

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)

5 Borrowings (interest bearing) (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
Non current						
Hire purchase liabilities (secured)	40	40	15	109	205	215
Term loans (secured)	22,438	34,802	27,273	22,874	24,034	22,446
	<u>22,478</u>	<u>34,842</u>	<u>27,288</u>	<u>22,983</u>	<u>24,239</u>	<u>22,661</u>
Total						
Bank overdrafts (note 8)						
- secured	747	716	976	-	1,483	-
- unsecured	1,555	1,224	47	1,009	880	451
	<u>2,302</u>	<u>1,940</u>	<u>1,023</u>	<u>1,009</u>	<u>2,363</u>	<u>451</u>
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
	<u>44,923</u>	<u>67,629</u>	<u>62,240</u>	<u>91,277</u>	<u>73,852</u>	<u>83,305</u>
Hire purchase liabilities (secured)	321	101	90	359	473	471
Term loans (secured)	24,533	41,459	34,513	30,615	33,200	32,167
	<u>72,079</u>	<u>111,129</u>	<u>97,866</u>	<u>123,260</u>	<u>109,888</u>	<u>116,394</u>
Hire purchase liabilities						
Minimum hire purchase payments						
- not later than 1 year	298	89	44	277	298	286
- later than 1 year and not later than 2 years	40	23	53	112	153	193
- later than 2 years and not later than 5 years	-	-	-	-	66	33
	<u>338</u>	<u>112</u>	<u>97</u>	<u>389</u>	<u>517</u>	<u>512</u>
Future finance charges on hire purchase	(17)	(11)	(7)	(30)	(44)	(41)
Present value of hire purchase liabilities	<u>321</u>	<u>101</u>	<u>90</u>	<u>359</u>	<u>473</u>	<u>471</u>
Current	281	61	75	250	268	256
Non current	40	40	15	109	205	215
	<u>321</u>	<u>101</u>	<u>90</u>	<u>359</u>	<u>473</u>	<u>471</u>
Present value of hire purchase liabilities						
- not later than 1 year	281	61	75	250	268	256
- later than 1 year and not later than 2 years	40	40	15	109	141	182
- later than 2 years and not later than 5 years	-	-	-	-	64	33
	<u>321</u>	<u>101</u>	<u>90</u>	<u>359</u>	<u>473</u>	<u>471</u>

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
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Secured short term borrowings and term loans are secured by the long term leasehold land of the Company and a subsidiary and a fixed and floating charge by way of debenture over all present as well as future assets of the Company (Notes 1 and 2)

Hire purchase liabilities are effectively secured as the rights to the hired assets revert to the hirer in the event of default.

The carrying amounts of all the borrowings at balance sheet date approximate their fair values.

Interest rates on the borrowings as at year/period end are as follows:

	Financial year ended 31 December					4 months ended 30 April
	1997 %	1998 %	1999 %	2000 %	2001 %	2002 %
Bank overdrafts	11	10	9	9	9	8
Short term borrowings:						
- Trust receipts	11	10	9	9	8	8
- Bank acceptances	-	7	4	4 - 5	3 - 5	3 - 5
- Revolving credits	13	10	6 - 7	6	6	6
Hire purchase liabilities	9 - 13	10 - 17	14 - 17	11 - 14	9 - 12	8 - 12
Term loans	11	10	9	9	8	8

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9.5 Notes to the financial statements (continued)

6 Deferred tax liabilities

	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
At start of year/period	1,881	3,088	16	20	20	20
Tax charged/(credited) to income statement (paragraph 9.1 Note (iii))	1,207	(3,072)	4	-	-	(7)
At end of year/period	3,088	16	20	20	20	13

The following timing differences have not been accounted for as the Directors are of the opinion that these timing differences will not be reversed in the foreseeable future:

	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
Excess of capital allowances over depreciation	-	21,753	25,464	33,508	43,782	45,658
Unabsorbed capital allowances carried forward	-	(10,299)	(5,059)	(3,408)	(4,421)	(3,350)
	-	11,454	20,405	30,100	39,361	42,308
Movement:						
Net timing differences						
At start of year/period	-	-	11,454	20,405	30,100	39,361
Movement during the year/period	-	11,454	8,951	9,695	9,261	2,947
At end of year/period	-	11,454	20,405	30,100	39,361	42,308

The tax effects of these timing differences 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
Movement:						
Net timing differences						
At start of year/period	-	-	3,207	5,713	8,428	11,021
Movement during the year/period	-	3,207	2,506	2,715	2,593	825
At end of year/period	-	3,207	5,713	8,428	11,021	11,846

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
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The Group also has unabsorbed reinvestment allowances carried forward under the Income Tax Act, 1967 which is available to set off against the future taxable income of Kinsteel Bhd 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
Unabsorbed reinvestment allowances	-	(24,068)	(26,165)	(36,059)	(50,155)	(51,036)

The unabsorbed capital allowances and reinvestment allowances had been agreed by the Inland Revenue Board except for the financial year ended 31 December 2001. The benefits of these capital allowances and reinvestment allowances carried forward will only be obtained if and when the Group derives future assessable income of a nature and of an amount sufficient for these allowances to be utilised.

7 Share capital

	As at 31 December					As at
	1997	1998	1999	2000	2001	30 April
	RM'000	RM'000	RM'000	RM'000	RM'000	2002
Authorised :						
RCPS of RM1.00 each	10,000	10,000	10,000	10,000	10,000	10,000
Ordinary shares of RM1.00 each						
At start of year/period	15,000	40,000	40,000	40,000	40,000	40,000
Created during the year/period	25,000	-	-	-	-	-
At end of year/period	40,000	40,000	40,000	40,000	40,000	40,000
	50,000	50,000	50,000	50,000	50,000	50,000
Issued and fully paid up						
RCPS of RM 1.00 each						
At start and end of year/period	4,800	4,800	4,800	4,800	4,800	4,800
Issued and paid up						
SRCPS of RM1.00 each						
At start of year/period						
- partly paid	-	1,286	-	-	-	-
- fully paid	-	-	2,571	2,571	2,571	2,571
	-	1,286	2,571	2,571	2,571	2,571
Issued and partly paid during the						
year/period	1,286	-	-	-	-	-
Called and paid during the year/period	-	1,285	-	-	-	-
At end of year/period						
- partly paid	1,286	-	-	-	-	-
- fully paid	-	2,571	2,571	2,571	2,571	2,571
	1,286	2,571	2,571	2,571	2,571	2,571

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
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	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
Issued and paid up						
ordinary shares of RM1.00 each						
At start of year/period						
- partly paid	3,600	3,600	-	-	-	-
- fully paid	4,800	10,012	17,212	17,212	17,212	17,212
	8,400	13,612	17,212	17,212	17,212	17,212
Called and paid during the year/period	-	3,600	-	-	-	-
Bonus issue	5,212	-	-	-	-	-
At end of year/period						
- partly paid	3,600	-	-	-	-	-
- fully paid	10,012	17,212	-	-	-	-
	13,612	17,212	17,212	17,212	17,212	17,212
Total	19,698	24,583	24,583	24,583	24,583	24,583

8 Cash and cash equivalents

	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
Deposits with licensed banks	-	-	-	-	18,900	12,915
Bank and cash balances	842	1,052	2,241	4,589	904	3,809
Deposits, bank and cash balances	842	1,052	2,241	4,589	19,804	16,724
Bank overdrafts (Note 5)	(2,302)	(1,940)	(1,023)	(1,009)	(2,363)	(451)
	(1,460)	(888)	1,218	3,580	17,441	16,273

As at 30 April 2002, deposits of the Group have an average maturity of 14 days with interest rates ranging from 2.45% to 2.65%. Bank balances are deposits held at call with banks.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
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In addition to related party disclosure mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties.

The immediate holding company of Kinsteel Bhd is Kin Kee Holdings Sdn Bhd, and the ultimate holding company of Kinsteel Bhd is Perniagaan Kin Kee Sdn Bhd, both the companies are incorporated in Malaysia. Perniagaan Kin Kee Sdn Bhd is controlled by Dato' Pheng Yin Huah who holds 57.6% of the share in the company.

	Financial year ended 31 December		4 months ended 30 April
	2000 RM'000	2001 RM'000	2002 RM'000
(a) Sales of goods			
Sales of goods to:			
- Kin Kee Hardware Sdn Bhd	20,964	18,164	5,591
- Kin Kee Metal Sdn Bhd	129	2,783	402
- Mutiara Besi Logam Sdn Bhd	103	8	-
- MBL Trading Sdn Bhd	7,478	10,763	3,710
- Kin Kee Properties Sdn Bhd	263	102	-
- Perniagaan Kin Kee Sdn Bhd	1,746	976	-
- Kin Kee Transport Sdn Bhd	-	61	56
- Kien San Metal Sdn Bhd	-	3,450	105
- Kuantan Metal and Machinery Parts Sdn Bhd	-	-	90
- Allied Jaya Sdn Bhd	14,737	65,081	36,784
(b) Purchase of goods and services			
Purchase of goods from:			
- Kin Kee Hardware Sdn Bhd	410	807	111
- Kin Kee Metal Sdn Bhd	8,662	5,647	14
- MBL Trading Sdn Bhd	36	108	-
- Perniagaan Kin Kee Sdn Bhd	-	663	-
- Kuantan Metal and Machinery Parts Sdn Bhd	5,744	3,623	641
- Allied Jaya Sdn Bhd	15,513	22,229	22,222
- Amalgamated Metal Builders (M) Sdn Bhd	-	1,723	-

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9.5 Notes to the financial statements (continued)

9 Significant transactions with related parties (continued)

	Financial year ended 31 December		4 months ended 30 April
	2000 RM'000	2001 RM'000	2002 RM'000
Purchase of services from:			
- Kin Kee Hardware Sdn Bhd	-	-	40
- Kin Kee Transport Sdn Bhd	1,184	1,373	649

Note: No comparative figures from year 1997 to 1999 are presented as allowed under paragraph 29 of MASB 8 – Related Party Disclosures in respect of the first reporting period in which the reporting enterprise applies the requirements of this Standard.

The outstanding balances for related party transactions as at year/period end are as follows:

	As at 31 December		As at 30 April
	2000 RM'000	2001 RM'000	2002 RM'000
Payables			
- Kin Kee Hardware Sdn Bhd	170	594	161
- Kin Kee Metal Sdn Bhd	2,501	462	18
- Mutiara Besi Logam Sdn Bhd	-	-	1
- MBL Trading Sdn Bhd	23	63	-
- Kin Kee Transport Sdn Bhd	498	423	102
- Kuantan Metal and Machinery Parts Sdn Bhd	677	463	460
- Allied Jaya Sdn Bhd	117	-	-
- Amalgamated Metal Builders (M) Sdn Bhd	12	190	102
Receivables			
- Kin Kee Hardware Sdn Bhd	3,892	2,199	4,711
- Kin Kee Metal Sdn Bhd	-	-	468
- Mutiara Besi Logam Sdn Bhd	24	15	15
- MBL Trading Sdn Bhd	4,394	4,900	4,138
- Kin Kee Properties Sdn Bhd	31	2	2
- Perniagaan Kin Kee Sdn Bhd	161	3	14
- Kien San Metal Sdn Bhd	-	186	105
- Kuantan Metal and Machinery Parts Sdn Bhd	13	-	95
- Allied Jaya Sdn Bhd	7,007	15,605	12,117

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
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Dato' Pheng Yin Huah and Hong Thian Hock are directors and shareholders of Kin Kee Hardware Sdn Bhd, Kin Kee Metal Sdn Bhd, Perniagaan Kin Kee Sdn Bhd, Kin Kee Properties Sdn Bhd, Kin Kee Transport Sdn Bhd and Kuantan Metal and Machinery Parts Sdn Bhd.

Dato' Pheng Yin Huah was a director in Kien San Metal Sdn Bhd until he resigned on 4 December 2001. Hong Thian Hock is also a director in Kien San Metal Sdn Bhd.

Hong Cheng Guat is a shareholder in Kin Kee Metal Sdn Bhd and Kuantan Metal and Machinery Parts Sdn Bhd. She is also a Director in Mutiara Besi Logam Sdn Bhd, Kuantan Metal and Machinery Parts Sdn Bhd and Kien San Metal Sdn Bhd.

Lew Choon is a director in Mutiara Besi Logam Sdn Bhd and MBL Trading Sdn Bhd. He was a director in Kien San Metal Sdn Bhd until he resigned on 4 December 2001.

Pheng Chin Kiat is a director of Kin Kee Properties Sdn Bhd and also shareholder and director of Kuantan Metal and Machinery Parts Sdn Bhd.

Dato' Md Sharif bin Shamsuddin is a shareholder and director of Amalgamated Metal Builders (M) Sdn Bhd.

Pheng Chin Guan was a shareholder of Allied Jaya Sdn Bhd until 22 April 2002.

A service agreement dated 22 April 1997 was entered into between Kinsteel Bhd and Dato' Pheng Yin Huah for the employment of Dato' Pheng Yin Huah as a Director and the Managing Director of Kinsteel Bhd from the date of the agreement until the determination by notice by either parties thereto. In consideration of his service, Dato' Pheng Yin Huah will be paid a monthly salary and a yearly bonus. The yearly bonus is calculated by the absolute value of the sum equivalent to seven percent of the Kinsteel Group's profit before tax for that financial year after deducting the salary paid or payable to Dato' Pheng Yin Huah during that financial year. The total remuneration paid or payable to Dato' Pheng Yin Huah and the amount payable as at end of years/period under this service agreement are as follows:

	Financial year ended 31 December		4 months ended 30 April
	2000 RM'000	2001 RM'000	2002 RM'000
Estimated money value of benefits-in-kind	13	24	4
Basic salaries, bonus and employee provident fund	778	868	179
	<u>791</u>	<u>892</u>	<u>183</u>
Amount payable to Dato' Pheng Yin Huah*	911	505	504

* The amount payable represent the balance of the yearly bonus payable within 21 days after the adoption of the audited financial statements of the Kinsteel Group at the Annual General Meeting and also the balance of the monthly salary.

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
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Capital expenditure not provided for in 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
Approved and contracted for						
Purchases of property, plant and equipment	6,521	1,178	3,024	1,773	250	287
Purchases of raw materials	23,711	14,860	9,891	-	-	13,943
	<u>30,232</u>	<u>16,038</u>	<u>12,915</u>	<u>1,773</u>	<u>250</u>	<u>14,230</u>

11 Non cash transactions

The principal non cash transactions during the year/period is the acquisition of property, plant and equipment by means of instalment purchase plans (Note 1).

12 Financial instruments**(a) Forward foreign exchange contracts**

As at 30 April 2002, the Group had a contract maturing on 31 May 2002, to purchase RM13,317,500 in foreign currency (USD3,500,000) at a forward rate of RM3.805 to USD1.

The fair value of the outstanding forward contracts of the Group at 30 April 2002 (Note 12 (b)) for transactions that had been entered into would result in a favourable net position of RM16,800.

(b) Fair values

The carrying amounts of financial assets and liabilities of the Group at 30 April 2002 are approximately at their fair values except for the forward foreign exchange contracts which is at a favourable net position of RM16,800.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')**
Accountants' Report**10 Kinsteel Bhd ('Kinsteel')****10.1 Income statements**

The summarised income statements of Kinsteel 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 for adjustments mentioned in paragraph 9.1 note (i) 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	RM'000
Sales		98,529	129,942	234,502	316,038	290,305	78,284
Cost of sales		(82,073)	(111,969)	(206,009)	(290,719)	(262,634)	(69,447)
Gross profit		16,456	17,973	28,493	25,319	27,671	8,837
Other income		943	449	524	961	761	369
Distribution costs		(3,258)	(3,458)	(6,675)	(5,245)	(7,315)	(2,773)
Administration expenses		(2,883)	(3,736)	(4,489)	(4,296)	(5,286)	(1,669)
Other operating expenses - realised loss on foreign exchange		-	(3,085)	-	-	-	-
Profit from operations	ii	11,258	8,143	17,853	16,739	15,831	4,764
Finance cost		(3,187)	(7,908)	(7,661)	(7,541)	(7,190)	(2,056)
Profit before tax		8,071	235	10,192	9,198	8,641	2,708
Tax	iii	(1,267)	3,077	-	(12)	(1)	-
Net profit for the year/period		6,804	3,312	10,192	9,186	8,640	2,708
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	22	59	53	50	16
- fully diluted (#)		58	18	47	43	40	13

(*) 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')
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(i) The income statements have been adjusted as mentioned in paragraph 9.1 note (i) and are set out 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
Net profit for the year/period (per audited financial statements)	8,448	3,808	8,230	9,186	8,640	2,708
Adjustments						
- Restatement of tax	101	(131)	-	-	-	-
- Interest capitalised	(1,579)	(641)	1,713	-	-	-
- Expenditure carried forward written off	(166)	(1,239)	327	-	-	-
- Capitalisation of direct cost	-	1,554	-	-	-	-
- Depreciation	-	(39)	(78)	-	-	-
	(1,644)	(496)	1,962	-	-	-
Adjusted net profit for the year/period	6,804	3,312	10,192	9,186	8,640	2,708

(ii) Profit from operations

The followings 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	10	10	15	15	15	26
- under provision in prior years	3	-	5	-	-	20
- other services	-	-	2	-	42	48
Property, plant and equipment						
- depreciation	2,232	2,735	4,542	5,188	5,588	2,152
- gain on disposals	-	-	-	-	(26)	(17)
Rental expense for land and buildings	251	1,081	1,093	1,090	1,091	362
Rent of plant and machinery	58	43	107	-	-	-
Amortisation of expenditure carried forward	166	1,239	-	-	-	-
Management fee	-	-	-	(350)	(350)	(117)
Interest income	(32)	-	-	(10)	(206)	(202)
Rental income	(3)	(5)	(78)	(8)	(3)	(2)
Staff costs *	4,384	5,337	4,769	5,831	8,016	2,675
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	274	344	376	388	401	483

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.1 Income statements (continued)****(ii) Profit from operations (continued)**

* 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	5	41	50	63	54	18
Estimated money value of benefits-in-kind	-	-	24	43	47	16
Basic salaries, bonus and employee provident fund	790	550	806	870	983	251
	<u>795</u>	<u>591</u>	<u>880</u>	<u>976</u>	<u>1,084</u>	<u>285</u>

(iii) Tax

	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	67	2	-	12	1	-
Deferred tax (paragraph 10.5 Note 6)	1,200	(3,079)	-	-	-	-
	<u>1,267</u>	<u>(3,077)</u>	<u>-</u>	<u>12</u>	<u>1</u>	<u>-</u>

The income tax of the Company was for interest and rental income which was assessed separately. The effective tax rate was lower than the statutory tax rate for all the taxable years/period because of the manner the Company had adopted the partial provision of deferred taxation (refer paragraph 10.5 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 the Company.

The Company'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	1,486	-	-	-	-	-

12. ACCOUNTANTS' REPORT (Cont'd)

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

10 Kinsteel Bhd ('Kinsteel')

10.2 Balance sheets

The summarised balance sheets of Kinsteel 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 assets							
Property, plant and equipment	1	54,381	* 75,843	* 85,970	88,248	108,996	108,783
Unquoted investment in subsidiaries, at cost		1,000	2,000	2,000	2,000	2,000	2,000
		<u>55,381</u>	<u>77,843</u>	<u>87,970</u>	<u>90,248</u>	<u>110,996</u>	<u>110,783</u>
Current assets							
Inventories							
Receivables, deposits and prepayments	2	* 54,547	* 60,208	42,918	45,743	19,192	22,662
Tax recoverable	3	* 7,427	* 22,085	46,074	73,265	57,930	56,561
Deposits, bank and cash balances	9	-	517	65	65	68	68
		1	6	867	1,958	19,491	15,862
		<u>61,975</u>	<u>82,816</u>	<u>89,924</u>	<u>121,031</u>	<u>96,681</u>	<u>95,153</u>
Less: Current liabilities							
Payables	4	*9,975	8,443	27,683	31,089	25,445	13,965
Borrowings (interest bearing)	5	48,688	75,291	69,373	93,144	84,123	92,209
Current tax liabilities		* 66	-	-	-	-	-
		<u>58,729</u>	<u>83,734</u>	<u>97,056</u>	<u>124,233</u>	<u>109,568</u>	<u>106,174</u>
Net current assets/(liabilities)		<u>3,246</u>	<u>(918)</u>	<u>(7,132)</u>	<u>(3,202)</u>	<u>(12,887)</u>	<u>(11,021)</u>
Less: Non current liabilities							
Deferred tax liabilities	6	3,079	-	-	-	-	-
Borrowings (interest bearing)	5	14,653	27,833	21,554	18,576	20,999	19,944
		<u>17,732</u>	<u>27,833</u>	<u>21,554</u>	<u>18,576</u>	<u>20,999</u>	<u>19,944</u>
		<u>40,895</u>	<u>49,092</u>	<u>59,284</u>	<u>68,470</u>	<u>77,110</u>	<u>79,818</u>
Capital and reserves							
Share capital	7	19,698	24,583	24,583	24,583	24,583	24,583
Retained earnings	8	* 21,197	* 24,509	* 34,701	43,887	52,527	55,235
Shareholders' equity		<u>40,895</u>	<u>49,092</u>	<u>59,284</u>	<u>68,470</u>	<u>77,110</u>	<u>79,818</u>
Number of ordinary shares		13,612	17,212	17,212	17,212	17,212	17,212
NTA per ordinary share (RM)		2.56	2.42	3.02	3.55	4.05	4.21

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.2 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	2002
						RM'000
Property, plant and equipment						
As shown in the audited financial statements	54,381	74,328	84,533	88,248	108,996	108,783
Adjustments						
- Capitalisation of direct cost	-	1,554	1,554	-	-	-
- Depreciation	-	(39)	(117)	-	-	-
As restated	<u>54,381</u>	<u>75,843</u>	<u>85,970</u>	<u>88,248</u>	<u>108,996</u>	<u>108,783</u>
Inventories						
As shown in the audited financial statements	55,553	61,921	42,918	45,743	19,192	22,662
Adjustment						
- Interest capitalised	(1,006)	(1,713)	-	-	-	-
As restated	<u>54,547</u>	<u>60,208</u>	<u>42,918</u>	<u>45,743</u>	<u>19,192</u>	<u>22,662</u>
Receivables, deposits and prepayments						
As shown in the audited financial statements	7,386	22,035	46,074	73,265	57,930	56,561
Adjustment						
- Expenditure carried forward written off	41	50	-	-	-	-
As restated	<u>7,427</u>	<u>22,085</u>	<u>46,074</u>	<u>73,265</u>	<u>57,930</u>	<u>56,561</u>
Payables						
As shown in the audited financial statements	9,909	8,443	27,683	31,089	25,445	13,965
Adjustment						
- Interest capitalised	66	-	-	-	-	-
As restated	<u>9,975</u>	<u>8,443</u>	<u>27,683</u>	<u>31,089</u>	<u>25,445</u>	<u>13,965</u>
Current tax liabilities						
As shown in the audited financial statements	199	-	-	-	-	-
Adjustment						
- Restatement of tax	(133)	-	-	-	-	-
As restated	<u>66</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****10 Kinsteel Bhd ('Kinsteel')****10.2 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
Expenditure carried forward						
As shown in the audited financial statements	207	1,455	1,078	-	-	-
Adjustment						
- Expenditure carried forward written off	(207)	(1,455)	(1,078)	-	-	-
As restated	-	-	-	-	-	-
Retained earnings						
As shown in the audited financial statements	22,302	26,112	34,342	43,887	52,527	55,235
Adjustments						
- Restatement of tax	133	-	-	-	-	-
- Interest capitalised	(1,072)	(1,713)	-	-	-	-
- Expenditure carried forward written off	(166)	(1,405)	(1,078)	-	-	-
- Capitalisation of direct cost	-	1,554	1,554	-	-	-
- Depreciation	-	(39)	(117)	-	-	-
As restated	21,197	24,509	34,701	43,887	52,527	55,235

12. ACCOUNTANTS' REPORT (Cont'd)

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

10 Kinsteel Bhd ('Kinsteel')

10.3 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 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	Retained earnings RM'000	Total RM'000
At 1 January 1997	4,800	4,800	7,200	3,600	4,800	4,800	-	-	19,605	32,805
Net profit for the year	-	-	-	-	-	-	-	-	6,804	6,804
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	21,197	40,895
Called and paid during the year	-	-	-	3,600	-	-	-	1,285	-	4,885
Net profit for the year	-	-	-	-	-	-	-	-	3,312	3,312
Reclassification	7,200	7,200	(7,200)	(7,200)	-	-	(2,571)	(2,571)	-	-
At 31 December 1998	17,212	17,212	-	-	4,800	4,800	2,571	2,571	24,509	49,092
Net profit for the year	-	-	-	-	-	-	-	-	10,192	10,192
At 31 December 1999	17,212	17,212	-	-	4,800	4,800	2,571	2,571	34,701	59,284
Net profit for the year	-	-	-	-	-	-	-	-	9,186	9,186
At 31 December 2000	17,212	17,212	-	-	4,800	4,800	2,571	2,571	43,887	68,470

12. ACCOUNTANTS' REPORT (Cont'd)

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

10 Kinsteel Bhd ('Kinsteel')

10.3 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 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 2001	17,212	17,212	-	-	4,800	4,800	2,571	2,571	-	-	43,887	68,470
Net profit for the year	-	-	-	-	-	-	-	-	-	-	8,640	8,640
At 31 December 2001	17,212	17,212	-	-	4,800	4,800	2,571	2,571	-	-	52,527	77,110
Net profit for the period	-	-	-	-	-	-	-	-	-	-	2,708	2,708
At 30 April 2002	17,212	17,212	-	-	4,800	4,800	2,571	2,571	-	-	55,235	79,818

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
10 Kinsteel Bhd ('Kinsteel')
10.4 Cash flow statement for the four months ended 30 April 2002

The cash flow statement of Kinsteel Bhd 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	2,708
Adjustments to reconcile the net profit for the period to cash from operations:	
Property, plant and equipment	
- depreciation	2,152
- gain on disposals	(17)
Interest income	(202)
Interest expense	2,056
	<u>6,697</u>
Changes in working capital:	
- inventories	(3,470)
- receivables, deposits and prepayments	1,370
- payables	(11,407)
Cash used in operations	<u>(6,810)</u>
Interest paid	202
Interest received	(2,129)
Tax paid	(1)
Net cash flow used in operating activities	<u>(8,738)</u>
Investing activities	
Property, plant and equipment	
- additions	(1,812)
- proceed from disposals	17
Net cash flow used in investing activities	<u>(1,795)</u>

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
10 Kinsteel Bhd ('Kinsteel')
10.4 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	(2,291)
Hire purchase principal payments	(96)
Proceeds from short term borrowings	74,855
Repayments of short term borrowings	(65,402)
Net cash flow inform financing activities	<u>8,772</u>
Decrease in cash and cash equivalents	(1,761)
Cash and cash equivalents	
- at start of period	<u>17,172</u>
- at end of period (Note 9)	<u><u>15,411</u></u>

12. ACCOUNTANTS' REPORT (Cont'd)

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

10 Kinsteel Bhd ('Kinsteel')

10.5 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	705	1,023	10,717	32,302
Additions	-	405	2,294	297	1,425	20,670	25,091
Disposals	-	-	-	(3)	(777)	-	(780)
Reclassification	-	-	12,673	-	-	(12,673)	-
Depreciation charge	(31)	(151)	(1,891)	(159)	-	-	(2,232)
Net book value at 31 December 1997	1,918	7,160	24,078	840	1,671	18,714	54,381
At 31 December 1997							
Cost	2,103	7,642	29,023	1,298	1,671	18,714	60,451
Accumulated depreciation	(185)	(482)	(4,945)	(458)	-	-	(6,070)
Net book value	1,918	7,160	24,078	840	1,671	18,714	54,381
Net book value at							
1 January 1998	1,918	7,160	24,078	840	1,671	18,714	54,381
Additions	202	2,437	12,027	79	963	8,489	24,197
Disposals	-	-	-	-	-	-	-
Reclassification	-	13,610	13,593	-	-	(27,203)	-
Depreciation charge	(32)	(206)	(2,345)	(152)	-	-	(2,735)
Net book value at 31 December 1998	2,088	23,001	47,353	767	2,634	-	75,843
At 31 December 1998							
Cost	2,305	23,689	54,643	1,377	2,634	-	84,648
Accumulated depreciation	(217)	(688)	(7,290)	(610)	-	-	(8,805)
Net book value	2,088	23,001	47,353	767	2,634	-	75,843

12. ACCOUNTANTS' REPORT (Cont'd)

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

10 Kinsteel Bhd ('Kinsteel')

10.5 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							
I January 1999	2,088	23,001	47,353	767	2,634	-	75,843
Additions	286	468	3,027	109	1,013	9,766	14,669
Disposals	-	-	-	-	-	-	-
Depreciation charge	(32)	(481)	(3,850)	(179)	-	-	(4,542)
Net book value at 31 December 1999	2,342	22,988	46,530	697	3,647	9,766	85,970
At 31 December 1999							
Cost	2,591	24,157	57,670	1,486	3,647	9,766	99,317
Accumulated depreciation	(249)	(1,169)	(11,140)	(789)	-	-	(13,347)
Net book value	2,342	22,988	46,530	697	3,647	9,766	85,970
Net book value at							
I January 2000	2,342	22,988	46,530	697	3,647	9,766	85,970
Additions	-	264	6,018	625	130	443	7,480
Disposals	-	-	-	(14)	-	-	(14)
Reclassification	-	2,979	7,230	-	-	(10,209)	-
Depreciation charge	(31)	(546)	(4,376)	(235)	-	-	(5,188)
Net book value at 31 December 2000	2,311	25,685	55,402	1,073	3,777	-	88,248
At 31 December 2000							
Cost	2,591	27,400	70,918	2,075	3,777	-	106,761
Accumulated depreciation	(280)	(1,715)	(15,516)	(1,002)	-	-	(18,513)
Net book value	2,311	25,685	55,402	1,073	3,777	-	88,248
Net book value at							
I January 2001	2,311	25,685	55,402	1,073	3,777	-	88,248
Additions	-	2,869	20,622	276	-	2,569	26,336
Disposals	-	-	-	-	-	-	-
Reclassification	-	2,842	(2,842)	-	-	-	-
Depreciation charge	(32)	(562)	(4,711)	(283)	-	-	(5,588)
Net book value at 31 December 2001	2,279	30,834	68,471	1,066	3,777	2,569	108,996

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 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
At 31 December 2001							
Cost	2,591	33,178	88,631	2,282	3,777	2,569	133,028
Accumulated depreciation	(312)	(2,344)	(20,160)	(1,216)	-	-	(24,032)
Net book value	2,279	30,834	68,471	1,066	3,777	2,569	108,996
Net book value at							
1 January 2002	2,279	30,834	68,471	1,066	3,777	2,569	108,996
Additions	-	-	1,468	195	-	276	1,939
Disposals	-	-	-	-	-	-	-
Depreciation charge	(10)	(221)	(1,839)	(82)	-	-	(2,152)
Net book value at							
30 April 2002	2,269	30,613	68,100	1,179	3,777	2,845	108,783
At 30 April 2002							
Cost	2,591	33,178	90,099	2,477	3,777	2,845	134,967
Accumulated depreciation	(322)	(2,565)	(21,999)	(1,298)	-	-	(26,184)
Net book value	2,269	30,613	68,100	1,179	3,777	2,845	108,783

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 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Long term leasehold land	1,918	2,088	2,342	2,311	2,279	2,269
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
	54,381	75,843	85,970	88,248	108,996	108,783

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****1 Property, plant and equipment (continued)**

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 13)	184	-	-	-	-	-
- net book value at year/period end	240	178	-	-	-	-
Motor vehicles						
- additions during the year/period (Note 13)	-	-	-	467	110	127
- net book value at year/period end	283	212	35	507	516	514

2 Inventories

	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
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	13,453	26,385	19,064	16,375	4,648	4,720
Goods in transit – raw materials	-	12,592	-	267	-	31
	54,547	60,208	42,918	37,605	19,192	22,662
At net realisable value						
Finished goods	-	-	-	8,138	-	-
	54,547	60,208	42,918	45,743	19,192	22,662

Inventories of the Company which have been pledged as security for the banking facilities, as disclosed in note 5 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
At cost	54,547	60,208	42,918	37,605	19,192	22,662
At net realisable value	-	-	-	8,138	-	-
	54,547	60,208	42,918	45,743	19,192	22,662

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****3 Receivables, deposits and prepayments**

	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
Trade receivables	-	-	15,805	43,334	21,490	9,071
Other receivables	324	134	57	7	7	7
Staff advances	76	126	194	209	244	295
Deposits	93	23	42	64	93	169
Prepayments	199	340	48	386	574	626
Amount due from ultimate holding company	294	35	156	160	3	14
Amount due from holding company	-	-	3	5	-	-
Amounts due from subsidiaries	6,441	21,421	29,768	29,100	35,519	46,379
Amount due from a Director	-	6	1	-	-	-
	<u>7,427</u>	<u>22,085</u>	<u>46,074</u>	<u>73,265</u>	<u>57,930</u>	<u>56,561</u>

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 are 90 days.

Included in the trade receivables is an amount of RM8,920,294 due from the trading of iron ore which the Company has a right of set-off against future supplies of steel billets, as disclosed in Note 9.1 (iv) segment reporting.

The amounts due from ultimate holding company and subsidiaries 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
	RM'000	RM'000	RM'000	RM'000	RM'000	2002
						RM'000
Trade payables	4,333	4,916	18,927	25,588	20,693	7,885
Other payables	295	240	310	208	234	374
Construction creditors	300	290	2,314	-	-	-
Accruals	4,281	1,975	4,890	3,448	3,893	5,155
Accrued interest	290	688	296	931	120	47
Amounts due to Directors	476	334	946	914	505	504
	<u>9,975</u>	<u>8,443</u>	<u>27,683</u>	<u>31,089</u>	<u>25,445</u>	<u>13,965</u>

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.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****5 Borrowings (interest bearing)**

	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						
Bank overdrafts						
- secured	747	716	976	-	1,483	-
- unsecured	1,555	1,224	47	1,009	836	451
	<u>2,302</u>	<u>1,940</u>	<u>1,023</u>	<u>1,009</u>	<u>2,319</u>	<u>451</u>
Short term borrowings						
- secured	18,905	34,098	28,704	41,666	42,160	42,692
- unsecured	26,018	33,531	33,536	43,761	31,692	40,613
	<u>44,923</u>	<u>67,629</u>	<u>62,240</u>	<u>85,427</u>	<u>73,852</u>	<u>83,305</u>
Hire purchase liabilities (secured)	242	40	20	235	164	148
Term loans (secured)	1,221	5,682	6,090	6,473	7,788	8,305
	<u>48,688</u>	<u>75,291</u>	<u>69,373</u>	<u>93,144</u>	<u>84,123</u>	<u>92,209</u>
Non current						
Hire purchase liabilities (secured)						
Term loans (secured)	40	-	-	109	42	88
	<u>14,613</u>	<u>27,833</u>	<u>21,554</u>	<u>18,467</u>	<u>20,957</u>	<u>19,856</u>
	<u>14,653</u>	<u>27,833</u>	<u>21,554</u>	<u>18,576</u>	<u>20,999</u>	<u>19,944</u>
Total						
Bank overdrafts (Note 9)						
- secured	747	716	976	-	1,483	-
- unsecured	1,555	1,224	47	1,009	836	451
	<u>2,302</u>	<u>1,940</u>	<u>1,023</u>	<u>1,009</u>	<u>2,319</u>	<u>451</u>
Short term borrowings						
- secured	18,905	34,098	28,704	41,666	42,160	42,692
- unsecured	26,018	33,531	33,536	43,761	31,692	40,613
	<u>44,923</u>	<u>67,629</u>	<u>62,240</u>	<u>85,427</u>	<u>73,852</u>	<u>83,305</u>
Hire purchase liabilities (secured)	282	40	20	344	206	236
Term loans (secured)	15,834	33,515	27,644	24,940	28,745	28,161
	<u>63,341</u>	<u>103,124</u>	<u>90,927</u>	<u>111,720</u>	<u>105,122</u>	<u>112,153</u>

12. ACCOUNTANTS' REPORT (Cont'd)

Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report
10 Kinsteel Bhd ('Kinsteel')
10.5 Notes to the financial statements (continued)
5 Borrowings (interest bearing) (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
Hire purchase liabilities						
Minimum hire purchase payments						
- not later than 1 year	257	41	21	261	174	161
- later than 1 year and not later than 2 years	40	-	-	113	44	92
	<u>297</u>	<u>41</u>	<u>21</u>	<u>374</u>	<u>218</u>	<u>253</u>
Future finance charges on hire purchase	(15)	(1)	(1)	(30)	(12)	(17)
Present value of hire purchase liabilities	<u>282</u>	<u>40</u>	<u>20</u>	<u>344</u>	<u>206</u>	<u>236</u>
Current	242	40	20	235	164	148
Non current	40	-	-	109	42	88
	<u>282</u>	<u>40</u>	<u>20</u>	<u>344</u>	<u>206</u>	<u>236</u>
Present value of hire purchase liabilities						
- not later than 1 year	242	40	20	235	164	148
- later than 1 year and not later than 2 years	40	-	-	109	42	88
	<u>282</u>	<u>40</u>	<u>20</u>	<u>344</u>	<u>206</u>	<u>236</u>

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****5 Borrowings (interest bearing) (continued)**

Secured short term borrowings and term loans are secured by the long term leasehold land of the Company and a subsidiary and a fixed and floating charge by way of debenture over all present as well as future assets of the Company (Notes 1 and 2)

Hire purchase liabilities are effectively secured as the rights to the hired assets revert to the hirer in the event of default.

The carrying amounts of all the borrowings at balance sheet date approximate their fair values.

Interest rates on the borrowings as at year/period end are as follows:

	Financial year ended 31 December					4 months ended 30 April
	1997 %	1998 %	1999 %	2000 %	2001 %	2002 %
Bank overdrafts	11	10	9	9	9	8
Short term borrowings:						
- Trust receipts	11	10	9	9	8	8
- Bank acceptances	-	7	4	4 - 5	3 - 5	3 - 5
- Revolving credits	13	10	6 - 7	6	6	6
Hire purchase liabilities	9 - 13	10	14	11 - 12	10 - 12	8 - 12
Term loans	11	10	9	9	8	8

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****6 Deferred tax liabilities**

	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
At start of year/period	1,879	3,079	-	-	-	-
Tax charged/(credited) to income statement (paragraph 10.1 note (iii))	1,200	(3,079)	-	-	-	-
At end of year/period	3,079	-	-	-	-	-

The following timing differences have not been accounted for as the Directors are of the opinion that these timing differences will not be reversed in the foreseeable future:

	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
Excess of capital allowances over depreciation	-	21,753	25,464	33,508	43,782	45,658
Unabsorbed capital allowances carried forward	-	(10,299)	(5,059)	(3,408)	(4,421)	(3,350)
	-	11,454	20,405	30,100	39,361	42,308
Movement:						
Net timing differences						
At start of year/period	-	-	11,454	20,405	30,100	39,361
Movement during the year/period	-	11,454	8,951	9,695	9,261	2,947
At end of year/period	-	11,454	20,405	30,100	39,361	42,308

The tax effects of these timing differences 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
Movement:						
Net timing differences						
At start of year/period	-	-	3,207	5,713	8,428	11,021
Movement during the year/period	-	3,207	2,506	2,715	2,593	825
At end of year/period	-	3,207	5,713	8,428	11,021	11,846

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****6 Deferred tax liabilities (continued)**

The Company also has unabsorbed reinvestment allowances carried forward under the Income Tax Act, 1967 which is available to set off against the future taxable income of Kinsteel Bhd 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
Unabsorbed reinvestment allowances	-	(24,068)	(26,165)	(36,059)	(50,155)	(51,036)

The unabsorbed capital allowances and reinvestment allowances had been agreed by the Inland Revenue Board except for the financial year ended 31 December 2001. The benefits of these capital allowances and reinvestment allowances carried forward will only be obtained if and when the Company derives future assessable income of a nature and of an amount sufficient for these allowances to be utilised.

7 Share capital

	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
Authorised:						
RCPS of RM1.00 each	10,000	10,000	10,000	10,000	10,000	10,000
Ordinary shares of RM1.00 each						
At start of year/period	15,000	40,000	40,000	40,000	40,000	40,000
Created during the year/period	25,000	-	-	-	-	-
At end of year/period	40,000	40,000	40,000	40,000	40,000	40,000
	50,000	50,000	50,000	50,000	50,000	50,000
Issued and fully paid up						
RCPS of RM1.00 each						
At start and end of year/period	4,800	4,800	4,800	4,800	4,800	4,800
Issued and paid up						
SRCPS of RM1.00 each						
At start of year/period	-	-	-	-	-	-
- partly paid	-	1,286	-	-	-	-
- fully paid	-	-	2,571	2,571	2,571	2,571
	-	1,286	2,571	2,571	2,571	2,571
Issued and partly paid during the year/period	1,286	-	-	-	-	-
Called and paid during the year/period	-	1,285	-	-	-	-
At end of year/period	1,286	-	-	-	-	-
- partly paid	1,286	-	-	-	-	-
- fully paid	-	2,571	2,571	2,571	2,571	2,571
	1,286	2,571	2,571	2,571	2,571	2,571

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****7 Share capital (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
Issued and paid up ordinary shares of RM1.00 each						
At start of year/period						
- partly paid	3,600	3,600	-	-	-	-
- fully paid	4,800	10,012	17,212	17,212	17,212	17,212
	8,400	13,612	17,212	17,212	17,212	17,212
Called and paid during the year/period	-	3,600	-	-	-	-
Bonus issue	5,212	-	-	-	-	-
At end of year/period						
- partly paid	3,600	-	-	-	-	-
- fully paid	10,012	17,212	17,212	17,212	17,212	17,212
	13,612	17,212	17,212	17,212	17,212	17,212
Total	19,698	24,583	24,583	24,583	24,583	24,583

8 Retained earnings

Subject to confirmation by the Inland Revenue Board, as at 30 April 2002, the Company has tax exempt account of approximately RM21,500,000 for the payment of tax exempt dividends out of the retained earnings.

The Company also has tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of net dividends of approximately RM2,000,000 as at 30 April 2002. Should the remaining balance of the retained earnings be paid out as net dividends, there will be shortfall of tax credit of approximately RM12,300,000.

9 Cash and cash equivalents

	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
Deposits with licensed banks	-	-	-	-	18,900	12,915
Bank and cash balances	1	6	867	1,958	591	2,947
Deposits, bank and cash balances	1	6	867	1,958	19,491	15,862
Bank overdrafts (Note 5)	(2,302)	(1,940)	(1,023)	(1,009)	(2,319)	(451)
	(2,301)	(1,934)	(156)	949	17,172	15,411

As at 30 April 2002, deposits of the Company have an average maturity of 14 days with interest rates ranging from 2.45% to 2.65%. Bank balances are deposits held at call with banks.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****10 Significant transactions with related parties**

In addition to related party disclosure mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties.

The immediate holding company of Kinsteel Bhd is Kin Kee Holdings Sdn Bhd, and the ultimate holding company of Kinsteel Bhd is Perniagaan Kin Kee Sdn Bhd, both the companies are incorporated in Malaysia. Perniagaan Kin Kee Sdn Bhd is controlled by Dato' Pheng Yin Huah who holds 57.6% of the share in the company.

	Financial year ended 31 December		4 months ended 30 April 2002
	2000 RM'000	2001 RM'000	RM'000
(a) Sales of goods and services			
Sales of goods to:			
- Perniagaan Kin Kee Sdn Bhd	1,746	976	-
- Kin Kee Marketing Sdn Bhd	185,300	230,497	80,667
- Kin Kee Transport Sdn Bhd		61	56
- Allied Jaya Sdn Bhd	14,419	1,879	728
Sales of services to:			
- Kin Kee Marketing Sdn Bhd	350	350	117
(b) Purchase of goods and services			
Purchase of goods from:			
- Kin Kee Hardware Sdn Bhd	344	731	111
- Kin Kee Metal Sdn Bhd	154	74	14
- Kin Kee Marketing Sdn Bhd	-	59	-
- Kuantan Metal and Machinery Parts Sdn Bhd	5,744	3,623	641
- Allied Jaya Sdn Bhd	-	31	-
- Amalgamated Metals Builders (M) Sdn Bhd	-	1,723	-
Purchase of services from:			
- Kin Kee Hardware Sdn Bhd	-	-	40
- Kin Kee Transport Sdn Bhd	1,184	1,373	649
- Harvard Vision Sdn Bhd	960	960	320
(c) Payment made on behalf by Kin Kee Marketing Sdn Bhd	438	533	147
(d) Advance to Harvard Vision Sdn Bhd	1,717	1,921	616

Note: No comparative figures from year 1997 to 1999 are presented as allowed under paragraph 29 of MASB 8 - Related Party Disclosures in respect of the first reporting period in which the reporting enterprise applies the requirements of this Standard.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****10 Significant transactions with related parties (continued)**

The outstanding balances for related party transactions as at year/period end are as follows:

	As at 31 December		As at 30 April
	2000	2001	2002
	RM'000	RM'000	RM'000
Payables			
- Kin Kee Hardware Sdn Bhd	140	594	161
- Kin Kee Metal Sdn Bhd	84	6	18
- Mutiara Besi Logam Sdn Bhd	-	-	1
- MBL Trading Sdn Bhd	-	63	-
- Kin Kee Transport Sdn Bhd	498	423	102
- Kuantan Metal and Machinery Parts Sdn Bhd	677	463	460
- Amalgamated Metal Builders (M) Sdn Bhd	12	190	102
Receivables			
- Mutiara Besi Logam Sdn Bhd	16	-	-
- Perniagaan Kin Kee Sdn Bhd	161	3	14
- Kin Kee Marketing Sdn Bhd	24,893	30,350	40,915
- Allied Jaya Sdn Bhd	6,981	184	-
- Harvard Vision Sdn Bhd	4,207	5,168	5,464

Dato' Pheng Yin Huah and Hong Thian Hock are directors and shareholders of Kin Kee Hardware Sdn Bhd, Kin Kee Metal Sdn Bhd, Perniagaan Kin Kee Sdn Bhd, Kin Kee Properties Sdn Bhd, Kin Kee Transport Sdn Bhd and Kuantan Metal and Machinery Parts Sdn Bhd.

Dato' Pheng Yin Huah was a director in Kien San Metal Sdn Bhd until he resigned on 4 December 2001. Hong Thian Hock is also a director in Kien San Metal Sdn Bhd.

Hong Cheng Guat is a shareholder in Kin Kee Metal Sdn Bhd and Kuantan Metal and Machinery Parts Sdn Bhd. She is also a Director in Mutiara Besi Logam Sdn Bhd, Kuantan Metal and Machinery Parts Sdn Bhd and Kien San Metal Sdn Bhd.

Lew Choon is a director in Mutiara Besi Logam Sdn Bhd and MBL Trading Sdn Bhd. He was a director in Kien San Metal Sdn Bhd until he resigned on 4 December 2001.

Pheng Chin Kiat is a director of Kin Kee Properties Sdn Bhd and also shareholder and director of Kuantan Metal and Machinery Parts Sdn Bhd.

Dato' Md Sharif bin Shamsuddin is a shareholder and director of Amalgamated Metal Builders (M) Sdn Bhd.

Pheng Chin Guan was a shareholder of Allied Jaya Sdn Bhd until 22 April 2002.

12. ACCOUNTANTS' REPORT (Cont'd)**Kinsteel Bhd and its Group ('Kinsteel Group')
Accountants' Report****10 Kinsteel Bhd ('Kinsteel')****10.5 Notes to the financial statements (continued)****10 Significant transactions with related parties (continued)**

A service agreement dated 22 April 1997 was entered into between Kinsteel Bhd and Dato' Pheng Yin Huah for the employment of Dato' Pheng Yin Huah as a Director and the Managing Director of Kinsteel Bhd from the date of the agreement until the determination by notice by either parties thereto. In consideration of his service, Dato' Pheng Yin Huah will be paid a monthly salary and a yearly bonus. The yearly bonus is calculated by the absolute value of the sum equivalent to seven percent of the Kinsteel Group's profit before tax for that financial year after deducting the salary paid or payable to Dato' Pheng Yin Huah during that financial year. The total remuneration paid or payable to Dato' Pheng Yin Huah and the amount payable as at end of years/period under this service agreement are as follows:

	Financial year ended 31 December		4 months ended 30 April
	2000 RM'000	2001 RM'000	2002 RM'000
Estimated money value of benefits-in-kind	13	24	4
Basic salaries, bonus and employee provident fund	778	868	179
	<u>791</u>	<u>892</u>	<u>183</u>
Amount payable to Dato' Pheng Yin Huah*	911	505	504

* The amount payable represent the balance of the yearly bonus payable within 21 days after the adoption of the audited financial statements of the Kinsteel Group at the Annual General Meeting and also the balance of the monthly salary.

11 Capital commitments

Capital expenditure not provided for in the financial statements 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
Approved and contracted for						
Purchases of property, plant and equipment	6,521	1,178	3,024	1,773	250	287
Purchases of raw materials	23,711	14,860	9,891	-	-	13,943
	<u>30,232</u>	<u>16,038</u>	<u>12,915</u>	<u>1,773</u>	<u>250</u>	<u>14,230</u>

12 Contingent liabilities, unsecured

At 30 April 2002, the Company has contingent liabilities in respect of guarantees issued to banks amounting RM8,700,000 for banking facilities extended to a subsidiary. It is anticipated that no material liabilities will arise as a result of these guarantees.

12. ACCOUNTANTS' REPORT (Cont'd)

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

10 Kinsteel Bhd ('Kinsteel')

10.5 Notes to the financial statements (continued)

13 Non cash transactions

The principal non cash transactions during the year/period is the acquisition of property, plant and equipment by means of instalment purchase plans (Note 1).

14 Financial instruments

(a) Forward foreign exchange contracts

As at 30 April 2002, the Company had a contract maturing on 31 May 2002, to purchase RM13,317,500 in foreign currency (USD3,500,000) at a forward rate of RM3.805 to USD1.

The fair value of the outstanding forward contracts of the Company at 30 April 2002 (Note 14(b)) for transactions that had been entered into would result in a favourable net position of RM16,800.

(b) Fair values

The carrying amounts of financial assets and liabilities of the Company at 30 April 2002 are approximately at their fair values except for the forward foreign exchange contracts which is at a favourable net position of RM16,800.

11 Statements of assets and liabilities

The audited statements of assets and liabilities for Kinsteel Bhd and its Group as at 30 April 2002 are set out in paragraph 9.2 and 10.2 wherein the balance sheets of the Group and Company are presented and these should be read in conjunction with the underlying notes to the financial statements.

12. ACCOUNTANTS' REPORT (Cont'd)

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

12 Events subsequent to balance sheet date 30 April 2002

Subsequent to the balance sheet date, the following events had eventuated:

1. The authorised share capital of Kinsteel Bhd was increased from RM50,000,000 to RM100,000,000 by creation of additional 50,000,000 new shares of RM1.00 each.
2. The issued and paid up ordinary share capital of RM1.00 each was also increased from RM17,211,439 to RM50,000,000 by the following ways:
 - a) Conversion of 4,800,003 RCPS of RM1.00 each 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.
 - b) Conversion of 2,571,433 SRCPS of RM1.00 each 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.
 - c) 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 newly issued shares rank pari passu in all respects with the existing issued shares.


Other than the above, we are not aware of any subsequent event which would require any amounts stated to be adjusted or any further disclosure that is required to be made in this report.

13 Audited financial statements

No audited financial statements have been prepared in respect of any period subsequent to 30 April 2002.

Yours faithfully,


PRICEWATERHOUSECOOPERS
[AF:1146]
Chartered Accountants


DATO CHEONG KEAP TAI
[1129/12/03(J/PH)]
Partner of the firm

Kuantan

13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



KINSTEEL BERHAD

(Company No.: 210470-M)

Office : Wisma Kin Kee, No. 5, Persiaran Sultan Abu Bakar, Kawasan Perindustrian Ringan IM 6, Bandar Indera Mahkota, 25200 Kuantan, Pahang Darul Makmur, Malaysia. Tel: 09-5733333 Fax: 09-5737988, 5733999
Factory : Lot 7, Kawasan Perindustrian Gebeng, 25740 Kuantan, Pahang Darul Makmur, Malaysia.
Tel: 09-5834773, 5834173 Fax: 09-5834673

Registered Office:

B-38, 1st Floor,
Lorong Sri Teruntum 139
Off Jalan Bukit Ubi
25200 Kuantan
Pahang Darul Makmur

20 September 2002

The Shareholders,
Kinsteel Berhad

Dear Sirs/Madam

On behalf of the Board of Directors, I report after due enquiry that during the period from 30 April 2002 (being the date to which the last audited accounts of the Company and its subsidiary companies have been made up) to 20 September 2002 (being a date not earlier than fourteen days before the issue of this Prospectus), that:

- (a) the business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company and its subsidiary companies;
- (c) the current assets of the Company and its subsidiary companies appear in the books at the value which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 11.2(iv) of this Prospectus, there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary companies; and
- (e) save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheets in this Prospectus, there have been no changes in the published reserves nor any unusual factors affecting the profit of the Company and its subsidiary companies since the last audited accounts of the Company and its subsidiary companies.

Yours faithfully
On behalf of the Board of Directors of
KINSTEEL BERHAD

Dato' Pheng Yin Huah
Managing Director