

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

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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 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> RM'000	Technical fee RM'000	<u>Others</u> RM'000	Consolidation <u>adjustment</u> RM'000	Current year <u>to date</u> RM'000
Revenue from external customers	1,047,823	450	196	-	1,048,469
Inter-segment revenue	-	-	10,918	(10,918)	-
Total revenue	<u>1,047,823</u>	<u>450</u>	<u>11,114</u>	<u>(10,918)</u>	<u>1,048,469</u>
Segment result	<u>(31,920)</u>	<u>(530)</u>	<u>4,667</u>	<u>(4,934)</u>	<u>(32,717)</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 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

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	31,578
Approved but not contracted for	39,216
	<hr/>
	70,794

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

B1. Review of performance

The Group registered revenue and loss before tax for the current quarter of RM261.5 million and RM12.2 million respectively. This represents a significant decrease of RM21.6 million or 7.6% lower in revenue than that of its corresponding quarter. The decrease in revenue is due to significant decreases in selling prices of our steel products and sales volume. As a result and together with a

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provision for doubtful debts of RM12.9 million owing by an associate company, the Group suffered a loss before tax of RM12.2 million compared with a profit before tax of RM1.3 million.

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 increased by 2.8%, from RM254.4 million in the preceding quarter to RM261.5 million this quarter. The increase in revenue is primarily due to higher sales volume of some of our steel products and marginally higher selling prices. Together with marginally lower raw materials cost, gross profit margin has improved from below 1% to 3% this quarter. However, due to a provision for doubtful debts of RM12.9 million, the Group suffered a significantly higher loss before tax of RM12.2 million this quarter compared with a loss before tax of RM3.1 million in the previous quarter.

B3. Current year prospects

The steel market sentiment in 2015 is expected to be similar to 2014 mainly due to the imbalance of supply and demand around the world. The export from China is forecasted to increase year-on-year which would continue to influence the steel market internationally including Malaysia. Furthermore, the weaker Ringgit may further impact the already stiff competition, as such the Company will continue to monitor the movement of the currency market and identify appropriate action plan to counter any possible impact from the downward slide of the Ringgit.

Local steel industry has urged the Malaysian government to address the threat of steel dumping into Malaysia.

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	486	1,200
- Deferred tax	(3,757)	(7,811)
	(3,271)	(6,611)
Prior year:		
- Income tax	-	580
- Deferred tax	52	274

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	52	854
Total	(3,219)	(5,757)

The effective tax rate for the current period was lower than the statutory income tax rate of 25% due mainly to the following:

- tax effect of income not taxable in determining taxable profit; and
- 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
Description of shares purchased:	Ordinary share of RM1.00 each:	
Number of shares purchased:	618,000	8,701,200
Number of shares cancelled:	Nil	Nil
Number of shares held as treasury shares:	618,000	8,701,200
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 3% or 3 sen per share for the financial year ended 2014 which is subject to the approval of the shareholders in the forthcoming annual general meeting.

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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>(9,012)</u>	<u>(21,266)</u>
Weighted average number of shares in issue ('000)	<u>371,488</u>	<u>371,804</u>
Basic earnings/(loss) per share (sen)	<u>(2.43)</u>	<u>(5.72)</u>
Diluted earnings/(loss) per share (sen)	<u>(2.43)</u>	<u>(5.72)</u>

B12. Notes to the Consolidated Statement of Comprehensive Income

	Current Quarter Ended 31-Dec-14 RM'000	Financial Year To Date 31-Dec-14 RM'000
a) Other income	409	1,354
b) Provision for write off of receivable	12,920	12,920
c) Provision for write off of inventories	-	1,880
d) Gain/(loss) on disposal of quoted investments or properties	-	-
e) Impairment of assets	(377)	674
f) Foreign exchange gain or (loss)	1,444	6,993
g) Gain/(loss) on derivatives	-	-
h) Exceptional items	-	-

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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	374,572	434,270
- Unrealised	<u>(23,901)</u>	<u>(36,299)</u>
	350,671	397,971
Less: Consolidation adjustment	<u>(26,032)</u>	<u>(26,032)</u>
As per consolidated account	<u><u>324,639</u></u>	<u><u>371,939</u></u>

By order of the Board
Mr. Chen, Chung-Te
Group Managing Director
9th February 2015