NOTES TO THE FINANCIAL STATEMENTS:-

1 *Basis of Preparation*

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Malaysian Financial Reporting Standard (MFRS) 134, *Interim Financial Reporting,* issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements should be read in conjunction with the audited financial statements as at and for the year ended 31 December 2012 which were prepared in compliance with MFRS. These explanatory notes attached to the interim financial statement 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 since the year ended 31 December 2012.

2 *Changes in Accounting Framework*

The significant accounting policies adopted in the interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2012 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2013:

MFRS 10, *Consolidated Financial Statements*
MFRS 13, *Fair Value Measurement*
MFRS 119, *Employee Benefits* (2011)
MFRS 127, *Separate Financial Statements* (2011)
Amendments to MFRS 7, *Financial Instruments:Disclosures - Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*

(a) MFRS 116, Property, Plant and Equipment (Annual Improvements 2009 – 2011 Cycle)
The amendments to MFRS 116 clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

Upon adoption of MFRS 116, the Group has reclassified those spare parts that meet the definition of property, plant and equipment amounted to RM6,420,237 from inventory to property, plant and equipment. The Standard has been applied retrospectively and the

NOTES TO THE FINANCIAL STATEMENTS:-

inventory as at 31 December 2012 has been reduced by RM6,420,237 and property, plant and equipments has been increased by the same amount.

(b) MFRS 119, Employee Benefits (2011)
The amendments to MFRS 119 require the recognition of changes in defined benefit obligation and in fair value of plan assets when they occur, and hence eliminate the 'corridor method' permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The Standard is applied retrospectively and the unrecognized net actuarial loss of RM1,466,612 has been recognized in the closing balance of the financial year 2012 and opening balance of financial year 2013 respectively.

3 ***Declaration of audit qualification***

The annual financial statements of the Group for the year ended 31 December 2012 were reported on without any qualification.

4 ***Seasonality or Cyclicality of interim operations***

The Group's operations are not subject to seasonal or cyclical factors.

5 ***Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence***

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size and incidence.

6 ***Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year, which give a material effect in the current interim period***

There were no changes in estimates that have had material effect in the current quarter's results.

7 ***Issuances, cancellations, repurchases, resale and repayments of debt and equity securities***

There was no issuance, cancellation, repurchase, resale and repayments of debt and equity securities during the interim period under review.

8 ***Dividends***

There was no dividend paid during the quarter under review.

NOTES TO THE FINANCIAL STATEMENTS:-

9 ***Segmental reporting***

Segmental information for the Group's business segments is as follows:

	SBU 1	SBU 2	SBU 3	Inter-segment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2013 3Q					
Revenue from external customers	34,552	4,146	109,809	-	148,507
Inter-segment	-	88,407	256	(82,663)	-
	34,552	86,553	110,065	(82,663)	148,507
2013 Year to date					
Revenue from external customers	92,770	13,006	318,351	-	424,127
Inter-segment	-	273818	1,220	(275,038)	-
	92,770	286,824	319,571	(275,038)	424,127
2012 3Q					
Revenue from external customers	29,878	6,309	79,714	-	115,901
Inter-segment	-	67,444	757	(68,201)	-
	29,878	73,753	80,471	(68,201)	115,901
2012 Year to date					
Revenue from external customers	91,346	20,168	226,070	-	337,584
Inter-segment	-	198,883	2,382	(201,265)	-
	91,346	219,051	228,452	(201,265)	337,584

SBU 1: Manufacture and sale of galvanized and coated steel products in East Malaysia.
SBU 2: Manufacture galvanized, coated and uncoated steel products in West Malaysia.
SBU 3: Trading of galvanized, coated and uncoated steel products in West Malaysia and Overseas, and manufacture and sale of steel tubes, pipes, flat and long steel products as well as trading of other building and construction materials in West Malaysia.

For decision making and resources allocation, the Chief Executive Officer reviews the statements of financial position of respective subsidiaries.

10 ***Valuation of property, plant and equipment***

The valuation of land and buildings was brought forward without amendment from the previous financial period.

11 ***Material events subsequent to the end of the interim period***

NOTES TO THE FINANCIAL STATEMENTS:-

There were no material events subsequent to the end of the interim period.

12 ***Changes in composition of the Group***

The Group has on 13 September 2013 incorporated two wholly owned subsidiaries namely

- ASTEEL (Sabah) Sdn Bhd
- ASTEEL (Bintulu) Sdn Bhd

The two new companies will carry on the business of manufacturing and trading of roofing and related roofing products in Sabah and Bintulu respectively.

Save as disclosed above, there were no other changes in the composition of the Group during the quarter under review.

13 ***Changes in contingent liabilities or contingent assets***

There are no contingent liabilities or assets for the current financial year to date.

14 ***Review of performance***

The Group's total revenue for the quarter under review increased by 28% or RM32.6 million to RM148.5 million as compared to RM115.9 million (restated) in the corresponding period of the preceding year. The Group reported a pretax profit of RM0.5 million as compared to pretax loss of RM5.7 million (restated) reported in the corresponding period of the previous year. The increase in revenue was due to improved sales of the Group's products.

15 ***Variation of results against preceding quarter***

For the quarter under review, the Group recorded a pretax profit of RM0.5 million as compared to pretax profit of RM4.5 million reported in the previous quarter. The decline in the profitability was mainly due to higher raw material input price resulted from weaker Ringgit Malaysia and lower productivity during the month of August which was a festive month, leading to higher production cost of the Group's products in the quarter under review.

16 ***Prospects for the financial year ending 31 December 2013***

(a) The Board and the Management has diligently executed the business transformation plans put in place since 2012 and this has yield positive financial results for the Group. Whilst we acknowledge the commitment of all stakeholders in this turn-around, the steel industry shall continue to be competitive and challenging in the foreseeable future.

(b) There were no announcements or disclosures published in a public document of any revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

NOTES TO THE FINANCIAL STATEMENTS:-

17 ***Statement of the Board of Directors' opinion on achievement of forecast***

Not applicable to the Group as no announcements or disclosures were published in a public document of any revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

18 ***Profit forecast***

Not applicable as no profit forecast was published.

19 ***Income tax expense***

The taxation is derived as below:	Current Quarter RM'000	Financial Year-To-Date RM'000
Current tax expense		
- current year	128	394
Deferred tax expense		
- current year	262	1,831
Total	390	2,225

The Group's effective tax rate in the current year to date was higher than the statutory tax rate applicable for the current financial year due to non-deductible expenses and non-recognition of deferred tax assets in the loss-making subsidiaries.

20 **Profit for the period**

	Current quarter ended 30 Sept		Cumulative period ended 30 Sept	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	4,485	4,680	13,684	14,346
Impairment loss:				
- Trade receivables	-	-	-	112
Loss on disposal of property, plant and equipment	-	-	-	-
Net foreign exchange loss	1,011	116	1,489	137
And after crediting:				
Gain on disposal of property, plant and equipment	1,314	27	1,730	1,491
Reversal of impairment loss on trade receiveables	6	25	6	25
Finance income	308	182	972	393

NOTES TO THE FINANCIAL STATEMENTS:-

Net foreign exchange gain	-	-	-	-

21 ***Status of corporate proposal announced***

(a) There were no corporate proposals announced during the quarter under review.

(b) The proceeds raised from the private placement and restricted issues amounting to RM43.953 million had been used as follows:

	Amount (RM'000)
Purchase of raw materials	42,577
Defray of expenses	1,376
Total proceeds raised	43,953

22 ***Borrowing and debt securities***

As at 30 September 2013	Short Term Borrowing RM'000	Long Term Borrowing RM'000
Denominated in Ringgit Malaysia		
Secured	55,508	23,177
Unsecured	166,287	37,832
Denominated in US Dollar		
Unsecured	7,321	-
Total	229,116	61,009

23 ***Financial derivative instruments***

Forward foreign exchange contracts are used to hedge foreign exchange risks associated with certain purchase transactions.

As at end of the current quarter under review, the outstanding forward foreign currency exchange contracts are as follows:

Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
Foreign Exchange Contracts (in US Dollar) - Less than 1 year	36,414	37,462

The fair value changes have not been recognized in the financial statements as the management deemed that it is temporary in nature.

24 ***Changes in material litigation***

There are no material litigations during the period under review.

NOTES TO THE FINANCIAL STATEMENTS:-

25 ***Proposed dividend***

The Board of Directors has not recommended any interim dividend for the financial quarter ended 30 September 2013.

26 ***Earnings per share***

	Quarter ended 30 Sept		Period ended 30 Sept	
	2013	2012	2013	2012
	('000)	('000)	('000)	('000)
Basic earnings per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	133	(4,031)	6,523	(7,748)
Number of ordinary shares in issue at the beginning period	195,534.9	195,534.9	195,534.9	195,534.9
Effect of Bonus Issue	31,666.3	31,666.3	31,666.3	31,666.3
Effect of shares issued during the quarter	121,136.4	-	56,915.3	-
Weighted average number of ordinary shares issued as at end of period	348,337.6	227,201.2	284,116.5	227,201.2
Basic earnings/(loss) per ordinary share (sen)				
From continuing operation	0.04	(1.68)	1.83	(2.84)
From discontinued operation	-	(0.09)	0.47	(0.57)
	0.04	(1.77)	2.30	(3.41)

There were no diluted earnings per share as there were no potential dilutive ordinary shares outstanding as at the end of the reporting period and the corresponding period of the preceding year.

The exercise price of the outstanding Warrant 2013/2020 issued on 29 May 2013 is higher than the average market price of the ordinary shares of the Company for the period under review. As the warrants are anti-dilutive in nature, they have been ignored for the purposes of the computation of the diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS:-

27 *Breakdown of realised and unrealised profit or losses*

The breakdown of the retained profits of the Group into realized and unrealized profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Reguirements, as issued by the Malaysian Institute of Accountants.

	As at 30 Sept 2013 RM'000	As at 31 Dec 2012 RM'000
Total retained profit of the Group		
- Realised	11,233	21,068
- Unrealised	4,175	6,153
Add: Consolidated adjustments	329	2,887
Total retained earnings	15,737	30,108

28 Results of discontinued operation

	Quarter ended 30 Sept		Period ended 30 Sept	
	2013 (RM'000)	2012 (RM'000)	2013 (RM'000)	2012 (RM'000)
Revenue	-	6,056	14,083	18,007
Expenses	-	(6,272)	(14,092)	(19,333)
Results from operating activities	-	(216)	(9)	(1,326)
Tax expense/(benefit)	-	-	-	40
Loss for the period	-	(216)	(9)	(1,286)