

Notes on the Quarterly Report – Six Months Ended 30 June 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.

Notes on the Quarterly Report – Six Months Ended 30 June 2013

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

There is 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> 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	601,120	41	-	601,161
Inter-segment revenue	-	2,459	(2,459)	-
Total revenue	<u>601,120</u>	<u>2,500</u>	<u>(2,459)</u>	<u>601,161</u>
Segment result	<u>29,074</u>	<u>578</u>	<u>(151)</u>	<u>29,501</u>

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

Notes on the Quarterly Report – Six Months Ended 30 June 2013

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 current quarter under review

A11. Changes in the composition of the Group

Following the completion of the acquisition of a 20% equity stake in Tatt Giap Steel Centre Sdn Bhd (TGSC) on 19th April 2013, TGSC is now an associated company of the Group. Save for the aforesaid, there is no other changes in the composition of the Group during the current 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	5,482
Approved but not contracted for	19,768
	<u>25,250</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 RM289.1 million and RM10.2 million respectively. This represents a reduction of RM19.5 million or 6.3% lower in revenue than that of its corresponding quarter. As a result of the lower revenue, profit before tax decrease by RM4.1 million from RM14.4 million in the corresponding quarter.

Notes on the Quarterly Report – Six Months Ended 30 June 2013

The decrease in revenue is primarily due to the reduction in sales volume of all our steel products and marginal drop in their selling prices. The deterioration in profit before tax is due to the significant write-down of inventories of RM9.4 million as a result of valuing inventories at the lower of cost and net realizable value.

B2. Variation of results against preceding quarter

The Group's revenue has decreased by 7.3%, from RM312.0 million in the preceding quarter to RM289.1 million this quarter. The decrease in revenue is primarily due to the significant decrease in sales volume of our steel products albeit at higher selling prices. As a result of the lower revenue and the significant write-down of inventories of RM9.4 million due to valuing inventories at the lower of cost and net realizable value, the Group's profit before tax decrease significantly by RM12.8 million to register RM10.2 million this quarter.

B3. Current year prospects

The IMF had recently reported that the Federal Reserve of United States is looking at exiting the Monetary Quantitative Easing Policy. This is expected to slow down the global economic expansion in the coming months.

In China, the economic growth in the 2nd quarter is slightly lower than the 1st quarter; local consumption and export for 3rd quarter still remain stable. As a result, China is optimistic it can achieve a 7.5% target in annual growth. However, the over-supply of steel in China's market remains serious. If China's steel exports do not decrease in the coming months then steel prices will be suppressed.

The economic growth of ASEAN is expected to drop to 5.6% from the previous year's 5.9%. Similarly Malaysia's economic growth is also expected to decline from 5.6% to 5.1%, or even worse to 4.5% due to the slow-down in growth of emerging economies and crude oil and palm oil market downturn. In addition, the government policy to tighten household loan will affect the domestic steel consumption.

There are signs that international steel prices have stabilised and strengthened, but the demand is improving slowly.

The domestic sales of the Group, in both volume and price, had hit a peak in the early part of the second quarter and subsequently weakened sharply at the end of the second quarter. As a result, sales volume and price dropped drastically. However, we expect the sales volume in third quarter to recover steadily but with thin margin.

For the export sales, Indonesian steel market is still our main focus due to the relatively strong demand compared to the rest of the ASEAN countries. However, we are still facing stiff competition from Chinese, Indian and Korean steel mills. As such we are expecting profit margin to remain thin. Barring any unforeseen circumstances, the Group is cautiously optimistic that the rest of the year will be profitable.

Notes on the Quarterly Report – Six Months Ended 30 June 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)

	Current quarter RM'000	Current year-to-date RM' 000
Current:		
- Income tax	6,162	10,818
- Deferred tax	(3,612)	(2,723)
	2,550	8,094
Prior year:		
- Income tax	-	-
- Deferred tax	166	166
	166	166
Total	<u>2,716</u>	<u>8,260</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

An announcement was made on 9th November 2012 whereby CHB had 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 was completed on 19th April 2013 with the payment of the balance purchase price. Please refer to <http://www.bursamalaysia.com/market/listed-companies/company-announcements/1114445> for full details of the announcement.

Notes on the Quarterly Report – Six Months Ended 30 June 2013

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 -----
Description of shares purchased:	Ordinary share of RM1.00 each:	
Number of shares purchased:	766,400	8,050,500
Number of shares cancelled:	Nil	Nil
Number of shares held as treasury shares:	766,400	8,050,500
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

The final single tier system of dividend of 5% or 5 sen per share and the special single tier system of dividend of 2% or 2 sen per share for the financial year ended 2012 as recommended by the Directors were approved by the shareholders in the Ninth Annual General Meeting of the company held on 20 June 2013. These dividends were paid to the shareholders on 11 July 2013.

Notes on the Quarterly Report – Six Months Ended 30 June 2013

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>7,525</u>	<u>25,050</u>
Weighted average number of shares in issue ('000)	<u>372,007</u>	<u>372,164</u>
Basic earnings/(loss) per share (sen)	<u>2.02</u>	<u>6.73</u>
Diluted earnings/(loss) per share (sen)	<u>2.02</u>	<u>6.73</u>

B12. Notes to the Consolidated Statement of Comprehensive Income

	Current Quarter Ended 30-Jun-13 RM'000	Financial Year To Date 31-Dec-13 RM'000
a) Other income	302	486
b) Provision for write off of receivable	-	-
c) Provision for write off of inventories	9,416	9,416
d) Gain/(loss) on disposal of quoted investments or properties	-	-
e) Impairment of assets	-	-
f) Foreign exchange gain or (loss)	2,602	3,842
g) Gain/(loss) on derivatives	-	-
h) Exceptional items	-	-

Notes on the Quarterly Report – Six Months Ended 30 June 2013

B13. Disclosure of realised and unrealised profits

	Current financial period/financial year (RM'000)	As at end of last financial year (RM'000)
Total retained earnings of the Group		
- Realised	428,193	432,880
- Unrealised	<u>(34,522)</u>	<u>(38,223)</u>
	393,671	394,657
Less: Consolidation adjustment	<u>(26,032)</u>	<u>(26,032)</u>
As per consolidated account	<u><u>367,639</u></u>	<u><u>368,625</u></u>

By order of the Board
Mr. Chen, High-Pinn
Group Managing Director
2nd August 2013