



## Part A - EXPLANTORY 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 2014 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 2014.

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 2014.

The adoption of the following MFRSs and Amendments to MFRSs that came into effect on or after 1 January 2014 did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

- Amendments to MFRS 10, 12 & 127: Investment Entities
- 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
- Annual improvements to MFRSs 2010 & 2012 Cycle
- Annual improvements to MFRSs 2011 & 2013 Cycle



## 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 2014 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 Dec 2014	30 Jun 2014
Total interest bearing debts in RM million	165.0	161.0
Shareholders' funds less intangibles in RM million	251.5	257.9
Gearing Ratio	0.66	0.62

Of the total interest bearing debts of RM165.0m as at 31 December 2014, around RM95.6m is represented by its debenture and the balance being unsecured suppliers' 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 2014.



**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 December 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

Recurring fair value measurement

Foreign Currency Forwards  
as Assets (not hedge accounted)  
as Assets (hedge accounted)

	Fair Value RMø000		
	Level 1	Level 2	Level 3
	0	0	0
	0	791.0	0
Total	0	791.0	0

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

**A11 Significant events and transactions**

There were no significant events or transactions for the current quarter, other than to note on the sharply weakened Ringgit over the current quarter and the negative impact it had on the financial performance of the Group. This is further discussed/ disclosed in Notes B1, B2, B5, and B11.

Updates on the reported significant event in the preceding quarter are disclosed in Note B9 under øStatus of Corporate Proposals.ø

**A12 Subsequent material events**

With reference to the litigation matter highlighted in Note B13, the Court of Appeal has on 12 February 2015 awarded the appeal in favour of the Company on the RM17million claimed together with interest (at 6% p.a.) and cost (RM70,000) against the Defendant/ Respondent, Multi Resources Holdings. The Respondent has 30 days to file an application for leave to appeal to the Federal Court. Arising from this subsequent event, a past liability provision of RM60,000 made on the legal cost awarded to the Defendant has since been adjusted accordingly in the financials for the current quarter ended 31 December 2014. The probability of monetary recovery pursuant to the successful appeal remains uncertain; and as such, cannot be recognized as a contingent asset and is a ønon-adjusting event after the reporting periodø



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

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

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

**A14 Contingent liabilities or contingent assets**

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

**A15 Changes in Financial Year End Date**

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

**A16 Capital Commitments**

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

	RM000
Plant and equipment ó Approved but not contracted for	NIL



**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 December 2014, the Group recorded a total revenue of RM135 million as compared to RM124 million in the preceding year's corresponding quarter. The increase in revenue is mainly due to higher sales volume (by around 13%) as compared to the same preceding quarter.

The Group registered a loss before tax of RM4.6 million for the quarter compared to profit before tax of RM3.9 million in the preceding year's corresponding quarter. The loss is mainly attributed to the lower margin spread between selling price and raw material price due to the higher landed-price of imported hot rolled coils; and the net foreign exchange (FX) loss of RM2.9million (preceding year's corresponding quarter was a gain of RM1.5 million) mostly due to the mark-to-market (unrealized) loss on its USD payables, in-which the Ringgit has further weakened by around 7% against the USD since the close of the preceding quarter. The Group maintains a minimum FX-hedging ratio of 50% with FX forwards, and gains arising from these have helped capped the said net FX loss. (See Note B11). The Group's current quarter's after-tax loss is RM4.2 million as compared to the after-tax profit of RM3.3 million in the preceding year's corresponding quarter. The Group's EBITDA for the current quarter is RM0.5 million as compared to the preceding year's corresponding quarter at RM8.8 million.

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 December 2014, the Group recorded a total revenue of RM135 million as compared to RM108 million in the immediate preceding quarter due to the rebound in sales volume by around 27% from the seasonally low 1<sup>st</sup> Quarter encompassing the Ramadan period and Hari Raya holidays.. The Group posted a pre-tax loss of RM4.6 million in the current quarter as compared to a pre-tax loss of RM2.7 million in the immediate preceding quarter mainly due to additional foreign exchange mark-to-market loss of RM2.4 million despite the Group recorded a lower unit conversion cost in the current quarter arising from a higher production volume of around 28% as compared to the preceding quarter. For the current quarter, the Ringgit has weakened sharply against the USD by around 7%, as compared to the immediate preceding quarter at around 2%. At the post-tax level, the Group recorded a net loss of RM4.2 million compared a net loss of RM2.2 million in the immediate preceding quarter. The Group's EBITDA for the current quarter is RM0.5 million as compared to the immediate preceding quarter at RM2.1 million.

**B3 Prospects for the remaining Financial Year**

The severely weakened Ringgit in tandem with the sharp declined in crude oil prices and Malaysia's soft economic outlook and fiscal health is expected to deteriorate and hit bottom in the remaining financial year. The extent of the aforementioned on the Nation's current account balance and sovereign currency rating, remains uncertain and poses significant risks on the domestic economy and the steel industry. Globally, the sharp decline in crude oil prices has not reversed the generally weak global economic outlook, except for the United States of America. Domestically, cheap crude oil has not translated into any noticeable savings in production costs relating to energy, fuel gas, and transportation. The steel industry's supply chain which largely traces back to imported feedstock would continue to face the vagaries of foreign currency exchange fluctuations and higher imported costs if not for the weak iron-ore prices. As such, the gross margins for the Cold Rolled operation are expected to remain tight, and more so during the immediate months post-GST where demand is expected to drop-off. On a positive note, the Nation's on-going Economic Transformation Projects, construction and infrastructure projects, and near full employment would provide a degree of support on the domestic demand for steel. The weak Ringgit may also spur export demand from the manufacturing sectors that feed on steel. In conclusion, the outlook for the remaining financial year for the Cold Rolled business is expected to remain challenging and its performance would largely hinge on the following:

- The capacity of domestic steel demand in absorbing further external or internal shocks (i.e. the GST)
- The Government's continuing effort to plug import loopholes on CRC and curtails unfair pricing of imported steel products



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

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

This is not applicable to the Group.

**B5 Profit before taxation**

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

	Current Year Quarter Ended 31 Dec 2014 RMø000	Preceding Year Corresponding Quarter Ended 31 Dec 2013 RMø000	Current Year To Date Ended 31 Dec 2014 RMø000	Preceding Year Corresponding Period Ended 31 Dec 2013 RMø000
Depreciation	2,772	2,888	5,480	5,619
Interest income	(88)	(52)	(151)	(165)
Interest expense	2,476	2,056	4,569	4,687
Foreign exchange loss/(gain) (include hedge accounted FX forwards)	2,891	(1,581)	4,691	1,858
FX Forward not hedge accounted (gain)/loss	(15)	118	(1,322)	(488)

**B6 Taxation**

Taxation comprises :

	Current Year Quarter Ended 31 Dec 2014 RMø000	Preceding Year Corresponding Quarter Ended 31 Dec 2013 RMø000	Current Year To Date Ended 31 Dec 2014 RMø000	Preceding Year Corresponding Period Ended 31 Dec 2013 RMø000
Current tax (expense)/credit				
Current period	(254)	(89)	(316)	(134)
Deferred tax income/(expense)				
Current period	624	(479)	1166	398
	<u>370</u>	<u>(568)</u>	<u>850</u>	<u>264</u>

For the current year to date, tax credit arose mainly due to deferred tax liability adjustments.

**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.



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

**B9 Status of corporate proposals**

It was disclosed in the preceding Financial Quarterly Report ended 30 September 2014 that the Company had on 12 September 2014 entered into a Conditional Agreement to acquire the entire paid-up capital of Melewar Steel Tube Sdn Bhd (MST) from its ultimate holding company Melewar Industrial Group Bhd (MIG) for a gross purchase consideration of RM70.0 million to be paid on completion with new shares issue of the Company after netting trade-debts owing by MIG to MST to be assumed amounting to RM24 million. MST is in the business of manufacturing and selling steel tubes and pipes with supply-chain linkage with the Group.

The Company has on 9 December 2014 obtained approval from its shareholders in an Extraordinary General Meeting to proceed with the proposed disposal under the terms and conditions as outlined in the Conditional Agreement with specific resolution on the following been passed:

- the Company’s proposed par value reduction of existing RM1 per share to RM0.25 per share in-order to facilitate the issuance of new shares as net purchase consideration
- amendment to the Memorandum and Articles of the Company to facilitate the implementation of the proposed par value reduction
- the Company’s proposed issuance of 104,545,455 new shares (at the reduced par value of RM0.25 each) for transaction value at RM0.44 each as full payment of the net purchase consideration of RM46 million
- assumption by the Company of an amount owing by MIG to MST of RM24 million

The execution of the above and on any remaining outstanding condition precedent of the Conditional Agreement is expected to be completed by end March 2015.

**B10 Group borrowings and debt securities**

The Group’s bank borrowings as at 31 December 2014 were as follows:

<u>Short-term bank borrowings:</u>	<u>RM’000</u>
Secured	79,160
<u>Long-term bank borrowings:</u>	
Secured	14,320
Unsecured	<u>2,138</u>
Total borrowings	<u>95,618</u>

The Group’s borrowings as at 31 December 2014 are entirely denominated in Ringgit Malaysia.

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 USD19.8 million (RM69.4 million) as at 31 December 2014. Inclusive of this, the Group’s net gearing ratio as at 31 December 2014 is around 0.66 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 the extent such facilities are available to manage its foreign currency exchange exposure arising from purchases of raw materials denominated in US Dollar. In this regard, the Group covers its USD exposure at the range of 50% to 75% depending on the length of the forward period and the availability of FX facilities.

Since the preceding financial year, the Group designates 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 December 2014 are outline below:

Non-designated

FX Forward Contracts as non-designated hedging instrument				
	Notional Value -000		Fair Value RM000	
Maturity	Long USD	Short RM	Financial Asset	Financial Liability
Less than 1 year	0	0	0	0

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 RM000			Notional Value -000		Fair Value RM000	
Maturity	Long USD	Short RM	Financial Asset	Financial Liability	Maturity	Short USD	n.a.	Financial Asset	Financial Liability
Less than 1 year	13,168	45,474	791.0	0	Matching	13,168	n.a.	0	791.0

- (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**

Off balance sheet financial instruments as at the date of this announcement are bank guarantees issued amounting to RM2.5 million being security for inbound supply of goods and services; and corporate guarantees issued to lenders for credits/borrowings extended to its principal subsidiary, Mycron Steel CRC Sdn. Bhd. amounting to RM111.8 million as at 31 December 2014.

**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 (öDefendantö) to recoup their cost of investment of RM17.0 million in PMP Galvanizers Sdn Bhd (öPMPGö) as a result of non-compliance of certain conditions by the Defendant pursuant to a shareholdersö agreement entered in 2005. On 21 May 2010, the Defendant successfully filed with the Kuala Lumpur High Court (öthe Courtö) for a change in the jurisdiction for the case to be heard in Kuching. On 27 April 2011, the Companyö 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 October 2013 that the Companyö 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 Companyö 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 November 2013 against the Courtö decision and the Defendant has filed a cross-appeal on 10 January 2014. The Court heard the appeal on 12 February 2015 and the decision is disclosed in Note A12.

**B14 Dividend**

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

**B15 Earnings per share**

- (i) Basic earnings per ordinary share

	Current Year Quarter Ended 31 Dec 2014	Preceding Year Corresponding Quarter Ended 31 Dec 2013	Current Year To Date Ended 31 Dec 2014	Preceding Year Corresponding Period Ended 31 Dec 2013
(Loss)/profit attributable to owners (RMö000)	(4,248)	3,331	(6,429)	3,526
Weighted average number of ordinary shares in issue (net of treasury shares) (ö000)	177,960	177,960	177,960	177,960
Basic earnings per share (sen)	(2.39)	1.87	(3.61)	1.98

- (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 31/12/2014 RMø000	As at 30/6/2014 RMø000
Total retained profits of the Company and its subsidiaries:		
- Realised	50,789	55,075
- Unrealised	(4,105)	(1,962)
	<hr/> 46,684	<hr/> 53,113
Add: Consolidation adjustments	43	43
	<hr/> 46,727	<hr/> 53,156

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)

Secretaries  
Kuala Lumpur  
26 February 2015