

**Notes on the Quarterly Report – Three Months Ended 31 March 2014**

**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 2013. 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:-

- Amendment to MFRS 127 Consolidated and Separate Financial Statements (Amendments relating to Investment Entities);
- Amendments to MFRS 132 Financial Instruments: Presentation (Amendments relating to Offsetting Financial Assets and Financial Liabilities);
- Amendments to MFRS 136 Impairment of Assets (Amendments relating to Recoverable Amount Disclosures for Non-Financial Assets).

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:

- Amendment to MFRS 3 Business Combinations;
- Amendment to MFRS 8 Operating Segments;
- Amendment to MFRS 10 Consolidated Financial Statements (Amendments relating to Investment Entities);
- Amendment to MFRS 13 Fair Value Measurement;
- Amendment to MFRS 116 Property, Plant and Equipment;
- Amendment to MFRS 119 Employee Benefits;
- Amendment to MFRS 124 Related Party Disclosures;
- Amendment to MFRS 138 Intangible Assets;
- Amendment to MFRS 140 Investment Properties.

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 – Three Months Ended 31 March 2014**

**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 2013.

**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><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 | 269,377                       | -                       | -   | 269,377                                       |
| Inter-segment revenue           | -                             | 1,229                   | (1,229)                                       | -   |
| Total revenue                   | <u>269,377</u>                | <u>1,229</u>            | <u>(1,229)</u>                                | <u>269,377</u>                                |
| Segment result                  | <u>(2,096)</u>                | <u>(8)</u>              | <u>(85)</u>                                   | <u>(2,189)</u>                                |

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

**Notes on the Quarterly Report – Three Months Ended 31 March 2014**

As at the end of the reporting quarter the Group's pilot 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     | 26,454        |
| Approved but not contracted for | 53,853        |
|                                 | <u>80,307</u> |

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

**B1. Review of performance**

The Group achieved revenue and loss before tax for the current quarter of RM269.4 million and RM0.5 million respectively. This represents a significant decrease of RM42.7 million or 13.7% lower in revenue than that of its corresponding quarter. The decrease in revenue is due to both the decrease in sales volume and selling prices of our steel products. As a result and exacerbated by increase in raw material costs, the Group suffered a loss before tax of RM0.5 million, a decrease of RM23.6 million from that if its corresponding quarter of RM23.1 million of profit before tax.

**Notes on the Quarterly Report – Three Months Ended 31 March 2014**

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 is still in the process of solving technical issues encountered.

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

The Group's revenue has decreased by 4.9%, from RM283.1 million in the preceding quarter to RM269.4 million this quarter. The decrease in revenue is primarily due to lower selling prices of all our steel products despite a marginal increase in sales volume. As a result and with a smaller drop in production cost than drop in selling prices, the Group suffered a loss before tax of RM0.5 million this quarter compared with a profit before tax of RM1.6 million in the previous quarter.

**B3. Current year prospects**

World Bank and IMF have made the adjustment on the forecast of global GDP growth, which basically indicating that the global GDP growth will strengthen moderately to 3.6% in 2014 (3.7% in previous forecast) and then rise to 3.9% in 2015.

One major impulse to global growth has come from the United States, which grew at 3.25% in the second half of 2013, much stronger than expected, on the back of stronger exports and domestic housing recovery. Europe is expected to bottom out, while the Japanese recovery will depend on the implementation of Abenomics in pushing domestic demand in the face of tax reforms.

World crude steel production for the 65 countries reporting to the World Steel Association was 141 million tons (Mt) in March 2014, an increase of 2.7% compare to March 2013. The Malaysian economy is expected to grow 4.9% in 2014, according to the World Bank's *East Asia Pacific Economic Update*. The report added that exports would increase, but higher debt servicing costs and ongoing fiscal consolidation would weigh on domestic demand.

However, the increase of natural gas price from 1<sup>st</sup> May 2014 by Gas Malaysia will bring big impact to the Malaysian steel industry. With the 20% price increase of natural gas, it would result in an additional cost of about RM130 million per year to the steel industry. Meantime, the increased in electricity rate earlier this year alone would result with extra cost of more than RM200 million per year to the steel industry and the industry would have difficulties in passing the increase in cost to end-users. As for the Group, the increased in electricity tariff and natural gas will directly increase the production cost by RM6 million per year. The steel industry is already facing fierce competition from imported steel products from all over the world and there has been severe influx of iron and steel materials through dubious means into the country (*source: Borneo Post online April 15<sup>th</sup> 2014 under the heading 'Gas price hike increases cost of doing business'*).

In term of sales, The Group has solidified its domestic market share in 1<sup>st</sup> quarter 2014, and is able to maintain the sales volume in weak demand in early quarter of the year. The coming quarters will be challenging, but The Group will monitor it closely to cope with the coming tough situation and stay to be one of the most competitive steel manufacturer in Malaysia.

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

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

**Notes on the Quarterly Report – Three Months Ended 31 March 2014**

**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   | 1,232                                 | 1,232                                       |
| - Deferred tax | (1,347)                               | (1,347)                                     |
|                | (115)                                 | (115)                                       |
| Prior year:    |                                       |   |
| - Income tax   | -                                     | -   |
| - Deferred tax | -                                     | -   |
|                | -                                     | -   |
| Total          | <u>(115)</u>                          | <u>(115)</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<br>Year-to-Date        | Accumulated<br>Total |
|---|--------------------------------|----------------------|
|   | -----                          | -----                |
| Description of shares purchased:          | Ordinary share of RM1.00 each: |                      |
| Number of shares purchased:               | 5,000                          | 8,088,200            |
| Number of shares cancelled:               | Nil                            | Nil                  |
| Number of shares held as treasury shares: | 5,000                          | 8,088,200            |
| Number of treasury shares resold:         | Nil                            | Nil                  |

**Notes on the Quarterly Report – Three Months Ended 31 March 2014**

**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 had recommended in their last meeting which was announced on 21<sup>st</sup> February 2014 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.

**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>(372)</u>       | <u>(372)</u>            |
| Weighted average number of shares in issue ('000)                   | <u>371,915</u>     | <u>371,915</u>          |
| Basic earnings/(loss) per share (sen)                               | <u>(0.10)</u>      | <u>(0.10)</u>           |
| Diluted earnings/(loss) per share (sen)                             | <u>(0.10)</u>      | <u>(0.10)</u>           |

**Notes on the Quarterly Report – Three Months Ended 31 March 2014**

**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>31-Mar-14</b> |  | <b>31-Mar-14</b> |
|  | <b>RM'000</b>    |  | <b>RM'000</b>    |
| a) Other income  | 255              |  | 255              |
| 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  | -                |  | -                |
| f) Foreign exchange gain or (loss)                             | 2,292            |  | 2,292            |
| g) Gain/(loss) on derivatives                                  | -                |  | -                |
| h) Exceptional items   | -                |  | -                |

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

|                                      | <b>Current financial<br/>period/financial<br/>year<br/>(RM'000)</b> | <b>As at end of<br/>last financial<br/>year<br/>(RM'000)</b> |
|--------------------------------------|---|--|
| Total retained earnings of the Group |   |  |
| - Realised                           | 429,264   | 434,270  |
| - Unrealised                         | (31,666)  | (36,299)   |
|                                      | <u>397,598</u>  | <u>397,971</u>   |
| Less: Consolidation adjustment       | (26,032)  | (26,032)   |
| As per consolidated account          | <u><u>371,566</u></u>   | <u><u>371,939</u></u>  |

By order of the Board  
Mr. Chen, Chung-Te  
Group Managing Director  
7<sup>th</sup> May 2014