

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

**PART A: EXPLANATORY NOTES AS PER MFRS 134**

**A1. Basis of preparation**

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and Paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements have been prepared on the basis of consolidating the results of the subsidiary companies during the three months period under review using the acquisition method of accounting. The interim financial statements are to be read in conjunction with the Company audited annual financial statements for the financial year ended 31 December 2011. 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.

The accounting principles and bases used are consistent with those previously adopted in the preparation of the financial statements of CSC Steel Holdings Berhad ("CHB"), and its subsidiary companies ("Group").

Commencing January 1, 2012 the Group has adopted Malaysia Accounting Standard Board approved accounting framework and applied MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* (MFRS 1). The adoption of the MFRS does not have significant financial impact on the interim financial statements of CHB and the Group.

**A2. Qualification of Annual Financial Statements**

There has not been any qualification made by the auditors on the annual financial statements of the Group for the financial year ended 31 December 2011.

**A3. Seasonal and cyclical factors**

The Group's business operation results were not materially affected by any major seasonal or cyclical factors.

**A4. Unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows**

Save and except for a charge of RM2,477,636.91 in the income statement as disclosed in note A12, there were no other items of unusual nature and amount affecting assets, liabilities, equity, net income or cash flows.

**A5. Material changes in estimates**

There was no material changes in estimates of amounts reported in the current quarter under review.

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

**A6. Issuances and repayment of debt and equity securities**

There were no issuance and repayment of debt and equity securities during the quarter under review.

**A7. Dividend Paid**

There was no dividend paid during the quarter under review.

**A8. Segment information**

Segmental information in respect of the Group's business segments is as follows:-

|                                 | <u>Steel coils*</u><br>RM'000 | <u>Others</u><br>RM'000 | <u>Consolidation<br/>adjustment</u><br>RM'000 | <u>Current<br/>year<br/>to date</u><br>RM'000 |
|---------------------------------|-------------------------------|-------------------------|-----------------------------------------------|-----------------------------------------------|
| Revenue from external customers | 1,126,994                     | -                       | -                                             | 1,126,994                                     |
| Inter-segment revenue           | -                             | 4,918                   | (4,918)                                       | -                                             |
| Total revenue                   | <u>1,126,994</u>              | <u>4,918</u>            | <u>(4,918)</u>                                | <u>1,126,994</u>                              |
| Segment result                  | <u>29,643</u>                 | <u>532</u>              | <u>(272)</u>                                  | <u>29,903</u>                                 |

\*Steel coils – cold rolled, galvanised & pre-painted galvanised steel coils

**A9. Valuation of property, plant and equipment**

The property, plant and equipment are stated at cost less accumulated depreciation and impairment losses except for freehold land which is stated at cost. There was no revaluation of property, plant and equipment for the current quarter and financial year to date.

**A10. Material events subsequent to the end of the interim period**

There was no material event subsequent to the end of the current quarter under review

**A11. Changes in the composition of the Group**

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

**A12. Changes in contingent liabilities**

CSC Steel Sdn Bhd, a wholly owned subsidiary company of the Group, had in the second quarter of 2012 submitted an Appeal to the Ministry of Finance (MOF) under Section 14A of the Customs Act

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

1967 ('the Act') for full remission of customs duty of RM8,258,789.69 imposed by Customs Malacca for alleged contravention of the conditions of duty exemption approval for CSC Steel Sdn Bhd's importation of raw material from November 2009 to March 2010. The MOF had via its letter dated 12<sup>th</sup> December 2012 approved a remission of 70% of the customs duty imposed by Customs Malacca without stating the reasons why only 70% remission was given. Subsequently, a further appeal on this matter has been submitted to the MOF. Meanwhile, 30% of the aforesaid customs duty amounted to RM2,477,636.91 has been charged to the income statement for the quarter under review.

**A13. Capital commitments**

|                                 | RM'000 |
|---------------------------------|--------|
| Approved and contracted for     | 4,241  |
| Approved but not contracted for | 16,829 |
|                                 | <hr/>  |
|                                 | 21,070 |
|                                 | <hr/>  |

**PART B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES**

**B1. Review of performance**

The Group achieved revenue and profit before tax for the current quarter of RM269.6 million and RM7.4 million respectively. This represents a decrease of RM7.3 million or 2.6% lower in revenue than that of its corresponding quarter. Despite the lower revenue, profit before tax increased significantly from RM0.3 million in the corresponding quarter to RM7.4 million this quarter.

The decrease in revenue is primarily due to significantly lower selling prices of our steel products mitigated by higher sales volume. However, the much improved profit before tax was due to significantly lower raw materials cost.

**B2. Variation of results against preceding quarter**

Group's revenue has decreased by 12.1%, from RM306.6 million in the preceding quarter to RM269.6 million this quarter. The decrease in revenue is primarily due to both decrease in selling prices and sales volume of our steel products. As a result, Group's profit before tax decreased by RM0.6 million to register RM7.4 million this quarter. The lower profit before tax is due to higher operating expenses incurred during the quarter under review.

**B3. Current year prospects**

Under the stiff competition from China, Korea, Japan, etc., in the Asian steel market, there was a significant decrease in export volume of the Group last year. Although with 6.6% drop in sales revenue in 2012 compared to 2011, the Group's profit margin rate was still a little bit higher than 2011 because of comparatively lower average cost of raw materials.

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

Since January 2013, it seems that the market sentiment has recovered as there is an active re-stocking in recent time. However, the prices of raw materials such as iron ore and coking coal have also moved upwards, resulting in the prices of hot rolled coil to be higher in early 2013. In order to offset the increasing raw material costs, the Group hopes to increase the selling prices so as to deflect the higher production costs. Meanwhile the Government has issued the “Statement on the Iron & Steel Industry” on 22<sup>nd</sup> January 2013 as part of the restructuring of the steel industry, some measures against the imports of certain steels will be taken this year. Once all domestic steel players comply with the Government’s mandatory standards, the Group’s products will be more competitive and this positive development should bring better results for 2013.

**B4. Variance of actual and forecast profit**

Not applicable as the Group does not make any profit forecast for current financial year.

**B5. Tax expense/ (income)**

|                | <b>Current<br/>quarter<br/>RM'000</b> | <b>Current<br/>year-to-date<br/>RM' 000</b> |
|----------------|---------------------------------------|---------------------------------------------|
| Current:       |                                       |                                             |
| - Income tax   | 2,325                                 | 11,919                                      |
| - Deferred tax | (555)                                 | (2,736)                                     |
|                | 1,770                                 | 9,183                                       |
| Prior year:    |                                       |                                             |
| - Income tax   | -                                     | 596                                         |
| - Deferred tax | -                                     | (274)                                       |
|                | -                                     | 322                                         |
| Total          | <u>1,770</u>                          | <u>9,505</u>                                |

The effective tax rate for the current period was lower than the statutory income tax rate of 25% due mainly to the following:

- the tax effect of income not taxable in determining taxable profit; and
- the tax effect of double deduction on import insurance.

However, the reduction is partly offset by expenses not deductible for tax purposes.

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

**B6. Status of corporate proposal announced**

An announcement was made on 9<sup>th</sup> November 2012 whereby CHB has signed an agreement with Tatt Giap Group Berhad for the acquisition of a 20% equity stake in Tatt Giap Steel Centre Sdn Bhd (TGSC). This exercise has yet to be completed and is pending the fulfillment of the terms and conditions of the agreement by TGSC. Please refer to <http://www.bursamalaysia.com/market/listed-companies/company-announcements/1114445> for full details of the announcement.

**B7. Details of treasury shares**

The Company has begun buying back its own shares following the mandate obtained in the last AGM. As at the end of the reporting quarter, the status of the share buy-back is as follows:-

|                                           | Current<br>Year-to-Date<br>----- | Accumulated<br>Total<br>----- |
|-------------------------------------------|----------------------------------|-------------------------------|
| Description of shares purchased:          | Ordinary share of RM1.00 each:   |                               |
| Number of shares purchased:               | 484,100                          | 7,284,100                     |
| Number of shares cancelled:               | Nil                              | Nil                           |
| Number of shares held as treasury shares: | 484,100                          | 7,284,100                     |
| Number of treasury shares resold:         | Nil                              | Nil                           |

**B8. Group borrowings**

The Group's borrowings as at the end of the reporting quarter are as follows:

|                                                          | Payable within<br>12 months<br>RM'000 | Payable after<br>12 months<br>RM'000 |
|----------------------------------------------------------|---------------------------------------|--------------------------------------|
| <b>RM denominated borrowings (Secured)</b>               |                                       |                                      |
| Bank overdrafts, trust receipts and bankers' acceptances | 851                                   | -                                    |

**B9. Changes in material litigation**

Neither CHB nor any of its subsidiaries is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or any of its subsidiaries.

**B10. Dividend recommended by Directors**

The Board of Directors has recommended a final single tier system of dividend of 5% or 5 sen per share and a special single tier system of dividend of 2% or 2 sen per share for the financial year ended 2012 which are subject to the approval of the shareholders in the forthcoming annual general meeting.

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

The recommendation complies with the Company's dividend policy.

**B11. Earnings per share**

The basic earnings per share and diluted earnings per share for the current quarter and cumulative year to date are computed as follows:-

|                                                                     | Current<br>Quarter | Current Year<br>To-date |
|---------------------------------------------------------------------|--------------------|-------------------------|
| Profit/(Loss) attributable to equity holders of the parent (RM'000) | <u>5,621</u>       | <u>28,006</u>           |
| Weighted average number of shares in issue ('000)                   | <u>372,922</u>     | <u>373,123</u>          |
| Basic earnings/(loss) per share (sen)                               | <u>1.51</u>        | <u>7.51</u>             |
| Diluted earnings/(loss) per share (sen)                             | <u>1.51</u>        | <u>7.51</u>             |

**B12. Notes to the Consolidated Statement of Comprehensive Income**

|                                                                | <b>Current<br/>Quarter<br/>Ended<br/>31-Dec-12<br/>RM'000</b> | <b>Financial<br/>Year<br/>To Date<br/>31-Dec-12<br/>RM'000</b> |
|----------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------|
| a) Other income                                                | 158                                                           | 596                                                            |
| b) Provision for write off of receivable                       | -                                                             | -                                                              |
| c) Provision for write off of inventories                      | -                                                             | -                                                              |
| d) Gain/(loss) on disposal of quoted investments or properties | -                                                             | -                                                              |
| e) Impairment of assets                                        | 26                                                            | 249                                                            |
| f) Foreign exchange gain or (loss)                             | 2,236                                                         | 7,582                                                          |
| g) Gain/(loss) on derivatives                                  | -                                                             | -                                                              |
| h) Exceptional items                                           | -                                                             | -                                                              |

**Notes on the Quarterly Report – Twelve Months Ended 31 December 2012**

**B13. Disclosure of realised and unrealised profits**

|                                      | Current financial<br>period/financial<br>year<br>(RM'000) | As at end of<br>last financial<br>year<br>(RM'000) |
|--------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Total retained earnings of the Group |                                                           |                                                    |
| - Realised                           | 432,879                                                   | 434,994                                            |
| - Unrealised                         | <u>(38,223)</u>                                           | <u>(42,220)</u>                                    |
|                                      | 394,656                                                   | 392,774                                            |
| Less: Consolidation adjustment       | <u>(26,032)</u>                                           | <u>(26,032)</u>                                    |
| As per consolidated account          | <u><u>368,624</u></u>                                     | <u><u>366,742</u></u>                              |

By order of the Board  
Mr. Chen, High-Pinn  
Group Managing Director  
5<sup>th</sup> February 2013