



## Part A - EXPLANATORY NOTES PURSUANT TO MFRS 134

### A1 Basis of Preparation

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 2013 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 an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2013.

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 2013.

The adoption of the following MFRSs and Amendments to MFRSs that came into effect on 1 January 2013 did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

- MFRS 10: “Consolidated Financial Statement” on changes relating to definition of control
- MFRS 11: “Joint Arrangement” on the determination of the type of joint arrangement
- MFRS 12: “Disclosure of Interest in Other Entities” on disclosure requirements replacing that of MFRS 128
- MFRS 13: “Fair Value Measurement” on disclosure requirements
- MFRS 127: “Separate Financial Statement” revision
- MFRS 128: “Investments in Associates and Joint Ventures” revision
- MFRS 119: “Employee Benefits” amendments
- MFRS 7: “Financial Instruments: Disclosure” amendments
- MFRS 116: “Property, Plant and Equipment” amendments

The Group did not early adopt the following new standards, amendments to standards and IC interpretations that have been issued by the Malaysian Accounting Standards Board as these are effective for financial periods beginning on or after 1 January 2014.

- MFRS 132: “Financial Instruments: Presentation” amendments
- MFRS 9: “Financial Instruments” replacing MFRS 139



**Part A - EXPLANTORY NOTES PURSUANT TO MFRS 134**

**A2 Declaration of audit qualification**

The audit report of the Company in respect of the annual financial statements for the financial year ended 30 June 2013 was not subject to any audit qualification.

**A3 Seasonality or cyclicity of operations**

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

**A4 Unusual items**

There were no 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**

In the current financial quarter, there were no changes in estimates that had a material effect on the financial results.

**A6 Debts and equity securities**

There were no issuances, cancellations, repurchases, or resale of equity securities during the current financial quarter.

The Group has a policy to maintain its' Gearing Ratio (measured as interest bearing debts over shareholders' equity less intangibles) at below 1.5 times.

|  | 31 Mac 2014 | 30 Jun 2013 |
|--|-------------|-------------|
| Total interest bearing debts in RM'million         | 200.4       | 146.6       |
| Shareholders' funds less intangibles in RM'million | 265.2       | 264.0       |
| Gearing Ratio                                      | 0.75        | 0.56        |

Of the total interest bearing debts of RM200.4m as at 31 March 2014, around RM139.0m is represented by its debenture and the balance being unsecured supplier's credit.

**A7 Dividend paid**

During the financial quarter, there was no dividend paid by the Company.

**A8 Segmental reporting**

No segment analysis was prepared as the Group is involved in a single industry segment relating to the manufacturing and sale of steel cold-rolled-coil products. The business of the Group is entirely carried out in Malaysia.

**A9 Valuation of property, plant and equipment**

The valuation of property, plant and equipment has been brought forward, without amendment from the audited financial statements for the financial year ended 30 June 2013.



**Part A - EXPLANTORY NOTES PURSUANT TO MFRS 134**

**A10 Fair Value Measurement**

Except for the financial instruments disclosed below which are fair valued by valuation methods, the carrying value of short-term maturity financial instruments like cash deposits and bank balances, receivables, and short-term borrowings and payables approximates their fair values.

Financial instruments subjected to fair valuation methods are categorised into the following fair value hierarchy and are represented in the table below as at 31 March 2014:

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

| <u>Recurring fair value measurement</u> | Fair Value RM'000 |         |         |
|---|-------------------|---------|---------|
|   | Level 1           | Level 2 | Level 3 |
| Foreign Currency Forwards               |                   |         |         |
| as Liabilities (not hedge accounted)    | 0                 | 117.8   | 0       |
| as Assets (hedge accounted)             | 0                 | 0       | 0       |
| as Liabilities (hedge accounted)        | 0                 | 339.0   | 0       |
| Total                                   | 0                 | 456.8   | 0       |

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

**A11 Subsequent material events**

There were no material events occurring between 1 April 2014 and the date of this announcement that warrant adjustments to the financial statements for the quarter ended 31 March 2014.

**A12 Changes in the composition of the Group**

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

**A13 Contingent liabilities or contingent assets**

There were no contingent liabilities or contingent assets as at the end of the reporting quarter.

**A14 Changes in Financial Year End Date**

There were no changes in the financial year end date during the current financial quarter.

**A15 Capital Commitments**

Capital expenditure not provided for in the financial statements at the end of the reporting quarter is as follows:

|   | RM'000 |
|---|--------|
| Plant and equipment – Approved but not contracted for | 14,875 |

**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**

For the current quarter ended 31 March 2014, the Group recorded a total revenue of RM113 million as compared to RM124 million in the preceding year's corresponding quarter. The decrease in revenue is mainly due to lower sales volume (by around 6%) and lower unit selling price (by around 3%) as compared to the same preceding quarter.

The Group registered a loss before tax of RM2.8 million for the quarter compared to profit before tax of RM2.1 million in the preceding year's corresponding quarter. The loss is mainly due to lower margin spread between selling price and raw material price, and higher unit conversion cost arising from lower production volume by around 10% as compared to the same preceding quarter. The Group's current quarter's after-tax loss is RM2.4 million as compared to after-tax profit of RM1.4 million in the preceding year's corresponding quarter. The Group's EBITDA for the current quarter is RM2.2m as compared to the preceding year's corresponding quarter at RM7.0 m

The abovementioned results are contributed by the Company's principal subsidiary, Mycron Steel CRC Sdn Bhd.

**B2 Material changes in the quarterly results compared to the results of the immediate preceding quarter**

For the current quarter ended 31 March 2014, the Group recorded total revenue of RM113 million as compared to RM124 million in the immediate preceding quarter due to the drop in sales volume by around 9% arising from the Chinese New Year festive season. The Group posted a pre-tax loss of RM2.8 million in the current quarter as compared to a pre-tax profit of RM3.9 million in the immediate preceding quarter, mainly due to higher unit conversion cost arising from lower production volume (by around 17%) and foreign exchange losses of RM0.3 million in the current quarter (as compared to the foreign exchange gains of RM1.5 million recorded in the immediate preceding quarter). At the post-tax level, the Group recorded a net loss of RM2.4 million compared a net profit of RM3.3 million in the immediate preceding quarter. The Group's EBITDA for the current quarter is RM2.2m as compared to the immediate preceding quarter at RM8.8m

**B3 Prospects for the remaining financial year**

The Group is of the view that the soft market environment coupled with intense margin/ pricing pressure as experienced in the current and recent past quarters will likely continue into the last quarter of the current financial year. The anemic domestic demand amid rising costs, volatile foreign exchange rates, and pricing pressure from unfair competition from within the country and abroad has generally capped the Group's targeted production volume and unit contribution margin –which are now trailing behind the preceding financial year's (where volume is down by 7% and unit contribution margin is down by 9%). Whilst the Group will intensify its effort to push up its performance for the full financial year, the prospect outlook for the last quarter remains cautious and hinges on the following:

- The Government's continuing effort to plug import loopholes on CRC and curtails unfair pricing
- Improvement to regional and domestic demand for end-products made with domestic CRC
- The Group's continuing ability to pass on higher costs of doing business in its CRC's selling prices to customers

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

This is not applicable to the Group.



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

**B5 Profit before taxation**

Profit before taxation is stated after charging/(crediting):

|  | Current Year<br>Quarter<br>Ended<br>31 Mac 2014<br>RM'000 | Preceding Year<br>Corresponding<br>Quarter<br>Ended<br>31 Mac 2013<br>RM'000 | Current Year<br>To Date<br>Ended<br>31 Mac 2014<br>RM'000 | Preceding Year<br>Corresponding<br>Period<br>Ended<br>31 Mac 2013<br>RM'000 |
|--|---|--|---|---|
| Depreciation   | 2,851   | 2,697  | 8,470   | 8,160   |
| Interest income  | (139)   | (89)   | (304)   | (262)   |
| Interest expense   | 2,282   | 2,253  | 6,969   | 6,001   |
| Foreign exchange (gain)/loss<br>(include hedge accounted FX<br>forwards) | (6)   | (253)  | 1,349   | 303   |
| FX Forward not hedge<br>accounted loss                                   | 276   | 136  | 291   | 164   |

**B6 Taxation**

Taxation comprises :

|                               | Current Year<br>Quarter<br>Ended<br>31 Mac 2014<br>RM'000 | Preceding Year<br>Corresponding<br>Quarter<br>Ended<br>31 Mac 2013<br>RM'000 | Current Year<br>To Date<br>Ended<br>31 Mac 2014<br>RM'000 | Preceding Year<br>Corresponding<br>Period<br>Ended<br>31 Mac 2013<br>RM'000 |
|-------------------------------|---|--|---|---|
| Current tax expense           |   |  |   |   |
| Current period                | (79)  | (49)   | (213)   | (189)   |
| Deferred tax (expense)/income |   |  |   |   |
| Current period                | 478   | (576)  | 876   | (1,536)   |
| Under accrual in prior year   | -   | (113)  | -   | (113)   |
|                               | <u>399</u>  | <u>(738)</u>   | <u>663</u>  | <u>(1,838)</u>  |

For the current year to date, tax credit arose mainly due to deferred tax liabilities adjustment.

**B7 Profit on sale of unquoted investments and / or properties**

The Group did not engage in any sales 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.



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

**B10 Group borrowings and debt securities**

The Group's bank borrowings as at 31 March 2014 were as follows:

|                                    |                |
|------------------------------------|----------------|
| <u>Short-term bank borrowings:</u> | <u>RM'000</u>  |
| Secured                            | 138,773        |
| <u>Long-term bank borrowings:</u>  |                |
| Secured                            | <u>234</u>     |
| Total borrowings                   | <u>139,007</u> |

|  |                |
|--|----------------|
| The Group's currency exposure of borrowings as at 31 March 2014 were as follows: | <u>RM'000</u>  |
| - Ringgit Malaysia   | 132,366        |
| - US Dollar  | -              |
| - Euro   | <u>6,641</u>   |
| Total borrowings   | <u>139,007</u> |

The Group's bank borrowings are secured by way of a debenture over the fixed and floating assets of Mycron Steel CRC Sdn Bhd and a corporate guarantee by Mycron Steel Berhad.

The Group has drawn on interest-bearing-trade credits from key hot-rolled-coil suppliers with an outstanding amount of USD18.4 million (RM61.4 million) as at 31 March 2014. Inclusive of this, the Group's net gearing ratio as at 31 March 2014 is around 0.75 times.



**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.

Since the beginning of the current financial year, the Group has started to designate certain eligible hedge relations on FX forwards incepted to cover its USD exposure on forward purchases of raw materials for the purpose of hedge accounting. These are designated as fair value hedge 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) been 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 31 March 2014 are outline below:

Non-designated

| FX Forward Contracts 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  | 6,633               | 21,982   | 0                 | 117.8               |

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                                      | 7,911               | 26,436   | 0                 | 339.0               | Matching   | 7,911               | n.a. | 339.0             | 0                   |

- (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 to meet its obligations.

- (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 an 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.



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

**B12 Off balance sheet financial instruments**

There were no off balance sheet financial instruments as at the date of this announcement except for bank guarantees issued amounting to RM2.1 million being security for inbound supply of goods and services .

**B13 Material litigation**

Save as disclosed below, the Group is not engaged in any 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:

**MYCRON STEEL BERHAD v MULTI RESOURCES HOLDINGS SDN BHD (HIGH COURT OF SABAH AND SARAWAK SUIT NO. KCH-22-80-2011)**

On 18 February 2010, the Company commenced legal action against Multi Resources Holdings Sdn Bhd (“Defendant”) to recoup their cost of investment of RM17.0 million in PMP Galvanizers Sdn Bhd (“PMPG”) as a result of non-compliance of certain conditions by the Defendant pursuant to a shareholders’ agreement entered in 2005. On 21 May 2010, the Defendant successfully filed with the Kuala Lumpur High Court (“the Court”) for a change in the jurisdiction for the case to be heard in Kuching. On 27 April 2011, the Company’s solicitor filed the Writ of Summons and Statement of Claim to the High Court of Sabah and Sarawak. Hearings and trial of the case were conducted in the periods between 18 June 2012 to 21 June 2013, with the final submission made on 5 September 2013. The Court ruled on 18 Oct 2013 that the Company’s claim be dismissed with cost of RM60,000 on the ground that the Company has failed to comply with a certain condition precedent requiring the Company’s nominee in the Board of PMPG to resign first before it is entitled to the claim against the Vendor. The Company has filed an appeal on 13 Nov 2013 against the Court’s decision and the Defendant has filed a cross-appeal on 10 Jan 2014. The Company is now waiting for the Court to set a date for hearing.

**B14 Dividend**

The Company did not declare any dividend for the financial period ended 31 March 2014.

**B15 Earnings per share**

- (i) Basic earnings per ordinary share

|   | Current Year<br>Quarter<br>Ended<br>31 Mac 2014 | Preceding Year<br>Corresponding<br>Quarter<br>Ended<br>31 Mac 2013 | Current Year<br>To Date<br>Ended<br>31 Mac 2014 | Preceding Year<br>Corresponding<br>Period<br>Ended<br>31 Mac 2013 |
|---|---|--|---|---|
| (Loss)/profit attributable to owners (RM’000)                                       | (2,388)   | 1,368  | 1,138   | 4,337   |
| Weighted average number of ordinary shares in issue (net of treasury shares) (’000) | 177,960   | 177,960  | 177,960   | 177,960   |
| Basic earnings per share (sen)  | (1.34)  | 0.77   | 0.64  | 2.44  |

- (ii) Diluted earnings per ordinary share

This is not applicable to the Group.





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

**B16 Realised and Unrealised Profits/Losses Disclosure**

|   | As at<br>31/3/2014<br>RM'000 | As at<br>30/6/2013<br>RM'000 |
|---|------------------------------|------------------------------|
| Total retained profits of the Company and its subsidiaries: |                              |                              |
| - Realised  | 69,997                       | 60,254                       |
| - Unrealised  | (6,518)                      | 2,087                        |
|   | <u>63,479</u>                | <u>62,341</u>                |
| Add: Consolidation adjustments                              | <u>43</u>                    | <u>43</u>                    |
| Total group retained profits as per consolidated accounts   | <u>63,522</u>                | <u>62,384</u>                |

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)

Secretaries  
Kuala Lumpur  
28 May 2014