

**Notes on the Quarterly Report – Nine Months Ended 30 September 2013**

**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 2012. 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") except during the financial period, the Group has adopted the following applicable new and revised Malaysia Financial Reporting Standards ("MFRSs") issued by the Malaysian Accounting Standards Board that are mandatory for the current financial period:-

- MFRS 101 Presentation of Financial Statements (Amendments relating to Presentation of Items of Other Comprehensive Income)
- MFRS 7 Financial Instruments: Disclosures [Amendments relating to Mandatory Effective Date of MFRS 9 and Transition Disclosures (IFRS 9 issued by IASB in November 2009 and October 2010 respectively)]
- MFRS 7 Financial Instruments: Disclosures (Amendments relating to Disclosures - Offsetting Financial Assets and Liabilities)
- MFRS 10 Consolidated Financial Statements
- MFRS 10 Consolidated Financial Statements (Amendments relating to Transition Guidance)
- MFRS 13 Fair Value Measurement
- Amendments to MFRSs contained in the document entitled Annual Improvements 2009-2011 cycle

The adoption of the above new and revised MFRSs does not have significant financial impact on the interim financial statements of CHB and the Group.

At the date of authorisation for issue of these interim financial statement, the new and revised Standards which were in issue but not yet effective and not early adopted by CHB and the Group are listed below:

- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2009)
- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2010)
- MFRS 132 Financial Instruments: Presentation (Amendments relating to Offsetting Financial Assets and Financial Liabilities)

The directors anticipate that abovementioned Standards will be adopted in the annual financial statements of CHB and the Group when they become effective and that the adoption of these Standards will have no material impact on the financial statements of CHB and the Group in the period of initial application.

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**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 2012.

**A3. Seasonal and cyclical factors**

The Group's business operation results are 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**

There is no item of unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows.

**A5. Material changes in estimates**

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

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

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

**A7. Dividend Paid**

During the quarter under review 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 were paid on 11<sup>th</sup> July 2013 to the Company's shareholders whose names appeared on the Register of Members at the close of business on 28<sup>th</sup> June 2013.

**A8. Segment information**

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

	<u>Steel coils*</u> RM'000	<u>Others</u> RM'000	<u>Consolidation adjustment</u> RM'000	<u>Current year to date</u> RM'000
Revenue from external customers	858,579	41	-	858,620
Inter-segment revenue	-	3,688	(3,688)	-
Total revenue	<u>858,579</u>	<u>3,729</u>	<u>(3,688)</u>	<u>858,620</u>
Segment result	<u>30,710</u>	<u>740</u>	<u>(243)</u>	<u>31,207</u>

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

As at the end of the reporting quarter the Group's bio-coal plant has yet to commence commercial production.

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

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses except for freehold land which is stated at cost. There is 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 is no material event subsequent to the end of the quarter under review

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

There is no change in the composition of the Group during the quarter under review.

**A12. Changes in contingent liabilities**

There is no contingent liability incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

**A13. Capital commitments**

	RM'000
Approved and contracted for	5,257
Approved but not contracted for	19,768
	<u>25,025</u>

**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 RM257.5 million and RM3.8 million respectively. This represents a reduction of RM49.2 million or 16.0% lower in revenue than that of its corresponding quarter. As a result of the lower revenue, profit before tax decrease by RM4.2 million from RM8.0 million in the corresponding quarter.

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The significant decrease in revenue is primarily due to the significant reduction in sales volume of some of our steel products and significant drop in their selling prices. The lower profit before tax is due to the aforementioned factors, higher distribution expenses as a result of greater export volume and the weakened Ringgit as a result of the downgrade watch by Fitch Ratings on Malaysia.

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

The Group's revenue has decreased by 11.0%, from RM289.1 million in the preceding quarter to RM257.5 million this quarter. The decrease in revenue is primarily due to the decrease in sales volume of our steel products and significant decreases in their selling prices. As a result of the lower revenue and the weakened Ringgit as a result of the downgrade watch by Fitch Ratings on Malaysia, the Group's profit before tax decreased significantly by RM6.4 million to register RM3.8 million this quarter.

**B3. Current year prospects**

In October this year, the IMF adjusted the global GDP growth from 3.2% to 2.9% for 2013, and in addition, the economic growth in China is slowing down while its GDP this year will be 7.6%, a decline from the formerly estimated 7.8%, which will affect notably the commodity exporters among the emerging markets and developing economies.

The economic growth of ASEAN-5, namely, Indonesia, Malaysia, Philippines, Thailand, and Vietnam, in 2013 is expected to drop to 5.0% from 5.6%. In Malaysia, Bank Negara revised the GDP growth downwards for this year from the range of 5% - 6% to 4.5% - 5% on the uncertain outlook.

The World Steel Association (WSA) in this October forecast that global apparent steel use will increase by 3.1% in 2013, and 3.3% in 2014. But major emerging economies have not performed as expected. These factors have led to a lower steel demand performance than predicted across the world. And the world crude steel production in September for the 65 countries reporting to the WSA was 133 million tons showing an increase of 6.1% year-on-year.

The steel demand in China 2013 is forecasted to grow by 6.0%, but the oversupply is still a serious topic. As reported for September, the supply reached 65.4 million tons, up by 11% year-on-year. The supply-demand situation is difficult to improve in case China's output of crude steel remains high.

As influenced by the global economic slowdown and the excess steel supply, the steel price was depressed in ASEAN region. The domestic sales of the Group in terms of volume and price in the 3<sup>rd</sup> quarter are lower than that in the 2<sup>nd</sup> quarter. Regarding the overseas market, especially in Indonesia, is liable to be fluctuated by the international currency wave such as weak Indonesia rupiah which reduced the steel import from the Group.

The prospect in fourth quarter will be similar to the previous one if there is no significant change in steel market in near future. The Group is still faced with the thin margin in this competitive market, however, the Group has taken steps aimed at reducing the production cost and increasing the sale volume and profit.

Besides the uncertain circumstances, the Group is cautiously optimistic to achieve a positive result in 2013.

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**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 quarter RM'000</b>	<b>Current year-to-date RM' 000</b>
Current:		
- Income tax	1,678	12,496
- Deferred tax	(763)	(3,341)
	915	9,155
Prior year:		
- Income tax	(48)	(48)
- Deferred tax	-	20
	(48)	(28)
Total	<u>867</u>	<u>9,127</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.

**B6. Status of corporate proposal announced**

There is no corporate proposal announced during the quarter under review.

**B7. Details of treasury shares**

As at the end of the reporting quarter, the status of the share buy-back is as follows:-

	Current Year-to-Date	Accumulated Total
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Description of shares purchased:	Ordinary share of RM1.00 each:	
Number of shares purchased:	799,100	8,083,200

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Number of shares cancelled:	Nil	Nil
Number of shares held as treasury shares:	799,100	8,083,200
Number of treasury shares resold:	Nil	Nil

**B8. Group borrowings**

There are no borrowings as at the end of the reporting quarter.

**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**

There is no dividend recommended by directors during the quarter under review.

**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 Quarter	Current Year To-date
Profit/(Loss) attributable to equity holders of the parent (RM'000)	<u>2,936</u>	<u>27,986</u>
Weighted average number of shares in issue ('000)	<u>371,938</u>	<u>372,088</u>
Basic earnings/(loss) per share (sen)	<u>0.79</u>	<u>7.52</u>
Diluted earnings/(loss) per share (sen)	<u>0.79</u>	<u>7.52</u>

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

	<b>Current</b>		<b>Financial</b>
	<b>Quarter</b>		<b>Year</b>
	<b>Ended</b>		<b>To Date</b>
	<b>30-Sep-13</b>		<b>31-Dec-13</b>
	<b>RM'000</b>		<b>RM'000</b>
a) Other income	223		709
b) Provision for write off of receivable	-		-
c) Provision for write off of inventories	-		9,416
d) Gain/(loss) on disposal of quoted investments or properties	-		-
e) Impairment of assets	-		-
f) Foreign exchange gain or (loss)	2,141		5,983
g) Gain/(loss) on derivatives	-		-
h) Exceptional items	-		-

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

	<b>Current financial period/financial year (RM'000)</b>	<b>As at end of last financial year (RM'000)</b>
Total retained earnings of the Group		
- Realised	434,959	432,880
- Unrealised	(38,352)	(38,223)
	<u>396,607</u>	<u>394,657</u>
Less: Consolidation adjustment	(26,032)	(26,032)
As per consolidated account	<u><u>370,575</u></u>	<u><u>368,625</u></u>

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