

Notes on the Quarterly Report – Twelve Months Ended 31 December 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 – Twelve Months Ended 31 December 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 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> 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	1,141,687	41	-	1,141,728
Inter-segment revenue	-	4,918	(4,918)	-
Total revenue	<u>1,141,687</u>	<u>4,959</u>	<u>(4,918)</u>	<u>1,141,728</u>
Segment result	<u>30,265</u>	<u>864</u>	<u>(363)</u>	<u>30,766</u>

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

Notes on the Quarterly Report – Twelve Months Ended 31 December 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 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	15,781
Approved but not contracted for	66,886
	<u>82,667</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 RM283.1 million and RM1.3 million respectively. This represents an increase of RM13.5 million or 5.0% higher in revenue than that of its corresponding quarter. Despite the increase in revenue, profit before tax decreased substantially by RM6.1 million from RM7.4 million in the corresponding quarter. The increase in revenue is primarily due to the increase in sales volume of some of our steel products. However, the lower profit before tax is due to their significantly lower selling prices.

Notes on the Quarterly Report – Twelve Months Ended 31 December 2013

With regards to our pilot bio-coal manufacturing plant, the plant has yet to commence commercial production as our parent company's R&D team involved in the development of this plant is still grappling with some serious technical issues to be resolved.

B2. Variation of results against preceding quarter

The Group's revenue has increased by 10.0%, from RM257.5 million in the preceding quarter to RM283.1 million this quarter. The increase in revenue is primarily due to the increase in sales volume of our steel products despite marginally lower selling prices. In spite of higher revenue, the Group's profit before tax decreased by RM2.5 million to register RM1.3 million this quarter as a result of lower selling prices.

B3. Current year prospects

In January 2014, the IMF said the global GDP growth will be higher than the estimated 2.9% for 2014, and the World Bank also raised its global growth forecasts to 3.2% this year, compared with a June projection of 3.0% and up from 2.4% in 2013. The bank sees a global expansion of 3.4% in 2015, compared with 3.3% predicted in June. The easing of austerity policies in EU supports the recovery, and boosts developing markets' exports this year.

The GDP growth forecasted for the richest nations was raised to 2.2% from 2% which partially reflects improvement in the euro area, together with the U.S. ahead of developed peers by growing twice as fast as Japan. But the forecast for developing markets was cut to 5.3% from 5.6%, lowered its forecast for China this year to 7.7% from 8%, and 4.8% for Malaysia in 2014, 4.9% both in 2015 and 2016.

Moody's Analytics forecasted, the economic revival in the US and Europe, upbeat data from Japan, will push GDP growth in Asean economies while GDP growth for ASEAN-5 will be 5.51 % in 2014.

According to a Financial Times poll of 15 steel analysts, the global steel industry is expected to make a recovery in 2014, the world production of steel will rise by 3.6%, with steel growth finally returning to Europe after bottoming out last year. The world crude steel production in November 2013 for the 65 countries reporting to the WSA was 127 million tons also showing an increase of 3.6% year-on-year.

The steel apparent consumption of 2014 in China forecasted by CISA(China Iron and Steel Association) will grow 3.1% to 750 million tons compared with 2013. But Chinese government authority has reiterated environmental protection appeal for cutting steel output and coal consumption to battle air pollution. For 2014, Hebei province plans to remove 15 million tons/year of crude steel capacity. Anyhow, China's steel consumption has entered a bottleneck and steel output is going to be limited for year 2014. As a result of excess steel supply cutting in China, ASEAN steel market is expected to be more stable than last year.

The sales volume of the Group has increased in 4th quarter of 2013 as compared to previous quarter, faced with the thin margin in this competitive market. However, the prospect of 1st quarter will be optimistic. The Group has taken steps aimed at reducing production cost and

Notes on the Quarterly Report – Twelve Months Ended 31 December 2013

increasing sale volume and profit. Besides the uncertain circumstances, the Group is cautiously optimistic to achieve a positive result in 2014.

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	2,325	14,821
- Deferred tax	(2,069)	(5,410)
	256	9,411
Prior year:		
- Income tax	-	(48)
- Deferred tax	-	20
	-	(28)
Total	<u>256</u>	<u>9,383</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.

Notes on the Quarterly Report – Twelve Months Ended 31 December 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:	799,100	8,083,200
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

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 2013 which are subject to the approval of the shareholders in the forthcoming annual general meeting.

The recommendation complies with the Group's dividend policy.

Notes on the Quarterly Report – Twelve Months Ended 31 December 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>1,064</u>	<u>29,050</u>
Weighted average number of shares in issue ('000)	<u>371,917</u>	<u>372,045</u>
Basic earnings/(loss) per share (sen)	<u>0.29</u>	<u>7.81</u>
Diluted earnings/(loss) per share (sen)	<u>0.29</u>	<u>7.81</u>

B12. Notes to the Consolidated Statement of Comprehensive Income

	Current Quarter Ended 31-Dec-13 RM'000	Financial Year To Date 31-Dec-13 RM'000
a) Other income	211	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)	1,904	7,887
g) Gain/(loss) on derivatives	-	-
h) Exceptional items	-	-

Notes on the Quarterly Report – Twelve Months Ended 31 December 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	433,970	432,880
- Unrealised	<u>(36,299)</u>	<u>(38,223)</u>
	397,671	394,657
Less: Consolidation adjustment	<u>(26,032)</u>	<u>(26,032)</u>
As per consolidated account	<u><u>371,639</u></u>	<u><u>368,625</u></u>

By order of the Board
Mr. Chen, Chung-Te
Group Managing Director
21 February 2014