interest bearing debts are mostly unsecured suppliers' trade credits (totaling RM28 million) extended to the steel subsidiaries (see Note B10). Total trade facilities & interest-bearing-credits drawn at the end of the current financial quarter at RM147 million is significantly lower compared to RM280 million as at 30 June 2017.

Debt covenants where applicable are in full compliance for current financial quarter as well as for the full financial year ended 30 June 2018.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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	274,188	546,856	24,142	13,116	4,096	862,398
Inter segment	(1,799)	(27,710)	-	(13,116)	(3,680)	(46,305)
External revenue	272,389	519,146	24,142	-	416	816,093
Pre-tax profit/(losses)	22,368	12,280	(2,285)	(22,981)	1,863	11,245
Segment assets	183,483	471,024	12,505	106,263	2,147	775,422

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	775,422
Deferred tax assets	1,557
Derivative financial asset	3,341
Tax recoverable	23
	780,343

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 12% is significantly higher than the Cold Rolled Segment's at 3% partly due to the fact that the Steel Tube Segment does not own the factories' land and building (fair valued at around RM101.8 million as at 30 June 2018) 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. In this regard, the Steel Tube Segment has initiated the acquisition of one of the factories it currently rents from the Company. The Engineering Segment continued to record losses in the current financial year due to its engineering subsidiary's operation overheads and interest obligation.

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

In conjunction with the current financial year ended 30 June 2018, the Group's property, plant and equipment were revalued by an independent firm of professional valuers based on open market value. Arising from the said revaluation, the surpluses net deferred tax amounting to RM7.0 million was credited to the asset revaluation reserve under Other Comprehensive Income, while the deficits (net impairment charge on planned assets write-off) totaling RM1.3 million was charged to Profit or Loss as an impairment loss/write down after netting any prior corresponding revaluation gains in the current financial quarter.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A10 **Fair value measurement**

Except for the financial instruments disclosed below which are fair valued, 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 are categorised into the following fair value hierarchy and are represented in the table below as at 30 June 2018:

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)	-	65.2	-
as Assets (hedge accounted)	-	3.275.9	-
as Liabilities (not hedge accounted)	-	(0.2)	-
as Liabilities (hedge accounted)	-	(2.4)	-
Total	-	(3,338.5)	-

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

A11 **Investment in Associates**

The Group does not have any investment in Associate during or at the end of the current financial quarter.

Mperial Power Ltd ("Mperial') ceased to be an associate of the Group following the disposal of the remaining 49% equity-stake in Mperial to the controlling shareholder, E Power Pte Ltd, in the preceding financial quarter on 7 February 2018 ('disposal date') for a total consideration of USD1 (RM3.91). On disposal date, the Group's carrying investment value of Mperial (which had a negative consolidated shareholders' funds of around RM56.5 million) had been reduced to zero with its share of the said associate's losses since end-September 2014. On disposal date, the Group carried a book receivable of RM6.6 million due from Mperial – which Mperial has committed to repay from the impending proceeds of its contracted power assets sale. At the close of the current financial year, Mperial has yet to complete the contracted power assets sale due to certain unfulfilled condition precedent, and has missed the repayment timeline to the Group. Based on observable data on objective evidence of impairment, the Group at the close of the current financial year made a full impairment charge on the said amount due from Mperial - not withstanding that its contracted power sale is still in progress

A12 **Significant events and transactions**

There are no significant events or transactions for the Group during the current financial quarter.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A13 **Subsequent material events**

(i) Rights Issue with Warrant

The Company completed its 'Rights Issue with Warrant' exercise on 24 August 2018, and had raised RM26,778,979 from valid acceptance and excess applications of 133,894,895 Rights share representing a 59.37% take-up rate over the total Rights share available for subscription. The 133,894,895 new shares and the corresponding 66,947,418 free detachable warrants were listed on 24 August 2018.

(ii) Disposal of Factory 1 to Steel Tube Subsidary

The Company's contracted disposal of Factory 1 (Lot 53, Persiaran Selangor, Shah Alam) to its Steel Tube subsidiary for RM26 million is cleared of all its Conditions Precedent with the State's consent for title transfer been duly approved on 18 July 2018. The transaction is neutral to the Group except for expenses and cost outlay relating to the transaction, and minority interests.

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

There were no changes to the composition of the Group during the current financial quarter.

A15 **Contingent liabilities**

There were no contingent liabilities for the current financial quarter.

A16 **Capital commitments**

At the end of the current reporting quarter, the Group's Cold Rolled and Steel Tube subsidiaries have outstanding capital commitment balance of around RM1.2 million and RM3.3 million respectively for plant-equipment purchases. The said capital commitments will be payable over established milestones running into financial year 2019.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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 (4th quarter)		Changes		Cumulative Period		Changes	
	Current Year Quarter 30/06/2018	Preceding Year Corresponding Quarter 30/06/2017			Current Year To-date 30/06/2018	Preceding Year Corresponding Period 30/06/2017		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	215,513	197,035	18,478	9%	816,093	772,785	43,308	6%
Operating Profit/(loss)	8,092	832	7,260	873%	30,559	(40,588)	71,147	-175%
(Loss)/Profit Before Interest and Tax	(1,249)	(1,847)	598	-32%	20,389	(43,652)	64,041	-147%
(Loss)/Profit Before Tax	(2,754)	(5,419)	2,665	-49%	11,245	(55,167)	66,412	-120%
(Loss)/Profit After Tax	(4,384)	(7,465)	3,081	-41%	4,064	(66,984)	71,048	-106%
Loss Attributable to Ordinary Equity Holders of the Parent	(4,760)	(9,848)	5,088	-52%	(626)	(78,220)	77,594	-99%

The Group’s revenue for the fourth financial quarter ended 30 June 2018 is 9% higher at RM215.5 million as compared to RM197 million achieved in the preceding year’s corresponding quarter. At segment level, the revenue contribution from both the Cold Rolled and Steel Tube segments has increased by 16% and 5% respectively for the current financial quarter compared to the preceding year’s corresponding quarter. The overall steel segments’ higher revenue is attributed to both higher average unit selling price by around 5% due to the run-up in raw steel prices and higher sales volume by 6% for the current financial quarter. The Engineering segment’s revenue contribution is significantly lower by 31% due to the tail end of its construction contracts.

The Group recorded a lower pre-tax loss of RM2.7 million for the current financial quarter compared to a pre-tax loss of RM5.4 million in the preceding year’s corresponding quarter. This is mainly attributed to the absence of material losses by RM16.3 million from the Engineering segment (pre-tax loss registered of RM14.2 million in the preceding year’s corresponding quarter as compared to a pre-tax profit of RM2.1 million achieved in the current financial quarter) given that full loss provisions on its’ onerous construction contracts have been made in the preceding financial year. However, the Group’s overall steel segments’ performance reflected a weaker results (down by RM6.7 million or 55%) with a pre-tax profit of RM5.4 million in the current financial quarter as compared with RM12.1 million achieved in the preceding year’s corresponding quarter as a result of weaker gross margin spread. Coupled with the impairment loss on ‘other receivables’ of RM6.6 million (see Note A11), the Group remained at a pre-tax loss position for the current financial quarter. At the post-tax level, the Group recorded a lower after-tax loss of RM4.4 million for the current financial quarter compared to the preceding year’s corresponding quarter after-tax loss of RM7.5 million.

The Group recorded a higher EBITDA of RM12.9 million compared to the preceding year’s corresponding quarter’s EBITDA of RM5.8 million.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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 30/6/2018	Immediate Preceding Quarter 31/03/2018	Changes	
	RM'000	RM'000	RM'000	%
Revenue	215,513	211,082	4,431	2%
Operating Profit	8,092	5,647	2,445	43%
(Loss)/Profit Before Interest and Tax	(1,249)	5,647	(6,896)	-122%
(Loss)/Profit Before Tax	(2,754)	3,606	(6,360)	-176%
(Loss)/Profit After Tax	(4,384)	2,010	(6,394)	-318%
(Loss)/Profit Attributable to Ordinary Equity Holders of the Parent	(4,760)	880	(5,640)	-641%

The Group's revenue for the current fourth financial quarter at RM215.5 million is 2% higher compared to the immediate preceding quarter's at RM211.1 million, due to higher contributions from its Steel Tube (up by 5%) whilst its Cold Rolled segment is down by 2% respectively. The Steel segments' overall revenue for the current financial quarter remain relatively flat with slightly higher average unit selling price by 1% whilst sales volume is down by 2%. The Engineering segment has also contributed positively with additional revenue recognised of RM3.6 million (up by 78%) for the current financial quarter as compared with the immediate preceding quarter.

The Group registered a pre-tax loss of RM2.7 million compared with the immediate preceding quarter's pre-tax profit of RM3.6 million. The weaker performance for the current financial quarter is mainly due to lower gross profit margin contributed by the Cold Rolled's lower sales volume, and the combined impairment losses on 'property, plant and equipment' of RM1.3 million, on 'trade receivable' of RM1.4 million (relating to the Engineering segment), and on 'other receivable' of RM6.6 million in the current financial quarter (see Note A11). Consequently, at the post-tax level, the Group recorded a pre-tax loss of RM4.4 million for the current quarter as compared to a pre-tax profit of RM2 million in the immediate preceding quarter.

The Group recorded a higher EBITDA of RM12.9 million compared to the immediate preceding quarter's EBITDA of RM10.7 million.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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

B3 Prospects for the next financial year

The Country's economy faces strong headwind from the escalated trade war between the world's two largest economies (which are also its major export markets) amidst the transitional period of a new Government (which inevitably have disruptive short-term impact on the economy arising from changes and adjustments). The lower second fiscal quarter GDP growth at 4.5% (compared to 5.4% the preceding quarter) reflects the turbulent undercurrent of the economy. The protectionist policies of the Trump administration continue to disrupt global markets and threaten to derail growth in the rest-of-the-world. The knock-on effects of a strong US Dollar and rising interest–rates add to the woes.

The domestic steel market has turned bearish with the spillover effects of those antitrade measures; coupled with the halt of various mega projects of the previous administration amid a soft property and construction sector. In addition to that, domestic steel manufacturers face severe margin and volume squeeze due to underpriced regional imports particularly Cold Rolled Coils (CRC) spurred on by the robust raw steel prices and possibly capacity diversion due to the restricted USA and EU markets. Even-though the Group's steel products are not exported to those protected markets, the Group's financial performance for the current financial year ended 30 June 2018 was significantly weaker compared to the preceding financial year due to lower combined sales volume (down by around 5%) and thinner gross margin (down by around 440 basis-point) attributable to a softer market made worst with unfairly priced competition from CRC imports. The rise in global antitrade rhetoric validates the Group's past and on-going push for anti-dumping and protective measures against unfair imports; and hopefully this would accelerate the authorities' rollout of appropriate counter measures which could provide a turning point for a better prospect for mid-stream steel manufacturers like the Group in the next financial year. The change in tax regiment from GST to SST (that would lessen tax collection for the Government and leaving more for consumers' discretionary spending) should be positive for the steel market given that most steel semi-finished and construction products –including those of the Group- are reported to be SST exempted.

The Group's Engineering segment has net positive write-back of around RM4.9 million on its onerous projects (before including the RM1.4 million credit-impairment charge) as these move closer towards completion at the end of the current financial quarter. The next financial year offers possibility in further write-back of past losses and provisions, as the engineering subsidiary enters into the commercial-closure and defects-liability-period of those projects. Nevertheless, the engineering subsidiary's borrowings and debts guaranteed by the Company (see Note B12) will continue to weigh down on the Group in the next financial year.

The consensus view is that the new Government's current effort on fiscal consolidation, recovery and reforms offer promising prospects for the economy but the results may only be seen in the longer term. In-tandem with that, the Group's prospect for the next financial year remains tough due to the effects of domestic consolidation made worst with the fallout from the prolonged trade wars of its major trading partners. The tit-for-tat antitrade measures, if escalate further, risk pushing regional and global economies into a financial crisis; and any prospect for better performance by the Group will be diminished.

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 fourth financial quarter ended 30 June 2018

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

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

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

	Current year quarter 30/06/2018 RM'000	Preceding year corresponding quarter 30/06/2017 RM'000	Current year to-date 30/06/2018 RM'000	Preceding year corresponding period 30/06/2017 RM'000
Depreciation and amortisation	(4,776)	(4,998)	(19,780)	(19,778)
Interest expenses	(1,848)	(4,047)	(10,666)	(12,816)
Interest income	343	475	1,522	1,301
Loss provision reversed/(made) on onerous contracts	5,911	2,691	18,430	(22,339)
Contingent liability provision - projects post completion	(3,682)	-	(3,682)	-
FX differences (loss)/gain	(7,213)	4,339	10,315	(4,368)
FX derivatives gain/(loss)	6,834	(4,402)	(9,582)	3,001

B6 **Taxation**

Taxation comprises:

	Current year quarter 30/06/2018 RM'000	Preceding year corresponding quarter 30/06/2017 RM'000	Current year to date 30/06/2018 RM'000	Preceding year corresponding period 30/06/2017 RM'000
Current tax expense				
Current period	(1,343)	(708)	(5,916)	(7,636)
(Under)/Over provision in prior year	-	(705)	124	(803)
Deferred tax expense				
Current period	(287)	(633)	(1,389)	(3,378)
	(1,630)	(2,046)	(7,181)	(11,817)

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.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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

B9 **Status of corporate proposals**

The Company had on 23 August 2017 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 proposed fund raising exercise aims to raise a minimum of RM10.8 million and a maximum of RM44.41 million for the subscription of the Company's entitlement under Mycron's proposed rights issue, the repayment of borrowings and/or general working capital.

The Company had on 28 June 2018 announced the price fixing of the proposed renounceable Rights Issue at 20 sens per Rights share, with the planned book closure date on 25 July 2018. See Note A13 on subsequent event.

B10 **Group borrowings and debt securities**

The Group's borrowings, denominated entirely in Ringgit Malaysia from lending institutions as at 30 June 2018 undertaken by its Steel and Engineering subsidiaries, are as follows:

	RM'000
Short-term borrowings	
Secured	90,736
Long-term borrowings	
Unsecured	4,075
Secured	24,498
Total borrowings	119,309

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	171,061
Outflow on repayment	(169,596)
Non-cash movement	4,329
Closing balance at 30 June 2018	119,309

The Group's Engineering subsidiary has short-term borrowings balance of RM26.9 million which was utilised to partly finance the completion of its onerous projects at the close 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.

Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018

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

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

Based on the above borrowings, the Group's gearing ratio is around 0.30 times. Besides the said borrowings, the Group's Steel Tube subsidiary also draw on interest-bearing trade credits from its raw-coil suppliers with an outstanding amounts of RM28 million as at 30 June 2018. Inclusive of these interest bearing trade credits, the Group's absolute gearing ratio as at 30 June 2018 is around 0.37 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 30 June 2018 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	300	899	9.1	0.2

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	525	2,068	56.1	-

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	37,878	150,085	3,275.9	2.4	Matching	37,878	n.a.	2.4	3,275.9

Besides the above unrealised positions, the Group has recorded a total realised net loss of around RM12.9 million from its FX Forward Contracts as hedging instruments with corresponding realised net gain of around RM14 million from its hedged items over the current financial year.

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PART B - EXPLANATORY NOTES: (AS PER BURSA MALAYSIA LISTING REQUIREMENT – 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 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**

(i) The Company had 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. This corporate guarantee is due to expire in the next financial year in early September 2018.

(ii) 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 had 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 advances and guaranteed by the Company stands at RM36.5 million. This amount owing to the client is due for repayment over twelve equal monthly instalment upon completion of the project and upon finalisation of the contract's variation cost (which would be determined at commercial closure). The engineering subsidiary plans to cover this liability with the unscheduled variation claims filed against the client of RM74 million.

(iii) The Company also had in December 2016 issued a corporate guarantee of RM28.2 million on loan facilities totalling RM33.2 million taken by the engineering subsidiary to finance the completion of the said onerous projects. The Company had in the current financial year injected RM9 million to the engineering subsidiary to pay-down the loan which at the close of the current financial year has been reduced to RM26.9 million. The Company plans to utilise part of the Rights issue proceeds raised (see Note A13) to partly settle this outstanding sum in the next financial year.

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 **Material litigation**

The Group's engineering subsidiary may choose to dispute and litigate against its sub-contractors or suppliers' billing claims (even-though these have been budgeted into the project costs) if it has grounds to believe the counter-parties fell short in the delivery or performance of their contracted obligations. As at the close of the current financial year, the engineering subsidiary has the following outstanding litigation matters where the principal claimed sums have been duly recognised in its project costs:

i) Greencon (a subcontractor for foundation and civil works for its Project#1) had commenced adjudication proceeding against the engineering subsidiary to recover RM1.37 million in disputed outstanding bills. The claimant won the adjudication on 26 June 2018 for total claims and compensation amounting to around RM1.22 million.
ii) Tepat-Teknik (a subcontractor for design & engineering works for its Project#1) has commenced three separate adjudication proceedings against the engineering subsidiary to recover RM3.1 million in disputed outstanding bills. The adjudication hearing for these are scheduled for the first quarter of the next financial year. On 3 July 2018, the claimant won the 1st adjudication for total claims and compensation of RM0.89 million. On 5 July 2018, the claimant lost the 2nd adjudication for total claims of RM1 million.

Besides the above, 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.

B14 **Dividends**

The Company did not declare or pay any interim dividend in the current financial quarter.

B15 **Loss per share**

(i) Basic loss per ordinary share

	Current year quarter 30/06/2018	Preceding year corresponding quarter 30/06/2017	Current year to date 30/06/2018	Preceding year corresponding period 30/06/2017
Loss attributable to owners of the Company (RM'000)	(4,760)	(9,848)	(626)	(78,220)
Weighted average number of ordinary shares in issue (net of treasury shares) ('000)	225,523	225,523	225,523	225,523
Basic loss per share (sen)	**(2.11)**	**(4.36)**	**(0.28)**	**(34.68)**

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

<u>Quarterly report on consolidated results for the fourth financial quarter ended 30 June 2018</u>

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 August 2018