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

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 financial year ended 30 June 2018.

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 2018, except for the following new amendments to the MFRS ("standards") effective from 1 January 2018 which the Group has only adopted since the commencement of the current financial year:

- Amendments to MFRS 140 'Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties' (effective from 1 January 2018) clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property. The amendments also clarify the same principle applies to assets under construction.
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' which 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' in replacement of MFRS 139 "Financial Instruments: Recognition and Measurement".
- MFRS 15 'Revenue from contracts with customers' in replacement of MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

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

- MFRS 9
  The application of MFRS 9 did not 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 inclusion of forward looking information and estimates. Given that the Group's credit risks are mainly concentrated in short-term trade receivables, the Group applied allowable practical-expedient in ECL provision based on a supportable "overdue-days matrix". The adoption of the ECL model did not increase credit impairment on initial application that would render the opening loss allowances determined under MFRS 9 on 1 July 2018 different from the ending impairment allowance under MFRS139 on 30 June 2018.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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

- MFRS 15
  The application of MFRS 15 did not 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 predetermined prices which under normal circumstances do not give rise to any contract assets or liabilities. The sales contract for "goods" is generally separated from "services", and these do not entail any financing feature beyond short credit periods customary to the industry. 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 elected to adopt the "cumulative effect method" for outstanding contracts at the date of initial application, and no opening adjustment resulted from the aforementioned.

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.

- 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) which provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- Amendments to MFRS 128 'Long-term Interests in Associates and Joint Venture' (effective from 1 January 2019)
- Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019)
- Annual Improvements to MFRSs 2015 – 2017 Cycle:
  - Amendments to MFRS 3 'Business Combinations' (effective from 1 January 2019)
  - Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019)
  - Amendments to MFRS 123 'Borrowing Costs' (effective from 1 January 2019)
  - Amendments to MFRS 119 on Employee Benefits - 'Plan amendment, curtailment or settlement' (effective 1 January 2019)

The initial adoption of the above pronouncements- including MFRS 16 as summarised below- in the next financial year is not expected to have any significant impact on the financial statements of the Group.

MFRS 16 eliminates the classification of leases either by finance lease (on balance sheet) or operating lease (off balance sheet) and requires the lessee to recognise both the "rights" and "obligations" of the underlying lease on balance sheet. The "rights" is depreciated in accordance with the principles in MFRS116 whilst the lease liability is accreted over time with interest expense recognised in profit or loss. The Group would apply 'practical expedient option' on transition to MFRS 16 on contracts previously identified as leases under MFRS117 (i.e. such as rental contracts) and those entered into on or after initial application on 1 July 2019. In this regard, the Group currently does not have any off-balance-sheet lease contracts other than some non-cancellable operation lease on the rental of factories' land and buildings with annual rental obligations amounting to around RM3.8 million. The initial recognition of these under MFRS 16 in the next financial year is not expected to have significant impact on the Group's financial statements other than presentation on balance-sheet and disclosures.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A2 **Audit qualification**

The audit report of the Group in respect of the annual financial statements for the financial year ended 30 June 2018 was not subject to any audit qualification.

A3 **Seasonality or cyclicality of operations**

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

A4 **Unusual items**

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

A5 **Changes in estimates**

There are no changes in estimates that have any material effects on the financial results during the current financial quarter. The Group's Engineering subsidiary's onerous construction contracts' estimated cost-to-completion are within the last revised budgeted sums. 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:			
30/06/18. (No change @ 30 Sept 2018)	(75,756)	(13,597)	(89,353)
Recognised Project's Profits/(Loss) for the period:			
Cummulative Past Financial Years (FY16, 17 & 18)	(67,364)	(13,597)	(80,961)
Current Financial Year to-date @30 Sept 2018	-	-	-
	(67,364)	(13,597)	(80,961)
Recognised Project's LAD / DLP for the period:			
Cummulative Past Financial Years (FY16, 17 & 18)	(11,689)	(1,685)	(13,374)
Current Financial Year to-date @30 Sept 2018	-	-	-
Total recognised losses	(79,053)	(15,282)	(94,335)
Loss Provision reversed/(made) for the period:			
Cummulative Past Financial Years (FY16, 17 & 18)	(671)	(607)	(1,278)
Current Financial Year to-date @30 Sept 2018	406	256	662
	(265)	(351)	(616)
Loss Provision made on Project's LAD / DLP:			
Cummulative Past Financial Years (FY16, 17 & 18)	(11,689)	(1,685)	(13,374)
Current Financial Year to-date @30 Sept 2018	-	-	-
Recognised loss in provision	(11,954)	(2,036)	(13,990)
% of completion based on cost as at 30/09/18	99.6%	97.4%	

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A5 **Changes in estimates** (continued)

Project #1

Project # 1 has been technically completed with the Client's signed-off for phase 1 on 2 May 2018 (in the preceding financial year) and for phase 2 on 13 August 2018 (in the current quarter). Both phases are currently in their respective Defects Liability Period (DLP) shortened to eight months –where a total provision of RM3.2 million based on reliable estimates of probable economic outflows in meeting its DLP obligations was made in the preceding financial year.

At the close of the current financial quarter, the Engineering subsidiary has yet to reach any commercial-closure on the project's unscheduled variation claims amounting to RM74 million with the client. Correspondingly at the close of the current financial quarter, the Engineering subsidiary owes the client RM38.9 million for advances made on the project which is not due for repayment until after the final contract sum determination in commercial-closure.

Project # 2

As at 30 September 2018, the project remains uncompleted with the 'testing & commissioning' being only possible after the end of the current monsoon season towards the 4th financial quarter in 2019. No further provisions were deemed necessary for the current financial quarter.

A6 **Debts and equity securities**

There are no issuances, cancellations, repurchases, or resale of the Company's equity securities during the current financial quarter, other than the issuance and listing of 133,894,895 new shares and corresponding 66,947,418 free detachable warrants pursuant to a Rights Issue in August 2018. (See Note A11). On the RM26.7 million raised from the Rights Issue, RM3.5 million is taken-up at initial recognition as 'warrant reserve' representing the fair value of the free warrants measured base on 'Black-Scholes model' as referenced from published sources, with the balance RM23.2 million taken up in Share Capital.

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.

	30/09/2018	30/06/2018
Total interest bearing debts in RM'million	107.3	147.3
Adjusted Equity in RM'million	427.6	402.4
Absolute Gearing Ratio	0.25	0.37

Of the total interest bearing debts as at 30 September 2018, around RM63.2 million is represented by the respective debenture at its Steel Tube and Cold Rolled subsidiaries, whilst RM23 million is represented by unsecured interest-bearing supplier's credit also at the respective operating subsidiaries. (See Note B10).

Over the current financial quarter, the Steel Tube subsidiary discharged two debenture-holders with zero balances since the close of the preceding financial year, whilst its sole debenture-holder increased existing trade facility lines by another RM25 million. On 6 August 2018, the Steel Tube subsidiary incepted and drawn-down a 10 years term-loan of RM21 million to part finance the completion of its acquisition of a factory property (see Note A11). The facility is secured with a fixed charge against the property, coupled with a corporate guarantee from its immediate holding company, Mycron Steel Berhad.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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

On 3 September 2018, the Engineering subsidiary fully settled its external borrowings of RM26.9 million with funding provided by the Company.

Debt covenants where applicable are in full compliance for the current financial quarter ended 30 September 2018.

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	77,819	124,227	1,068	2,745	999	206,858
Inter segment	(1,153)	(5,507)	(72)	(2,554)	(997)	(10,283)
External revenue	76,666	118,720	996	191	2	196,575
Pre-tax profit/(losses)	10,613	(5,651)	(656)	(3,389)	210	1,127
Segment assets	183,391	424,836	10,098	96,508	2,657	717,490

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	717,490
Deferred tax assets	1,367
Derivative financial asset	3,325
Tax recoverable	12
	722,194

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A9 **Valuation of Property, Plant and Equipment (PPE)**

The valuation of PPE has been brought forward from the audited financial statements for the financial year ended 30 June 2018 and adjusted for depreciation where applicable to reflect the current period's ending net carrying value.

At the start of the current financial quarter, one of the factory property of the Group has been reclassified from PPE to 'Investment Property' arising from change in 'own use' to 'external rental'. Consequential adjustment on the property's deferred tax in revaluation reserve resulted in a positive write-back of RM1.1 million in 'Other Comprehensive Income'.

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 September 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)	-	237.8	-
as Assets (hedge accounted)	-	3,086.8	-
as Liabilities (not hedge accounted)	-	(10.4)	-
as Liabilities (hedge accounted)	-	(31.5)	-
Total	-	(3,282.7)	-

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

A11 **Significant events and transactions**

(i) Rights Issue with Warrant

The Company completed its 'Rights Issue with Warrant' exercise on 24 August 2018, and had raised RM26,778,979 ('Rights Proceeds') 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. Status on the utilisation of the Rights Proceeds is disclosed in Note B9.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A11 **Significant events and transactions** (continued)

(ii) Disposal of Factory 1 to Steel Tube subsidiary

The Company had on 20 November 2017 contracted to dispose a factory leased land and buildings on Lot 53, Persiaran Selangor, Shah Alam to its Steel Tube subsidiary for a total cash consideration of RM26 million based on independent valuation. All condition precedents have been met, and the disposal was duly completed on 30 August 2018, with the receipt of the balance of the consideration sum from its Steel Tube subsidiary.

A12 **Subsequent material events**

A subsidiary of the Company, Melewar Steel Mills Sdn Bhd ("MSM"), had entered into a conditional sale and purchase agreement with a buyer on 26 December 2017 to dispose of a leasehold land and building with disused machinery and equipment with a carrying book value of RM1,373,822 located at Alor Gajah, Melaka for a cash consideration of RM1,400,000. As at the close of the current financial quarter, all conditions precedent have been fulfilled pending the release of balance payment to complete the sale.

A13 **Changes in the composition of the Group**

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

A14 **Contingent liabilities**

There were no contingent liabilities for the current financial quarter.

A15 **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 RM0.4 million and RM1.9 million respectively for plant-equipment purchases. The said capital commitments will be payable over established milestones in the current financial year.

Quarterly report on consolidated results for the first financial quarter ended 30 September 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 (1st quarter)		Changes		Cumulative Period		Changes	
	Current Year Quarter 30/09/2018	Preceding Year Corresponding Quarter 30/09/2017			Current Year To-date 30/09/2018	Preceding Year Corresponding Period 30/09/2017		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	196,575	186,300	10,275	6%	196,575	186,300	10,275	6%
Operating Profit	2,592	8,994	(6,402)	-71%	2,592	8,994	(6,402)	-71%
Profit Before Interest and Tax	2,485	8,994	(6,509)	-72%	2,485	8,994	(6,509)	-72%
Profit Before Tax	1,127	6,131	(5,004)	-82%	1,127	6,131	(5,004)	-82%
(Loss)/Profit After Tax	(926)	3,613	(4,539)	-126%	(926)	3,613	(4,539)	-126%
Loss Attributable to Ordinary Equity Holders of the Parent	(1,389)	1,929	(3,318)	-172%	(1,389)	1,929	(3,318)	-172%

The Group's revenue for the first financial quarter ended 30 September 2018 is 6% higher at RM196.6 million as compared to RM186.3 million achieved in the preceding year's corresponding quarter. At segment level, the revenue contribution from both the Steel Tube and Cold Rolled 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 higher average unit selling price by around 10% due to the run-up in raw steel prices despite lower sales volume by 2% for the current financial quarter. The Engineering segment's revenue contribution is significantly lower by 85% due to the tail end of its construction contracts and in the absence of any new engagements in the last twelve months.

The Group recorded a lower pre-tax profit of RM1.1 million for the current financial quarter compared to a pre-tax profit of RM6.1 million in the preceding year's corresponding quarter. This is mainly attributed to a weaker results in the Cold Rolled segment's performance (down by RM9.6 million) with a pre-tax loss of RM5.7 million in the current financial quarter as compared with a pre-tax profit of RM3.9 million achieved in the preceding year's corresponding quarter as a result of lower sales volume (down by 7%). The impact however has been mitigated by the Steel Tube segment pre-tax profit of RM10.6 million for the current financial quarter (an increase of RM3.6 million) as compared to a pre-tax profit of RM7 million achieved in the preceding year's corresponding quarter. At the post-tax level, the Group recorded an after-tax loss of RM0.9 million for the current financial quarter compared to the preceding year's corresponding quarter after-tax profit of RM3.6 million.

The Group recorded a lower EBITDA of RM7.6 million compared to the preceding year's corresponding quarter's EBITDA of RM14 million.

Quarterly report on consolidated results for the first financial quarter ended 30 September 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 30/9/2018	Immediate Preceding Quarter 30/6/2018	Changes	
	RM'000	RM'000	RM'000	%
Revenue	196,575	215,513	(18,938)	-9%
Operating Profit	2,592	8,137	(5,545)	-68%
Profit/(Loss) Before Interest and Tax	2,485	(1,250)	3,735	-299%
Profit/(Loss) Before Tax	1,127	(2,755)	3,882	-141%
Loss After Tax	(926)	(4,426)	3,500	-79%
Loss Attributable to Ordinary Equity Holders of the Parent	(1,389)	(4,802)	3,413	-71%

The Group's revenue for the current first financial quarter at RM196.6 million is 9% lower compared to the immediate preceding quarter's at RM215.5 million, due to lower contribution from its Cold-Rolled segment (down by 12%) whilst its Steel Tube segment is up by 5% respectively. The Steel segments' overall revenue for the current financial quarter is lower by 6% with sales volume down by 6% despite a slightly higher average unit selling price by 1%. The Engineering segment's revenue contribution is significantly lower by 88% due to the tail end of its construction contracts.

The Group registered a pre-tax profit of RM1.1 million compared with the immediate preceding quarter's pre-tax loss of RM2.8 million. The better performance for the current financial quarter is mainly due to the absence of combined impairment losses on 'property, plant and equipment' of RM1.2 million, on 'trade receivable' of RM1.4 million (relating to the Engineering segment), and on 'other receivable' of RM6.6 million in the immediate preceding quarter. The impact from the combined impairment losses has been partially offset by the write back of cost provision in respect of the Engineering segment in the immediate preceding quarter. Consequently, at the post-tax level, the Group recorded a pre-tax loss of RM0.9 million for the current quarter as compared to a pre-tax loss of RM4.4 million in the immediate preceding quarter.

The Group recorded a lower EBITDA of RM7.6 million compared to the immediate preceding quarter's EBITDA of RM12.9 million.

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

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

B3 Prospects for the remaining financial year

The Nation's 3rd fiscal quarter of 2018 grew marginally slower at 4.4% (compared to the 2nd and 1st quarters at 4.5% and 5.4% respectively), as public and infrastructure spending stood guarded under the spotlight of negative revelations, fiscal pressure, and the halting/ renegotiation of various mega national-projects. The 3rd fiscal quarter's growth (which correspond with the Group's 1st financial quarter) was largely private sector driven spurred on by a consumption-tax break period before the reinstatement of the comparatively less painful 'sales & service tax' regime (in replacement of the GST) which boosted domestic consumption and private investments.

However, overall business sentiment is generally cautious with huge overhang in the property sector; prolonged USA-China trade-war; subdued export commodity prices; net-outflow of portfolio funds; weak equity market; and continuing fiscal consolidation. The domestic steel market remained bearish arising from the aforementioned factors. Demand for long steel products (such as rods and bars) soften in tandem with the slowdown of the property sector, whilst flat steel products' (such as the Group's steel tube and cold rolled coil) sales stayed subdued under the weight of economic challenges. The Steel Tube segment saw an 8% quarter-on-quarter increased sales volume with a marginally lower gross margins, and was able to turned in a flattish but commendable performance. The Cold Rolled segment saw a 7% quarter-on-quarter decrease in sales volume coupled with sharper lower gross margins, which resulted in a loss for the quarter. This is due to the continuing thin to negative price spread between raw material Hot Rolled Coil and imported Cold Rolled Coil -specifically Chinese CRC which enjoys export rebates – which impinged onto domestic CRC producers' margins and sales. This 'thin/ negative spread' situation had emerged since the preceding finance year around the same time the emergence of global protectionism on steel. The Group had initiated trade complaints during the time of the previous administration, and had to revisit grounds again with the new administration. Nevertheless, groundwork are in motion with the authorities to layout trade-actions to level the playing field against CRC dumping from abroad.

The Group's Engineering subsidiary is on track with its commercial-settlement negotiation with the client and in the wrapping up of the two onerous projects. Clarity should emerge over the remaining financial period on those unrecognised variation claims against the client (amounting to RM74 million), and on past DLP and LAD provisions made (amounting to RM13.3 million). Other than the aforementioned 'outstanding issues', the Engineering as a segment is expected to become insignificant as its operation downsizes over the remaining period.

In view of the above, outlook for the Group would continue to be cautious in the near term but with a chance for better prospects toward the later part of the current financial year if counter-trade measures against imported CRC materialise. The eventual outcome of those mentioned 'outstanding issues' of the Engineering subsidiary could potentially accord a material up-side on the Group's financial performance for the current financial year upon any write-back. Nevertheless, if prevailing external factors- such as the fiscal and economic challenges of the country and the fallout from global trade protectionism- aggravate further, then the Group's outlook for the remaining financial year could turn negative.

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 first financial quarter ended 30 September 2018

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

B5 **Profit before tax**

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

	Current year quarter 30/09/2018 RM'000	Preceding year corresponding quarter 30/09/2017 RM'000	Current year to-date 30/09/2018 RM'000	Preceding year corresponding period 30/09/2017 RM'000
Depreciation and amortisation	(5,054)	(4,984)	(5,054)	(4,984)
Interest expenses	(1600)	(3,202)	(1,600)	(3,202)
Interest income	242	339	242	339
Loss provision reversed on onerous contracts	663	-	663	-
FX differences (loss)/gain	(3,930)	2,245	(3,930)	2,245
FX derivatives gain/(loss)	3,718	(2,099)	3,718	(2,099)

B6 **Taxation**

Taxation comprises:

	Current year quarter 30/09/2018 RM'000	Preceding year corresponding quarter 30/09/2017 RM'000	Current year to date 30/09/2018 RM'000	Preceding year corresponding period 30/09/2017 RM'000
Current tax expense				
Current period	(2,621)	(1,844)	(2,621)	(1,844)
Deferred tax income/ (expense)				
Current period	568	(674)	568	(674)
	(2,053)	(2,518)	(2,053)	(2,518)

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 first financial quarter ended 30 September 2018

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

B9 **Status of corporate proposals**

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

The Company completed its Rights Issue with free-warrant on 24 August 2018, and raised RM26,778,979 ('Rights Proceeds'). See Note A11(i). Details on the utilisation of the Rights Proceeds as at the date of this report are as follows:

	RM'000		
Areas of Approved Utilization	Proposed Use	Actual Used	Balance to Use
a) Subscription of entitlement under Mycron's Rights Issue	11,094	0	11,094
b) Repayment of MIE's borrowings and/or general working capital	14,985	14,700	0
c) Estimated expenses in relation to the Rights Issue exercise	700	985	0
	26,779	15,685	11,094

Footnotes

a) The Company has provided an undertaking to Mycron Steel Bhd to meet the minimum subscription level to raise a minimum amount not less than RM10.8 million. The Company may subscribe up to its entire entitlement and if such sums exceed the unutilised Rights Proceeds of RM11,094 thousands, the Company may utilise its internally generate funds to fund the balance of the subscription amount. The Company had on 8 November 2018 announced an extension of time until 31 January 2019 to utilize this Proceed to subscribe for Mycron's Rights.

b) The Company extended RM14.7 million to the MIE (the Engineering subsidiary) for the repayment of its high-cost borrowings in-part. (See Note B10).

c) The actual expenses exceeded the approved estimate by around RM285 thousands, and this difference was adjusted against the sum extended to MIE for its loan repayment.

The Controlling Interest (CI) shareholders of the Company obtained exemption on the securities Rules requiring mandatory takeover offer for all the remaining ordinary shares of the Company not already held arising from the Rights Issue. Effects on the Controlling Interest (CI) and the Non-Controlling Interest (NCI) of the Company before and after the Rights Issue, and under the hypothetical scenario of full exercise of warrants held are as follows:

	CI		NCI		Total No of Shares
	No.Shares held	%	No.Shares held	%	
Before Rights Issue	82,381,232	36.5	143,141,576	63.5	225,522,808
+ 1-for-1 Rights subscribed	82,381,232		51,513,663		133,894,895
After Rights subscription	164,762,464	45.8	194,655,239	54.2	359,417,703
+ Potential full exercise of warrants held	41,190,616		25,756,802		66,947,418
After full exercise of warrants	205,953,080	48.3	220,412,041	51.7	426,365,121

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

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

B10 **Group borrowings and debt securities**

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

	RM'000
Short-term borrowings	
Secured	62,910
Long-term borrowings	
Secured	21,326
Total borrowings	84,236

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 2018	119,309
Inflow from drawdown	54,460
Outflow on repayment	(91,491)
Non-cash movement	1,958
Closing balance at 30 September 2018	84,236

Based on the above borrowings, the Group's gearing ratio is around 0.20 times. Over the current financial quarter as disclosed in Notes A6 and A11(ii), the Group's Engineering subsidiary has fully paid-off the unsecured borrowings of RM26.9 million with funds extended by the Company, whilst the Steel Tube subsidiary has incepted and drawn on a 10 years' term loan of RM21 million to partly finance the acquisition of a factory land and buildings from the Company.

Besides the above stated borrowings, the Group's Steel Tube subsidiary also draw on interest-bearing trade credits from its raw-coil suppliers with an outstanding amounts of RM23 million as at 30 September 2018. Inclusive of these interest bearing trade credits, the Group's absolute gearing ratio as at 30 September 2018 is around 0.25 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.

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

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

B11 **Outstanding derivatives** (continued)

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 2018 are outlined 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	330	991	0.7	5.7

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	4,450	18,229	237.1	4.7

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	37,202	151,285	3,086.8	31.5	Matching	37,202	n.a.	31.5	3,086.8

Besides the above unrealised positions, the Group has recorded a total realised net gain of around RM435 thousand from its FX Forward Contracts as hedging instruments with corresponding realised net loss of around RM702 thousand from its hedged items over the current financial quarter.

(i) Risk associated with the derivatives

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

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

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

B11 **Outstanding derivatives** (continued)

(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 has expired in the current financial quarter in September 2018 without being renewed.

(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 the client for such advances and guaranteed by the Company stands at RM38.9 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 totaling RM33.2 million taken by the Engineering subsidiary to finance the completion of the said onerous projects. This corporate guarantee is being discharged as the Engineering subsidiary outstanding loan sum of RM26.9 million was settled in the current financial quarter.

The potential economic outflow relation to the abovementioned corporate guarantees where still outstanding are duly reflected in the Group's consolidated results with the full recognition of those onerous projects' losses in the past.

B13 **Material litigation**

The Group does not have any on-going 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.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2018

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

B15 (**Loss)/Earnings per share**

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

	Current year quarter 30/09/2018	Preceding year corresponding quarter 30/09/2017	Current year to date 30/09/2018	Preceding year corresponding period 30/09/2017
Loss/(Profit) attributable to owners of the Company (RM'000)	(1,389)	1,929	(1,389)	1,929
Weighted average number of ordinary shares in issue ('000)	286,532	235,242	286,532	235,242
Basic (loss)/earnings per share (sen)	**(0.48)**	**0.82***	**(0.48)**	**0.82***

***** Basic EPS for the comparative period which was previously stated at 0.86 sens has been restated for the effects of the 'Rights Issue with free Warrant' concluded in the current financial quarter.

(ii) Diluted loss per ordinary share

No diluted loss per share is presented as the issued and listed warrants are in an anti-dilutive position given that its exercisable price (at 40 sens) is above the market price of the listed mother share at the close of the current financial quarter.

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
27 November 2018