## Part A - EXPLANTORY NOTES PURSUANT TO MFRS 134

### A1 Basis of Preparation & Significant Accounting Policies

This Quarterly Report is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standard (ñMFRSò) 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board (ñMASBò) and Paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad (ñBursa Malaysiaò) Listing Requirements. In addition, the financial statements comply with IFRS as issued by IASB. The report should be read in conjunction with the Groupøs audited financial statements for the financial year ended 30 June 2015 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 2015.

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 2015.

The Group have not adopted the following new standards, amendments to standards and interpretations that have been issued but not yet effective for the current financial year.

- Amendment to MFRS 11 óJoint arrangementsô (effective from 1 January 2016)
- Amendments to MFRS 116 óProperty, plant and equipmentô and MFRS 138 óIntangible assetsô (effective from 1 January 2016)
- Amendments to MFRS 10 and MFRS 128 regarding sale or contribution of assets between an investor and its associate or joint venture (effective from 1 January 2016)
- MFRS 9 óFinancial Instrumentsô (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.
- MFRS 15 óRevenue from contracts with customersô (effective from 1 January 2018) replaces MFRS 118 óRevenueô and MFRS 111 óConstruction contractsô and related interpretations.

The Group is of the opinion that the abovementioned new standards, amendments to standards and interpretations will not have any material financial impact to the Group upon their initial application when effective.

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

**A2 Declaration of audit qualification**

The audit report of the Group and the Company in respect of the annual financial statements for the financial year ended 30 June 2015 was not subject to any audit qualification.

**A3 Seasonality or cyclicality 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 itsôGearing Ratio (measured as interest bearing debts over shareholdersô equity adjusted for the exclusion of intangibles) at below 1.5 times.

| | 31 Mac 2016 | 30 Jun 2015 |
|---|---|---|
| Total interest bearing debts in RMômillion | 177.0 | 257.6 |
| Adjusted Shareholdersô funds in RMômillion | 300.7 | 285.9 |
| Gearing Ratio | 0.59 | 0.90 |

Of the total interest bearing debts as at 31 March 2016, around RM118.6m is represented by the respective debenture at its two main operating subsidiaries, whilst the balance is represented by interest-bearing unsecured supplierôs credit also at the respective operating subsidiaries. (See Note B10). The operating subsidiaries complied with their respective Gearing Ratio covenants for the current financial quarter ended 31 March 2016.

**A7 Dividend paid**

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

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

**A8 Segmental reporting**

Segmental information in respect of the Groupφs business segments is as follows:

| | Cold Rolled | Steel Tube | Others | Total |
|---|---|---|---|---|
| | RMφ000 | RMφ000 | RMφ000 | RMφ000 |
| Revenue | | | | |
| Total revenue | 278,533 | 154,617 | 1,688 | 434,838 |
| Inter segment | (14,670) | - | (1,688) | (16,358) |
| External revenue | 263,863 | 154,617 | - | 418,480 |
| Pre-tax profit | 15,612 | 4,361 | 74 | 20,047 |
| Segment assets | 394,616 | 142,493 | 269 | 537,378 |

| | RMφ000 |
|---|---|
| Segment assets | 537,378 |
| Derivative assets | 32 |
| Tax recoverable | 246 |
| | 537,656 |

The businesses of the Group are carried out entirely in Malaysia. The Steel Tube was added as a segment with effect from the 4th quarter of the preceding financial year (i.e. from 1 April 2015).

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

The valuation of property, plant and equipment has been brought forward from the audited financial statements for the financial year ended 30 June 2015 and adjusted for the current financial yearφs depreciation where appropriate to reflect the current periodφs ending net carrying value.

## 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 approximate 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 2016:

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 | Fair Value RMô000 | | |
|---|---|---|---|
| Foreign Currency Forwards | Level 1 | Level 2 | Level 3 |
| as Assets (not hedge accounted) | 0 | 32.2 | 0 |
| as Liabilities (not hedge accounted) | 0 | (94.4) | 0 |
| as Liabilities (hedge accounted) | 0 | (7,276.1) | 0 |
| Total | 0 | (7,338.3) | 0 |

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

### A11 Significant events and transactions

Besides the following external developments, there were no other significant events or transactions for the current quarter affecting the Groupôs financial position and performance of its entities.

- In January 2016, the Authority levied anti-dumping duties on imported cold rolled coils (ñCRCò) from China, Korea and Vietnam. This could be viewed as positive for the Groupôs Cold Rolled segment

- In January 2016, the Authority ruled negatively on the safeguard petition filed by the dominant domestic Hot Rolled Coil (ñHRCò) supplier in seeking protective duties of 40% (on top of the existing 15% import duties imposed) on imported HRC. This could be viewed as positive for both the Groupôs Cold Rolled and Steel Tube segments

- In February 2016, the dominant domestic HRC supplier abruptly halted production and supply reportedly due to unpaid electric bills and stiff foreign competition. The Groupôs Steel Tube operation was affected by unfulfilled delivery orders of 2,500 tonnes of HRC.

- The Ringgit appreciated against the USD in the 3$^{rd}$ quarter by around 8.6% from the 2$^{nd}$ quarter, resulting in mostly mark-to-market losses on its FX derivatives on balance sheet as disclosed in Note A10 above. However, such FX derivatives incepted for hedging purposes and mostly hedge accounted have substantially mitigated volatility in its net foreign exchange gain or loss over the past quarters ï as disclosed in Notes B5 and B11.

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

**A12 Subsequent material events**

There were no material events occurring between 1 April 2016 and the date of this announcement that warrant adjustments or disclosure to the financial statements for the quarter ended 31 March 2016.

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

There is no change to the composition of the Group during the current financial quarter.

**A14 Contingent liabilities or contingent assets**

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

**A15 Changes in Financial Year End Date**

There is no change to the financial year end date during the current financial quarter.

**A16 Capital Commitments**

There are no material capital commitments whether provided or not already provided for in the financial statements at the end of the current reporting quarter.

**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 3rd quarter ended 31 March 2016, the Group registered a total revenue of RM142.5 million as compared to RM116.6 million achieved in the preceding yearøs corresponding quarter. The increase in revenue is due to the consolidation of the Steel Tube subsidiaryøs 3rd quartersô revenue contribution of RM48.6 million - which did not exist as a subsidiary of the Group in the preceding yearøs corresponding quarter. In comparison with the preceding yearøs corresponding quarter, the sales volume and selling price per tonne for the Cold Rolled subsidiary for the current quarter are down 2% and 12% respectively as a reflection of the current soft market conditions.

Despite the bearish current quarter, the Group recorded a profit before tax of RM8.4 million for the current quarter as compared to a loss before tax of RM2.9 million in the preceding yearøs corresponding quarter. The better performance for the current quarter is mainly attributed to the higher gross profit achieved of RM17.5 million (preceding yearøs corresponding quarter gross profit: RM4.1 million) due to the higher margin spread between selling price and raw material price in the Cold Rolled segment and the inclusion of additional gross profit contribution from the newly acquired Steel Tube subsidiary of RM 5.2 million. Synergistic benefits arising from the said acquisition, cost rationalization measures, and the development of certain positive external events (as disclosed in Note A11) -collectively contributed to the better gross margins for the current quarter compared to the preceding yearøs corresponding quarter. Consequently, the Group recorded an after-tax profit of RM6.7 million for the current quarter as compared to the preceding yearøs corresponding quarterøs after-tax loss of RM1.7 million.

The Group recorded a higher EBITDA at RM15.1 million compared to the preceding yearøs corresponding quarter of RM2.3 million.

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

The Groupøs revenue at RM142.5 million for the current 3rd quarter which saddles the Chinese New Year festive period is around 1% lower than the immediate preceding quarterøs RM144.1 million. The lower revenue is attributed to a 12% drop in sales volume for the Steel Tube operation (due to the festive holidays and raw coil supply disruption from the cessation of Megasteel as mentioned in Note A11) coupled with the continued decline in unit selling price for the tube products (down by 0.8%) and cold-rolled coils (down by 3%). However, the higher sale volume (up 11.8%) achieved by the Cold Rolled segment lifted the current quartersô revenue.

The Group registered a higher pre-tax profit of around RM8.4 million compared with the immediate preceding quarterøs pre-tax profit of RM7.4 million. This main contributor is the Cold Rolled segmentøs better gross profit arising from higher spread between selling price and raw material - attributable to those favorable external developments as disclosed in Note A11. Whilst the Steel Tube segmentøs profit contribution remains positive, its gross margin is 6% lower compared to the immediate preceding quarter due to its lower production and sales volume. At the post-tax level, the Group recorded a net profit of RM6.7 million compared to a net profit of RM5.3 million in the immediate preceding quarter, bringing the total year-to-date net profit at around RM14.8 million.

The Group recorded a higher quarterly EBITDA at RM15.1 million compared to the preceding quarterøs RM14.3 million.

**B3 Prospects for the remaining financial year**

Weak sentiment fuelled by a mix of cost-pushed inflation, high debt levels, weak currency, and sovereign credit risk will likely continue to weigh on the domestic economy for the remaining of the current financial year; whilst developments in taxation, foreign labour supply, levies, and minimum wage will further add pressure on corporate earnings.

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

**B3 Prospects for the remaining financial year** (continue)

On the positive side, the global steel industry experienced renewed vigour in recent months spurred by raw steel shortages arising from shutdowns and production cuts in China and other parts of the world due to the prolonged declines. As a results, steel prices rallied sharply in April 2016 (up more than 50% from the twelve monthsôlow) on the back of short physical supply and voluminous long positions on the metal-futures market. The euphoria has gradually eased in May as supplies readjusted and speculative paper-trades curbed. Even-though the Groupøs performance is not directly correlated with raw steel prices, such sharp and volatile price movement increases pricing-risk and counter-party-default risk on the Groupøs steel operations.

In the current quarter, the custom authority conducted a nationwide sweep on steel importers to weed-out import-duties evasion. Consequently, unfair pricing advantage of unscrupulous competitors should be reduced, and this should augur well for the Group for the remaining period. Demand outlook for the Groupøs steel products is expected to remain stable with sustained demand from domestic industrial consumers and from clusters of on-going projects including those government driven Economic Transformation Projects. But demand volume is expected to remain cautious and conservative amidst heightened price volatility risk.

In summary, prospect-outlook on the Group for the balance period is slightly optimistic compared to the start of the current financial year due to those positive developments in the steel supply chain as mentioned above and in Note A11. Nevertheless, the demand dynamics for steel remain delicate in-line with the slower economic growth of the nation and in the region. Barring any external shocks and impairments, the Group is hopeful to continue delivering positive results for the balance period.

**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 Mac 2016 RMø000 | Preceding Year Corresponding Quarter Ended 31 Mac 2015 RMø000 | Current Year To Date Ended 31 Mac 2016 RMø000 | Preceding Year Corresponding Period Ended 31 Mac 2015 RMø000 |
|---|---|---|---|---|
| Depreciation | 4,005 | 2,888 | 11,984 | 8,368 |
| Interest income | (93) | (92) | (311) | (243) |
| Interest expense | 2,734 | 2,482 | 9,032 | 7,051 |
| FX differences (gain)/loss | (10,058) | 3,229 | (1,885) | 7,920 |
| FX derivatives loss/(gain) | 10,013 | (1,217) | 2,708 | (2,539) |

Preceding yearøs comparative figures do not include the consolidation of the Steel Tube subsidiary results until the 4th quarter.

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

**B6 Taxation**

Taxation comprises :

| | Current Year Quarter Ended 31 Mac 2016 RM'000 | Preceding Year Corresponding Quarter Ended 31 Mac 2015 RM'000 | Current Year To Date Ended 31 Mac 2016 RM'000 | Preceding Year Corresponding Period Ended 31 Mac 2015 RM'000 |
|---|---|---|---|---|
| Current tax (expense)/credit | | | | |
| Current period | (429) | 129 | (1,527) | (187) |
| Deferred tax (expense)/income | | | | |
| Current period | (1,330) | 1,015 | (3,678) | 2,181 |
| | (1,759) | 1,144 | (5,205) | 1,994 |

The current year-to-date's tax expense is higher than the statutory tax rate 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 are no purchases or disposals of quoted securities in the current financial quarter.

**B9 Status of corporate proposals**

There are no outstanding corporate proposals as at the date of this announcement.

**B10 Group borrowings and debt securities**

The Group's borrowings from lending institutions as at 31 March 2016, which are denominated entirely in Ringgit Malaysia, are as follows:

| | RM'000 |
|---|---|
| Short-term borrowings: | |
| Secured | 108,563 |
| Unsecured | 2,304 |
| Long-term borrowings: | |
| Secured | 7,697 |
| Total borrowings | 118,564 |
| | ====== |

Besides the above borrowings, the Group's Cold Rolled subsidiary (Mycron Steel CRC Sdn Bhd) and the Steel Tube subsidiary (Melewar Steel Tube Sdn. Bhd,) also draw on interest-bearing trade credits from their respective raw-coil suppliers with outstanding amount of RM43.8 million and RM14.7 million respectively as at 31 March 2016. Inclusive of this, the Group's net gearing ratio as at 31 March 2016 is around 0.59 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 (ñUSDò) and certain sales denominated in Singapore Dollar (ñSGDò). In this regard, the Group covers its USD exposure at the range of 80% to 90% depending on the length of the forward period and the availability of FX facilities.

The Group designates eligible hedge relations on FX forwards incepted to cover its USD and/or SGD exposure for the purpose of hedge accounting. These are designated as fair value hedges 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 or accounts receivables in SGD) being 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 2016 are outline below:

Non-designated

| FX Forward Contracts (SDG/RM) as non-designated hedging instrument | | | | |
|---|---|---|---|---|
| | Notional Value ó000 | | Fair Value RMô000 | |
| Maturity | Short SGD | Long RM | Financial Asset | Financial Liability |
| Less than 1 year | 275 | 829 | 32.2 | 0 |

Non-designated

| FX Forward Contracts (USD/RM) as non-designated hedging instrument | | | | |
|---|---|---|---|---|
| | Notional Value ó000 | | Fair Value RMô000 | |
| Maturity | Long USD | Short RM | Financial Asset | Financial Liability |
| Less than 1 year | 500 | 2,059 | 0 | 94.4 |

Designated

| FX Forward Contracts as designated hedging Instrument | | | | | Forward purchase of raw material and/or a/c payable as hedge items | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notional Value ó000 | | Fair Value RMô000 | | | Notional Value ó000 | | Fair Value RMô000 | |
| Maturity | Long USD | Short RM | Financial Asset | Financial Liability | Maturity | Short USD | n.a. | Financial Asset | Financial Liability |
| Less than 1 year | 26,103 | 110,337 | 0 | 7,276.1 | Matching | 26,103 | n.a. | 7,276.1 | 0 |

Besides the above unrealized positions, the Group has recorded a total realized net gain of around RM4.6 million from its FX Forward Contracts incepted for hedging purposes over the current financial year.

(i) Risk associated with the derivatives

<u>Counter-Party Risk</u>

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.

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

**B11 Outstanding Derivatives** (continued)

(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 the 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.

**B12 Off balance sheet financial instruments and commitments**

Off balance sheet financial instruments as at the date of this announcement are bank guarantees issued amounting to RM7.4 million being security for inbound supply of goods and services; and corporate guarantees issued to lenders for borrowings extended to its principal subsidiaries, Mycron Steel CRC Sdn. Bhd. and Melewar Steel Tube Sdn. Bhd. amounting to RM115.7 million as at 31 March 2016.

**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)**

This case relates to the Companyȏs successful legal action against Multi Resources Holdings Sdn Bhd (ñDefendantò) to recoup its cost of investment of RM17.0 million in PMP Galvanizers Sdn Bhd (ñPMPGò) as a result of non-compliance of certain conditions by the Defendant pursuant to a shareholdersô agreement entered in 2005. The Company was awarded the RM17million claimed together with interest at 6% p.a. and cost (RM70,000) against the Defendant/ Respondent, Multi Resources Holdings on 12 February 2015. The Defendant is under receivership administration, and the Company liaised with the appointed receivers for recovery. During the current quarter, the management sent a technical team to evaluate the recoverability from PMPG assets and conclude that the probability of any monetary recovery is slim. The management do not see any likelihood of recovery for any reversal of the full impairment previously made. In this regard, the continuing disclosure of this case will cease after the current financial year end.

**B14 Dividend**

The Company did not declare any dividend for the financial period ended 31 March 2016.

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

**B15 Earnings per share**

(i) Basic earnings per ordinary share

| | Current Year Quarter Ended 31 Mac 2016 | Preceding Year Corresponding Quarter Ended 31 Mac 2015 | Current Year To Date Ended 31 Mac 2016 | Preceding Year Corresponding Period Ended 31 Mac 2015 |
|---|---|---|---|---|
| Profit/(loss) attributable to owners (RM‛000) | 6,675 | (1,720) | 14,842 | (8,149) |
| Weighted average number of ordinary shares in issue (net of treasury shares) (‛000) | 282,505 | 177,960 | 282,505 | 177,960 |
| Basic earnings per share (sen) | 2.36 | (0.97) | 5.25 | (4.58) |

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.

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

| | As at 31/3/2016 RM‛000 | As at 30/6/2015 RM‛000 |
|---|---|---|
| Total retained profits of the Company and its subsidiaries: | | |
| - Realised | 111,973 | 91,714 |
| - Unrealised | (13,578) | (8,161) |
| | 98,395 | 83,553 |
| Add: Consolidation adjustments | (218) | (218) |
| Total group retained profits as per consolidated accounts | 98,177 | 83,335 |

This interim financial statements have been authorized for issue by the Board of Directors on the date set-forth below.

By order of the Board
LILY YIN KAM MAY (MAICSA 0878038)

Secretaries
Kuala Lumpur
26 May 2016