



MYCRON STEEL BERHAD

200301020399 (622819-D)



TOWARDS **CARBON NEUTRAL STEEL**

Annual Report 2024

www.mycronsteel.com



Cover Rationale

The cover of the 2024 Annual Report visually represents Mycron Steel Berhad's commitment to sustainability and its journey towards carbon neutrality. The juxtaposition of the large steel coil with steel tubes symbolises the Group's core products while conveying industrial strength and precision.

The tagline "Towards Carbon Neutral Steel" emphasises the urgent need for sustainable practices in a sector as vital as the steel industry. Steel is integral to countless aspects of daily life, from the frameworks of buildings and bridges to the engines of vehicles and appliances. Its widespread use highlights the importance of addressing the carbon footprint associated with its production. By moving towards carbon neutrality, the steel industry can significantly reduce greenhouse gas emissions, making a substantial contribution to global and national environmental goals. This transition not only supports efforts to mitigate climate change, but also paves the way for a more sustainable future.

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Chairman's Message

DEAR VALUED STAKEHOLDERS,

On behalf of the Board of Directors, I am pleased to present the Annual Report of Mycron Steel Berhad and its group of Companies ("the Group" or "Mycron") for the financial year ended 30 June 2024 ("FY2024"). This year, despite facing global economic challenges, Mycron delivered a strong performance, with significant improvements in revenue and profitability.



**TUNKU DATO' YAACOB
KHYRA**

Executive Chairman

Chairman's Message

OUR BUSINESS AND OPERATIONS

Mycron Steel Berhad operates through two key manufacturing subsidiaries:

Mycron Steel CRC Sdn Bhd ("MCRC"),

which converts Hot Rolled Coil ("HRC") steel sheets into thinner gauge Cold Rolled Coil ("CRC") steel sheets.

Melewar Steel Tube Sdn Bhd ("MST"),

which manufactures steel tubes and pipes ("Steel Tubes") from HRC and CRC.

Additionally, the Group's trading arm, Silver Victory Sdn Bhd ("SV"), supports the distribution of steel-related products.

Together, these entities place the Group at the forefront of Malaysia's steel industry, catering to both domestic and international markets.

REVENUE

RM802
million

FY2023:
RM540
million



PRE-TAX PROFIT

RM20.7
million

FY2023
Pre-tax Loss:
RM13.8
million



FINANCIAL YEAR OVERVIEW

For FY2024, the Group recorded revenue of RM802 million, a substantial increase from RM540 million in FY2023, alongside a pre-tax profit of RM20.7 million, reversing the pre-tax loss of RM13.8 million from the previous year. This success reflects Mycron's commitment to operational efficiency and market resilience amidst the broader industry challenges, particularly the stagnation in China's demand growth.

In the first financial quarter, the Group recorded revenue of RM163 million, a modest 2.5% increase than the preceding quarter of RM159 million. This growth was primarily driven by higher sales volume in the Steel Tube division, despite facing lower selling prices in both the Steel Tube and CRC divisions. The Group posted a pre-tax profit of RM2.1 million, a significant improvement from the preceding quarter's pre-tax loss of RM0.4 million, which had been impacted by an impairment charge of RM6.8 million.

The second financial quarter saw a revenue increase of 7.4% to RM175 million, largely driven by higher sales volumes despite continued pressure on prices. The Group posted a pre-tax loss of RM0.29 million due to tighter margin spreads in the CRC division as it defended market share against persistent 'grey and duty-evading' imports, and sought new export opportunities.

By the third financial quarter, revenue had risen to RM226 million, driven by increased sales volumes for both the CRC and Steel Tube divisions, despite lower average selling prices in a declining market. The Group recorded a pre-tax profit of RM7.3 million, largely boosted by export growth in the CRC division.

The fourth financial quarter closed with a 5.3% increase in revenue to RM238 million and pre-tax profit surged by 58.9% to RM11.6 million. This growth was primarily driven by sustained export volumes in the CRC division, reflecting Mycron's strategic expansion of its presence in international markets.

Chairman’s Message

ECONOMIC LANDSCAPE

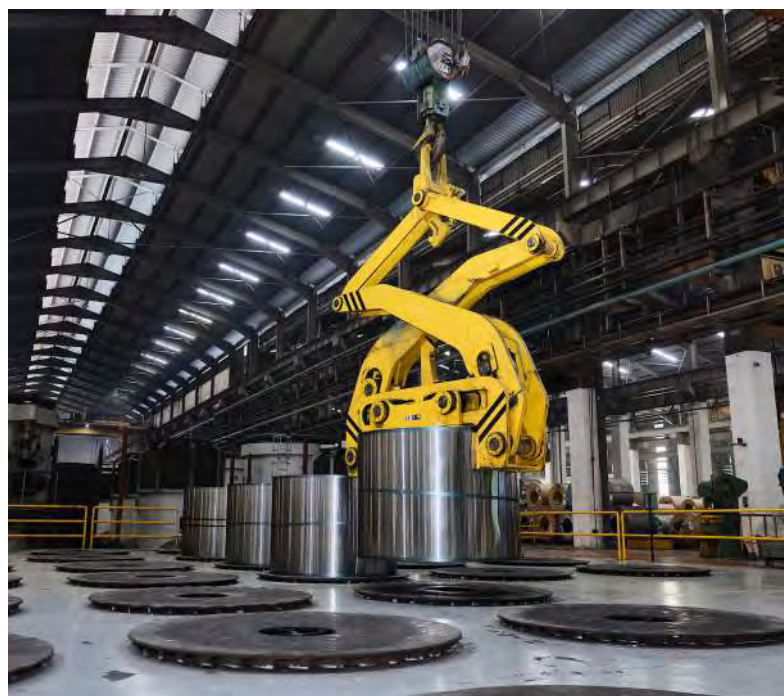
In 2023, the combined effects of monetary tightening and declining global steel demand exerted downward pressure on steel prices from April through November, significantly compressing steel margins and profitability. Although steel prices staged a robust demand between November 2023 and early February 2024, they once again fell as demand remained weak, largely due to persistently high interest rates impacting the construction and machinery sectors, alongside China’s economic slowdown.

China’s demand dynamics have had a profound impact on both the global and domestic steel markets. Following challenging conditions in 2022, the unexpected early reopening in 2023 spurred a temporary surge in economic growth. However, this momentum quickly faded, with growth stalling from the second quarter of 2023 through the remainder of the year and into the first half of 2024. While net exports provided some support to the Chinese economy in 2024, the overall investment climate remained fragile, driven largely by the continuing downturn in the real estate sector, which is now in its third year of contraction.

This sustained weakness in China’s property sector has significantly dampened domestic steel demand. Throughout the first half of 2024, despite government interventions aimed at stabilising the property sector, Chinese steel demand remained lacklustre. Falling housing prices have eroded consumer confidence, leading to stagnant sales and a dearth of new property launches. As a result, China’s steel demand continued to be subdued. By August 2024, the situation had become untenable, with Chinese steel producers facing excess capacity, which has fuelled aggressive export behaviour. This surge in exports has pushed global and Malaysian steel prices below marginal cost levels.

In response to the ongoing demand slump, the Chinese government had introduced additional stimulus measures, including fiscal spending initiatives, interest rate cuts, and reduced reserve requirement ratios, alongside policies aimed at boosting property demand. While these actions have not yet yielded the desired stability, we remain hopeful they will gradually revive steel demand in China. Should the Chinese government implement further capacity reductions in line with declining demand, the global steel industry could see significant improvement. However, if overproduction persists, we may witness continued increases in Chinese steel exports, which would perpetuate the downward pressure on global prices.

Looking ahead, we remain cautiously optimistic for a recovery in 2025. With inventory levels currently low, we anticipate a restocking phase in the coming months, which could boost apparent steel demand. Barring any unforeseen events, we are hopeful that steel demand in Malaysia and globally will begin to rebound, though we remain vigilant and prepared for continued market volatility.



DOMESTIC CRC INDUSTRY STRUCTURE

Hot Rolled Coil (“HRC”) steel sheets are the fundamental raw material used in producing Cold Rolled Coils (“CRC”) steel sheets. In general, CRC manufacturers produce two types of CRC:

1

Scrap-Based CRC:

Produced from scrap-based HRC, typically used in sectors like steel tubing and furniture manufacturing that do not require high-grade CRC.

2

Iron Ore-Based CRC:

Produced from iron ore-based HRC, used in higher quality applications such as steel drums for the palm oil and petroleum sectors, colour-coated and galvanised CRC for roofing, electrical appliances, and automotive components.

As one of the few fully operational Malaysian-owned and managed flat steel mills, Mycron is proud to contribute to the nation’s industrial development. Mycron continues to engage with the government to advocate for measures that protect and ensure the sustainability of the domestic steel industry.

Chairman's Message

OVERALL MOVEMENT OF FLAT STEEL IN MALAYSIA

Overall Movement of Flat Steel in Malaysia by Calendar Year

Malaysian Flat Steel 2023		Production (t/y)	Import (t/y)	Export (t/y)	Net Domestic Consumption		
Class	Description				2023 (t/y)	2022 (t/y)	Change
511 & 513	Cold Rolled Coil (CRC) Sheets & Strips	444,051	645,151	29,689	1,059,513	1,019,602	3.91%
	CRC Related Products						
520	Cold-Rolled Electrical Sheets	-	50,516	104,909	N/A	N/A	N/A
611	Galvanized (Hot Dipped) Zinc Sheets	196,509	431,052	13,653	613,908	569,522	7.79%
612	Electro-Galvanized Iron (EGI) Sheets	110,000	85,099	21,103	173,996	181,754	-4.27%
620	Tin Plated Sheets	95,000	103,998	36,758	162,240	174,085	-6.80%
692	Colour Coated Sheets	173,497	76,801	38,293	212,005	220,350	-3.79%
693	Other Metallic Coated Sheets	-	85,241	12,005	73,236	70,356	4.09%
		575,006	832,707	226,721	1,235,385	1,216,067	1.59%
Total CRC & CRC Related Products		1,019,057	1,477,858	256,410	2,294,898	2,235,669	2.65%
512	CR Stainless Steel Sheets	73,164	113,456	138,974	47,646	53,127	-10.32%
	HRC & Related Products						
481	Hot Rolled Coil (HRC) Sheets	-	1,923,916	6,803	1,917,113	1,781,230	7.63%
470	Plates	235,000	264,248	203,840	295,408	192,241	53.67%
720	Welded Pipes & Tubes	694,799	233,804	355,342	573,261	739,232	-22.45%
		929,799	2,421,968	565,985	2,785,782	2,712,703	2.69%
Total CRC, Related Products & HRC		2,022,020	4,013,282	961,369	5,128,326	5,001,499	2.54%

(Source: Malaysia Iron and Steel Industry Federation, MISIF)

The table above provides a comprehensive summary of the overall movement of flat steel in Malaysia for the calendar year 2023, along with comparisons to 2022 and percentage changes. In 2023, Malaysia consumed a total of 1.06 million tonnes of CRC sheets and strips, marking a 3.91% increase from 2022. Of this consumption, 0.65 million tonnes (approximately 61%) were imported, while only 0.44 million tonnes (about 39%) were produced domestically.

Despite domestic production capabilities, imports constitute a substantial portion of consumption and remain a primary source to meet domestic demand. This reliance underscores the importance of supporting local steel mills and enhancing policies to reduce dependency on imports and strengthen the domestic steel industry.

To ensure a level playing field for domestic CRC producers, Mycron continues to lead efforts to address dumped and subsidised steel imports that harm the domestic market. We persist in engaging with relevant government ministries, agencies, and industry associations to mitigate the impact of unfair imports and emphasise the importance of protecting the domestic steel industry.

Chairman's Message

OUR COMMITMENT TO

Governance

The Board of Directors recognises that corporate governance principles are the foundation upon which stakeholder confidence is built. We acknowledge the importance of conducting business with integrity and in accordance with widely accepted corporate governance standards. Our board members and senior executives are committed to upholding the highest standards of corporate governance and business ethics across all operations of the Group. Our governance model includes, among other elements, the Board Charter, Terms of Reference for Board Committees, Anti-Fraud/Anti-Corruption Policy, Fit and Proper Policy, Communication Policy, Conflict of Interest Policy, and Corporate Disclosure Policies and Procedures.

Sustainability

Operating sustainably is integral to our business strategy. We strive to incorporate sustainable practices across governance, environmental stewardship, social responsibility, and economic performance. Our sustainability agenda is championed by our Group Chief Executive Officer, with strong support from senior executives, and we are committed to achieving our sustainability objectives and targets as outlined in our Sustainability Report, adhering to global reporting standards.

In alignment with our sustainability commitment and the Malaysian Government's key initiatives, namely the National Energy Transition Roadmap (NETR), New Industrial Master Plan (NIMP 2030), and Circular Economy (CE) Policy Framework, we acknowledge the crucial role the domestic steel industry plays in achieving the nation's sustainability objectives.

National Energy Transition Roadmap (NETR)

The NETR outlines measures to achieve net-zero emissions by 2050, an initiative we fully support. As an integral part of the domestic steel industry, we are dedicated to aligning our operations with the country's commitment to environmental sustainability, ensuring that we contribute meaningfully to Malaysia's long-term energy and environmental goals.

New Industrial Master Plan (NIMP 2030)

The NIMP 2030 is designed to equip the steel industry for a sustainable future by promoting decarbonisation through energy-efficient practices, renewable energy adoption, and cutting-edge technologies. Mycron is fully aligned with this agenda, committed to adopting these technologies and practices to reduce our carbon footprint. We aim to lead by example, embracing innovations that not only enhance our competitiveness but also drive the transformation towards a greener, more sustainable industrial landscape in Malaysia.

Circular Economy (CE) Policy Framework

Aligned with both the NETR and NIMP2030, the CE Policy Framework aims to transition Malaysia's manufacturing sector to a circular economy by 2030. Mycron is fully committed to supporting this framework by integrating circularity into our production processes. We are continually exploring ways to minimise waste, increase recycling efforts, and improve resource efficiency across our operations.



Chairman's Message

PROSPECTS AND OUTLOOK

Looking ahead, the next year is expected to bring increasing challenges to the steel industry. China's aggressive export strategy, driven by excess steel production amidst weak domestic demand due to real estate issues and factory slowdowns, is exacerbating global market pressures.

The ongoing effects of deglobalisation and trade protectionism will continue to weigh on the industry. Regional steel prices, which have been on a continuous downward trend since March, reached new lows in August and are forecasted to remain weak for the rest of the year. Domestic steel producers are likely to face ongoing intense competition and margin compression from imports, compounded by subdued domestic demand, elevated inventory levels, and declining steel prices. Nevertheless, our performance over the past year has demonstrated our ability to remain resilient and adapt strategically in the face of varying market conditions.

Despite these challenges, there are bright spots on the horizon. The steel industry, widely known as a hard-to-abate sector, is undergoing a critical transition. Though this shift will not be without its complexities, it also presents significant opportunities.

The demand for low carbon emissions steel is anticipated to increase sharply over the next ten years, and we are positioning ourselves to lead in this evolving space. Our goal is to become Malaysia's leading manufacturer of low carbon emission Cold Rolled Coil (CRC) steel sheets and steel tubes. Our ongoing collaboration with Universiti Teknologi Malaysia (UTM) to establish greenhouse gas (GHG) emission threshold standards, coupled with our partnership with JFE Steel Corporation to integrate green steel into our value chain, are vital components of this strategy. Though still in their early stages, these initiatives are intended to place us at the forefront of the steel industry's transition towards sustainability, ensuring long-term competitiveness and positioning us as leaders in the low carbon emissions steel market.

DIVIDEND

In view of the Group's financial position and the need to invest in future growth opportunities, the Board of Directors does not recommend the payment of any dividend for the financial year ended 30 June 2024.

ACKNOWLEDGMENT AND APPRECIATION

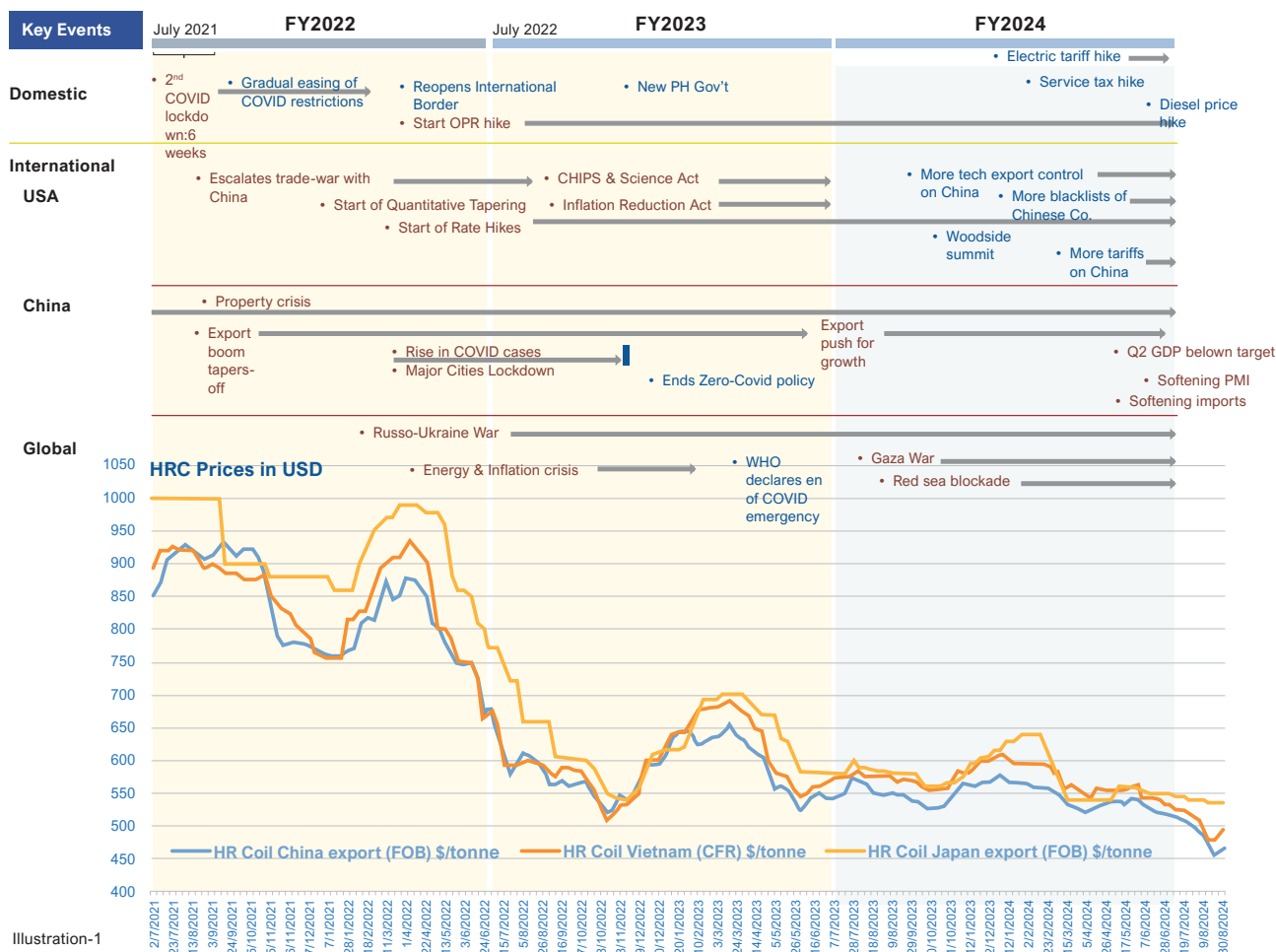
On behalf of the Board, I would like to express my sincere appreciation to our management team and staff for their unwavering dedication and contributions to Mycron. To our valued business associates, customers, and shareholders, thank you for your continued support, confidence, and trust in us. Together, we will navigate the challenges ahead and strive towards a sustainable and prosperous future.

Management Discussion & Analysis Statement

This Statement provides the management’s analytical overview of the Group’s operations and financial performance for the financial year ended (FY) 30 June 2024 in supplement of other statements contained in this annual report such as the Chairman’s statement, the Statement on Risk Management and Internal Controls, and the audited Financial Statements. Analytical disclosures made herein are based on internally and externally sourced information which may not have been specifically audited; and these are made to the extent that they do not compromise competitively sensitive information or antitrust laws. This section may contain opinions, judgement and forward-looking views; and as such, readers’ discretion is advised.

OVERVIEW

The Group achieved a turnaround performance in current FY2024 with a net-profit of RM16.9million, from a net-loss of RM12.3 million in the preceding FY2023. Inferring on the major global-events affecting Hot-Rolled-Coil (HRC) price-trend as shown in illustration-1 below, the turnaround performance is remarkable considering all the downward pressure on the steel industry in FY2023 had actually worsened in FY2024. Global trade volume and growth continued to deteriorate in FY2024 from the accelerated trade-protectionism, sanctions, and reshoring policies of the West; the prolonged effects of high-interest rates & reserve capital-flow; plus, the fallouts from two major armed-conflicts.



Continued Downward Price Trend

Regional steel prices, which took a 30% dive in FY2023, continued with its downtrend in FY2024 albeit at a more gradual pace to touch new lows. The weak price condition is driven mainly by China’s faltering domestic steel consumption hampered by its prolonged property crises, in addition to its economic fissures resulting from the unrelented US-led containment & knee-capping policies against it. With Western-bloc led tariff-barriers against Chinese steel, most of its surpluses ended up in unprotected markets in East Asia—depressing steel prices and margins of regional steel players.

Management Discussion & Analysis Statement

OVERVIEW (CONTINUED)

Domestic Demand

The domestic economy saw impressive but uneven growth in FY2024. Sectors tied to hospitality & tourism, primary exports, and domestic-consumption have out-performed with the weak Ringgit hovering above 4.60 against the USD throughout. However, sectors served by the Steel Industry such as property development, infrastructure, engineering & fabrication, and value-added manufacturing did not do as well due to myriad of reasons ranging from monetary & fiscal-tightening to supply-overhang. Much of these domestic issues traced back to US monetary tightening and the consequential reverse capital flow from late 2022. On top of the soft demand, the domestic steel industry had to deal with the deluge of competing imports (including smuggled goods) particularly from China, Vietnam, and Korea. With ample supply and the declining-steel-price trend, buying-behavior shifted to conservative-mode-impinging on the steel industry's volumes and margins. The Government's fiscal-tightening moves in subsidy-rationalization, indirect-tax expansion, aggressive enforcements, whilst pushing-up B20 wages - add significantly to business operation costs and depressing margins.

Dissecting the Numbers

Breaking-down the numbers from the management accounting perspective (in Table-1), reveals the Group's turnaround performance in FY2024 is largely attributed to its foreign-sales contribution which had increased 7 folds year-on-year—with the 2nd half out-performing the 1st half. In comparison, domestic sales had increased by only 10% in reflection of the weak domestic market. Other notable observations are:

- The Group's net operating expense is just 7% higher once 'outbound delivery cost' is segregated out as a separate line item
- Higher net interest expense in FY2024 is due to higher drawdown of trade facilities which crossed onto higher cost sources. This has resulted in higher effective-net-interest-rate at 4.65% compared to FY2023 at 3.97%
- No impairment on PPE and Inventory in FY2024 compared to FY2023
- Net FOREX gain of RM1.8million due to unhedged and natural-hedged positions favoring net-long USD

Growing the Export Sales

Historically, export-sales had only constituted less than 10% of the Group's total sales. With Malaysia's relatively higher production-cost base, it is impossible to compete in export markets with likes of China and Vietnam. The Group's breakout performance with its export-sales touching 30% in FY2024 culminates from a combination of factors tied-up to global trade fissure which had worked in our favor. Product-dumping by certain dominant steel exporting countries into certain member countries in CPTPP (Comprehensive & Progressive Agreement for Trans-Pacific Partnership) had resulted in hefty tariff retaliation which opened-up opportunity for us as a member-nation in CPTPP to step-in. With the continuing geopolitical tension and friend-shoring trend, our ability to step into the vacuum created is the key to growing our export sales. However, export-sales do come with higher transaction risks and thin margins.

Defending Domestic Sales

On top of shrinking domestic steel consumption, both our Cold-Rolled-Coil (CRC) and Steel Tube segments had to work vigorously to defend its domestic sales from the deluge of importations from China and Vietnam which mostly had circumvented tariff barriers. This has resulted in higher operating costs and thinner margins, which affected the bottom-line on local sales.

Table-1

all in RM'000

	FY2024		FY2023	
	1st half	2nd half	Total	Total
Sales				
Domestic	266,819	293,173	559,992	506,033
Foreign	71,140	170,680	241,820	33,962
	337,959	463,853	801,812	539,995
COGS	-318,933	-423,446	-742,379	-503,965
Outbound Delivery Cost	-2,883	-4,261	-7,144	-3,772
Adjusted Gross Profit/(loss)	16,143	36,146	52,289	32,258
Net Operating Expense	-12,661	-14,221	-26,882	-25,122
Net Forex Gain/(loss)	1,057	813	1,870	654
Operating Profits/(Loss)	4,539	22,738	27,277	7,790
Impairment on Inventory (FY-end)	-	-	-	-9,822
Write-back/ (Impairment) on PPE	-127	612	485	-6,923
Net Interest Expense	-2,639	-4,401	-7,040	-4,879
Taxes	-418	-3,333	-3,751	1,498
Net Profit/(Loss)	1,355	15,616	16,971	-12,336
Revaluation surplus on PPE & ROU-Assets	-	1,874	1,874	11,118
Total Comprehensive Profit/(Loss)	1,355	17,490	18,845	-1,218

Note: This P&L summary is from the management's perspective, which presentation differs from statutory statement.

Management Discussion & Analysis Statement

OVERVIEW (CONTINUED)

The Group's Overall Financial Position

With the Group's turnaround performance in FY2024, most of its four-cornerstones financial measures (see table-2 below) have improved. Whilst the Group's 'return on average capital employed' at 4.17% remains below estimated 'weighted average cost of capital' (WACC) at 5.97%, we have assumed our cost-of-equity at 6.7% when KLCI's average annual market-return over the last 4 years (corresponding to our financial period) was only 1.25%, and was in negative territory if measured over 5 years. Mycron's cost-of-equity is computed using the 'capital asset pricing model' with assumed KLCI long-term return at 5% p.a, risk-free rate at 3.17% (based on 1 year Malaysian Gov't Bond yield), and the Company's beta at 1.95. Whilst the Group's net current assets have increased by around RM28 million over FY2024, its current-ratio has contracted with higher drawdown of trade financing as reflected in its higher debt-to-equity ratio. However, the higher debt-ratio is also met by a stronger 'interest cover ratio'. Overall, we are of the opinion that the Group's liquidity and capital-adequacy positions are healthy, and its 'value' measures remain attractive.

Table-2	FYE 2024	FYE 2023
Profitability		
a Operational Return on Average Capital Employed (EBIT/Ave Cap) in %	4.17	-0.35
b Return on Equity (Net Comprehensive Earnings/Equity) in %	3.75	-0.25
Liquidity		
c Current Ratio (Current Asset/Current Liabilities)	1.89	2.26
d Interest Cover Ratio (EBITDA/Net Interest Expense)	6.1	2.66
Capital		
e Weighted Average Cost of Capital (Cost of Equity assumed at 6.7%) in %	5.97	5.97
f Debt to Equity Ratio (includes all interest bearing debt)	0.34	0.26
Value		
g Net Asset per Share (RM/share)	1.57	1.51
h Total Comprehensive Income to Enterprise Value in %	7.54	n.a.
i Price-to-Book Ratio (RM/RM)	0.28	0.22

Management Discussion & Analysis Statement

SEGMENT'S PERFORMANCE

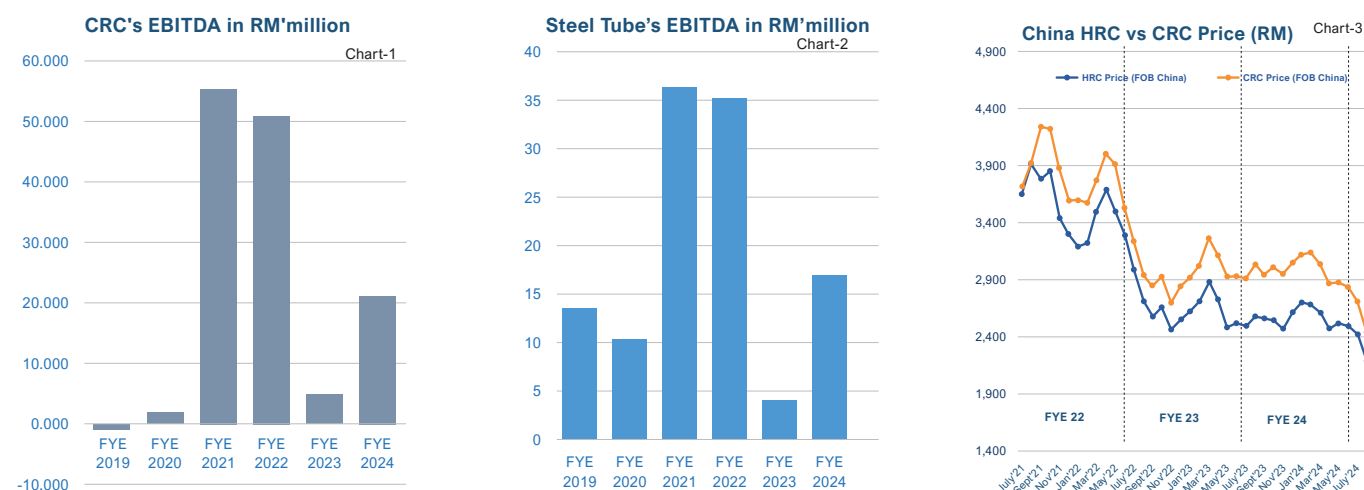
Both the CRC and Steel Tube segments faced adverse domestic market conditions of weak demand; failing prices; and heightened competition from rampant imports, as exporters like China and Vietnam stepped up exports into Malaysia with their other-markets barricading-up.

Our CRC segment had suffered badly in the 1st-half of FY2024 (and in FY2023) due to the Ministry of Investment, Trade & Industry (MITI)'s ruling to remove existed anti-dumping duties on CRC imports from South Korea and Vietnam in June 2023. Domestic orders only begun to reappear months later after we successfully obtained the Court's 'stay of proceedings' order against MITI's ruling in January 2024. Our judicial-review application to squash MITI's ruling will be heard in May 2025 with various milestone dates for affidavits and written-submissions in between. As a result, the CRC segment's domestic sales in FY2024 was up 19% only from a very low base in FY2023. Our Steel Tube also has its share of similar importation onslaught, but mostly from China. However, it is a more difficult problem to tackle due to the lack of granularity on pipe-products HS-code to statistically proof influx of carbon-pipes in-order to build a case for anti-dumping action. In-addition, market place investigation also revealed the penetration of smuggled pipes. Consequently, the Steel Tube segment's domestic sales in FY2024 is flat compared to FY2023.

RM'million	CRC		Steel Tube	
	FYE 2024	FYE 2023	FYE 2024	FYE 2023
External Revenue				
Domestic	318.95	267.07	241.04	238.96
Foreign	199.00	1.92	42.81	32.04
	517.95	268.99	283.85	271.00
Net Profit/ (Loss)	8.51	-8.82	8.14	-3.85

Weakness in domestic sales, was made up by better performance in foreign sales particularly by the CRC segment (see Table-3). Besides considerable 'commercial' efforts in boosting export sales in the current financial period, the Group's past

efforts in ensuring its steel products fulfil international standards and quality certifications have helped open doors to new markets. As a result, both the segments turned in a net-profit of around RM8 million each—with the CRC segment tipping higher. At EBITDA level (see Chart-1 & 2), the CRC segment's result is higher than the Tube segment by around 24%. Looking the China's steel prices as proxy (see Chart-3), the price spread between HRC and CRC in the most part of FY2024 has been wider than the preceding two financial years - despite the 3-years' declining price trend. That has begun to narrow into the new FY2025.



Correspondingly, both segments' performance ratios (see Table-4) for the current financial period have generally improved—with the CRC segment's net-earnings surpassing 50% of the Group's.

Table-4

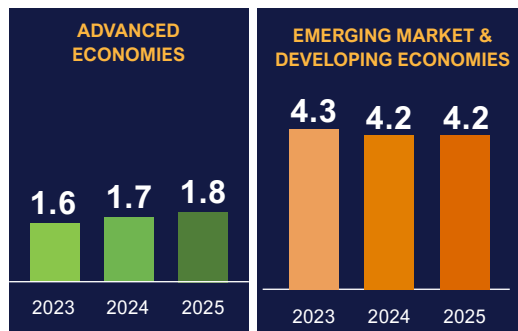
	CRC		Steel Tube	
	FYE 2024	FYE 2023	FYE 2024	FYE 2023
Segment's Revenue/Assets Employed (Ringgit on Ringgit)	1.03	0.66	0.92	0.92
Segment's Net Earnings/Assets Employed (Sens on Ringgit)	1.69	-2.17	2.65	-1.31
Segment's Assets/Total Assets	61.8%	57.3%	37.7%	41.5%
Segment's Net Earnings/Total Earnings	50.2%	71.5%	47.9%	31.2%
Operational Return on Assets (EBIT/Average Assets)	3.2%	-2.8%	4.4%	0.1%

Management Discussion & Analysis Statement

OUTLOOK AHEAD

The Group’s outlook for FY2025 is tied to the nation’s economic outlook as well as on global developments and impact on steel prices. We have the hind-sight on 3 months of actual developments from July to September 2024 in making this assessment.

Most global-institutions (i.e. IMF, World-Bank, OECD) projected a flat-to-minuscule growth-rate in 2025 with the ‘Advanced Economies’ outpacing the ‘Emerging Market & Developing Economies.’ This does not come as a surprise as the Advanced Economies led by the USA have in the past two years pursued a dichotomy of fiscal-expansionary but monetary-tightening polices coupled with the rise of trade-protectionism, sanctions, allied bloc-economies, deglobalization, and on-shoring. In backing two concurrent major armed-conflicts with aids and arms that benefit its own military-industrial complex, it gets an additional GDP-growth boost. On the other hand, ‘Emerging Market & Developing Economies’ have suffered from reverse-capital outflow, downtrodden currency, imported inflation, decline in exports, coupled with myriad of negative economic and social consequences; and, the effects from these are expected to linger into 2025. China (being a traditional growth driver for Emerging Market & Developing Economies) saw its growth impeded by the fallout of its own structural economic problems under the weight of unrelenting hobbling and containment moves by its rivals.



Source: IMF’s World Economic Outlook (April 2024 forecast)

In assessing FY2025’s outlook, we have to assess a few key determinants.

Easing Interest Rates?

After more than 2 years of charade, the most anxiously awaited for ‘US interest rate-cut’ was finally delivered on 18 September 2024 with a 50-bps cut. In the weeks that follows, the Ringgit Malaysia strengthened by more than 10% (depending on the points of measure). Foreign capital started flowing back-in and the equity-market rebounded to new highs. Consumer confidence received a boost as perceived wealth-effects kick-in. But moving forward, we expect US rate cuts to slow and at smaller portions, as its current path of expansionary-deficit-fiscal policies (such as its Inflation Reduction Act and Chips Act, and financing two armed-conflicts) are inflationary. As reflected in current US 1-5 years’ bond yields, interest rates are expected to stay elevated between 3.5 to 4% range.

Domestically, we expect the current OPR (Overnight Policy Rate) to hold into FY2025 as the government’s planned moves in RON-95 rationalization, expanding indirect taxation such as luxury-tax, other subsidy rationalization, and pushing-up B20 wages are inflationary.

Global Chaos

The general prognosis is that the world is in unprecedented instability with two ‘spiraling-out-of-control’ arm-conflicts, concurrent with global geopolitical-tension and fragmentation from great-power rivalry. We assess the situation will likely worsen in FY2025, as none of the antagonists have pressing incentives to de-escalate. Another major source of instability is that global debts have hit record highs (touching 330% of 2023 global-GDP), with 55% of the rise originating from mature markets mainly USA, France, & Germany*1. With USA national debt hitting USD 35.68 Trillion (at around 123.8% of its GDP in June 2024), with no other way but up in the foreseeable future, many prominent economists prophesies something will have to break at some point. Regardless the policies it may take (to either reduce or to perpetuate or to default), the rest-of-the-world will be affected.

Domestically, we are seeing some fiscal prudence and tightening. This may lent support to the Ringgit in the near-to-mid term if GDP-growth continues with its current trajectory. Barring the world tipping over for the 3rd time in FY2025, we expect the nation to continue to benefit from foreign investments repositioning, and possibly increase in trade predisposed by great-power-rivalry.

Note1: <https://www.reuters.com/business/global-debt-hits-new-record-high-313-trillion-iif-2024-02-21/>

Management Discussion & Analysis Statement

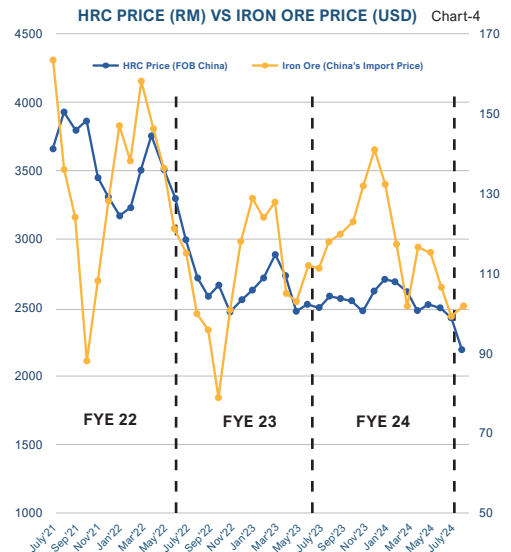
OUTLOOK AHEAD (CONTINUED)

China Factor & Steel Prices

Prior to 25 September 2024, we saw a dire situation in China with its reactive bite-size approaches to addressing its prolonged property crisis and pandemic-weakened private sectors which eroded consumer confidence, new investments, and youth-employment. With the containment and kneecapping onslaught from its main rival, it had mainly focused on defensive strategies in boosting self-sufficiency in key-technologies, and expanding exports. As a results, Chinese steel prices sustained a long declining trend from FY2022 into FY2025 (see Chart-4) in tandem with decline in its domestic steel consumption, and push on export of excess steel production.

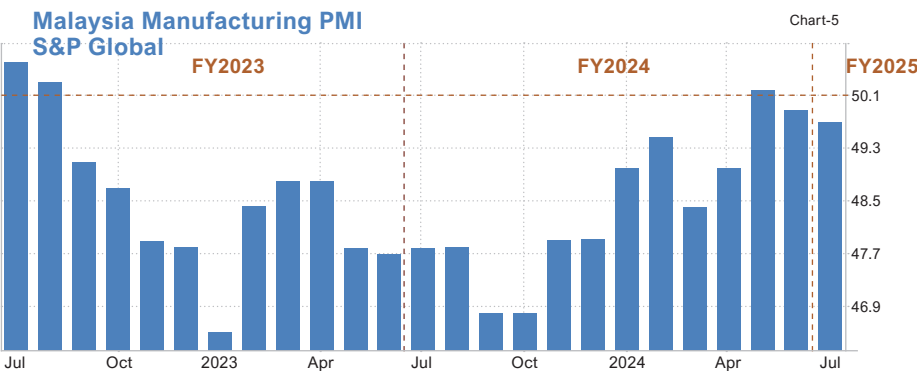
US rate-cut on 18 Sept 2024 appears to have served as the catalyst for the Chinese Government to announce a slew of bold sized stimulus totaling ¥7.5 trillion (including rate-cuts and liquidity injection) on 25 September. In the weeks that follows, its equity-market was up more than 25%, and steel-prices rebounded by more than 15%.

We are inclined to believe steel prices have emerged from its lowest point and will stay supported for the rest of FY2025, if the announced stimulus are followed through. With the possibility of China’s growth picking-up pace from the stimulus, we may see an upward price trend in the 2nd half in FY2025. Domestic steel price trend would likely mirror that of China.



Home-Front

There are reasons to be optimistic for the domestic steel industry in FY2025. The nation’s fiscal health is improving and its GDP-growth trajectory is projected to remain strong. Many projects requiring steel from the Nation’s New Industrial Master Plan and National Energy Transition Plan are expected to come on stream; along with other infrastructural projects such as the MRT3, Penang LRT, Pan Borneo Sabah Phase 1, large-scale flood mitigation projects, Sabah-Sarawak Link Road, and etc. The property sector’s overhang has shrunk and new development projects are picking-up again. The nation also reported significant rise in Foreign Direct Investments, mostly in data-centers—which may contribute to additional steel demand if new construction. However, these may not be all that rosy. The Government has a tendency to allow duty-free import of steel for projects led by foreigners, instead of insisting on the use of domestic products.



The nation’s manufacturing sector is not doing so well. Its Purchasing-Managers’ Index (Chart-5) has dipped into contraction mode again from its high in May 2024. The nation’s manufacturing sector is experiencing significant labor and operating cost pressure driven by government policies—reminiscent of a nation undergoing deindustrialization. Over recent years, we saw significant cost rise

in electricity, gas, fuel, wages, and in almost all supplies (attributed to the expanded and increased sales & service tax, and government approved rise in controlled prices). Production cost has increased by as much as 30%, cutting deep into bottom-line. Already, there are government insinuations to increase minimum wage again; introduce inheritance tax; introduce carbon pricing & tax; and introduce artificial intelligence tax. These are on-top of the high-value-goods tax and RON-95-repricing which will likely hit in the 2025-budget. The squeeze on businesses and the middle-60% (M60) in championing the B20 will likely zap any remaining dynamism in the economy. As most of the Advanced Economies are reverting to protectionism, subsidization, and reindustrialization, Malaysia is moving in the opposite direction.

Management Discussion & Analysis Statement

CONCLUSION

In conclusion, our global outlook remains negative but with possible respite for the 'emerging & developing economies' from easing interest rates and rebalancing of capital flows. We believe Malaysia may continue to benefit economically by taking a friendly & neutral-path with the fractions of the great-power rivalry. However, its fiscal tightening approach on taxes and subsidies in expanding government's coffer poses significant risks on inflation, durable-goods consumption, cost-of-doing business, and domestic investment in goods-production. The stronger Ringgit since mid-September 2024 may work against its exports and other sectors, and cool GDP-growth in 2025. The domestic steel industry may see improved demand in the second-half as more projects kick-in in-tandem with possibly better steel prices, provided the Government keeps a flood-gate on improper imports and protect domestic manufacturers.

Consistent with the above, our outlook on the Group's performance in the 1st half of FY2025 - saddling the trough of steel prices, weak domestic demand, and volatile currency swing - to be tough. Our performance outlook for the 2nd-half of FY2025 ought to be better on the assumption of firmer steel price trend as China gets back on track; stabilization after the 60th quadrennial US presidential election; stabilization in the US rate-cuts; and sustained export-orders on expected pick-up in global-trade. Overall, significant uncertainty, risks, and volatility remain.

Corporate Information

DOMICILE

Malaysia

LEGAL FORM & PLACE OF INCORPORATION

A public listed company incorporated in Malaysia under the Companies Act 1965 and limited by shares

SECRETARY

Kenneth Goh Kwan Weng
(CCM PC No. 202408000226)
(BC/G/88)

PRINCIPAL PLACE OF BUSINESS

Lot 717 Jalan Sungai Rasau,
Seksyen 16,
40200 Shah Alam,
Selangor Darul Ehsan.
Telephone No. : 03-5510 6608
Telefax No. : 03-5510 3720

WEBSITE

www.mycronsteel.com

SOLICITORS

Chooi & Company
Level 5, Menara BRDB,
285 Jalan Maarof,
Bukit Bandaraya,
59000 Kuala Lumpur.
Telephone No. : 03-2055 3888
Telefax No. : 03-2055 3880

Lee Hishammuddin Allen &
Gledhill
Level 6, Menara 1 Dutamas,
Solaris Dutamas,
No. 1 Jalan Dutamas 1,
50480 Kuala Lumpur.
Telephone No. : 03-6208 5888
Telefax No. : 03-6201 0122

BOARD OF DIRECTORS

Tunku Dato' Yaacob Khyra
Executive Chairman

Roshan Mahendran bin Abdullah
Group Chief Executive Officer

Azlan bin Abdullah
Non-Independent Non-Executive
Director

**Tengku Datuk Seri Ahmad Shah ibni
Almarhum Sultan Salahuddin Abdul
Aziz Shah**
Independent Non-Executive Director

**Datin Seri Raihanah Begum binti
Abdul Rahman**
Independent Non-Executive Director

Kwo Shih Kang
Senior Independent Non-Executive
Director

**Dato' Mohd Zahir bin Zahur
Hussain**
Independent Non-Executive Director

E-MAIL

enquiry@mycronsteel.com

AUDITORS

Messrs KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Level 10, KPMG Tower 8, First Avenue,
Bandar Utama, 47800 Petaling Jaya,
Selangor
Telephone No. : 03-7721 3388
Telefax No. : 03-7721 3399



AUDIT AND GOVERNANCE COMMITTEE

Kwo Shih Kang
Chairman

**Datin Seri Raihanah Begum binti
Abdul Rahman**
Member

**Dato' Mohd Zahir bin Zahur
Hussain**
Member

REGISTRAR & TRANSFER OFFICE

Trace Management Services
Sdn Bhd
Suite 11.05, 11th Floor,
No. 566 Jalan Ipoh,
51200 Kuala Lumpur.
Telephone No. : 03-6252 8880
Telefax No. : 03-6252 8080
kwgoh@crestcorp.com.my
prabu@crestcorp.com.my

REGISTERED OFFICE

Suite 11.05, 11th Floor,
No. 566 Jalan Ipoh,
51200 Kuala Lumpur.
Telephone No. : 03-6252 8880
Telefax No. : 03-6252 8080
kwgoh@crestcorp.com.my
prabu@crestcorp.com.my

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
("Bursa Securities")
Stock Code 5087

PRINCIPAL BANKERS

