



## Part A - EXPLANATORY NOTES PURSUANT TO FRS 134

### A1 Basis of Preparation

The Quarterly Report has been prepared in accordance with the reporting requirements outlined in the Financial Reporting Standard (“FRS”) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The Quarterly Report should be read in conjunction with the audited financial statements for the year ended 30 June 2010. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2010.

As at 30 June 2011, the Group is in a net current liabilities position of RM10.6 million. Management has prepared and reviewed the Group’s operational and financing cash flows requirements and is of the view that based on the Group’s cash flow projections for financial year ending 30 June 2012, the Group will be able to generate sufficient cash flows from operating activities in the next twelve months from 30 June 2011, to repay its existing borrowings according to its schedule of repayments and to meet working capital requirements. However, the Group anticipates that it will not be able to meet one of the financial covenant ratios stipulated under the terms of borrowings in the financial year ending 30 June 2012. The Group is in the midst of negotiating with the lenders to seek their approvals to revise the financial covenant ratio and the Directors believe the approval and support from the lenders is forthcoming.

In view of the foregoing, the Directors consider that it is appropriate to prepare the financial statements of the Group on a going concern basis.

### A2 Changes in Accounting Policies

The accounting policies and methods of computation adopted in the unaudited interim financial statements are consistent with those adopted for the audited financial statements for the financial year ended 30 June 2010 except for the adoption of the following FRS, Amendments to FRSs and Interpretations which are applicable to the Group:

#### FRS, Amendments to FRSs and Interpretations

- |   |  |
|---|--|
| • FRS 7   | Financial Instruments: Disclosures                   |
| • Revised FRS 101                               | Presentation of Financial Statements                 |
| • Revised FRS 123                               | Borrowing Costs                                      |
| • Amendment to FRS 1                            | First-time Adoption of Financial Reporting Standards |
| • Amendment to FRS 107                          | Statement of Cash Flows                              |
| • Amendment to FRS 110                          | Events After the Balance Sheet Date                  |
| • Amendment to FRS 116                          | Property, Plant and Equipment                        |
| • Amendment to FRS 118                          | Revenue  |
| • Amendment to FRS 119                          | Employee Benefits                                    |
| • Amendment to FRS 127                          | Consolidated and Separate Financial Statements       |
| • Amendment to FRS 128                          | Investments in Associates                            |
| • Amendment to FRS 132                          | Financial Instruments: Presentation                  |
| • Amendment to FRS 134                          | Interim Financial Reporting                          |
| • Amendment to FRS 136                          | Impairment of Assets                                 |
| • Amendment to FRS 139                          | Eligible Hedged Items                                |
| • Amendment to FRS 139                          | Reclassification of Financial Assets                 |
| • IC Interpretation 9                           | Reassessment of Embedded Derivatives                 |
| • IC Interpretation 10                          | Interim Financial Reporting and Impairment           |
| • IC Interpretation 11                          | FRS 2 Group and Treasury Share Transactions          |
| • Amendment to FRS 139<br>& IC Interpretation 9 | Reassessment of Embedded Derivatives                 |
| • Revised FRS 127                               | Consolidated and Separate Financial Statements       |



## Part A - EXPLANATORY NOTES PURSUANT TO FRS 134

### A2 Changes in Accounting Policies (continued)

The adoption of the above FRS, Amendments to FRSs and Interpretations does not have any impact on the financial statements of the Group except for the following:

#### Revised FRS 101 Presentation of Financial Statements

The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from 'owner changes in equity'. All 'non-owner changes in equity' are required to be shown in a statement of comprehensive income which can be presented as a single statement or two statements (comprising the income statement and statement of comprehensive income). The Group has applied this standard retrospectively and has elected to present the statement of comprehensive income in a single statement. In addition, the adoption of this standard has resulted in the balance sheet and cash flow statement now being renamed as statement of financial position and statement of cash flows respectively.

The adoption of this standard only impacted the form and content of the presentation of the Group's financial statements.

### A3 Comparatives

There were no changes to the comparatives during the current financial year.

### A4 Declaration of audit qualification

The audit report of the Company in respect of the annual financial statements for the year ended 30 June 2010 was not subject to any audit qualification.

### A5 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.

### A6 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.

### A7 Changes in estimates

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

### A8 Debts and equity securities

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



**Part A - EXPLANATORY NOTES PURSUANT TO FRS 134**

**A9 Dividend paid**

A first and final single tier dividend of 3.5 sen per share in respect of financial year ended 30 June 2010 was paid on 28 December 2010.

**A10 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 products. The business of the Group is entirely carried out in Malaysia.

**A11 Valuation of property, plant and equipment**

In June 2011, certain of the Group's property, plant and equipment were revalued by an independent firm of professional valuers based on open market value. The surplus arising from the revaluation, net of deferred tax, amounting to RM11.0 million was credited to the asset revaluation reserve.

**A12 Subsequent material events**

There were no material events occurring between 30 June 2011 and the date of this announcement that has not been reflected in the financial statements for the year ended 30 June 2011.

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

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

**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 year.

**A16 Capital Commitments**

There were no outstanding capital commitments as at the end of the reporting quarter.

**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 30 June 2011, the Group recorded total revenue of RM104.9 million as compared to RM134.9 million in the preceding year's corresponding quarter. The decrease in revenue is mainly due to lower sales volume.

The Group registered a loss before tax of RM3.8 million in the current quarter as compared to a profit before tax of RM5.5 million for the same quarter of the preceding year. The loss position is primarily contributed by a decreased sales volume, a lower sales margin and an adverse movement of RM3.3 million in foreign exchange differences from a gain of RM2.8 million to a loss of RM0.5 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**

Despite an increase in revenue from RM101.8 million to RM104.9 million, the Group posted a loss before tax of RM3.8 million in the current quarter as compared to a loss before tax of RM1.7 million in the immediate preceding quarter. The decline in profitability is mainly due to a lower sales margin and as a result, a lower gross profit.

**B3 Prospects for the current financial year**

The Directors are of the opinion that although market condition stabilised in early 2011 when moderate re-stocking took place, the temporary uptrend was unfortunately not due to economic recovery but mainly due to speculative buying as steel mills were trying to increase the prices. However, as demand was weak, buyers soon started behaving cautiously in making their procurement decisions. We expect the market conditions will improve in the second half of 2011. However, this would also depend on the health of the local as well as global economy.

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

This is not applicable to the Group.

**B5 Taxation**

Taxation comprises :-

	<u>Individual Quarter</u>	<u>Cumulative Quarters</u>
	Current Year Quarter 30/6/2011 RM'000	Current Year To Date 30/6/2011 RM'000
Current tax expense		
Current period	(150)	(397)
Deferred tax income		
Current period	616	135
Over estimated in prior year	-	421
	466	159



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

**B6 Profit on sale of unquoted investments and / or properties**

The Group did not engage in any sales of unquoted investments in the current financial year. In the current financial quarter, the Group disposed a property and registered a loss of about RM180,000.

**B7 Purchase or disposal of quoted securities**

There were no purchases or disposals of quoted securities in the current financial year.

**B8 Status of corporate proposals**

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

**B9 Group borrowings and debt securities**

The Group's borrowings as at 30 June 2011 were as follows:

<u>Short term borrowings:</u>	<u>RM'000</u>
Secured	139,546
 <u>Long term borrowings:</u>	
Secured	<u>16,222</u>
Total borrowings	<u>155,768</u>

The Group's currency exposure of borrowings as at 30 June 2011 were as follows:

	<u>RM'000</u>
- Ringgit Malaysia	101,706
- US Dollar (10,272,000)	31,113
- Euro (5,291,000)	<u>22,949</u>
Total borrowings	<u>155,768</u>

This level of borrowings corresponds to a net gearing ratio as at 30 June 2011 of 0.46 times of total equity.

The Group's 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.

As at 30 June 2011, the Group has not met one of the financial covenant ratios set out in the loan agreements. Indulgences were obtained from two lenders prior to the reporting date while the indulgence from the third lender was obtained after the reporting date on 26 August 2011. Accordingly, the related long term borrowings amounting to RM7.5 million were reclassified to current liabilities as at 30 June 2011.

**B10 Outstanding Derivatives**

The Group has entered into forward foreign currency exchange contracts to manage the exposure to foreign exchange risk arising from future repayment of borrowings denominated in foreign currencies. The Group has entered into a forward foreign currency contract on 7 January 2011 with a notional value of EUR0.9 million.



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

**B10 Outstanding Derivatives (continued)**

As at 30 June 2011, the values and maturity analysis of the outstanding derivative of the Group is as follows: -

	Contract/ Notional Value RM'000	Fair Value RM'000
<u>Forward Foreign Currency Exchange Contract</u> EUR - Less than 1 year	3,516	287

- (i) Risk associated with the derivatives

Market risk

Market risk arises on changes in foreign currency exchange rates. The Group entered into forward foreign currency exchange contracts to hedge the fluctuations in foreign currency exchange rates. However, if the foreign currency exchange rates move below contracted rates, the Group is exposed to fair value risk and the losses shall be recognised in the income statement.

- (ii) Cash requirements of the derivatives

There is no cash movement from the Group to the counterparties when the forward foreign currency exchange contracts are executed as the fees/costs associated with these derivatives are incorporated into the contracted exchange rates.

- (iii) Policies in place for mitigating or controlling the risk associated with the derivatives

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 Group uses derivative financial instruments to hedge designated risk exposures of the underlying hedge items and does not enter into derivative financial instruments for speculative purposes. The Board of Directors regularly reviews the risk and approves the policy for managing the risk.

**B11 Off balance sheet financial instruments**

There were no off balance sheet financial instruments as at the date of this announcement.

**B12 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 (KUALA LUMPUR HIGH COURT SUIT NO. D-22NCC-304-2010)**

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.



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

**B12 Material litigation (continued)**

**MYCRON STEEL BERHAD v MULTI RESOURCES HOLDINGS SDN BHD (KUALA LUMPUR HIGH COURT SUIT NO. D-22NCC-304-2010) (continued)**

On 21 May 2010, the Defendant filed with the Kuala Lumpur High Court (“the Court”) for a change in the jurisdiction for the case to be heard in Kuching and it was successful. Subsequently, the Company’s solicitor submitted an appeal to the Judge for the case to be heard in the Court in Kuala Lumpur. The Court had on 25 October 2010 dismissed the Company’s appeal and the Company was given a liberty to file afresh the suit in the High Court of Sabah and Sarawak. The Company appointed a solicitor from Sarawak to file afresh the suit. On 27 April 2011, the Company’s solicitor filed in the Writ of Summons and Statement of Claim to the High Court of Sabah and Sarawak. On 25 May 2011, the Defendant’s solicitor filed in their defence with the High Court of Sabah and Sarawak. On 2 August 2011, the Company’s solicitor filed in the reply to the Defendant’s defence with the High Court of Sabah and Sarawak. The High Court of Sabah and Sarawak had fixed 6 September 2011 as the next mention date.

The Company’s solicitor is of the opinion that the Company has a good case against the Defendant. The amount of the claim is RM17.0 million.

**B13 Dividend**

The Company did not declare any dividend for the financial year ended 30 June 2011.

**B14 Earnings per share**

(i) Basic earnings per ordinary share

	Current Year Quarter Ended 30 Jun 2011	Preceding Year Corresponding Quarter Ended 30 Jun 2010	Current Year To Date Ended 30 Jun 2011	Preceding Year Corresponding Period Ended 30 Jun 2010
(Loss)/profit attributable to shareholders (RM’000)	(3,289)	3,342	511	25,495
Weighted average number of ordinary shares in issue (’000)	177,960	177,998	177,960	177,998
Basic (loss)/earnings per share (sen)	(1.85)	1.88	0.29	14.32

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.



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

**B15 Realised and Unrealised Profits/Losses Disclosure**

	As at 30/6/2011 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	25,033
- Unrealised	3,773
	<u>28,806</u>
Less: Consolidation adjustments	<u>-</u>
<b>Total group retained profits as per consolidated accounts</b>	<u>28,806</u>

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)  
EZZA HANIE BINTI ALIAS (LS 0009238)

Secretaries  
Kuala Lumpur  
29 August 2011