

12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



The Board of Directors
Kinsteel Bhd
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Pahang Darul Makmur

19 September 2002

Dear Sirs

ACCOUNTANTS' REPORT

1 Introduction

This report has been prepared by PricewaterhouseCoopers, the approved company's auditors, for inclusion in the Prospectus of Kinsteel Bhd to be dated 30 September 2002 in connection with the Public Issue of 10,000,000 new ordinary shares of RM1.00 each and offer for sale of 5,100,000 ordinary shares of RM1.00 each in Kinsteel Bhd at an issue/offer price of RM1.80 per share and the listing of and quotation for the entire enlarged issued and paid up share capital of 60,000,000 ordinary shares of RM1.00 each in Kinsteel Bhd on the Main Board of the Kuala Lumpur Stock Exchange ('KLSE').

2 General information

2.1 Background and principal activities

Kinsteel Bhd was incorporated in Malaysia on 3 January 1991 under the Companies Act, 1965 as a private limited company under the name of Kin Kee Steel Sdn Bhd. On 21 April 1997, the name of the Company was changed to Kinsteel Sdn Bhd. On 25 April 1997 the Company was converted into a public limited company and changed to its present name.

The principal activities of Kinsteel Bhd are that of investment holding and the manufacturing and trading of iron, steel bars and related products. There have been no significant changes in the nature of these activities from the date of incorporation except that Kinsteel Bhd traded in iron ore on an ad hoc basis since the financial year ended 31 December 1999.

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12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****2.2 Share capital****(a) Authorised share capital**

The changes in authorised share capital of Kinsteel Bhd since incorporation date are as follows:

Ordinary shares

Date of creation/reorganisation	Number of ordinary shares of RM1.00 each created/reorganised	Total created RM
At date of incorporation	1,990,000	1,990,000
12.04.1993	3,010,000	5,000,000
15.11.1993	5,000,000	10,000,000
17.11.1994	5,000,000	15,000,000
12.04.1997	25,000,000	40,000,000
10.06.2002	50,000,000	90,000,000
30.08.2002	*10,000,000	100,000,000

Redeemable convertible preference shares ('RCPS')

Date of creation/reorganisation	Number of RCPS of RM1.00 each created/reorganised	Total created RM
At date of incorporation	-	-
17.11.1994	10,000,000	10,000,000
30.08.2002	*(10,000,000)	-

* The increase in the authorised ordinary share capital on 30 August 2002 of 10,000,000 ordinary shares of RM1.00 each was due to the reorganisation of 10,000,000 preference shares of RM1.00 each into ordinary shares of RM1.00 each.

(b) Issued and paid up share capital

The changes in the issued and paid up share capital of Kinsteel Bhd since incorporation date in respect of its ordinary and preference shares are as follows:

Ordinary shares

Date of allotment/ conversion	Number of ordinary shares of RM1.00 each issued/converted	Consideration	Cumulative issued and paid up share capital RM
At date of incorporation	3	Subscribers' shares	3
26.04.1991	1,000,000	Cash	1,000,003
12.04.1993	800,000	Cash	1,800,003
15.11.1993	3,000,000	Cash	4,800,003
13.12.1994	7,200,004	Cash (partly paid at RM0.50 per share)	8,400,005
07.04.1997	5,211,432	Bonus issue	13,611,437
		Cash (balance payment)	17,211,439
30.08.2002	1,714,287	Conversion of RCPS	18,925,726
30.08.2002	2,571,433	Conversion of SRCPS	21,497,159
04.09.2002	28,502,841	Bonus issue	50,000,000

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

2.2 Share capital (continued)

(b) Issued and paid up share capital (continued)

Redeemable convertible preference shares ('RCPS')

Date of allotment/ conversion	Number of RCPS of RM1.00 each issued/converted	Consideration	Cumulative issued and paid up share capital RM
30.06.1994	4,800,003	Cash	4,800,003
13.12.1994	* 2,571,433	Cash (partly paid at RM0.50 per share)	6,085,720
		Cash (balance payment)	7,371,436
30.08.2002	(4,800,003)	Converted to ordinary shares	2,571,433
30.08.2002	*(2,571,433)	Converted to ordinary shares	-

* SRCPS

On 30 August 2002 4,800,003 RCPS had been converted into 1,714,287 new ordinary shares of RM1.00 each in Kinsteel Bhd credited as fully paid up at RM2.80 RCPS for 1 new ordinary share of RM1.00 each in Kinsteel Bhd. The special RCPS ('SRCPS') of 2,571,433 was converted into 2,571,433 new ordinary shares of RM1.00 each in Kinsteel Bhd credited as fully paid up at RM1.00 SRCPS for 1 new ordinary share of RM1.00 each in Kinsteel Bhd.

3 Ultimate and immediate holding companies

The ultimate and immediate holding companies of Kinsteel Bhd are Perniagaan Kin Kee Sdn Bhd and Kin Kee Holdings Sdn Bhd ('Kin Kee') respectively. Perniagaan Kin Kee Sdn Bhd holds 60.7% equity in Kin Kee which in turn holds 69.2% equity in Kinsteel Bhd as at the date of this report.

4 Flotation Scheme

In conjunction with and as part of the listing of and quotation for the entire enlarged issued and paid up share capital of Kinsteel Bhd on the Main Board of the KLSE, Kinsteel Bhd undertook the following Flotation Scheme as approved by the relevant authorities.

4.1 Conversion of preference shares

4,800,003 RCPS had been converted into 1,714,287 new ordinary shares of RM1.00 each in Kinsteel Bhd credited as fully paid up at RM2.80 RCPS for 1 new ordinary share of RM1.00 each in Kinsteel Bhd. The special RCPS ('SRCPS') of 2,571,433 was converted into 2,571,433 new ordinary shares of RM1.00 each in Kinsteel Bhd credited as fully paid up at RM1.00 SRCPS for 1 new ordinary share of RM1.00 each in Kinsteel Bhd.

The new ordinary shares of RM1.00 each in Kinsteel Bhd to be issued pursuant to the conversion of preference shares will rank pari passu with the existing ordinary shares of RM1.00 each in Kinsteel Bhd.

The conversion of preference shares was completed on 30 August 2002.

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Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

4.2 Bonus Issue

Bonus Issue of 28,502,841 new ordinary shares of RM1.00 each in Kinsteel Bhd on the basis of approximately 1,326 new ordinary shares of RM1.00 each in Kinsteel Bhd for every 1,000 existing ordinary shares of RM1.00 each in Kinsteel Bhd held after the conversion of preference shares by capitalising RM3,085,716 from the share premium account and RM25,417,125 from the retained earnings of Kinsteel Bhd.

The new ordinary shares of RM1.00 each in Kinsteel Bhd to be issued pursuant to the Bonus Issue will rank pari passu with the existing ordinary shares of RM1.00 each in Kinsteel Bhd.

The Bonus Issue was completed on 4 September 2002.

4.3 Offer for Sale

The Offer for Sale of 5,100,000 ordinary shares of RM1.00 each in Kinsteel Bhd at an offer price of RM1.80 per ordinary share to Bumiputra Investors and institutions approved by Ministry of International Trade and Industry ('MITI').

4.4 Public Issue

Public Issue of 10,000,000 new ordinary shares of RM1.00 each in Kinsteel Bhd at an issue price of RM1.80 per ordinary share to the Malaysian Public, eligible employees, customers and Directors of Kinsteel Group.

4.5 Listing on the Main Board of the KLSE

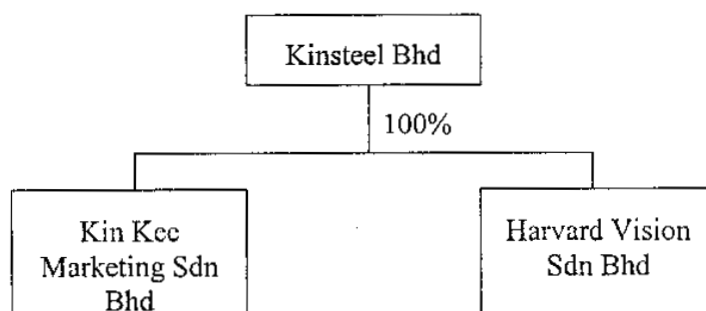
The listing of and quotation for the entire enlarged issued and paid up share capital of Kinsteel Bhd of RM60,000,000 comprising 60,000,000 ordinary shares of RM1.00 each in Kinsteel Bhd on the Main Board of the KLSE.

The above schemes were approved by the followings:

- Securities Commission ('SC') on 24 January 2002, 8 July 2002 and 3 September 2002;
- MITI on 7 December 2000 and 18 June 2002; and
- Foreign Investment Committee on 13 October 2000 and 18 June 2002.

5 Group structure

The group structure of Kinsteel Bhd and its subsidiaries is as below:



12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
5 Group structure (continued)

The subsidiaries of Kinsteel Bhd are as follows:

5.1 Kin Kee Marketing Sdn Bhd ('KKM')
5.1.1 Background and principal activities

KKM was incorporated in Malaysia on 13 October 1989 under the Companies Act, 1965 as a private limited company under the name of Pusat Pemborong Ikan Pengkalan Kuantan Sdn Bhd ('PIPK'). On 1 July 1993, PIPK changed its name to Kin Kee Marketing Sdn Bhd.

The principal activity of KKM is that of trading in iron, steel bars and related products. KKM only commenced its activity in the financial year ended 31 December 1994.

5.1.2 Share capital
(a) Authorised share capital

The authorised share capital of KKM since its incorporation date is RM2,000,000 comprising 2,000,000 ordinary shares of RM1.00 each.

(b) Issued and paid up share capital

The changes in the issued and paid up share capital of KKM since incorporation date are as follows:

Date of allotment	Number of ordinary shares of RM1.00 each issued	Consideration	Cumulative issued and paid up share capital RM
At date of incorporation	3	Subscribers' shares	3
24.06.1998	999,997	Cash	1,000,000

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****5.2 Harvard Vision Sdn Bhd ('Harvard')****5.2.1 Background and principal activities**

Harvard was incorporated in Malaysia on 29 October 1996 under the Companies Act, 1965 as a private limited company. Its principal activity is that of property investment and the first year financial statements was for the financial period ended 31 December 1997.

5.2.2 Share capital**(a) Authorised share capital**

The changes in authorised share capital of Harvard since incorporation date are as follows:

Date of creation	Number of ordinary shares of RM1.00 each created	Total created RM
At date of incorporation	100,000	100,000
28.02.1997	4,900,000	5,000,000

(b) Issued and paid up share capital

The changes in the issued and paid up share capital of Harvard since incorporation date are as follows:

Date of allotment	Number of ordinary shares of RM1.00 each issued	Consideration	Cumulative issued and paid up share capital RM
At date of incorporation	2	Subscribers' shares	2
28.02.1997	1,000,000	Cash	1,000,002

12. ACCOUNTANTS' REPORT (Cont'd)

**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****6.1 Group accounting policies****(a) Basis of accounting**

The financial statements of the Group and Company have been prepared under the historical cost convention, unless otherwise indicated in the individual policy statements to the financial statements.

The financial statements comply with the current applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. As permitted by MASB Standard 24 - Financial Instruments: Disclosure and Presentation, comparatives are not disclosed upon first application of the Standard.

The preparation of financial statements in conformity with the current applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. Actual results could differ from those estimates.

(b) Subsidiaries

Subsidiaries are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the cost of acquisition over the fair value of the Group's share of the subsidiaries identifiable net assets at the date of acquisition is reflected as goodwill on consolidation.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(c) Investments

Investments in subsidiaries are shown at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of the investments. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the period in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged/credited to the income statement.

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
6.1 Group accounting policies (continued)
(d) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment comprises their purchase cost and any incidental costs of acquisition.

Leasehold land is amortised in equal instalments over the period of the respective leases that range from 66 to 99 years. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives at the following annual rates:

	%
Buildings	2
Plant and machinery	5 - 20
Motor vehicles, equipment and fixtures	5 - 20

Tools and implements are not depreciated as it is charged to the income statement on replacement basis.

Depreciation on assets under construction commences when the assets are ready for their intended use.

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(g) Trade receivables

Trade receivables are carried at invoiced amount less an estimate made for doubtful debts based on a review of outstanding amounts at the period end. Bad debts are written off when identified.

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
6.1 Group accounting policies (continued)
(h) Assets acquired under hire purchase agreement

Assets acquired under hire purchase agreement are included in property, plant and equipment and the capital element of the hire purchase commitments is shown as borrowings. The capital element of the hire purchase instalment is applied to reduce the outstanding obligations and the interest element is charged to the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period. Assets acquired under hire purchase agreement are depreciated over the useful lives of equivalent owned assets.

(i) Deferred taxation

The tax expense is determined on the basis of tax effect accounting using the liability method. Deferred taxation is recognised for timing differences except when there is reasonable evidence that such timing differences will not reverse in the foreseeable future. The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of its realisation.

The potential tax saving relating to a tax loss carry forward is only recognised if there is assurance beyond any reasonable doubt that future taxable income will be sufficient for the benefit of the loss to be realised.

(j) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, net of discounts, and after eliminating sales within the Group.

Income from rental and interest are recognised on accrual basis.

(k) Foreign currencies

Foreign currency transactions in Group companies are accounted for at exchange rates prevailing at the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rates used in translation of foreign currency amounts as at the respective financial years/period end were as follows:

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April
						2002
1 USD	N/A	N/A	N/A	3.80	3.80	N/A

12. ACCOUNTANTS' REPORT (Cont'd)

**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report**

6.1 Group accounting policies (continued)

(l) Financial instruments

(i) Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statements associated with each item.

(ii) Financial instruments not recognised on the balance sheet

The Group is a party to financial instruments which comprise foreign currency forward contracts agreements. These instruments are not recognised in the financial statements on inception. The Group enters into foreign currency forward contracts to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

(iii) Fair value estimation for disclosure purposes

The fair value of forward foreign exchange contracts is determined by obtaining quotes from brokers.

The carrying amounts of cash and short term investments approximate fair values because of the short maturity periods of those instruments.

In assessing the value of borrowings, the Group assumes that the interest rates on borrowings approximate the current market interest rates and accordingly the carrying values approximate the fair values.

The fair values for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

12. ACCOUNTANTS' REPORT *(Cont'd)*

Kinsteel Bhd and its Group ('Kinsteel Group') **Accountants' Report**

6.2 Financial risk management objectives and policies

The Group is inherently exposed to the following financial risks in its day to day operations:

(a) Foreign currency exchange risk

The objective of the Group's foreign exchange policy is to allow the Group to manage exposures that arise from trading activities within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. The Group covers substantially all foreign exchange exposures arising from its foreign payables and on cash flows to be used in anticipated transactions denominated in foreign currencies and operate to the extent of the Group's foreign exchange commitment.

Foreign currency exchange risk arises mainly from the importation of raw materials and machinery and parts which are mainly stated in US currency. Despite the fact that the Malaysian Ringgit is currently pegged against the US Dollar and remains quite stable, the Board maintains the policy to use foreign exchange contracts to hedge against material exposure to the foreign exchange risks. The usage of such instrument enables the costing and the cash flows of large orders of raw materials and machinery and parts denominated in foreign currencies to be determined following contracting with the foreign suppliers and the issuance of the respective letter of credits.

(b) Interest rate risk

The Group exposure to interest rate fluctuations is due to the Group's borrowings being mainly dependant on the lending financial institutions base lending rates and market cost of funds particularly for its term loans, overdrafts and trade financing loans.

(c) Credit risk

The Group seeks to invest cash assets safely and profitably. It also seeks to control credit risks by setting appropriate credit terms and limits for customers and ensuring that sales of products are made to customers with good credit assessment.

(d) Liquidity and cash flow risk

The Group exercise prudent liquidity risk management to maintain sufficient cash and short term investments and the availability of funding through an adequate amount of credit facilities.

12. ACCOUNTANTS' REPORT (Cont'd)

**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report**

7 Auditors and audit reports

Kinsteel Bhd and KKM

The financial statements of Kinsteel Bhd and KKM for the financial years ended 31 December 1999, 2000 and 2001 and the four months ended 30 April 2002 were audited by PricewaterhouseCoopers without any qualifications. The financial statements of Kinsteel Bhd and KKM were audited by our legacy firm of Coopers & Lybrand for the financial years ended 31 December 1995, 1996, 1997 and 1998 without any qualifications. Prior to 1995, the financial statements were audited by another firm of auditors.

Harvard

The financial statements of Harvard for the financial years ended 31 December 1999, 2000 and 2001 and the four months ended 30 April 2002 were audited by PricewaterhouseCoopers without any qualifications. The financial statements prior to 1999 were audited by our legacy firm of Coopers & Lybrand without any qualifications.

8 Dividend

Kinsteel Bhd and its subsidiaries have not paid or declared any dividend for the five financial years from 31 December 1997 to 31 December 2001 and the four months ended 30 April 2002.

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

9 Consolidated results

9.1 Consolidated income statements

The summarised consolidated income statements of Kinsteel Group for the past five (5) financial years ended 31 December 1997 to 2001 and the four months ended 30 April 2002 which had been adjusted to be consistent with the policies adopted in the preparation of the audited financial statements for the four months ended 30 April 2002 and in accordance with the current applicable approved accounting standards in Malaysia are as follows:

	Note	Financial year ended 31 December					4 months ended 30 April 2002
		1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Sales		109,093	135,682	231,120	333,157	330,710	107,218
Cost of sales		(91,309)	(116,442)	(199,638)	(305,177)	(299,669)	(96,867)
Gross profit		17,784	19,240	31,482	27,980	31,041	10,351
Other income		598	351	240	635	458	282
Distribution costs		(3,297)	(3,475)	(6,935)	(5,451)	(7,349)	(2,776)
Administration expenses		(3,510)	(3,885)	(4,835)	(4,690)	(6,128)	(1,991)
Other operating expenses - realised loss on foreign exchange		-	(3,085)	-	-	-	-
Profit from operations	ii	11,575	9,146	19,952	18,474	18,022	5,866
Finance cost		(3,433)	(9,044)	(8,353)	(8,092)	(7,684)	(2,179)
Profit before tax		8,142	102	11,599	10,382	10,338	3,687
Tax	iii	(1,356)	3,001	(4)	(419)	(530)	(294)
Net profit for the year/period		6,786	3,103	11,595	9,963	9,808	3,393
Weighted average number of ordinary shares ('000 unit)							
- basic (*)		10,012	14,962	17,212	17,212	17,212	17,212
- fully diluted (#)		11,726	18,444	21,497	21,497	21,497	21,497
Earnings per share (sen)							
- basic (*)		68	21	67	58	57	20
- fully diluted (#)		58	17	54	46	46	16

(*) based on the weighted average number of fully paid up ordinary shares in issue adjusted for bonus issue of 5,211,432 ordinary shares.

(#) based on the weighted average number of fully paid up ordinary shares in issue after bonus and the conversion of fully paid up RCPS and SRCPS.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.1 Consolidated income statements (continued)**

(i) The consolidated income statements have been adjusted and are set out below:

	Note	Financial year ended 31 December					4 months ended 30 April 2002
		1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	RM'000
Net profit for the year/period (per audited financial statements)		8,426	3,599	9,640	9,963	9,808	3,393
Adjustments							
- Restatement of tax	(a)	108	(131)	(10)	-	-	-
- Interest capitalised	(b)	(1,579)	(641)	1,713	-	-	-
- Expenditure carried forward written off	(c)	(169)	(1,239)	330	-	-	-
- Capitalisation of direct cost	(d)	-	1,554	-	-	-	-
- Depreciation	(e)	-	(39)	(78)	-	-	-
		(1,640)	(496)	1,955	-	-	-
Adjusted net profit for the year/period		6,786	3,103	11,595	9,963	9,808	3,393

- (a) The under/(over) provision of tax;
- (b) Finance cost on the acquisition of raw materials which were included in the cost of inventories had been charged out as expenses in the period in which they were incurred;
- (c) The writing off of certain cost carried forward comprising preliminary expenses, proposed restructuring expenses, pre-commercial production expenses and ISO9002 certificate expenses in the year the amounts were incurred and the write back of the amount of the expenditure previously amortised in 1999;
- (d) This represented directly attributed initial cost of bringing the new high tensile bars production lines in certain mills to their commercial working condition in the year ended 31 December 1998 that have been capitalised as part of the cost of property, plant and equipment; and
- (e) Additional depreciation charge in respect of certain mills as a result of (d) above.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.1 Consolidated income statements (continued)****(ii) Profit from operations**

The following items have been charged/(credited) in arriving at the profit from operations.

	Financial year ended 31 December					4 months ended 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Auditors' remuneration						
- statutory audit						
- current year/period	14	17	22	22	25	36
- under provision in prior years	3	1	5	-	3	22
- other services	-	-	2	-	42	48
Property, plant and equipment						
- depreciation	2,384	2,915	4,734	5,381	5,778	2,230
- gain on disposals	-	-	-	-	(66)	(43)
Allowance for doubtful debts	-	-	-	-	133	-
Rental expense for land and buildings	71	126	133	130	131	42
Rent of plant and machinery	58	43	107	-	-	-
Amortisation of expenditure carried forward	169	1,239	-	-	-	-
Interest income	(37)	(55)	(27)	(10)	(206)	(202)
Rental income	(3)	(5)	(78)	(8)	(3)	(2)
Staff costs *	4,808	5,867	5,489	6,475	8,954	3,092
Realised loss/(gain) on foreign exchange	-	3,085	(40)	-	-	-
	1997	1998	1999	2000	2001	2002
The number of employees at the end of the year/period	289	362	390	404	418	500

* Staff costs includes Directors' remuneration listed below:

	Financial year ended 31 December					4 months ended 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Fees	80	41	50	63	54	18
Estimated money value of benefits-in-kind	-	-	24	43	47	16
Basic salaries, bonus and employee provident fund	883	734	991	1,069	1,199	345
	963	775	1,065	1,175	1,300	379

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
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	Financial year ended 31 December					4 months ended 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Malaysian income tax						
- current year/period	149	71	-	419	530	301
Deferred tax (paragraph 9.5 Note 6)	1,207	(3,072)	4	-	-	(7)
	<u>1,356</u>	<u>(3,001)</u>	<u>4</u>	<u>419</u>	<u>530</u>	<u>294</u>

The income tax of the Group was due to tax incurred on profits of the subsidiaries. The effective tax rate was lower than the statutory tax rate for all the taxable years/period because of the manner the Group had adopted the partial provision of deferred taxation (refer paragraph 9.5 Note 6).

There was no taxation charge on chargeable income for 1999 due to the tax waiver granted pursuant to Section 8 of the Income Tax (Amendment) Act, 1999.

The deferred taxation was written back in 1998 because of the availability of reinvestment allowances carried forward in Kinsteel Bhd.

The Group's tax savings as a result of utilisation of capital allowances and reinvestment allowances were as follows:

	Financial year ended 31 December					4 months ended 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Utilisation of brought forward capital allowances	-	-	2,884	1,417	954	1,238
Utilisation of reinvestment allowances	<u>1,486</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.1 Consolidated income statements (continued)****(iv) Segment reporting****Primary reporting format – Business segment**

The Group's activities, which are located in Malaysia, are identified into the following business segments:

- Steel bars - manufacture and sale of a range of steel bars and related products.
- Iron ore - trading of iron ore on ad hoc basis. The iron ore transactions in 1999 to 2001 arose from certain arrangements entered into by Kinsteel Bhd to sell iron ore on ad hoc basis to one of its major steel billets supplier and in return to purchase the steel billets produced.

	Financial year ended 31 December					4 months ended 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue						
Steel bars	109,093	135,682	212,732	220,779	275,154	107,218
Iron ore	-	-	18,388	112,378	55,556	-
Total revenue	109,093	135,682	231,120	333,157	330,710	107,218
Results						
Segment result						
Steel bars	11,575	9,146	18,925	10,895	13,957	5,866
Iron ore	-	-	1,027	7,579	4,065	-
Profit from operations	11,575	9,146	19,952	18,474	18,022	5,866
Finance cost	(3,433)	(9,044)	(8,353)	(8,092)	(7,684)	(2,179)
Profit before tax	8,142	102	11,599	10,382	10,338	3,687
Tax	(1,356)	3,001	(4)	(419)	(530)	(294)
Net profit for the year/period	6,786	3,103	11,595	9,963	9,808	3,393
Other information						
Segment assets						
Steel bars	127,341	170,298	175,978	195,058	197,678	207,504
Iron ore	-	-	13,097	34,955	20,611	8,920
	127,341	170,298	189,075	230,013	218,289	216,424
Segment liabilities						
Steel bars	(13,712)	(9,631)	(30,076)	(17,460)	(27,497)	(15,733)
Iron ore	-	-	-	(18,197)	-	-
	(13,712)	(9,631)	(30,076)	(35,657)	(27,497)	(15,733)

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.1 Consolidated income statements (continued)****(iv) Segment reporting (continued)****Primary reporting format – Business segment (continued)**

	Financial year ended 31 December					4 months ended 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Capital expenditure						
Steel bars	36,033	24,754	14,767	7,482	26,718	1,941
Iron ore	-	-	-	-	-	-
	<u>36,033</u>	<u>24,754</u>	<u>14,767</u>	<u>7,482</u>	<u>26,718</u>	<u>1,941</u>
Depreciation						
Steel bars	2,384	2,915	4,734	5,381	5,778	2,230
Iron ore	-	-	-	-	-	-
	<u>2,384</u>	<u>2,915</u>	<u>4,734</u>	<u>5,381</u>	<u>5,778</u>	<u>2,230</u>

There was no inter segment transaction for the financial years ended 31 December 1997 to 2001 and four months ended 30 April 2002.

Secondary reporting format – Geographical segment

The Group operates in Malaysia only and accordingly no information on Group's operations by geographical segment has been provided.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.2 Consolidated balance sheets**

The summarised consolidated balance sheets of Kinsteel Group for the past five (5) years as at 31 December 1997 to 2001 and as at 30 April 2002 which had been adjusted to account for adjustments stated in paragraph 9.1 note (i) are as follows:

	Note	As at 31 December					As at
		1997	1998	1999	2000	2001	30 April 2002
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non current asset							
Property, plant and equipment	1	65,303	* 87,142	* 97,174	99,260	120,195	119,905
Current assets							
Inventories	2	* 54,612	* 60,456	43,007	49,751	19,646	22,912
Receivables, deposits and prepayments	3	* 6,584	* 21,131	46,588	76,348	58,576	56,815
Tax recoverable		-	517	65	65	68	68
Deposits, bank and cash balances	8	842	1,052	2,241	4,589	19,804	16,724
		62,038	83,156	91,901	130,753	98,094	96,519
Less: Current liabilities							
Payables	4	* 10,476	9,533	30,056	35,294	27,314	15,449
Borrowings (interest bearing)	5	49,601	76,287	70,578	100,277	85,649	93,733
Current tax liabilities		* 148	* 82	-	343	163	271
		60,225	85,902	100,634	135,914	113,126	109,453
Net current assets/(liabilities)		1,813	(2,746)	(8,733)	(5,161)	(15,032)	(12,934)
Less: Non current liabilities							
Deferred tax liabilities	6	3,088	16	20	20	20	13
Borrowings (interest bearing)	5	22,478	34,842	27,288	22,983	24,239	22,661
		25,566	34,858	27,308	23,003	24,259	22,674
		41,550	49,538	61,133	71,096	80,904	84,297
Capital and reserves							
Share capital	7	19,698	24,583	24,583	24,583	24,583	24,583
Retained earnings		* 21,852	* 24,955	* 36,550	46,513	56,321	59,714
Shareholders' equity		41,550	49,538	61,133	71,096	80,904	84,297
Number of ordinary shares		13,612	17,212	17,212	17,212	17,212	17,212
NTA per ordinary share (RM)		2.61	2.45	3.12	3.70	4.27	4.47

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.2 Consolidated balance sheets (continued)**

* The assets and liabilities for the past five (5) years as at 31 December 1997 to 2001 and as at 30 April 2002 had been adjusted to take into accounts the items stated in paragraph 9.1 note (i):

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment						
As shown in the audited financial statements	65,303	85,627	95,737	99,260	120,195	119,905
Adjustments						
- Capitalisation of direct cost	-	1,554	1,554	-	-	-
- Depreciation	-	(39)	(117)	-	-	-
As restated	65,303	87,142	97,174	99,260	120,195	119,905
Inventories						
As shown in the audited financial statements	55,618	62,169	43,007	49,751	19,646	22,912
Adjustment						
- Interest capitalised	(1,006)	(1,713)	-	-	-	-
As restated	54,612	60,456	43,007	49,751	19,646	22,912
Receivables, deposits and prepayments						
As shown in the audited financial statements	6,543	21,081	46,588	76,348	58,576	56,815
Adjustment						
- Expenditure carried forward written off	41	50	-	-	-	-
As restated	6,584	21,131	46,588	76,348	58,576	56,815
Payables						
As shown in the audited financial statements	10,410	9,533	30,056	35,294	27,314	15,449
Adjustment						
- Interest capitalised	66	-	-	-	-	-
As restated	10,476	9,533	30,056	35,294	27,314	15,449

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

9 Consolidated results

9.2 Consolidated balance sheets (continued)

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April
	RM'000	RM'000	RM'000	RM'000	RM'000	2002
						RM'000
Current tax liabilities						
As shown in the audited financial statements	289	92	-	343	163	271
Adjustment						
- Restatement of tax	(141)	(10)	-	-	-	-
As restated	148	82	-	343	163	271
Expenditure carried forward						
As shown in the audited financial statements	210	1,458	1,078	-	-	-
Adjustment						
- Expenditure carried forward written off	(210)	(1,458)	(1,078)	-	-	-
As restated	-	-	-	-	-	-
Retained earnings						
As shown in the audited financial statements	22,952	26,551	36,191	46,513	56,321	59,714
Adjustments						
- Restatement of tax	141	10	-	-	-	-
- Interest capitalised	(1,072)	(1,713)	-	-	-	-
- Expenditure carried forward written off	(169)	(1,408)	(1,078)	-	-	-
- Capitalisation of direct cost	-	1,554	1,554	-	-	-
- Depreciation	-	(39)	(117)	-	-	-
As restated	21,852	24,955	36,550	46,513	56,321	59,714

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report

9 Consolidated results

9.3 Consolidated statements of changes in equity

	Issued and fully paid ordinary shares of RM1.00 each		Issued and partly paid ordinary shares of RM1.00 each		Issued and fully paid RCPS of RM1.00 each		Issued and fully paid SRCPS of RM1.00 each		Issued and partly paid SRCPS of RM1.00 each		Distributable Retained earnings RM'000	Total RM'000
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000		
At 1 January 1997	4,800	4,800	7,200	3,600	4,800	4,800	-	-	-	-	20,278	33,478
Net profit for the year	-	-	-	-	-	-	-	-	-	-	6,786	6,786
Issued and partly paid during the year	-	-	-	-	-	-	-	-	2,571	1,286	-	1,286
Bonus issue during the year	5,212	5,212	-	-	-	-	-	-	-	-	(5,212)	-
At 31 December 1997	10,012	10,012	7,200	3,600	4,800	4,800	-	-	2,571	1,286	21,852	41,550
Called and paid during the year	-	-	-	3,600	-	-	-	-	-	1,285	-	4,885
Net profit for the year	-	-	-	-	-	-	-	-	-	-	3,103	3,103
Reclassification	7,200	7,200	(7,200)	(7,200)	-	-	2,571	2,571	(2,571)	(2,571)	-	-
At 31 December 1998	17,212	17,212	-	-	4,800	4,800	-	-	-	-	24,955	49,538
Net profit for the year	-	-	-	-	-	-	-	-	-	-	11,595	11,595
At 31 December 1999	17,212	17,212	-	-	4,800	4,800	-	-	2,571	2,571	36,550	61,133
Net profit for the year	-	-	-	-	-	-	-	-	-	-	9,963	9,963
At 31 December 2000	17,212	17,212	-	-	4,800	4,800	-	-	2,571	2,571	46,513	71,096

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report

9 Consolidated results

9.3 Consolidated statements of changes in equity (continued)

	Issued and fully paid ordinary shares of RM1.00 each		Issued and partly paid ordinary shares of RM1.00 each		Issued and fully paid RCPS of RM1.00 each		Issued and partly paid SRCPS of RM1.00 each		Distributable			
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2001	17,212	17,212	-	-	4,800	4,800	2,571	2,571	-	-	46,513	71,096
Net profit for the year	-	-	-	-	-	-	-	-	-	-	9,808	9,808
At 31 December 2001	17,212	17,212	-	-	4,800	4,800	2,571	2,571	-	-	56,321	80,904
Net profit for the period	-	-	-	-	-	-	-	-	-	-	3,393	3,393
At 30 April 2002	17,212	17,212	-	-	4,800	4,800	2,571	2,571	-	-	59,714	84,297

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
9 Consolidated results
9.4 Consolidated cash flow statement for the four months ended 30 April 2002

The consolidated cash flow statement of Kinsteel Group for the four months ended 30 April 2002, which was based on the audited financial statements is as follows:

	RM'000
Operating activities	
Net profit for the period	3,393
Adjustments to reconcile the net profit for the period to cash from operations:	
Property, plant and equipment	
- depreciation	2,230
- gain on disposals	(43)
Interest income	(202)
Interest expense	2,179
Tax	294
	<u>7,851</u>
Changes in working capital:	
- inventories	(3,266)
- receivables, deposits and prepayments	1,761
- payables	(11,794)
Cash used in operations	<u>(5,448)</u>
Interest paid	(2,252)
Interest received	202
Tax paid	(192)
Net cash flow used in operating activities	<u>(7,690)</u>
Investing activities	
Property, plant and equipment	
- additions	(1,812)
- proceed from disposals	44
Net cash flow used in investing activities	<u>(1,768)</u>

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
9 Consolidated results
9.4 Consolidated cash flow statement for the four months ended 30 April 2002 (continued)

	RM'000
Financing activities	
Proceeds from term loans	1,706
Repayments of term loans	(2,739)
Hire purchase principal payments	(130)
Proceeds from short term borrowings	74,855
Repayments of short term borrowings	(65,402)
Net cash flow from financing activities	<u>8,290</u>
Decrease in cash and cash equivalents	(1,168)
Cash and cash equivalents	
- at start of period	<u>17,441</u>
- at end of period (Note 8)	<u><u>16,273</u></u>

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

9 Consolidated results

9.5 Notes to the financial statements

1 Property, plant and equipment

	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles, equipment and fixtures RM'000	Tools and implements RM'000	Work-in- progress RM'000	Total RM'000
Net book value at 1 January 1997	1,949	6,906	11,002	837	1,023	10,717	32,434
Additions	10,891	405	2,294	348	1,425	20,670	36,033
Disposals	-	-	-	(3)	(777)	-	(780)
Reclassification	-	-	12,673	-	-	(12,673)	-
Depreciation charge	(140)	(151)	(1,891)	(202)	-	-	(2,384)
Net book value at 31 December 1997	12,700	7,160	24,078	980	1,671	18,714	65,303
At 31 December 1997							
Cost	12,995	7,642	29,023	1,522	1,671	18,714	71,567
Accumulated depreciation	(295)	(482)	(4,945)	(542)	-	-	(6,264)
Net book value	12,700	7,160	24,078	980	1,671	18,714	65,303
Net book value at 1 January 1998	12,700	7,160	24,078	980	1,671	18,714	65,303
Additions	644	2,437	12,027	194	963	8,489	24,754
Disposals	-	-	-	-	-	-	-
Reclassification	-	13,610	13,593	-	-	(27,203)	-
Depreciation charge	(146)	(206)	(2,345)	(218)	-	-	(2,915)
Net book value at 31 December 1998	13,198	23,001	47,353	956	2,634	-	87,142
At 31 December 1998							
Cost	13,639	23,689	54,643	1,716	2,634	-	96,321
Accumulated depreciation	(441)	(688)	(7,290)	(760)	-	-	(9,179)
Net book value	13,198	23,001	47,353	956	2,634	-	87,142

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

9 Consolidated results

9.5 Notes to the financial statements (continued)

1 Property, plant and equipment (continued)

	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles, equipment and fixtures RM'000	Tools and implements RM'000	Work-in- progress RM'000	Total RM'000
Net book value at 1 January 1999	13,198	23,001	47,353	956	2,634	-	87,142
Additions	286	468	3,027	207	1,013	9,766	14,767
Disposals	-	-	-	(1)	-	-	(1)
Depreciation charge	(147)	(481)	(3,850)	(256)	-	-	(4,734)
Net book value at 31 December 1999	<u>13,337</u>	<u>22,988</u>	<u>46,530</u>	<u>906</u>	<u>3,647</u>	<u>9,766</u>	<u>97,174</u>
At 31 December 1999							
Cost	13,925	24,157	57,670	1,922	3,647	9,766	111,087
Accumulated depreciation	(588)	(1,169)	(11,140)	(1,016)	-	-	(13,913)
Net book value	<u>13,337</u>	<u>22,988</u>	<u>46,530</u>	<u>906</u>	<u>3,647</u>	<u>9,766</u>	<u>97,174</u>
Net book value at 1 January 2000	13,337	22,988	46,530	906	3,647	9,766	97,174
Additions	-	264	6,018	627	130	443	7,482
Disposals	-	-	-	(15)	-	-	(15)
Reclassification	-	2,979	7,230	-	-	(10,209)	-
Depreciation charge	(146)	(546)	(4,376)	(313)	-	-	(5,381)
Net book value at 31 December 2000	<u>13,191</u>	<u>25,685</u>	<u>55,402</u>	<u>1,205</u>	<u>3,777</u>	<u>-</u>	<u>99,260</u>
At 31 December 2000							
Cost	13,925	27,400	70,918	2,513	3,777	-	118,533
Accumulated depreciation	(734)	(1,715)	(15,516)	(1,308)	-	-	(19,273)
Net book value	<u>13,191</u>	<u>25,685</u>	<u>55,402</u>	<u>1,205</u>	<u>3,777</u>	<u>-</u>	<u>99,260</u>

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

9 Consolidated results

9.5 Notes to the financial statements (continued)

1 Property, plant and equipment (continued)

	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles, equipment and fixtures RM'000	Tools and implements RM'000	Work-in- progress RM'000	Total RM'000
Net book value at 1 January 2001	13,191	25,685	55,402	1,205	3,777	-	99,260
Additions	-	2,869	20,622	658	-	2,569	26,718
Disposals	-	-	-	(5)	-	-	(5)
Reclassification	-	2,842	(2,842)	-	-	-	-
Depreciation charge	(146)	(562)	(4,711)	(359)	-	-	(5,778)
Net book value at 31 December 2001	<u>13,045</u>	<u>30,834</u>	<u>68,471</u>	<u>1,499</u>	<u>3,777</u>	<u>2,569</u>	<u>120,195</u>
At 31 December 2001							
Cost	13,925	33,178	88,631	2,979	3,777	2,569	145,059
Accumulated depreciation	(880)	(2,344)	(20,160)	(1,480)	-	-	(24,864)
Net book value	<u>13,045</u>	<u>30,834</u>	<u>68,471</u>	<u>1,499</u>	<u>3,777</u>	<u>2,569</u>	<u>120,195</u>
Net book value at 1 January 2002	13,045	30,834	68,471	1,499	3,777	2,569	120,195
Additions	-	-	1,468	197	-	276	1,941
Disposals	-	-	-	(1)	-	-	(1)
Depreciation charge	(49)	(221)	(1,839)	(121)	-	-	(2,230)
Net book value at 30 April 2002	<u>12,996</u>	<u>30,613</u>	<u>68,100</u>	<u>1,574</u>	<u>3,777</u>	<u>2,845</u>	<u>119,905</u>
At 30 April 2002							
Cost	13,925	33,178	90,099	3,121	3,777	2,845	146,945
Accumulated depreciation	(929)	(2,565)	(21,999)	(1,547)	-	-	(27,040)
Net book value	<u>12,996</u>	<u>30,613</u>	<u>68,100</u>	<u>1,574</u>	<u>3,777</u>	<u>2,845</u>	<u>119,905</u>

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group') Accountants' Report

9 Consolidated results

9.5 Notes to the financial statements (continued)

1 Property, plant and equipment (continued)

The net book value of assets pledged as security for banking facilities as stated in note 5 to the financial statements are as follows:

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April
	RM'000	RM'000	RM'000	RM'000	RM'000	2002
						RM'000
Long term leasehold land	12,700	13,198	13,337	13,191	13,045	12,996
Buildings	7,160	23,001	22,988	25,685	30,834	30,613
Plant and machinery	24,078	47,353	46,530	55,402	68,471	68,100
Motor vehicles, equipment and fixtures	840	767	697	1,073	1,066	1,179
Tools and equipments	1,671	2,634	3,647	3,777	3,777	3,777
Work-in-progress	18,714	-	9,766	-	2,569	2,845
	<u>65,163</u>	<u>86,953</u>	<u>96,965</u>	<u>99,128</u>	<u>119,762</u>	<u>119,510</u>

The details of assets acquired under instalment purchase plans are as follows:

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April
	RM'000	RM'000	RM'000	RM'000	RM'000	2002
						RM'000
Plant and machinery						
- additions during the year/period (Note 11)	184	-	-	-	-	-
- net book value at year/period end	<u>240</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Motor vehicles						
- additions during the year/period (Note 11)	-	80	65	467	415	127
- net book value at year/period end	<u>363</u>	<u>301</u>	<u>175</u>	<u>563</u>	<u>868</u>	<u>841</u>

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.5 Notes to the financial statements (continued)****2 Inventories**

	As at 31 December					As at 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
At cost						
Consumable parts and spares	-	-	-	-	1,668	4,030
Raw materials	41,094	21,231	23,854	20,963	12,876	13,881
Finished goods	13,518	26,633	19,153	20,383	5,102	4,970
Goods in transit – raw materials	-	12,592	-	267	-	31
	<u>54,612</u>	<u>60,456</u>	<u>43,007</u>	<u>41,613</u>	<u>19,646</u>	<u>22,912</u>
At net realisable value						
Finished goods	-	-	-	8,138	-	-
	<u>54,612</u>	<u>60,456</u>	<u>43,007</u>	<u>49,751</u>	<u>19,646</u>	<u>22,912</u>

Inventories of the Group which have been pledged as security for the banking facilities, as disclosed in note 5 are as follows:

	As at 31 December					As at 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
At cost	54,547	60,208	42,918	37,605	19,192	22,662
At net realisable value	-	-	-	8,138	-	-
	<u>54,547</u>	<u>60,208</u>	<u>42,918</u>	<u>45,743</u>	<u>19,192</u>	<u>22,662</u>

3 Receivables, deposits and prepayments

	As at 31 December					As at 30 April
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Trade receivables	5,591	20,436	46,079	74,440	57,754	55,804
Allowance for doubtful debts	-	-	-	-	(133)	(133)
	<u>5,591</u>	<u>20,436</u>	<u>46,079</u>	<u>74,440</u>	<u>57,621</u>	<u>55,671</u>
Other receivables	325	156	56	7	24	24
Staff advances	77	127	195	209	244	295
Deposits	93	23	42	1,064	110	185
Prepayments	204	348	56	463	574	626
Amount due from ultimate holding company	294	35	156	160	3	14
Amount due from holding company	-	-	3	5	-	-
Amount due from a Director	-	6	1	-	-	-
	<u>6,584</u>	<u>21,131</u>	<u>46,588</u>	<u>76,348</u>	<u>58,576</u>	<u>56,815</u>

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****9 Consolidated results****9.5 Notes to the financial statements (continued)****3 Receivables, deposits and prepayments (continued)**

Credit risk is controlled by setting appropriate credit terms and limits for all customers and ensuring that sales of products are made to customers with good credit assessment. Credit terms of trade receivables range from 14 to 90 days. As at 30 April 2002, 66% of the trade receivables are owed by five customers. Included in these five customers is an amount of RM8,920,294 due from the trading of iron ore which the Group has a right of set-off against future supplies of steel billets, as disclosed in Note 9.1 (iv) segment reporting.

The allowance for doubtful debts is considered adequate.

The amounts due from ultimate holding company arose from trade transactions conducted at normal trade terms and are unsecured, free of interest and are repayable within the normal trade credit periods.

4 Payables

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	4,543	5,838	21,051	29,480	22,189	9,193
Other payables	452	257	323	212	238	379
Construction creditors	300	290	2,314	-	-	-
Accruals	4,405	2,116	5,116	3,747	4,253	5,317
Accrued interest	290	688	296	931	120	47
Amounts due to Directors	486	344	956	924	514	513
	10,476	9,533	30,056	35,294	27,314	15,449

Credit terms of trade payables and other payables vary from 1 to 2 months.

The amounts due to Directors are unsecured and free of interest.

5 Borrowings (interest bearing)

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current						
Bank overdrafts						
- secured	747	716	976	-	1,483	-
- unsecured	1,555	1,224	47	1,009	880	451
	2,302	1,940	1,023	1,009	2,363	451
Short term borrowings						
- secured	18,905	34,098	28,704	41,666	42,160	42,692
- unsecured	26,018	33,531	33,536	49,611	31,692	40,613
	44,923	67,629	62,240	91,277	73,852	83,305
Hire purchase liabilities (secured)	281	61	75	250	268	256
Term loans (secured)	2,095	6,657	7,240	7,741	9,166	9,721
	49,601	76,287	70,578	100,277	85,649	93,733