

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 2013 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 2013.

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 2013 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2014:

Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
Amendments to MFRS 132, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 136, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
IC Interpretation 21, Levies

The adoption of the above standards does not have major impact to the financial statement of the Group.

3 *Declaration of audit qualification*

The annual financial statements of the Group for the year ended 31 December 2013 were reported on without any qualification.

4 *Seasonality or Cyclicity 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.

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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.

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
2014 2Q					
Revenue from external customers	27,141	42,774	64,894	-	134,808
Inter-segment	-	33,174	417	(33,591)	-
	<u>27,141</u>	<u>75,948</u>	<u>65,311</u>	<u>(33,591)</u>	<u>134,808</u>
2014 Year to date					
Revenue from external customers	53,281	67,108	141,051	-	261,440
Inter-segment	-	83,402	681	(83,084)	-
	<u>58,218</u>	<u>150,510</u>	<u>141,732</u>	<u>(83,084)</u>	<u>261,440</u>
2013 2Q					
Revenue from external customers	28,938	4,602	102,968	-	136,508
Inter-segment	-	99,224	216	(99,440)	-
	<u>28,938</u>	<u>103,826</u>	<u>103,184</u>	<u>(99,440)</u>	<u>136,508</u>
2013 Year to date					
Revenue from external customers	58,218	8,860	208,542	-	275,620
Inter-segment	-	191,410	964	(192,374)	-
	<u>58,218</u>	<u>200,270</u>	<u>209,506</u>	<u>(192,374)</u>	<u>275,620</u>

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.

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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*

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

12 *Changes in composition of the Group*

The Group has on 31 July 2014 incorporated one new wholly owned subsidiary, namely ASTEEL Resources Sdn Bhd, for general trading and investment holding.

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 decreased by 1% or RM1.7 million to RM134.8 million as compared to RM136.5 million in the corresponding period of the preceding year. However, the Group reported a pretax loss of RM4.3 million as compared to pretax profit of RM4.5 million reported in the corresponding period of the previous year. The decrease in revenue was due to weaker market and lower demand of the Group's products. The losses in the current quarter was mainly due to thin profit margin caused by depressed selling price.

15 *Variation of results against preceding quarter*

For the quarter under review, the Group recorded a pretax loss of RM4.3 million as compared to pretax profit of RM0.17 million reported in the previous quarter. The deterioration in profitability was mainly due to further depressed selling price during the quarter due to competition from rampant imported materials.

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16 Prospects for the financial year ending 31 December 2014

- (a) The Steel market conditions remain challenging and competitive. Therefore, the Group has applied for various trade measures with the relevant authorities to respond to the situation to ensure a level playing field. We expect the situation will improve in the subsequent quarters if the various trade measures are introduced and enforced effectively to curb the rampant dumping into Malaysia.
- (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.

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	1,055	1,076
Deferred tax expense		
- current year	(1,545)	(1,517)
Total	(490)	(441)

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 June		Cumulative period ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	5,058	4,573	10,110	9,199
Impairment loss:				
- Trade receivables	-	-	-	-
Loss on disposal of property, plant and equipment	-	-	-	-

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Net foreign exchange loss	148	121	138	478
And after crediting:				
Gain on disposal of property, plant and equipment	20	120	20	415
Reversal of impairment loss on trade receivables	960	6	960	6
Finance income	101	303	672	664
Net foreign exchange gain	-	-	-	-

21 Status of corporate proposal announced

- (a) There were no corporate proposals announced during the quarter under review.
- (b) There were no proceeds raised from any corporate proposal during the quarter under review.

22 Borrowing and debt securities

As at 30 June 2014	Short Term Borrowing RM'000	Long Term Borrowing RM'000
Denominated in Ringgit Malaysia		
Secured	55,645	26,945
Unsecured	194,673	23,138
Total	250,318	50,083

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)	63,391	63,415
- Less than 1 year		

The fair value changes have not been recognized in the financial statements as it is immaterial.

24 Changes in material litigation

There are no material litigations during the period under review.

25 Proposed dividend

The Board of Directors has not recommended any interim dividend for the financial quarter ended 30 June 2014.

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The first and final Single Tier dividend of 1 sen per ordinary share in respect of the year ended 31 December 2013 as proposed by the Board of Directors has been approved by the shareholders at the Annual General Meeting on 29 May 2014 and has been paid on 21 July 2014 to depositors whose names appear in the Record of Depositors on 30 June 2014.

The first and final Single Tier dividend of 1.21 sen per RCPS, in respect of the year ended 31 December 2013, has also been approved by the shareholders and paid on the same day.

26 Earnings per share

	Quarter ended 30 June		Period ended 30 June	
	2014	2013	2014	2013
	('000)	('000)	('000)	('000)
Basic earnings per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(3,822)	4,350	(3,703)	6,389
Number of ordinary shares in issue at the beginning period	348,337.6	195,534.9	348,337.6	195,534.9
Effect of Bonus Issue	-	31,666.3	-	31,666.3
Effect of shares issued during the quarter	-	81,275.8	-	24,804.7
Weighted average number of ordinary shares issued as at end of period	348,337.6	308,477.0	348,337.6	252,005.9
Basic earnings/(loss) per ordinary share (sen)				
From continuing operation	(1.10)	1.09	(1.06)	2.01
From discontinued operation	-	0.32	-	0.53
	0.03	1.41	(1.06)	2.54

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.

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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 Requirements, as issued by the Malaysian Institute of Accountants.

	As at 30 June 2014 RM'000	As at 31 Dec 2013 RM'000
Total retained profit of the Group		
- Realised	(2,417)	2,235
- Unrealised	5,607	4,883
Add: Consolidated adjustments	2,979	2,754
Total retained earnings	<u>6,169</u>	<u>9,872</u>

28 Results of discontinued operation

	Quarter ended 30 June		Period ended 30 June	
	2014	2013	2014	2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	-	6,037	-	14,083
Expenses	-	(6,406)	-	(14,092)
Results from operating activities	-	(369)	-	(9)
Tax expense/(benefit)	-	-	-	-
Loss for the period	-	<u>(369)</u>	-	<u>(9)</u>