

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30TH SEPTEMBER 2014**

| | INDIVIDUAL PERIOD | | CUMULATIVE PERIOD | |
|---|----------------------|--------------------------------------|----------------------|---|
| | CURRENT YEAR QUARTER | PRECEDING YEAR CORRESPONDING QUARTER | CURRENT YEAR TO DATE | PRECEDING YEAR CORRESPONDING PERIOD TO DATE |
| | 30/09/14 RM'000 | 30/09/13 RM'000 | 30/09/14 RM'000 | 30/09/13 RM'000 |
| Revenue | 362,099 | 351,181 | 1,059,764 | 1,023,480 |
| Operating expenses | (352,826) | (338,095) | (1,026,884) | (988,632) |
| Other expenses | (1,960) | - | (1,960) | (88) |
| Other income | 74 | 2,163 | 2,497 | 2,492 |
| Interest income | 48 | 25 | 113 | 85 |
| Finance cost | (3,782) | (4,998) | (11,394) | (12,397) |
| Share of results of associated company | (186) | 1 | (214) | (30) |
| Profit/(Loss) before tax | 3,467 | 10,277 | 21,922 | 24,910 |
| Taxation | (9,565) | (566) | (10,640) | (1,522) |
| Profit/(Loss) for the period | (6,098) | 9,711 | 11,282 | 23,388 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income/(Loss) | (6,098) | 9,711 | 11,282 | 23,388 |
| Profit/(Loss) and Total Comprehensive Income/(Loss) attributable to: Equity holders of the Company | - | 9,711 | 11,282 | 23,388 |
| Profit/(Loss) for the period | (6,098) | 9,711 | 11,282 | 23,388 |
| Earnings/(Loss) per share (sen) | | | | |
| - Basic | (2.73) | 4.46 | 5.06 | 10.75 |
| - Diluted | (2.40) | 3.96 | 4.44 | 9.54 |

The Unaudited Condensed Statement of Comprehensive Income should be read in conjunction with the Annual Financial Statement for the year ended 31st December 2013 and accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30TH SEPTEMBER 2014

| | 30/09/14 | 31/12/13 |
|--|-------------------------|-------------------------|
| | RM'000 | RM'000 |
| ASSETS | | |
| <u>Non-Current Assets</u> | | |
| Property, Plant & Equipment | 518,640 | 482,307 |
| Investment in Associate company | 8,516 | 8,732 |
| | <u>527,156</u> | <u>491,039</u> |
| <u>Current Assets</u> | | |
| Stocks | 212,721 | 220,618 |
| Debtors | 244,298 | 239,446 |
| Taxation recoverables | 2,420 | 2,540 |
| Short term deposit | 12,260 | 14,418 |
| Cash & bank balances | 37,361 | 45,978 |
| | <u>509,060</u> | <u>523,000</u> |
| TOTAL ASSETS | <u><u>1,036,216</u></u> | <u><u>1,014,039</u></u> |
| EQUITY AND LIABILITIES | | |
| <u>Equity attributable to equity holders</u> | | |
| Share capital | 117,350 | 110,989 |
| Share premium | 38,014 | 35,851 |
| Treasury shares | (349) | (438) |
| Warrants reserves | 33,689 | 38,523 |
| Retained profits | 382,250 | 368,358 |
| Total Equity | <u>570,954</u> | <u>553,283</u> |
| <u>Non-Current Liabilities</u> | | |
| Long term borrowings | 21,486 | 25,205 |
| Deferred tax liabilities | 8,922 | - |
| | <u>30,408</u> | <u>25,205</u> |
| <u>Current Liabilities</u> | | |
| Creditors | 203,117 | 171,549 |
| Short term borrowings | 231,737 | 264,002 |
| | <u>434,854</u> | <u>435,551</u> |
| Total liabilities | <u>465,262</u> | <u>460,756</u> |
| TOTAL EQUITY AND LIABILITIES | <u><u>1,036,216</u></u> | <u><u>1,014,039</u></u> |
| Net Assets per share (RM) | 2.44 | 2.50 |

The Unaudited Condensed Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2013 and accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE FINANCIAL PERIOD ENDED 30TH SEPTEMBER 2014**

| | Current year 01/01/14 to 30/09/14 RM'000 | Preceding Year 01/01/13 to 30/09/13 RM'000 |
|---|---|---|
| Profit before tax | 21,922 | 24,910 |
| Adjustment for: | | |
| Depreciation of property, plant and equipment | 16,766 | 15,755 |
| Interest expense | 11,181 | 12,172 |
| Gain on disposal of property, plant and equipment | (38) | (18) |
| Others | (793) | (22) |
| Operating profit before changes in working capital | 49,038 | 52,797 |
| Changes in working capital | | |
| Net change in inventories | 7,896 | (31,386) |
| Net change in receivables | (4,641) | (20,601) |
| Net change in payables | 32,236 | 40,794 |
| Cash generated from operations | 84,529 | 41,604 |
| Interest paid | (10,961) | (11,840) |
| Income tax paid | (1,598) | (1,059) |
| Net cash inflow in operating activities | <u>71,970</u> | <u>28,705</u> |
| Investing activities | | |
| Purchase of property, plant and equipment | (53,099) | (43,106) |
| Interest received | 113 | (800) |
| Proceed on disposal | 164 | 18 |
| Net cash outflow in investing activities | <u>(52,822)</u> | <u>(43,888)</u> |
| Financing activities | | |
| Bank borrowings | (33,984) | 7,092 |
| Dividend paid | (2,221) | (1,088) |
| Issue of new shares (net of listing expenses) | - | - |
| Issue of new warrants | - | - |
| Share buy back | (22) | (111) |
| Shares subscribed by warrant holder | 8,524 | 2 |
| Finance lease interest paid | (220) | (332) |
| Net cash (outflow)/inflow from financing activities | <u>(27,923)</u> | <u>5,563</u> |
| Net decrease in cash and cash equivalents | (8,775) | (9,620) |
| Cash and cash equivalents at beginning of the year | 58,396 | 47,977 |
| Cash and cash equivalents at end of the financial period | <u><u>49,621</u></u> | <u><u>38,357</u></u> |
| 1 Cash and cash equivalents at end of the financial period comprise : | | |
| Short term deposit | 12,260 | 11,100 |
| Cash and bank balances | 37,361 | 27,257 |
| Bank overdraft | - | - |
| | <u><u>49,621</u></u> | <u><u>38,357</u></u> |

The Unaudited Condensed Statement of Cash Flow should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2013 and accompanying explanatory notes attached to the interim financial statements.

THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30TH SEPTEMBER 2014

| | Attributable to equity holders of the Company | | | | | | Total RM'000 |
|--|---|----------------------------|-------------------------------|-----------------------------------|-------------------------------|------------------------------|-----------------|
| | Non-distributable | | | Distributable | | | |
| | Share Capital RM'000 | Share Premium RM'000 | Warrant Reserves RM'000 | Revaluation Reserves RM'000 | Retained Profits RM'000 | Treasury Shares RM'000 | |
| 9 months ended 30th September 2014 | | | | | | | |
| At 1st January 2014 | 110,989 | 35,851 | 38,523 | - | 368,356 | (438) | 553,281 |
| Shares subscribed by warrant holder | 6,361 | 2,163 | (4,834) | - | 4,834 | - | 8,524 |
| Treasury Share (net movement) | - | - | - | - | - | 89 | 89 |
| Dividend declared in respect of financial year ended 31st December 2013 | - | - | - | - | (2,221) | - | (2,221) |
| Total comprehensive income | - | - | - | - | 11,282 | - | 11,282 |
| At 30th September 2014 | 117,350 | 38,014 | 33,689 | - | 382,251 | (349) | 570,955 |
| 9 months ended 30th September 2013 | | | | | | | |
| At 1st January 2013, as previously stated | 108,988 | 33,650 | 40,044 | - | 343,520 | (327) | 525,875 |
| Shares subscribed by warrant holder | 2 | - | (1) | - | 1 | - | 2 |
| Dividend declared in respect of financial year ended 31st December 2012 | - | - | - | - | (1,088) | - | (1,088) |
| Total comprehensive income | - | - | - | - | 23,388 | - | 23,388 |
| Treasury shares | - | - | - | - | - | (111) | (111) |
| At 30th September 2013 | 108,990 | 33,650 | 40,043 | - | 365,821 | (438) | 548,066 |

The Unaudited Condensed Statement of Changes in Equity should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2013 and accompanying explanatory notes attached to the interim financial statements.

MALAYSIA STEEL WORKS (KL) BHD
(Company No. 7878-V)

EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORTING FOR THE QUARTER ENDED 30th September 2014

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance MFRS 134: Interim Financial Reporting issued by Malaysian Accounting Standards Board (“MASB”), International Accounting Standard (“IAS”) 134: Interim Financial Reporting issued by International Accounting Standard Board (“IASB”) and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statement for the year ended 31st December 2013, which were prepared under Malaysian Financial Reporting Standards (“MFRSs”). 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 year ended 31st December 2013.

A2. Accounting Policies and Methods of Computation

Adoption of Standards, Amendments and IC Interpretations

The Group has adopted the following Amendments to Standards, with a date of initial application of 1st January 2014:-

Amendments to MFRS 10 Consolidated Financial Statements
Amendments to MFRS 12 Disclosure of Interests in Other Entities
Amendments to MFRS 127 Separate Financial Statements
Amendments to MFRS 132 Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136 Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139 Novation of Derivatives and Continuation of Hedge Accounting

The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

Amendments to MFRSs issued but not yet effective

The following new MFRS and Amendment has been issued by MASB but are not yet effective, and have yet to be adopted by the Group:

MFRS 9 Financial Instruments
Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any effect to the financial statements of the Group upon their initial application.

A3. Qualification of Financial Statements

The financial statements for the financial year ended 31st December 2013 was not qualified.

A4. Seasonal or Cyclical factors

The operations of the Company are subject to both cyclical factors in the construction industry as well as festive seasons.

A5. Extraordinary items

There are no extraordinary items for the financial period under review.

A6. Changes in Estimates

There have been no changes in the estimates of amount for the period under review.

A7. Debts and Equity Securities

There were no issuances, cancellation, repurchases, resale and repayment of debts and equity securities for the current quarter under review, save as disclosed below.

On 25th July 2014, the Company had disposed off a total of 134,600 shares in treasury shares at RM1.005 per share.

As at 30th September 2014, a total of 322,000 shares were held as treasury shares out of its total issued share capital of 234,700,671 shares at an average price of RM1.008 per share. The share buyback transactions were financed by internally generated funds.

A8. Dividend

The Company paid the final dividend of 0.5sen per share amounted to RM1,113,634.22 on 25th July 2014 in respect of the financial year ended 31st December 2013.

A9. Segmental reporting

The Group is primarily organised in one business segment namely manufacturing of steel bars and billets. The business segment analysed by geographical location of customers are as follows:

| | Current Quarter ended RM'000 | Current Year to-date ended RM'000 |
|--------------------|---|--|
| Revenue | | |
| - Malaysia | 362,099 | 1,022,970 |
| - Outside Malaysia | - | 36,794 |
| | 362,099 | 1,059,764 |
| | 362,099 | 1,059,764 |

A10. Valuation

The valuations of the property, plant and equipment has been brought forward and was regarded as deemed cost at the date of transition to MFRS. The relevant revaluation surplus was recognized to the retained earnings.

A11. Material subsequent events

There are no material subsequent events between the end of the current quarter under review and the date of this report.

A12. Changes in the composition of the Group

There was no change in the composition of the Group during the current quarter under review.

A13. Capital commitments

| | |
|--------------------------------------|-----------------|
| | 30/09/14 |
| | RM'000 |
| Property, plant and equipment | |
| - Approved and contracted for | <u>35,337</u> |

PART B:- ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of performance

The Group reported a profit before tax of RM3.47 million on the revenue of RM362.10 million for the current quarter compared to a profit before tax of RM10.28 million on the revenue of RM351.18 million for the previous year corresponding quarter. The increase in revenue in the current quarter is mainly attributed to higher sales volume. The Company recorded a lower profit mainly due to lower margin in the current quarter.

B2. Comparisons with immediate preceding quarter's results

The Group's revenue for the current quarter recorded an increase of RM2.11 million to RM362.10 million mainly due to higher sales volume. The Group recorded a decrease in profit before tax of RM3.47 million as compared to RM10.79 million in the immediate preceding quarter mainly due to lower selling price and lower margin in the current quarter.

B3. Prospects

Demand for the Company's steel products continues to be underpinned by the rapid rolling out of many public and private sector construction works. The Malaysian construction industry is expected to be expanding at 3%-6% growth rates in 2014, 2015 and 2016 (forecast by Malaysian Iron & Steel Industry Federation).

The Company is striving to mitigate the gradual electricity and liquefied natural gas (LNG) costs increases by deploying various new processes and technical measures. The recent successful commissioning of the Company's new 70 MT electric arc furnace in the 3rd quarter will contribute towards achieving the above mentioned objectives by lowering production costs and improving plant efficiency .

Concurrently, extensive dialogues have been undertaken by the Company as one of the principle member of the Malaysian Steel Association (MSA) with the Government and other regulators to enhance the relevant policies and remedies to improve the operating environment for steel manufacturing in Malaysia.

The construction of the Company's new 300,000 MT high grade steel bar rolling mill is proceeding according to schedule and is expected to be completed in 1st half of 2015.

Under the prevailing circumstances, the Company anticipates positive business environment to persist in the ensuing quarters.

B4. Profit forecast

The disclosure requirements for explanatory notes are not applicable as no profit forecast was published.

B5. Profit before taxation

| | Current Quarter Ended RM'000 | Current Year To-date Ended RM'000 |
|--|---|--|
| Profit before taxation is arrived at after charging/(crediting): | | |
| Unrealised foreign exchange(gain)/loss | 1,960 | (659) |
| Realised foreign exchange (gain)/loss | (51) | 182 |
| Provision/(Reversal) of doubtful debts | 9 | (220) |
| Depreciation of property, plant and equipment | 5,629 | 16,766 |
| Interest expense | 3,659 | 11,181 |
| Interest income | (48) | (113) |

B6. Taxation

i) Taxation comprises:

| | Current Quarter Ended RM'000 | Current Year To-date Ended RM'000 |
|-----------------------------|---|--|
| <u>Malaysian income tax</u> | | |
| Current year's provision | 643 | 1,718 |
| Deferred tax liabilities | 8,922 | 8,922 |
| | 9,565 | 10,640 |

ii) Reconciliation of income tax expenses

| | Current Quarter Ended RM'000 | Current Year To-date Ended RM'000 |
|--|---|--|
| Profit before taxation | 3,466 | 21,922 |
| Taxation at tax rate of 25% | 867 | 5,481 |
| Income not subject to tax | 779 | 335 |
| Utilization of unutilized reinvestment allowance | (1,389) | (4,482) |
| Deferred tax liabilities | | |
| - current quarter | 841 | 841 |
| - previous quarters | 8,081 | 8,081 |
| Under provision in prior year | 285 | 285 |
| Others | 101 | 99 |
| | 9,565 | 10,640 |

B7. (a) Status of corporate proposals

i) Head of Joint venture Agreement (“Proposed Joint-Venture”)

On 19th January 2011, the Board announced that the Company has entered into Head of Joint Venture Agreement with KUB Malaysia Berhad (“KUB”), a company listed on the Main Market of Bursa Malaysia Securities Berhad wherein the Company and KUB have agreed to combine their capabilities and resources related to the objective stated herein and are desirous to co-operate and collaborate with each other in the joint-venture company, Metropolitan Commuter Network Sdn Bhd (“MCN”) to pursue the rail transit network project in the Iskandar Malaysia.

The Management continues to work with the other stakeholders and potential investors to secure funding for the Iskandar Malaysia Commuter rail project which recently has received positive feedback from the State Government of Johor on the project.

(b) Status of utilization of proceed raised

Not applicable

B8. Borrowings

| | 30/09/14 |
|-----------------------|-----------------|
| | RM'000 |
| <u>Secured:</u> | |
| Short term borrowings | 231,737 |
| Long term borrowings | 21,486 |
| Total borrowings | <u>253,223</u> |

The above borrowings are all denominated in Ringgit Malaysia.

B9. Material litigations

There are no material litigations during the current period under review.

B10. Dividend

No dividend has been proposed or declared by the Company during the current quarter under review.

B11. Earnings/(Loss) per share (“EPS”)

(a) *Basic earnings/(loss) per share*

The basic earnings/(loss) per share of the Company is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

| | Current Quarter Ended | Current Year To-date Ended |
|--|--------------------------------------|---|
| Profit/(Loss) attributable to ordinary shareholders (RM'000) | <u>(6,098)</u> | <u>11,282</u> |
| Weighted average number of ordinary shares in issue ('000) | <u>223,161</u> | <u>223,161</u> |
| Basic Earnings/(Loss) Per Share (sen) | <u>(2.73)</u> | <u>5.06</u> |

(b) *Diluted earnings/(loss) per share*

For the purpose of calculating diluted earnings/(loss) per share, the weighted average numbers of shares in issue have been adjusted for the dilutive effects of all potential conversion of any convertible securities issued during the period as set out below:

| | Current Quarter Ended | Current Year To-date Ended |
|--|--------------------------------------|---|
| Profit/(Loss) attributable to ordinary shareholders (RM'000) | <u>(6,098)</u> | <u>11,282</u> |
| Weighted average number of ordinary shares in issue ('000) | 223,161 | 223,161 |
| Effects of dilution ('000) | 30,869 | 30,869 |
| Adjusted weighted average number of ordinary shares in issue and issuable ('000) | <u>253,895</u> | <u>253,895</u> |
| Diluted Earnings/(Loss) Per Share (sen) | <u>(2.40)</u> | <u>4.44</u> |

B12. Realised and unrealised profits disclosure

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

| | As at 30/09/14 RM'000 | As at 31/12/13 RM'000 |
|--|--------------------------------------|--------------------------------------|
| Total retained profits of the Company and its subsidiary : | | |
| - Realised | 351,233 | 341,665 |
| - Unrealised | 31,689 | 27,149 |
| | <u>382,922</u> | <u>368,814</u> |
| Total share of accumulated losses from Associate : | | |
| - Realised | (672) | (456) |
| Total Group retained profits as per consolidated accounts | <u><u>382,250</u></u> | <u><u>368,358</u></u> |

B13. Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors.