Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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 2020 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 preceding financial year ended 30 June 2020.

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 2020, except for the following new amendments to the MFRS ("standards") effective from 1 January 2020 which the Group has only adopted since the commencement of the current financial year on 1 July 2020:

- Changes to the Conceptual Framework for Financial Reporting (Revised 2018). This entails a number of changes which provide clarifications, new definition, and emphasis of entrenched concepts.
- Amendments to MFRS 101 "Presentation of Financial Statements" and MFRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors". These amendments clarify the definition of 'materiality' and the consistency of definition application throughout the financial reporting.
- Amendments to MFRS 3 'Definition of a Business' (effective 1 January 2020). These amendments revised the definition of a 'business' in an acquisition.

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.

Effective for financial year beginning after 1 July 2022.
- Amendments to MFRS 116 "Proceeds before Intended Use"
- Amendments to MFRS 3 "Reference to the Conceptual Framework"
- Annual Improvements to Illustrative Example accompanying MFRS 16 Leases: Lease Incentives
- Annual Improvements to MFRS 9 "Fees in the '10 per cent' test for Derecognition of Financial Liabilities"
- Amendments to MFRS 137 "Onerous Contracts – Cost of Fulfilling a Contract"

Effective for financial year beginning after 1 July 2023.
- Amendments to MFRS 101 "Classification of liabilities as current or non-current"

These amendments to published standards will be adopted on the respective effective dates.

A2 **Audit qualification**

The audit report of the Group in respect of the annual financial statements for the financial year ended 30 June 2020 was not subject to any audit qualification.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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**

Over the current financial quarter, the Group received wage subsidy from the Malaysian government's COVID-19 aid program totaling RM404 thousand, and from the UK government totaling GBP15 thousand. The Group's entitlement for the Malaysian wage subsidy program ended in September 2020 for its domestic subsidiaries, whilst the UK wage subsidiary program would end in March 2021.

A unit of the Group's steel operations had an incident of equipment failure which resulted in interruption and incremental outlay over the current financial quarter. The problem has since been rectified, and the subsidiary has initiated insurance recovery on its machine breakdown and consequential loss coverage in relation to the aforementioned incident.

Besides the above, there were no other unusual items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

A5 **Changes in estimates**

There were no changes in estimates that had a material effect on the financial results for the current financial quarter. The Group's engineering subsidiary which applies critical estimates and judgement in accounting for its construction contracts was disposed in August 2020. See Note A11.

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.

	30/09/2020	30/06/2020
Total interest bearing debts in RM'million	80.4	100.3
Adjusted Equity in RM'million	476.3	468.0
Absolute Gearing Ratio	0.17	0.21

Of the total interest bearing debts as at 30 September 2020, around RM79.6 million is represented by the respective debenture at its Steel Tube and Cold Rolled subsidiaries, whilst RM219 thousand is represented by unsecured interest-bearing supplier's credit also at the respective operating subsidiaries. (See Note B10). Lease liability classification pursuant to MFRS 16 are excluded from the ratio computation as these are contractually non-interest bearing.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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

Debt covenants where applicable are in full compliance for the current financial quarter ended 30 September 2020, except for the Cold Rolled subsidiary's Debt Service Cover Ratio which includes nine months of data relating to the preceding financial year. As the current financial year progresses, the said covenant would likely be met.

A7 **Dividends paid**

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

A8 **Segmental reporting**

The engineering businesses ceased to be reported as a segment with effect from the current financial quarter following the disposal of its main engineering subsidiary in August 2020. (See Note A11(a)).

The Group's 'year-to-date' segmental information on its remaining businesses held based on the nature-of-business is as follows:

	Steel Tube	Cold Rolled	Investment Holding	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
Total revenue	62,359	99,774	2,717	532	165,382
Inter segment	(332)	(6,129)	(2,526)	(239)	(9,226)
External revenue	62,027	93,645	191	293	156,156
Pre-tax profit	4,856	2,370	2,720	(207)	9.739
Segment assets	231,065	368,271	35,406	2,884	637,626

Reconciliation of segment assets to total assets is as follows:

	RM'000
Segment assets	637,626
Deferred tax assets	1,001
Derivative financial asset	61
Tax recoverable	104
	638,792

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 2020 and adjusted for depreciation where applicable to reflect the current period's ending net carrying value.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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 September 2020:

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)	-	7.4	-
as Assets (hedge accounted)	-	53.7	-
as Liabilities (hedge accounted)	-	(1,664.1)	-
Total	-	(1,603.0)	-

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**

(a) Disposal of Melewar Integrated Engineering Sdn Bhd ("MIE")

The Company has on 14 August 2020 entered into a Share Sale Agreement to dispose the entire equity interest in its engineering subsidiary, Melewar Integrated Engineering Sdn Bhd comprising of 69,022,201 ordinary shares and 2,000 redeemable preference shares to the subsidiary's chief executive officer cum director (Datuk Uwe Ahrens) for a cash consideration of RM750,000 pursuant to the latter's management buyout offer. The disposal of MIE has resulted in the Group taking a gain of around RM5 million on the disposal- comprising of the proceeds (e.g. RM750,000) as well as from the de-consolidation MIE's net liabilities (as represented by its unaudited deficit shareholders' fund of RM4.3 million) upon completion of the transaction on 14 August 2020.

(b) Disposal of a leasehold property

The Company's wholly-owned subsidiary, Melewar Steel Services Sdn Bhd ("MSS") has on 3 September 2020 entered into a Sale and Purchase Agreement ("SPA") with RHB Trustees Berhad acting as the trustee for Axis Real Estate Investment Trust ("the Purchaser" or the "REIT") for the disposal of the leasehold property together with all the buildings erected thereon known as Lot 16, Jalan Pengapit 15/19, Seksyen 15, 40200 Shah Alam, Selangor Darul Ehsan ("the Property") for a total disposal consideration of RM11,870,000.

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

(b) Disposal of a leasehold property (continued)

The sale of the said Property shall be conditional upon the following being obtained or fulfilled or maintained within six (6) months from the date of the SPA:

(i) the approval from the relevant state authority for the consent to transfer the said land in favour of the Purchaser;
(ii) the Vendor and/or the Purchaser procuring a suitable tenant/lessee based on the salient terms and conditions as set out in the SPA and acceptable to the Purchaser.

As at the issuance date of this report, the transaction is has not been completed with item (i) above being outstanding, whilst item (ii) has been fulfilled with the securing of a new tenant in October 2020. On completion, MSS is expected to recognise an estimated gain of RM1 million from the write-back of deferred tax liability previously provided.

Besides the above, there were no other significant events and transactions for the current quarter affecting the Group's financial position and performance of its entities.

A12 **Subsequent material events**

The Government reintroduced the Conditional Movement Control Order (CMCO) due to the resurgence of COVID-19 infections with effect from 14 October 2020, which covers key states where the Group's domestic operations and markets are located.

Besides the above, there are no other known material subsequent events up-till the date of this report which may affect the Group's financial position and performance of its entities.

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

On May 2020 in the preceding financial quarter, the Company incorporated a new wholly own subsidiary 3Bumi Sdn Bhd ("3Bumi") to be the investment holding company on its planned foray into a new Food segment. The following additions- which are all still in pre-operation stage as at the issuance date of this report- were made to the investment holding of 3Bumi over the current financial quarter.

(a) 3Bumi Oleo Sdn Bhd

On 15 September 2020, 3Bumi acquired 90,000 ordinary shares representing 80% of the share capital of 3Bumi Oleo Sdn Bhd ("3Bumi Oleo") (formerly known as Myreve Sdn Bhd) from two individuals for a cash consideration of RM90,000 representing the proportionate carrying net asset value of the subject company. The intended business of 3Bumi Oleo is in the downstream bottling and distribution of palm olein edible oil.

As at the date of this report, the acquisition remains reversible as the vendor has yet to fulfill all the Conditions Precedent underlying the stake disposal. In this regard, 3Bumi has not released the said purchase consideration but has recognised the conditional obligation as a contingent liability in its books.

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Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A13 **Changes in the composition of the Group** (continued)

(a) 3Bumi Oleo Sdn Bhd (continued)

The assessed fair value of the assets and liabilities of 3Bumi Oleo as at the acquisition cut-off date are as follows:

	RM
Fair value of identifiable Assets and Liabilities acquired:	
Non-financial assets	112,497
Financial asset (as cash)	3
	112,500
Non-controlling interest (20%)	(22,500)
	90,000

No goodwill nor discount arose from the acquisition, as the investment sum approximates the proportional fair value of the entity.

(b) 3Bumi Trading Sdn Bhd

On 29 September 2020, the Company transferred its wholly owned dormant subsidiary Melewar Steel Engineering Sdn Bhd to 3Bumi at a consideration sum of RM1, and was renamed to 3Bumi Trading Sdn Bhd ("3Bumi Trading"). The intended business of 3Bumi Trading is in the trading of frozen meat and seafood.

(c) MAAX Venture (Cambodia) Co., Ltd.

On 14 July 2020, 3Bumi acquired 1,000 ordinary shares of USD50 each representing 100% of the share capital of MAAX Venture (Cambodia) Co., Ltd ("MAAX Venture") from MAA Corporation Sdn Bhd, a related party, for a cash consideration of USD48,830 (RM205,967) representing its carrying net asset value. The acquired dormant company is intended to undertake food distribution business in Cambodia. The company's name is currently pending change to reflect post-acquisition grouping structure. Due to the pandemic border closure in Cambodia, execution of related business plans has been delayed.

The assessed fair value of the assets and liabilities of MAAX Venture as at the acquisition cut-off date are as follows:

	USD	RM
Fair value of identifiable Assets and Liabilities acquired:		
Financial assets (as cash-in-bank)	49,100	207,106
Financial liability	(270)	(1,139)
	48,830	205,967

No goodwill nor discount arose from the acquisition, as the investment sum approximates the fair value of the entity.

Besides the above, there were no other changes to the composition of the Group during the current financial quarter.

<u>Quarterly report on consolidated results for the first financial quarter ended 30 September 2020</u>

Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A14 **Contingent liabilities**

There were no contingent liabilities for the current financial quarter, except for that disclosed in Note A13(a) which has been recognised.

A15 **Capital commitments**

At the end of the current reporting quarter, the Group's Cold Rolled subsidiary has an outstanding capital commitment balance of around RM9.4 million. From this amount, RM7.2 million has been committed for the construction of a new Acid Regeneration Plant (ARP) and RM2.2 million for the revamp of Continuous Pickling Line (CPL). Whilst the revamped CPL has started running towards the end of the previous financial quarter, the progress of the ARP has been disrupted by the MCO. The Group's Steel Tube subsidiary has an outstanding capital commitment balance of around RM1.5 million for plant-equipment. These 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 2020

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 30/09/2020	Preceding Year Corresponding Quarter 30/09/2019			Current Year To-date 30/09/2020	Preceding Year Corresponding Period 30/09/2019		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	156,156	183,994	(27,838)	-15%	156,156	183,994	(27,838)	-15%
Operating Profit	5,577	2,263	3,314	146%	5,577	2,263	3,314	146%
Profit Before Interest and Tax	10,594	2,263	8,331	368%	10,594	2,263	8,331	368%
Profit Before Tax	9,739	1,218	8,521	700%	9,739	1,218	8,521	700%
Profit After Tax	8,419	606	7,813	1289%	8,419	606	7,813	1289%
Profit Attributable to Ordinary Equity Holders of the Parent	7,401	508	6,893	1357%	7,401	508	6,893	1357%

The Group's revenue for the first financial quarter ended 30 September 2020 is 15% lower at RM156.2 million as compared to RM184 million achieved in the preceding year's corresponding quarter mainly due to the lower sales volume achieved by the Cold Rolled segment (down 16%) coupled with the lower average selling price for both the Cold Rolled (down 9%) and the Steel Tube segments (down 7%). The revenue contribution from the Cold Rolled segment has declined by 24% whilst the Steel Tube segment's contribution has managed to improve slightly by 4% (due to higher volume by 12%) for the current financial quarter compared to the preceding year's corresponding quarter. The Engineering segment's performance for the current quarter remained negligible and ceased to form part of the Group's revenue upon its disposal on 14 August 2020 (see Note A11(a)).

Despite the lower revenue, the Group registered a higher pre-tax profit of RM9.7 million for the current financial quarter compared to the pre-tax profit of RM1.2 million in the preceding year's corresponding quarter. The higher pre-tax profit for the current financial quarter is mainly attributed to the a one-off RM5 million gain from the disposal of the engineering subsidiary; and the steel segments higher operating profits due to better gross-margin spread. At the post-tax level, the Group recorded a higher after-tax profit of RM8.4 million for the current financial quarter compared to the preceding year's corresponding quarter after-tax profit of RM0.6 million.

The Group recorded a higher EBITDA of RM9.9 million for the current financial quarter compared to the preceding year's corresponding quarter's EBITDA of RM6.3 million.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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 30/09/2020	Immediate Preceding Quarter 30/06/2020	Changes	
	RM'000	RM'000	RM'000	%
Revenue	156,156	92,685	63,471	68%
Operating Profit/(Loss)	5,577	(1,416)	6,993	494%
Profit Before Interest and Tax	10,594	2,263	8,331	368%
Profit Before Tax	9,739	1,189	8,550	719%
Profit After Tax	8,419	2,324	6,095	262%
Profit Attributable to Ordinary Equity Holders of the Parent	7,401	3,444	3,957	115%

The Group's revenue for the current financial quarter at RM156.2 million is significantly higher compared to the immediate preceding quarter's at RM92.7 million. The higher revenue for the current financial quarter is mainly due to the resumption of business volume following the preceding financial quarter's 4 weeks of operational shutdown due to the MCO. The post-MCO business resumption led to sales volume recovery for both the Cold Rolled (up 39%) and Steel Tube (up 196%) segments in the current financial quarter. The Engineering segment's performance for the current quarter remained negligible and ceased to form part of the Group's revenue upon its disposal on 14 August 2020 (see Note A11(a)).

The Group registered a higher pre-tax profit of RM9.7 million for the current financial quarter compared to the pre-tax profit of RM1.2 million in the preceding year's corresponding quarter mainly due to the one-off RM5 million gain from the disposal of the engineering subsidiary; the higher operating profit contribution from the steel segments; and the absence of impairment charges and recoveries as recorded in the immediate preceding financial quarter. As a result, the Group recorded more than two folds increase in After Tax Profit at RM8.4 million compared to the preceding financial quarter.

The Group recorded a significant higher EBITDA of RM9.9 million for the current financial quarter compared to the immediate preceding quarter's EBITDA of RM2.6 million.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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 recovery from the COVID-19 pandemic continues to be weighted-down by the resurgence of infection and the reintroduction of the Conditional Movement Control Order (CMCO) from 14 October 2020. With the various restrictions under CMCO, the Country's 4th fiscal quarter GDP would likely continue with the contraction trend as recorded over the 2nd and 3rd fiscal quarters at negative 17.1% and 2.7% respectively.

Despite the Country's economic contraction, the Group recorded a net profit performance of RM8.4 million for its 1st financial quarter largely due to the one-off profit from the disposal of its engineering subsidiary, and the stronger profit performance of its steel tube segment. The Group attributes its steel segments' performance to the ramifications of the pandemic, and the diverse application of its steel produces. On the demand-side, the pandemic pushed robust steel consumption in the production of healthcare and home equipment, furniture and fixtures. The Government's fiscal stimulus spending also flowed into the various infrastructural projects, sustaining demand for steel. On the supply-side, the pandemic disruption on global/ regional steel supply-chain resulted in market tightness and upward pricing trend amid the economic recovery in China- which inevitably contributed to brisk domestic demand and better margins for the Group's steel businesses. The trade-authority's initiation of administrative review of anti-dumping duties on CRC alloy and non-alloy steel imports from Vietnam on 28 July 2020 has slowed the inflow of the aforementioned, which translated to improved margins for the Cold Rolled unit over the current financial quarter.

These conditions are expected to flow into the next financial quarter, supporting a positive outlook on the steel market and on the Group's performance. The signing of the Regional Comprehensive Economic Partnership (RCEP) on 15 November 2020 is a significant milestone in promoting free trade amongst the participating 15 nations and should augurs well for Malaysia. Nevertheless, the RCEP is not expected to have any significant impact on domestic steel players as tariff and duty barriers remain. On the contrary, the Group's Cold Rolled unit is expected to step up effort to assist on-going anti-dumping investigations against remaining loopholes. Moving into the 2nd half of the financial year in 2021, the possibility of pandemic containment and eventual normalcy looks increasingly probable with the recent reported successes of late-stage vaccination trials for a number of candidates. Under such a scenario, the 2nd half outlook should be brighter with the reopening of borders, investment flows, and the return to normalcy on economic multipliers. Regardless, the Group current on-going projects in SOLAR power (for both the Steel Tube and Cold Rolled factories) and a new acid-regeneration plant (for the Cold Rolled operation) are scheduled to come on-stream in the 2nd half which would contribute to lower production cost and better bottom-line performance. The Group shall work towards getting the new business set-ups (see Note A13) off the ground in the remaining quarters –with the aim to establish these direct investment holdings collectively as a new Food segment in the future.

In this regard and barring further deterioration of the pandemic or rise in geopolitical risks, the Group's outlook for the remaining financial year is cautiously positive bias.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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

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

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

B5 **Profit before tax**

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

	Current year quarter 30/09/2020 RM'000	Preceding year corresponding quarter 30/09/2019 RM'000	Current year to-date 30/09/2020 RM'000	Preceding year corresponding period 30/09/2019 RM'000
Depreciation and amortisation:				
- property, plant and equipment	(3,684)	(3,687)	(3,684)	(3,687)
- right-of-use assets (leasehold lands)	(350)	(252)	(350)	(252)
- right-of-use assets (rented properties)	(61)	(97)	(61)	(97)
Finance cost on:				
- borrowings	(995)	(1,458)	(995)	(1,458)
- lease liabilities	(23)	(29)	(23)	(29)
Finance income:				
- interest on deposits with financial institutions	162	435	162	435
- net investment in subleases	1	6	1	6
Loss provision reversed on onerous contracts	8	93	8	93
FX differences gain/(loss)	3,349	(1,757)	3,349	(1,757)
FX derivatives (loss)/gain	(3,185)	1,568	(3,185)	1,568

B6 **Taxation**

Taxation comprises:

	Current year quarter 30/09/2020 RM'000	Preceding year corresponding quarter 30/09/2019 RM'000	Current year to date 30/09/2020 RM'000	Preceding year corresponding period 30/09/2019 RM'000
Current tax expense				
Current year	(1,410)	(534)	(1,410)	(534)
Over provision in prior year	4	-	4	-
Deferred tax income/ (expense)				
Current year	86	(78)	86	(78)
	(1,320)	(612)	(1,320)	(612)

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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

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

B9 **Status of corporate proposals**

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

B10 **Group borrowings and debt securities**

The Group's borrowings, denominated entirely in Ringgit Malaysia from lending institutions as at 30 September 2020 undertaken by its Steel subsidiaries are as follows:

	RM'000
Short-term borrowings	
Secured	51,032
Long-term borrowings	
Secured	29,101
Total borrowings	80,133

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 2020	73,976
Inflow from drawdown	49,690
Outflow on repayment	(43,533)
Closing balance at 30 September 2020	80,133

Based on the above borrowings, the Group's gearing ratio is around 0.17 times. The Group's Steel Tube subsidiary also draw on interest-bearing trade credits from its raw-coil suppliers with an outstanding amount of RM219 thousand as at 30 September 2020. Inclusive of these interest bearing trade credits, the Group's absolute gearing ratio as at 30 September 2020 is around 0.17 times.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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

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 September 2020 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	150	463	7.4	-

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	37,782	159,191	53.7	1,664.1	Matching	37,782	n.a.	1,664.1	53.7

Besides the above unrealised positions, the Group has recorded a total realised net loss of around RM1.6 million from its FX Forward Contracts as hedging instruments with corresponding realised net gain of around RM1.5 million from its hedged items over the current financial year.

(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 at the contracted rate to meet its obligations.

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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**

At the Group level, off-balance-sheet financial instruments as at the date of this announcement are bank guarantees issued by its indirect subsidiaries amounting to RM4.5 million as security for inbound supply of goods and services; and corporate guarantees issued by its listed Mycron Steel Bhd to lenders for borrowings extended to the steel subsidiaries amounting to RM77.2 million as at 30 September 2020.

At Company level, there are no off-balance-sheet financial instruments and commitments at the close of the current financial quarter.

B13 **Material litigation**

At the close of the current financial quarter, there are no material litigation, either as a plaintiff or defendant, claims or arbitration which have a material effect on the financial position of the Group. 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 report.

B14 **Dividends**

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

B15 **Earnings per share**

(i) Basic earnings per ordinary share

	Current year quarter 30/09/2020	Preceding year corresponding quarter 30/09/2019	Current year to date 30/09/2020	Preceding year corresponding period 30/09/2019
Profit attributable to owners of the Company (RM'000)	7,401	508	7,401	508
Weighted average number of ordinary shares in issue ('000)	359,418	359,418	359,418	359,418
Basic earnings per share (sen)	**2.06**	**0.14**	**2.06**	**0.14**

Quarterly report on consolidated results for the first financial quarter ended 30 September 2020

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

B15 **Earnings per share** (continued)

(ii) Diluted earnings per ordinary share

No diluted earnings 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 2020