Notes to the Quarterly Report – 31 January 2015

## PART A : EXPLANATORY NOTES AS PER MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134, INTERIM FINANCIAL REPORTING

### 1. Basis of preparation

These interim financial statements are unaudited and have been prepared in accordance with MFRS 134 "Interim Financial Reporting" issued by Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirement of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the Company's annual audited financial statements for the year ended 31 July 2014. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 July 2014.

### 2. Significant Accounting Policies

This interim financial report has been prepared based on accounting policies and methods of computation which are consistent with those adopted in the annual audited financial statements for the year ended 31 July 2014, except for the adoption of the following new and revised MFRSs, IC Interpretations and Amendments to MFRSs and IC Interpretation that are effective for the financial year ending 31 July 2015:

- Amendments to MFRS 10, Consolidated Financial Statements: Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139, Financial Instruments: Recognition and Measurement –Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies

## 2. Significant Accounting Policies (cont'd)

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010 – 2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010 – 2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 119, Employee Benefits – Defined Benefit Plan: Employee Contributions
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 140, Investment Property (Annual Improvements 2011 – 2013 Cycle)

The adoption of above Standards and Interpretations did not have any significant effect on the financial statements of the Group.

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016**

- MFRS 14, Regulatory Deferral Accounts
- Amendments to MFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 116,Property, Plant and equipment - Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation

## 2. Significant Accounting Policies (cont'd)

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017**

- MFRS 15, Revenue from Contracts with Customers

**MFRSs, Interpretations and amendments effective for date yet to be confirmed**

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- MFRS 9, Financial Instruments – Hedge Accounting and Amendments to FRS 9, FRS 7 and FRS 139
- Amendments to MFRS 7, Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures

## 3. Audit qualification

There were no audit qualifications on the annual financial statements of the Group for the year ended 31 July 2014.

## 4. Seasonal or cyclical factors

The Group's business operations are not materially affected by any major seasonal factors except during Hari Raya, Christmas and Chinese New Year festive seasons where business activities generally slow down.

## 5. Material unusual items

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows during the quarter.

## 6. Material changes in estimates

There were no material changes in estimates of amount reported in prior interim period that have material impact in the current quarter under review.

## 7. Issuances, cancellation, repurchase, resale and repayment of debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter under review except the following:

a) Issuance of 46,000 new ordinary shares at par of RM0.50 each for cash arising from the exercise of Employees' Share Options Scheme ("ESOS") at an exercise price of RM0.50 each;

b) 1,000 ordinary shares were bought back in the current quarter with average price RM0.58. As at quarter ended 31 January 2015, a total of 5,482,000 buy-back shares were held as treasury shares and carried at cost as follow:

| | **No. of Shares Purchased** | **Average Purchase Price (RM)** | **Consideration Paid (RM)** |
|---|---|---|---|
| **As at 01.08.2014** | 5,481,000 | 1.37 | 7,495,522 |
| December 2014 | 1,000 | 0.58 | 621 |
| **As at 31.01.2015** | 5,482,000 | 1.37 | 7,496,143 |

## 8. Dividend paid

A single tier final dividend of 0.6 sen per ordinary share in respect of the financial year ended 31 July 2014 was approved by the shareholders on the 18th Annual General Meeting of the Company held on 17 December 2014. A total amount of RM4,277,910 was paid on 13 February 2015 to depositors registered in the Record of Depositors at the close of business on 28 January 2015.

**---- the rest of the page is intentionally left blank ----**

## 9. Segment information

The Group's activities are identified into the following business segments:

| | 6 months ended 31 January 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Trading RM'000** | **Manufac-turing RM'000** | **Property and Investment RM'000** | **Transport-ation RM'000** | **Mining explor-ation RM'000** | **Elimina-tion RM'000** | **Group RM'000** |
| **SALES** | | | | | | | |
| - External sales | 322,842 | 285,632 | 96 | 2 | - | - | **608,572** |
| - Intersegment sales | 1,455 | 15,894 | 5,760 | 2,049 | - | (25,158) | - |
| **Total sales** | **324,297** | **301,526** | **5,856** | **2,051** | **-** | **(25,158)** | **608,572** |
| **RESULTS** | | | | | | | |
| Finance income | 606 | 387 | 10,155 | 12 | - | - | 11,160 |
| Finance costs | 4,673 | 4,741 | 5,707 | - | - | - | 15,121 |
| Depreciation & amortisation | 1,740 | 8,876 | 981 | 204 | - | - | 11,801 |
| Share of loss of jointly controlled entity | - | - | - | - | - | - | (21,081) |
| Segment profit | 4,074 | 16,574 | 3,201 | 200 | (9) | (21,000) | 3,040 |

## 10. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendments from the previous annual report.

## 11. Significant events

There were no material events subsequent to the end of the interim period up to the date of this report.

## 12. Changes in the composition of the Group

Huatraco Scaffold Sdn Bhd, a wholly-owned subsidiary of the Company, had on 23 December 2014 subscribed for 480,000 new ordinary shares of RM1.00 each at par in Huatraco GES Scaffold Sdn Bhd (formerly known as Satin Prestasi Sdn Bhd) ("HGES"), representing 48% of the of the enlarged issued and paid up share capital of HGES.

Save for the above, there were no significant changes in the composition of the Group as at the date of this report.

## 13. Changes in contingent liabilities and assets

The contingent liabilities as at 31 January 2015 are as follow:

| Unsecured Contingent Liabilities :- | Group | |
|---|---|---|
| | **31.01.15 RM'000** | **31.01.14 RM'000** |
| In respect of indemnity provided for bank guarantees issued | 10,506 | 16,492 |
| In respect of guarantees issued in favour of Royal Custom and Excise Department | 3,000 | 3,000 |
| In respect of corporate guarantees issued to a jointly controlled entity | 108,016 | - |
| **Total** | **121,522** | **19,492** |

## 14. Capital commitments

Share of capital commitments of the jointly controlled entity as at 31 January 2015 are as follow:

| | **RM'000** |
|---|---|
| Capital expenditure: | |
| Approved and contracted for | 26,781 |
| Approved but not contracted for | 3,850 |
| | 30,631 |

**---- the rest of the page is intentionally left blank ----**

## 15. Related party transactions

Related party transactions for the quarter under review in which certain Directors have direct/indirect interest are as follows:

| | Group | |
|---|---|---|
| | **Current year quarter 31.01.15** | **Current year-to-date 31.01.15** |
| | **RM'000** | **RM'000** |
| Sales of steel products by certain wholly owned subsidiaries of the Group to 55% owned jointly controlled entity, Eastern Steel Sdn. Bhd. ("ES") | 668 | 1,227 |
| Purchases of steel products by certain wholly owned subsidiaries of the Group from JK Ji Seng Sdn.Bhd. | 27,045 | 76,246 |
| Purchases of equipment, products, services and raw materials by ES from Shaougang Corporation | 459 | 459 |

These transactions have been entered into in the normal course of business and at arms length basis and on terms no more favourable to the related party than those generally available to the public and are not detrimental to minority shareholders.

**---- the rest of the page is intentionally left blank ----**

## PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

### 16. Review of performance

The Group's revenue for the 2nd quarter of FY 2015 was higher than the preceding year corresponding quarter by RM41.99 million, recorded at RM301.12 million (Q2FY2014 : RM259.13 million), representing an increase of 16.2%. The increase was mainly attributable to higher sales volume achieved in the Trading Division.

Both the trading and manufacturing divisions reported better sales volume despite facing keen competition domestically as well as internationally.

| | REVENUE | |
|---|---|---|
| | Q2FY 2015 | Q2FY2014 |
| Trading Division | RM150.6 mil | RM115.5 mil |
| Manufacturing Division | RM150.4 mil | RM143.6 mil |

The Group registered a loss before tax of RM1.95 million in Q2FY2015 as compared to a profit before tax of RM12.22 million in Q2FY2014 mainly due to share of loss of jointly controlled entity of RM16.11 million in the reporting quarter. The significant change in the jointly controlled entity's performance for the period was primarily due to foreign currency translation losses as a result of the strengthening of the US dollar.

On year-to-date basis, the Group recorded revenue of RM608.57 million in the first half of the FY 2015 as compared to RM529.58 million in the corresponding period of FY 2014. However, profit before tax dropped from RM29.31 million to RM3.04 million for the first six months of FY2015. The lower profit was attributable to shares of loss of jointly controlled entity of RM21.08 million in the reporting period as compared to a loss of RM3.71 million in the corresponding period in FY 2014. The losses were due to unrealized foreign currency loss arising from foreign currency shareholders' loan.

### 17. Comparison with immediate preceding quarter's results

For the quarter under review, the Group's revenue declined from RM307.46 million in the immediate preceding quarter to RM301.12million, a slight decrease of 2.1%, contributed by lower sales volume in the Trading Division as compared to the immediate preceding quarter.

The Group's loss before tax of RM1.95 million in Q2FY2015 (Q1FY2015 : profit before tax of RM4.99 million) was attributable primarily to the share of loss of the jointly controlled entity of RM16.11 million in the current quarter.

## 18. Prospects

The Malaysian Government has in its revised Budget 2015, forecasted the gross domestic product (GDP) growth projection to revise down to 4.5% - 5.5% in 2015 from the initial forecast of 5% - 6%, after taking into account the impact of falling oil prices on the country's economy and the Government's revenue. The decision to cut operating expenditure by RM5.5 billion but maintain development expenditure at RM48.5 billion is seen as a positive move to boost Malaysia's growth. Thus, demand for domestic steel products is expected to remain resilient with the ongoing major construction projects under the Economic Transformation Programme.

However, steel market will continue to be difficult, with prices remaining low and intense competition from cheap import. Despite the challenging business environment, the Group, excluding its jointly controlled entity will strive to maintain a satisfactory performance for the remaining periods of the financial year by strengthening its productivity efficiency and tighter cost control. However, the performance of the Group's jointly controlled entity will continue to be affected by the volatility of US Dollar and start up challenges.

## 19. Variance of actual and forecast profit

Not applicable.

## 20. Tax

| | Group | |
|---|---|---|
| | **Current year quarter 31.01.15** | **Current year-to-date 31.01.15** |
| | **RM'000** | **RM'000** |
| Income tax | 3,611 | 5,766 |
| Deferred tax | 532 | 517 |
| | 4,143 | 6,283 |

The Group's effective tax rate was higher than the statutory income tax rate of 25% mainly due to share of loss of jointly controlled entity which resulted in a loss before tax. The Group's effective tax rate was approximate the statutory income tax rate should the calculation exclude the share of loss of the jointly controlled entity.

## 21. Status of corporate proposal

There was no corporate exercise as at the date of this announcement.

## 22. Borrowings

The Group’s borrowings as at 31 January 2015 are as follows:

| | Long Term RM'000 | Short Term RM'000 | Total RM'000 |
|---|---|---|---|
| Secured: | | | |
| Bankers' Acceptances | - | 454,151 | 454,151 |
| Revolving credit | - | 60,000 | 60,000 |
| Onshore foreign currency loan | - | 15,556 | 15,556 |
| Liability component of redeemable convertible secured bonds | 129,487 | 2,199 | 131,686 |
| | 129,487 | 531,906 | 661,393 |

Bankers’ Acceptances, revolving credit and Onshore foreign currency loan are secured by corporate guarantees of the Company.

As at 31 January 2015, the Company has extended corporate guarantees amounting to RM529.71 million to financial institutions for banking facilities granted to certain subsidiaries. The financial impact of the guarantees is not material as the subsidiaries concerned are in positive financial standings to meet their obligations as and when they fall due.

The redeemable convertible secured bonds are constituted by a Trust Deed entered into between the Company and the trustee on 21 March 2012.

## 23. Material litigation

There is no material litigation for the quarter under review.

## 24. Dividend

The Board of Directors does not recommend any dividend for the period under review.

## 25. Loss per share ("LPS")

### a) Basic LPS

The basic loss per share is calculated by dividing the Group's net loss attributable to ordinary equity holders for the period by the weighted average number of ordinary shares in issue.

| | Current Year Quarter 31.01.15 | Current Year-to-date 31.01.15 |
|---|---|---|
| Loss attributable to owners of the parent (RM'000) | (6,087) | (3,239) |
| Weighted average number of ordinary shares in issue ('000) | 712,873 | 712,771 |
| **Basic loss per share (sen)** | **(0.85)** | **(0.45)** |

### b) Diluted LPS

The diluted loss per share is calculated by dividing the Group's net loss attributable to ordinary equity holders for the period by the weighted average number of ordinary shares that would have been in issue upon full exercise of the remaining options under ESOS, warrants and redeemable convertible secured bonds, adjusted for the number of such ordinary shares that would have been issued at fair value.

The computation has not taken into account the diluted effect on earnings per share on exercise of warrants and conversion of redeemable convertible secured bonds on the assumptions that no exercise of warrants and conversion of redeemable convertible secured bonds as the exercise price of warrants and conversion price of redeemable convertible secured bonds were higher than the average market price.

| | Current Year Quarter 31.01.15 | Current Year-to-date 31.01.15 |
|---|---|---|
| Loss attributable to owners of the parent (RM'000) | (6,087) | (3,239) |
| Weighted average number of ordinary shares in issue ('000) | 725,785 | 725,684 |
| **Basic loss per share (sen)** | **(0.84)** | **(0.45)** |

## 26. Realised and unrealised profit disclosure

| | Current Year Quarter 31.01.15 RM'000 | Immediate Preceding Quarter 31.10.14 RM'000 |
|---|---|---|
| Total retained earnings of the Company and its subsidiaries | | |
| - Realised | 602,343 | 597,170 |
| - Unrealised | 5,977 | 5,416 |
| | 608,320 | 602,586 |
| Total share of accumulated losses of the joint venture | | |
| - Realised | (24,162) | (13,644) |
| - Unrealised | (24,607) | (19,012) |
| Less: Consolidation adjustments | (24,615) | (24,630) |
| Total retained profits | 534,936 | 545,301 |

## 27. Profit from operations

| | Current Year Quarter 31.01.15 RM'000 | Current Year-to-date 31.01.15 RM'000 |
|---|---|---|
| ***Profit for the year is arrived at after charging:*** | | |
| Depreciation of property, plant and equipment | 5,882 | 11,722 |
| Depreciation of investment property | 40 | 79 |
| Equity-settled share based payments | 224 | 448 |
| Finance costs | 7,803 | 15,121 |
| ***and after crediting:*** | | |
| Gain on disposal of property, plant and equipment | 870 | 1,462 |
| Finance income: | | |
| Available-for-sale fnancial assets | 689 | 927 |
| Deposits | 71 | 138 |
| Jointly controlled entity | 5,046 | 10,095 |
| Net foreign exchange gain | | |
| Realised | 1,594 | 1,659 |
| Unrealised | 1,318 | 1,946 |
| Rental income | 260 | 457 |

## 28. Authorisation for Issue

The Interim Financial Statements were authorized for issue by the Board of Directors on 26th March 2015.