

NOTES TO THE QUARTERLY REPORT
FOR THE FIRST QUARTER ENDED 31 MARCH 2019

A1. Basis of preparation

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting, paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, International Financial Reporting Standards and the Companies Act 2016 in Malaysia.

Significant Accounting Policies

The accounting policies adopted in these condensed consolidated interim financial statements are consistent with those adopted for the financial year ended 31 December 2018, except for the adoption of the following Amendments and Annual Improvements to Standards which are effective for the annual periods beginning on or after 1 January 2019.

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standard 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

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A1. Basis of preparation (continued)

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board but have not been adopted by Group:

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements*
- MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRS, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendment to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group plans to apply the abovementioned accounting standards, amendments and interpretations from the annual period beginning on 1 January 2020 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2020, except for Amendments to MFRS 11 which is not applicable to the Group. The Group does not plan to apply MFRS 17, Insurance Contracts that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group.

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A2. Auditors' report

The auditors' report of the audited financial statements for the financial year ended 2018 was not subject to any qualification.

A3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors.

A4. Extraordinary and exceptional items

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the financial quarter under review.

A5. Changes in estimates

There were no changes in estimates during the financial quarter under review and financial period-to-date.

A6. Debt and equity securities

During the current financial period, the Company issued 69,893,415 new shares arising from the exercise of warrants.

There were no other debt and equity securities issued during the current financial period-to-date.

A7. Dividends paid

	<u>Tax exempt</u> <u>(sen per share)</u>	<u>Total amount</u> <u>(RM'000)</u>	<u>Date of</u> <u>payment</u>
Fourth interim 2018	1.5	60,292	02.04.2019

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A8. Segmental information

Segmental information is presented in respect of the Group's business segments.

The Group comprises the following main business segments:

(i) **Smelting and extrusion**

Manufacturing and marketing of aluminium and other related products.

(ii) **Contracting and others**

Contracting of aluminium and stainless steel products.

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A8. Segmental information – (cont'd)

<i>Business Segments</i>						
<i>RM'000</i>	Smelting and extrusion	Contracting and others	Elimination	Total		
Revenue from external customers	2,151,480	19,773	-	2,171,253		
Inter-segment revenue	363,597	29,793	(393,390)	-		
Total revenue	2,515,077	49,566	(393,390)	2,171,253		
Segment results	199,185	(3,858)		195,327		
Share of associate's profit				2,711		
Finance costs				(42,468)		
Profit before tax				155,570		
Taxation				(12,229)		
Profit after tax				143,341		
<i>Geographical Segments</i>						
<i>RM'000</i>	Malaysia	Asia Region	Europe Region	American Region	Elimination	Total
Revenue from external customers	2,139,614	262,484	106,429	56,116	(393,390)	2,171,253
Segment assets by location	13,120,629	1,291,234	148,840	52,669	(6,352,041)	8,261,331
Investment in associates	104,960	468,153	-	-	-	573,113
	13,225,589	1,759,387	148,840	52,669	(6,352,041)	8,834,444

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A9. Valuation of property, plant and equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy on its property, plant and equipment.

A10. Material events subsequent to the balance sheet date

There were no material event subsequent to the end of the financial period to the date of issue of this report.

A11. Changes in the composition of the Group

There were no significant changes in the composition of the Group for the current quarter under review.

A12. Contingent liabilities and contingent assets

There were no material changes in contingent liabilities and contingent assets as at the date of this quarterly report.

A13. Capital commitments

As at 31 March 2019, the Group has the following known commitments:

	RM'000
Authorised property, plant and equipment expenditures not provided for in the financial statements	20,000
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A14. Related party transactions

	3 months ended
	31.03.2019
<u>The Group</u>	RM'000
With the affiliated companies – PMB Technology Berhad Group:-	
-Sales of aluminium products	34,866
-Purchase of fabricated aluminium products and building materials	5,198
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Disclosure requirements per Bursa Malaysia Securities Berhad's Listing Requirements – Part A of Appendix 9B

Review of performance

B1. Q1 2019 vs Q1 2018

The Group revenue in Q1 2019 increased marginally by RM45.82 million or 2.2% to RM2.17 billion as compared to RM2.13 billion in Q1 2018.

Higher revenue despite lower metal price during the quarter under review was mainly due to the contribution from its subsidiary, Press Metal Aluminium Rods Sdn. Bhd. (“PMAR”) whose result was consolidated into the Group since Q2 2018 subsequent to the completion of PMAR acquisition.

The Group profit before tax (“PBT”) reduced from RM210.24 million in Q1 2018 to RM155.57 million, down by RM54.67 million or 26.0% mainly due to the weakening of metal price and prolonged high raw material prices.

B2. Q1 2019 vs Q4 2018

The Group PBT in Q1 2019 was also lower than Q4 2018's by RM46.36 million or 23.0% following the softening of metal price during the current quarter under review.

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B3. Current year's prospects

We foresee that the current trade tensions will continue to post uncertainty on near-term demand and this is reflected in lower aluminium price. However, we hope to see correction in raw material prices with the imminent resumption of alumina production in Brazil. We have already witnessed declined in carbon anode prices from the high of RMB4,000 to around RMB3,300 per tonne. The high raw material costs and subdued metal prices environment will discourage new investments or restarts hence constraining supply. We continue to expect demand to outstrip supply for this year. The stronger US Dollar against Ringgit Malaysia also works in our favour.

We are encouraged by the demand for our value-added products (VAPs) and we are confident that we can achieve our 60% VAPs target in 2019. We remain optimistic in the prospects of the aluminium industry and will continue to actively seek both organic and inorganic growth opportunities to strengthen our position in the market.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Taxation

Taxation comprises the following:

	3 months ended
	31.3.2019
	RM'000
Malaysian income tax	1,394
Foreign tax	3,593
Deferred tax	7,242

	12,229
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The effective tax rate of the Group was lower than the prevailing statutory tax rate due to the tax incentives granted to its subsidiaries.

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B6. Retained earnings

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Retained earnings:		
Realised	2,521,340	2,396,476
Unrealised	(191,898)	(183,962)
	-----	-----
	2,329,442	2,212,514
Total share of retained earnings of associate:		
Unrealised	(36,742)	(34,921)
	-----	-----
Total Group retained earnings	2,292,700	2,177,593
	=====	=====

B7. Status of Corporate Proposals Announced and Pending Completion

Sunstone Joint Venture

On 20 September 2016, the Group announced that it had entered into a joint venture agreement with Sunstone Development Co., Ltd, a company incorporated in China whereby the Group has agreed to participate in the establishment and operation of a new joint venture company, namely Shandong Sunstone & PMB Carbon Ltd., Co., in China for the primary purpose of manufacturing of pre-baked carbon anodes.

The Group has on 22 January 2018 injected RMB52.8 million (approximately RM32.4 million) being the investment cost for this joint venture. Currently, the plant has achieved full production capacity.

Save as above, there were no corporate proposals announced but pending completion during the financial quarter.

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B8. Group borrowings and debt securities as at 31 March 2019

	<u>Secured</u> <u>(RM'000)</u>	<u>Unsecured</u> <u>(RM'000)</u>	<u>Total</u> <u>(RM'000)</u>
Long term	638,402	1,942,067	2,580,469
Short term	556,050	424,044	980,094
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	1,194,452	2,366,111	3,560,563
	=====	=====	=====

Borrowings that are denominated in foreign currencies amounting to RM3,426 million are as follow: -

<u>Currency</u>		As at 31.03.2019 <u>million</u>
US Dollar	USD	773
Renminbi	RMB	64
Euro	EUR	50

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B9. Derivative Financial Instruments

(a) Details of derivative financial instruments

Details of derivative financial instrument that are outstanding as at 31 March 2019 are as follows:

	Nominal value RM'000	Fair value assets/(liabilities) RM'000
Commodity swaps		
- Less than 1 year	5,985,700	38,142
- 1 year to 3 years	1,352,207	(31,339)
- More than 3 years	-	-
	-----	-----
	7,337,907	6,803
	=====	=====
Forward exchange contracts		
- Less than 1 year	1,628,255	20,918
- 1 year to 3 years	1,983,133	8,784
- More than 3 years	-	-
	-----	-----
	3,611,388	29,702
	=====	=====

The Group entered into commodity swaps to hedge its highly probable forecast physical aluminium delivery that are expected to occur at various dates in the future. The commodity swaps have maturity dates which match the expected occurrence of these transactions.

The Group entered into the forward exchange contracts to hedge its highly probable forecast transactions denominated in foreign currency expected to occur in the future. Such contracts have maturity dates that match the expected occurrence of these transactions.

These financial instruments are stated at fair value based on the financial institutions' quote.

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B9. Derivative Financial Instruments (*cont'd*)

(a) Details of derivative financial instruments (*cont'd*)

All the derivatives were contracted with creditworthy financial institutions to mitigate the credit risk, market risk and liquidity risk associated with the derivatives.

There is no cash requirement for these derivatives other than the repayment obligation for the bank borrowings.

There have been no changes made to the accounting policies associated with those derivatives since the end of the previous financial year ended 31 December 2018.

(b) Fair value changes in financial liabilities

The gain arising from fair value changes of financial liabilities for the current quarter and financial year are as follows: -

Type of financial liabilities	Basis of fair value measurement	Reason for gain	Fair value gain/(loss)	
			Current quarter 31.3.2019 RM'000	Current period-to-date 31.3.2019 RM'000
Commodity swaps	Difference between the commodity swaps contracted price and the market forward price	Commodity price differential between the contracted price and market forward price which have moved in favour/(not in favour) of the Group	(5,736)	(5,736)
Forward exchange contracts	Difference between the contracted foreign exchange rates and the market forward rate	Foreign exchange rate differential between the contracted rate and the market forward rate which have moved in favour of the Group	15,024	15,024
Total			9,288	9,288

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B10. Material Litigation

There was no pending material litigation as at the date of this report.

B11. Dividend

The Board of Directors has approved a first interim single tier dividend of 1.25 sen per ordinary share, amounting approximately of RM50,300,000 for the financial year ending 31 December 2019.

The Book Closure and Payment Dates for the aforesaid dividend are 14 June 2019 and 28 June 2019 respectively.

B12. Earnings per ordinary share

(a) Basic earnings per share

	1st Quarter		Period-to-date	
	3 months ended		3 months ended	
	31.03.19	31.03.18	31.03.19	31.03.18
Profit attributable to shareholders (RM'000)	115,107	150,477	115,107	150,477
Weighted average number of ordinary shares ('000)	3,979,564	3,860,132	3,979,564	3,860,132
Basic earnings per share (sen)	2.89	3.90	2.89	3.90
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B12. Earnings per ordinary share-*cont'd*

(b) Diluted earnings per share

	1st Quarter		Period-to-date	
	3 months ended		3 months ended	
	31.03.19	31.03.18	31.03.19	31.03.18
Profit attributable to shareholders (RM'000)	115,107	150,477	115,107	150,477
Weighted average number of ordinary shares ('000)	3,979,564	3,860,132	3,979,564	3,860,132
Warrants C ('000)	16,491	159,357	16,491	159,357
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	3,996,055	4,019,489	3,996,055	4,019,489
	=====	=====	=====	=====
Diluted earnings per share (sen)	2.88	3.74	2.88	3.74
	=====	=====	=====	=====

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B13. Note to the Condensed Consolidated Income Statement

Profit before tax is arrived at after charging/(crediting) the following items:

	Current Quarter RM'000	Current Financial Period-To-Date RM'000
Interest income	(1,719)	(1,719)
Other income including investment income	-	-
Interest expense	44,187	44,187
Depreciation and amortisation	91,406	91,406
Provision for and write off of trade receivables	-	-
Provision for and write off of inventories	-	-
Gain on disposal of quoted or unquoted investment or properties	(3,364)	(3,364)
Impairment on assets	-	-
Realised foreign exchange gain	(3,805)	(3,805)
Unrealised foreign exchange gain	(5,485)	(5,485)
Gain on derivatives	-	-
Property, plant and equipment written off	4,398	4,398
Exceptional item	-	-

B14. Comparative figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.

On behalf of the Board

Tan Sri Dato' Koon Poh Keong
Group Chief Executive Officer
 27 May 2019