Part A - EXPLANTORY NOTES PURSUANT TO MFRS 134

A1 Basis of Preparation

The Quarterly Report is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standard ("MFRS") 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements. This interim financial report also complies with IAS34. The report should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2012 which was prepared in accordance with the Financial Reporting Standard (FRS).

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 2012.

A2 Changes in Accounting Policies

On November 19, 2011, MASB issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards Framework ("MFRS Framework") in conjunction with its planned convergence of FRSs with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on 1 January 2012.

The MFRS Framework is a fully IFRS-compliant framework, equivalent to IFRSs which is mandatory for adoption by all Entities Other than Private Entities for annual periods beginning on or after January 1, 2012, with the exception for Transitioning Entities. Transitioning Entities, being entities which are subject to the application of MFRS 141 *Agriculture* and/or Issues Committee Interpretation 15 *Agreements for the Construction of Real Estate* are given an option to defer adoption of the MFRS Framework for an additional one year. Transitioning Entities also includes those entities that consolidates, equity accounts or proportionately consolidates an entity that has chosen to continue to apply the FRS Framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group which is not Transitioning Entities will be required to and hereby apply MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* (MFRS 1) effective from 1 July 2012.

In addition, the financial statements comply with IFRS as issued by IASB.

The adoption of the MFRSs does not have significant financial impact on the interim financial statements of the Group except for the following:

(a) MFRS 116: Property, Plant and Equipment

The Group has adopted FRS 116's revaluation model on its Property, Plant and Equipment (specifically on Land, buildings, plant and machinery) since financial year 2006 where net changes in valuation are taken-up as separate reserve in equity.

Upon transition to MFRS, the Group elected to apply the option to use its property, plant, and equipment's closing valuation for financial year ended 30 June 2012 as its deemed cost on 1 July 2012 of the financial year 2013. As such, the asset valuation reserves as reported in the previous financial close at RM44 million was adjusted into retained earnings on the MFRS transition date.

Part A - EXPLANTORY NOTES PURSUANT TO MFRS 134

A3 Comparatives

The following comparative figures have been restated due to the adoption of the MFRSs:

Reconciliation of Equity as at 1 July 2012

	<--------------Adjustments----------------->		
	Balance	MFRS 116	Balance
	As at 30 June 2012	(NoteA2(a))	As at 1 July 2012
	RM'000	RM'000	RM'000
Asset revaluation reserve	44,040	(44,040)	-
Retained earnings	16,383	44,040	60,423

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 2012 was not subject to any audit qualification.

A5 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.

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 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

The valuation of property, plant and equipment has been brought forward, without amendment from the audited financial statements for the financial year ended 30 June 2012.

Part A - EXPLANTORY NOTES PURSUANT TO MFRS 134

A12 Subsequent material events

There were no material events occurring between 1 January 2013 and the date of this announcement that has not been reflected in the financial statements for the quarter ended 31 December 2012.

A13 Changes in the composition of the Group

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

A14 Contingent liabilities or contingent assets

The Group had, in the financial year 2009, made a claim amounting to RM17,000,000 against a vendor as a result of non-compliance of certain conditions set out in the shareholders' agreement entered into with the said vendor. This amount was fully impaired over the last three financial years as the Directors were not virtually certain on its recoverability. Given that there is positive progress in the litigation (see Note B13), the Directors are of the view that the Group has a reasonable chance of partial recovery against the vendor. As such, this is disclosed as a contingent asset not recognized in the financial statement as at the end of this reporting quarter.

There were no contingent liabilities 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
Plant and equipment – Approved and contracted for	1,153
Plant and equipment – Approved but not contracted for	21,160
Total	22,313

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

B1 Review of the performance of the Company and its principal subsidiaries

For the current quarter ended 31 December 2012, the Group recorded total revenue of RM141 million as compared to RM109 million in the preceding year's corresponding quarter. The increase in revenue is mainly due to higher sales volume by 42 % as compared to the preceding year's corresponding quarter despite the lower selling price per ton.

The Group registered a profit before tax of RM3.9 million for the quarter as compared to loss before tax of RM3.6 million in the preceding year's corresponding quarter. The increase in profit is mainly attributed to the higher contribution margin per ton achieved as a result of higher production and sales.

The abovementioned results are contributed by the Company's principal subsidiary, Mycron Steel CRC Sdn Bhd.

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

For the current quarter ended 31 December 2012, the Group recorded total revenue of RM141 million as compared to RM125 million in the immediate preceding quarter. The Group posted a profit before tax of RM3.9 million in the current quarter as compared to a profit before tax of RM0.1 million in the immediate preceding quarter. The increase in profit is mainly due higher contribution margin per ton achieved as a result of higher production and sales volume.

B3 Prospects for the current financial year

For the remaining of current financial year, the Group expects the demand for CRC to remain stable and healthy for plant's utilization. As part of the Government's on-going effort to address structural problems of the nation's steel industry, the Government has announce in January 2013 a new policy requiring domestic cold-rollers to purchase at least 50% of their HRC requirements from domestic source(s). Whilst we expect further announcement from the Government of related policies to plug import loopholes on CRCs, we cannot be certain of the aforementioned and the execution thereof. In that regard, the financial performance of the Group for the remaining of the current financial year hinges on the following:

- its ability (as well as the domestic cold-rollers' ability) to pass-on the higher domestic HRC costs utilized in the production of CRC to customers;
- its ability to continue to source commercially viable iron ore based HRC by obtaining the necessary import duty exemption from the Government for at least 50% of its annual requirement; and
- the Government's ability to create a more leveled-playing field by plugging import loopholes on CRCs of specifications which could be sourced domestically.

The on-going effort by Government, in unison with the industry's major players, to address the steel industry woes may be favorable to the Group. As such, the Group is cautiously optimistic on its future prospects.

B4 Variance of actual profit from forecast profit

This is not applicable to the Group.

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

B5 Profit/**(loss) before taxation**

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

	Current Year Quarter Ended 31 Dec 2012 RM'000	Preceding Year Corresponding Quarter Ended 31 Dec 2011 RM'000	Current Year To Date Ended 31 Dec 2012 RM'000	Preceding Year Corresponding Period Ended 31 Dec 2011 RM'000
Depreciation	2,746	2,689	5,463	5,350
Interest income	(99)	(88)	(173)	(186)
Interest expense	1,854	1,981	3,748	3,605
Foreign exchange loss/(gain)	257	(1,056)	556	163
Derivatives loss	65	616	28	124

B6 Taxation

Taxation comprises :

	Current Year Quarter Ended 31 Dec 2012 RM'000	Preceding Year Corresponding Quarter Ended 31 Dec 2011 RM'000	Current Year To Date Ended 31 Dec 2012 RM'000	Preceding Year Corresponding Period Ended 31 Dec 2011 RM'000
Current tax expense				
Current period	(103)	(86)	(140)	(129)
Deferred tax (expense)/income				
Current period	(1,277)	1,478	(960)	1,166
	(1,380)	1,392	(1,100)	1,037

For the current financial quarter and year to date, the effective tax rate for the Group is higher than the statutory tax rate mainly because of:

- increase in deferred tax liabilities due to temporary differences; and
- certain expenses are not deductible for tax purposes

B7 Profit on sale of unquoted investments and / or properties

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

B8 Purchase or disposal of quoted securities

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

B9 Status of corporate proposals

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

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

B10 Group borrowings and debt securities

The Group's borrowings as at 31 December 2012 were as follows:

Short-term borrowings:	RM'000
Secured	133,835
Long-term borrowings:	
Secured	6,789
Total borrowings	140,624

The Group's currency exposure of borrowings as at 31 December 2012 were as follows:	RM'000
- Ringgit Malaysia	116,266
- US Dollar	12,205
- Euro	12,153
Total borrowings	140,624

As at 31 December 2012, the gearing ratio of the Group is 0.55 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.

B11 Outstanding Derivatives

The Group has entered into forward foreign currency exchange contracts (Forward FX contracts) to hedge its foreign currency exchange exposure arising from purchases of raw materials denominated in US Dollar. The notional principal amount of the forward foreign currency exchange contract was USD 4 million. The net fair value loss of the forward foreign currency exchange contracts amounting to RM28,000 is determined by way of marking-to-market rates on the notional amounts as at 31 December 2012.

As at 31 December 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
Forward Foreign Currency Exchange Contracts		
USD	12,248	
- Less than 1 year		(28)

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 quarter.

(i) Risk associated with the derivatives

Counter-Party Risk

The Forward FX contracts are entered into with domestic licensed financial institutions backed with ISDA agreement. The associated Counter-Party risk is negligible.

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

B11 Outstanding Derivatives (continued)

(ii) Cash requirements of the derivatives

There is no cash movement from the Group to the counterparties when the Forward FX contracts are incepted. Upon maturity of the Forward FX contracts, domestic currency is exchanged for the foreign currency to meet its obligations.

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

The Group uses derivative financial instruments to hedge specific risk exposures of the underlying hedge items and does not enter into derivative financial instruments for speculative purposes. The Group monitors the fluctuations in foreign currency exchange rates closely with an objective to minimise potential adverse effects on the financial performance of the Group. The Board of Directors regularly reviews the risk and approves the policy for managing the risk.

B12 Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of this announcement except for bank guarantees issued amounting to RM2.9 million being security for inbound supply of services.

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. On 19 November 2012, the Company's solicitor was notified by the Defendant's solicitor that they have been instructed by the Defendant to make an offer for an amicable out-of-court settlement with the Company. The Company did not accept the offer for an amicable out-of-court settlement. The

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

B13 Material litigation (continued)

case was fixed for mention on 4 January 2013, whilst the trial date has been adjourned to 16 January 2013. On the trial date, the Company's witnesses had given the witness statements to the High Court of Sabah and Sarawak. The continuation of the trial is fixed on 17 to 19 April 2013.

The Company's solicitor is of the opinion that the Company has a fair 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 quarter ended 31 December 2012.

B15 Earnings per share

(i) Basic earnings per ordinary share

	Current Year Quarter Ended 31 Dec 2012	Preceding Year Corresponding Quarter Ended 31 Dec 2011	Current Year To Date Ended 31 Dec 2012	Preceding Year Corresponding Period Ended 31 Dec 2011
Profit/(loss) attributable to owners (RM'000)	2,569	(2,183)	2,969	(3,697)
Weighted average number of ordinary shares in issue (net of treasury shares) ('000)	177,960	177,960	177,960	177,960
Basic earnings/(loss) per share (sen)	1.44	(1.23)	1.67	(2.08)

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.

B16 Realised and Unrealised Profits/Losses Disclosure

	As at 31/12/2012 RM'000	As at 30/6/2012 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	12,754	8,276
- Unrealised	50,362	8,064
	63,116	16,340
Add: Consolidation adjustments	43	43
Total group retained profits as per consolidated accounts	63,159	16,383

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)
EZZA HANIE BINTI ALIAS (LS 0009238)
Secretaries
Kuala Lumpur
26 February 2013