



Part A - EXPLANATORY 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 current financial year ending 30 June 2013.

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.

For its first MFRS financial statement that correspond with the financial year ending 30 June 2013, the Group has elected to apply the option to use its property, plant, and equipment’s fair valuation as its deemed cost in its opening MFRS Statement of Financial Position as at 1 July 2011 being the date of transition to MFRS . As such, the corresponding asset valuation reserve was adjusted into retained earnings on the MFRS transition date. The reconciliation disclosure is shown in paragraph A3 below.



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A3 Comparatives

The following comparative figures have been restated as if have always being applied due to the adoption of the MFRSs:

Reconciliation of Equity as at 1 July 2011 (being the date of transition)

	<-----Adjustments----->		
	Balance	MFRS 116	Restated Balance
	As at 1 July 2011	(NoteA2(a))	As at 1 July 2011
	RM'000	RM'000	RM'000
Asset revaluation reserve	42,336	(42,336)	-
Retained earnings	28,807	42,336	71,143

Reconciliation of Equity as at 30 June 2012 (being the previous financial close under FRS)

	<-----Adjustments----->		
	Balance	MFRS 116	Restated Balance
	As at 30 June 2012	(NoteA2(a))	As at 30 June 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 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 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.



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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.

A12 Subsequent material events

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

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 but not contracted for	21,160



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 March 2013, the Group recorded total revenue of RM124 million as compared to RM106 million in the preceding year's corresponding quarter. The increase in revenue is mainly due to higher sales volume by 25% as compared to the preceding year's corresponding quarter despite the lower selling price per ton.

The Group registered a profit before tax of RM2.1 million for the quarter as compared to loss before tax of RM1.5 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 March 2013, the Group recorded total revenue of RM124 million as compared to RM141 million in the immediate preceding quarter. The decrease in revenue is mainly due to lower sales volume by 13% as compared to the immediate preceding quarter. The Group posted a lower profit before tax of RM2.1 million in the current quarter as compared to a profit before tax of RM3.9 million in the immediate preceding quarter. The decrease in profit is mainly due to lower contribution margin per ton achieved as a result of higher material costs.

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 announced in January 2013 a new policy requiring domestic cold-rollers to purchase at least 50% of their HRC requirements from domestic source(s). Whilst the Group expect further announcement from the Government of related policies to plug import loopholes on CRCs, the Group 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 significantly higher domestic HRC costs utilized in the production of CRC to customers;
- its ability to continue to source commercially viable blast furnace iron ore based HRC by obtaining sufficient import duty exemption from the Government; and
- the Government's ability to create a more leveled-playing field by plugging import loopholes on CRCs and by curtailing unfair pricing.

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 Mar 2013 RM'000	Preceding Year Corresponding Quarter Ended 31 Mar 2012 RM'000	Current Year To Date Ended 31 Mar 2013 RM'000	Preceding Year Corresponding Period Ended 31 Mar 2012 RM'000
Depreciation	2,697	2,754	8,160	8,104
Interest income	(89)	(192)	(262)	(379)
Interest expense	2,253	2,025	6,001	5,630
Foreign exchange loss/(gain)	(253)	(865)	303	(702)
Derivatives loss/(gain)	136	(638)	164	(514)

B6 Taxation

Taxation comprises :

	Current Year Quarter Ended 31 Mar 2013 RM'000	Preceding Year Corresponding Quarter Ended 31 Mar 2012 RM'000	Current Year To Date Ended 31 Mar 2013 RM'000	Preceding Year Corresponding Period Ended 31 Mar 2012 RM'000
Current tax expense				
Current period	(49)	(75)	(189)	(204)
Deferred tax (expense)/income				
Current period	(576)	1,271	(1,536)	2,437
Under accrual in prior year	(113)	-	(113)	-
	<u>(738)</u>	<u>1,196</u>	<u>(1,838)</u>	<u>2,233</u>

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 March 2013 (with last FY as comparison) were as follows:

	As at 31/3/2013 RM'000	As at 30/6/2012 RM'000
<u>Short-term borrowings:</u>		
Secured	140,252	170,126
<u>Long-term borrowings:</u>		
Secured	6,723	8,919
Total borrowings	146,975	179,045

The Group's currency exposure of borrowings as at 31 March 2013 (with last FY as comparison) were as follows:

	As at 31/3/2013 RM'000	As at 30/6/2012 RM'000
- Ringgit Malaysia	125,980	144,702
- US Dollar	9,018	19,417
- Euro	11,977	14,926
Total borrowings	146,975	179,045

The gearing ratio of the Group as at 31 March 2013 is 0.57 times, as compared to FY ended 30 June 2012 at 0.71 times.

The Group's borrowings have been paid down by RM32 million since the last Financial Year, in accordance to schedule. The Group has applied to replenish its debt lines and has obtained (after this interim reporting period) an offer for fresh trade lines amounting to RM35 million.

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 future repayment of borrowings denominated in Euro and purchases of raw materials denominated in US Dollar. The notional principal amount of the forward foreign currency exchange contract was Euro 0.6 million (approximately RM2.4 million) and USD 6.4 million (approximately RM19.9 million) respectively. The net fair value loss of the forward foreign currency exchange contracts amounting to RM164,000 is determined by way of marking-to-market rates on the notional amounts as at 31 March 2013.



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

B11 Outstanding Derivatives (continued)

As at 31 March 2013, 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	2,417	
- Less than 1 year		(9)
USD	20,008	
- Less than 1 year		(155)

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 which have extended FX lines to the Group. The associated Counter-Party risk is negligible.

(ii) Cash requirements of the derivatives

There is no cash movement from the Group to the counterparties when the Forward FX contracts are inception. 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 RM7.2 million being security for inbound supply of goods and services.



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

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 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 gave witness-statements to the High Court of Sabah and Sarawak. The continuation of the trial was fixed on 17 to 19 April 2013. On 19 April 2013, the Company’s solicitor was notified by the Defendant’s solicitor that they have been instructed by the Defendant to make another offer for an amicable out-of-court settlement with the Company. The Company did not accept the said offer for an amicable out-of-court settlement. The continuation of the trial is fixed on 20 to 21 June 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 March 2013.



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

B15 Earnings per share

(i) Basic earnings per ordinary share

	Current Year Quarter Ended 31 Mar 2013	Preceding Year Corresponding Quarter Ended 31 Mar 2012	Current Year To Date Ended 31 Mar 2013	Preceding Year Corresponding Period Ended 31 Mar 2012
Profit/(loss) attributable to owners (RM'000)	1,368	(330)	4,337	(4,027)
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)	0.77	(0.19)	2.44	(2.26)

(ii) Diluted earnings per ordinary share

This is not applicable to the Group.

B16 Realised and Unrealised Profits/Losses Disclosure

	As at 31/3/2013 RM'000	As at 30/6/2012 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	14,717	8,276
- Unrealised	49,767	52,104
	<u>64,484</u>	<u>60,380</u>
Add: Consolidation adjustments	43	43
	<u>64,527</u>	<u>60,423</u>
Total group retained profits as per consolidated accounts	<u>64,527</u>	<u>60,423</u>

By order of the Board

LILY YIN KAM MAY (MAICSA 0878038)

Secretary
Kuala Lumpur
30 May 2013