

Notes on the Quarterly Report – Six Months Ended 30 June 2015

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 2014. 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").

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 2014.

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.

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A8. Segment information

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

	<u>Steel coils*</u> RM'000	<u>Technical fee</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	551,755	800	149	-	552,704
Inter-segment revenue	-	-	12,459	(12,459)	-
Total revenue	<u>551,755</u>	<u>800</u>	<u>12,608</u>	<u>(12,459)</u>	<u>552,704</u>
Segment result	<u>18,395</u>	<u>(440)</u>	<u>9,820</u>	<u>(9,267)</u>	<u>18,508</u>

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

As at the end of the reporting quarter the Group's pilot bio-coal plant has yet to commence commercial production. However, the company received technical fee for services provided.

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

Save and except for the disposal of a subsidiary company dealing in the production of bio-mass and bio-coal as announced recently, 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.

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A13. Capital commitments

	RM'000
Approved and contracted for	10,759
Approved but not contracted for	48,755
	<hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <u>59,514</u>

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

B1. Review of performance

The Group registered revenue and profit before tax for the current quarter of RM258.3 million and RM13.8 million respectively. This represents a decrease of RM4.9 million or 1.9% lower in revenue than that of its corresponding quarter. The decrease in revenue is primarily due to decreases in selling prices of all our steel products and marginally lower sales volume. In spite of the lower revenue, the Group recorded a profit before tax of RM13.8 million this quarter compared with a loss before tax of RM11.2 million suffered in the corresponding quarter. The significant improvement in profit is due to lower cost of production experienced during the quarter as a result of the lower hot rolled steel prices.

B2. Variation of results against preceding quarter

The Group's revenue has decreased by 12.2% from RM294.4 million in the preceding quarter to RM258.3 million this quarter. The decrease in revenue is due to significant decreases in both sales volume and selling prices of all our steel products. In spite of the lower revenue, the Group registered a significantly higher profit of RM13.8 million compared with RM7.3 million achieved in the preceding quarter due to significantly lower production cost as a result of the lower hot rolled steel prices.

B3. Current year prospects

The local steel market has been gradually liberalised in line with the steel policy set by the Government in 2009. The import duty for most flat steel products has been reduced to 15% from 20% since the beginning of this year. This has resulted in a steady increase in the importation of flat steel products which compete directly with locally produced steel products including those produced by the Group. Due to the surge of imports, there are various trade measures being initiated to protect the local steel industry from unfair foreign competition.

Iron ore price is estimated to continue moving downward in the second half of this year. This scenario is expected to further drive steel prices downward for the rest of the year and there is no sign of improvement in demand in the local steel market thus far. The Group foresees that the local steel manufacturers will have a tough time in securing sufficient sales orders amidst stiff competition not only from imports but also amongst local steel producers.

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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)

	Current quarter RM'000	Year-to-Date RM' 000
Current:		
- Income tax	3,817	4,970
- Deferred tax	(476)	254
	3,341	5,224
Prior year:		
- Income tax	-	-
- Deferred tax	-	-
	-	-
Total	<u>3,341</u>	<u>5,224</u>

The effective tax rate on consolidated profit before tax for the current period was higher than the statutory income tax rate of 25% due mainly to expenses not deductible for tax purposes. However, the impact is partially offset by the following:

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

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 -----
Description of shares purchased:	Ordinary share of RM1.00 each:	
Number of shares purchased:	1,211,200	9,912,400

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Number of shares cancelled:	Nil	Nil
Number of shares held as treasury shares:	1,211,200	9,912,400
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 3% or 3 sen per share as recommended by the directors was approved by the shareholders in the Eleventh Annual General Meeting of the company held on 17th June 2015. The dividend had subsequently been paid to the shareholders on 13th July 2015.

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:-

	Quarter	To-date
Profit/(Loss) attributable to equity holders of the parent (RM'000)	<u>10,448</u>	<u>15,862</u>
Weighted average number of shares in issue ('000)	<u>371,086</u>	<u>371,189</u>
Basic earnings/(loss) per share (sen)	<u>2.82</u>	<u>4.27</u>
Diluted earnings/(loss) per share (sen)	<u>2.82</u>	<u>4.27</u>

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B12. Notes to the Consolidated Statement of Comprehensive Income

		Current		Financial
		Quarter		Year
		Ended		To Date
		30-Jun-15		30-Jun-15
		RM'000		RM'000
a)	Other income	528		1,063
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)	2,344		4,134
g)	Gain/(loss) on derivatives	-		-
h)	Exceptional items	-		-

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	365,621	367,003
- Unrealised	(19,218)	(21,566)
	<u>346,403</u>	<u>345,437</u>
Less: Consolidation adjustment	(17,014)	(20,798)
As per consolidated account	<u><u>329,389</u></u>	<u><u>324,639</u></u>

By order of the Board
 Mr. Chen, Chung-Te
 Group Managing Director
 14th August 2015