

Part A - EXPLANATORY NOTES PURSUANT TO FRS 134

A1 Basis of Preparation

The Quarterly Report is unaudited and has been prepared in accordance with the Financial Reporting Standard (“FRS”) 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. The report should be read in conjunction with the Group’s audited financial statements for the financial year ended 30 June 2011.

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 2011.

As at 30 June 2012, the Group is in a net current liabilities position of RM17.3 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 2013, the Group will be able to generate sufficient cash flows from operating activities in the next twelve months from 30 June 2012, to repay its existing borrowings according to its restructured schedule of repayments and to meet working capital requirements. However, the Group anticipates that it may not be able to meet one of the financial covenant ratios stipulated under the terms of borrowings in the financial year ending 30 June 2013. The Group has submitted the application to the lenders to seek their indulgences for the financial year ending 30 June 2013 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 2011 except for the adoption of the following FRS, Amendments to FRSs and Interpretations which are applicable to the Group:

FRSs, Amendments to FRSs and Interpretations

- Amendments to FRS 1 “First-Time Adoption Of Financial Reporting Standards”
- Amendment to FRS 7 “Financial Instruments: Disclosures - Improving Disclosures About Financial Instruments”
- IC Interpretation 4 “Determining Whether An Arrangement Contains A Lease”
- IC Interpretation 19 “Extinguishing Financial Liabilities with Equity Instruments”
- Amendment to IC 14 “Prepayment of a Minimum Funding Requirement”
- Improvements to FRSs (2010)

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

Amendments to FRS 7 Financial Instruments: Disclosures

The amendment promotes enhanced disclosure on fair value measurement of financial instruments via introduction of the concept of the fair value hierarchy. There is no financial impact on the results of the Group as these changes only effect disclosures.



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A3 Comparatives

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

A4 Declaration of audit qualification

The audit report of the Company in respect of the annual financial statements for the financial year ended 30 June 2011 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 except for the impairment loss on other receivable/investment of RM9.1 million.

A7 Changes in estimates

In the current financial quarter, 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.

A9 Dividend paid

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

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 2012, certain of the Group's property, plant and equipment were revalued by an independent firm of professional valuers based on open market value. The net surplus arising from the revaluation, net of deferred tax, amounting to RM1.7 million was credited to the asset revaluation reserve.

A12 Subsequent material events

There were no material events occurring between 1 July 2012 and the date of this announcement that has not been reflected in the financial statements for the year ended 30 June 2012.

A13 Changes in the composition of the Group

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



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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:

	RM'000
Property, plant and equipment – Approved but not contracted for	1,153

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 2012, the Group recorded total revenue of RM136 million as compared to RM105 million in the preceding year's corresponding quarter. The increase in revenue is mainly due to higher sales volume of 32% as compared to the same preceding quarter.

The Group registered a loss before tax of RM8.5 million for the quarter as compared to loss before tax of RM3.8 million in the preceding year's corresponding quarter. The increase in loss is mainly due to the one-off impairment on other receivable/investment amounting to RM9.1 million. Excluding the one-off impairment, the Group recorded a profit before tax of RM0.6 million for the quarter.

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 30 June 2012, the Group recorded total revenue of RM136 million as compared to RM106 million in the immediate preceding quarter. The Group posted a loss before tax of RM8.5 million in the current quarter as compared to a loss before tax of RM1.5 million in the immediate preceding quarter. The increase in loss is mainly due to the one-off impairment on other receivable/investment amounting to RM9.1 million.

B3 Prospects for the current financial year

For the coming financial year, the Group expects the demand for CRC will continue to be stable and healthy for plant's utilization. However, the performance of the Group will largely hinge on the ability to source commercially viable iron ore based HRC by obtaining the necessary import duty exemption from the Government.

B4 Variance of actual profit from forecast profit

This is not applicable to the Group.

B5 (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging/(crediting):

	Current Year Quarter Ended 30 Jun 2012 RM'000	Preceding Year Corresponding Quarter Ended 30 Jun 2011 RM'000	Current Year To Date Ended 30 Jun 2012 RM'000	Preceding Year Corresponding Period Ended 30 Jun 2011 RM'000
Depreciation	2,803	2,809	10,907	11,204
Interest income	(160)	(101)	(539)	(212)
Interest expense	1,732	1,754	7,362	7,847
Impairment of financial assets	9,147	318	9,147	318
Foreign exchange loss/(gain)	216	(600)	(339)	(2,197)
Derivatives loss/(gain)	471	127	(43)	(287)



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

B6 Taxation

Taxation comprises :

	Current Year Quarter Ended 30 Jun 2012 RM'000	Preceding Year Corresponding Quarter Ended 30 Jun 2011 RM'000	Current Year To Date Ended 30 Jun 2012 RM'000	Preceding Year Corresponding Period Ended 30 Jun 2011 RM'000
Current tax expense				
Current period	(60)	(150)	(264)	(397)
Deferred tax income				
Current period	(527)	616	1,910	135
Over accrual in prior years	-	-	-	421
	<u>(587)</u>	<u>466</u>	<u>1,646</u>	<u>159</u>

B7 Profit on sale of unquoted investments and / or properties

The Group did not engage in any sales of unquoted investments and / or properties.

B8 Purchase or disposal of quoted securities

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

B9 Status of corporate proposals

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

B10 Group borrowings and debt securities

The Group's borrowings as at 30 June 2012 were as follows:

<u>Short-term borrowings:</u>	<u>RM'000</u>
Secured	170,088
<u>Long-term borrowings:</u>	
Secured	<u>8,861</u>
Total borrowings	<u>178,949</u>
The Group's currency exposure of borrowings as at 30 June 2012 were as follows:	<u>RM'000</u>
- Ringgit Malaysia	144,606
- US Dollar	19,417
- Euro	<u>14,926</u>
Total borrowings	<u>178,949</u>

As at 30 June 2012, the net gearing ratio of the Group is 0.60 times.

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 2012, the Group has not met one of the financial covenant ratios set out in the loan agreements. Indulgences were obtained from all the lenders prior to the reporting date.



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 to manage its foreign currency exchange exposure arising from future repayment of borrowings denominated in Euro. The notional principal amount of the forward foreign currency exchange contract was Euro 0.8 million. The fair value of the forward foreign currency exchange contract amounting to RM43,000 is determined using mark-to-market rates for the same notional amounts as at 30 June 2012.

As at 30 June 2012, the values and maturity analysis of the outstanding derivatives of the Group are as follows:

	Contract/ Notional Value RM'000	Fair Value RM'000
<u>Forward Foreign Currency Exchange Contracts</u>		
Euro	3,295	
- Less than 1 year		43

As the Group did not adopt hedge accounting, the changes in the fair value of the derivatives are recognised immediately in the profit or loss during the financial year.

(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 of the Group's borrowings. 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 immediately in the profit or loss.

(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.



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

B12 Off balance sheet financial instruments

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

B13 Material litigation

Save as disclosed below, the Group is not engaged in any material litigation, either as a plaintiff or defendant, claims or arbitration which have a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened against the Group or of any other facts likely to give rise to any proceedings which may materially and/or adversely affect the financial position and business of the Group:

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

On 18 February 2010, the Company commenced legal action against Multi Resources Holdings Sdn Bhd (“Defendant”) to recoup their cost of investment of RM17.0 million in PMP Galvanizers Sdn Bhd (“PMPG”) as a result of non compliance of certain conditions by the Defendant pursuant to a shareholders’ agreement entered in 2005. On 21 May 2010, the Defendant 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. A rejoinder has been filed by the Defendant with the High Court of Sabah and Sarawak on 25 August 2011. On 3 October 2011, the High Court of Sabah and Sarawak had fixed 5 to 9 March 2012 for hearing. On 15 December 2011, the High Court of Sabah and Sarawak had rescheduled the hearing to 18 to 22 June 2012. On 18 June 2012, the High Court of Sabah and Sarawak had further rescheduled the trial to 19 to 23 November 2012.

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.

B14 Dividend

The Company did not declare any dividend for the financial year ended 30 June 2012.



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 30 Jun 2012	Preceding Year Corresponding Quarter Ended 30 Jun 2011	Current Year To Date Ended 30 Jun 2012	Preceding Year Corresponding Period Ended 30 Jun 2011
(Loss)/profit attributable to owners (RM'000)	(9,110)	(3,289)	(13,137)	511
Weighted average number of ordinary shares in issue (net of treasury shares) ('000)	177,960	177,960	177,960	177,960
Basic (loss)/earnings per share (sen)	(5.12)	(1.85)	(7.38)	0.29

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.

B16 Realised and Unrealised Profits/Losses Disclosure

	As at 30/6/2012 RM'000	As at 30/6/2011 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	8,620	25,024
- Unrealised	7,007	3,740
	<u>15,627</u>	<u>28,764</u>
Add: Consolidation adjustments	43	43
Total group retained profits as per consolidated accounts	<u>15,670</u>	<u>28,807</u>

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)

EZZA HANIE BINTI ALIAS (LS 0009238)

Secretaries
Kuala Lumpur
29 August 2012