

THIS PROSPECTUS HAS BEEN SEEN AND APPROVED BY THE DIRECTORS AND PROMOTERS OF KINSTEEL BERHAD AND THE OFFERORS AND THEY COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION GIVEN AND CONFIRM THAT, AFTER HAVING MADE ALL REASONABLE ENQUIRIES, AND TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO FALSE OR MISLEADING STATEMENT OR OTHER FACTS THE OMISSION OF WHICH WOULD MAKE ANY STATEMENT HEREIN FALSE OR MISLEADING.

THE FINANCIAL ADVISER AND MANAGING UNDERWRITER ACKNOWLEDGES THAT, BASED ON ALL AVAILABLE INFORMATION, AND TO THE BEST OF ITS KNOWLEDGE AND BELIEF, THIS PROSPECTUS CONSTITUTES A FULL AND TRUE DISCLOSURE OF ALL MATERIAL FACTS CONCERNING THE PUBLIC ISSUE (AS DEFINED HEREIN) AND OFFER FOR SALE (AS DEFINED HEREIN) AND ARE SATISFIED THAT THE CONSOLIDATED PROFIT FORECAST (FOR WHICH THE DIRECTORS OF KINSTEEL BERHAD ARE FULLY RESPONSIBLE) PREPARED FOR INCLUSION IN THE PROSPECTUS HAS BEEN STATED BY THE DIRECTORS AFTER DUE AND CAREFUL ENQUIRY AND HAS BEEN DULY REVIEWED BY THE REPORTING ACCOUNTANTS.

THE SECURITIES COMMISSION ("SC") HAS APPROVED THE PUBLIC ISSUE AND OFFER FOR SALE AND ITS APPROVAL SHALL NOT BE TAKEN TO INDICATE THAT THE SC RECOMMENDS THE PUBLIC ISSUE AND OFFER FOR SALE. THE SC SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF KINSTEEL BERHAD AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS PROSPECTUS. **INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT.**

THE KUALA LUMPUR STOCK EXCHANGE ("KLSE") ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS PROSPECTUS. THE ADMISSION TO THE OFFICIAL LIST OF THE MAIN BOARD OF KLSE IS NOT TO BE TAKEN AS AN INDICATION OF THE MERITS OF KINSTEEL BERHAD OR OF ITS ORDINARY SHARES.

A COPY OF THIS PROSPECTUS HAS BEEN REGISTERED BY THE SC AND LODGED WITH THE COMPANIES COMMISSION OF MALAYSIA WHO TAKE NO RESPONSIBILITY FOR ITS CONTENTS.

INDICATIVE TIMETABLE

The indicative timing of events leading up to the listing of and quotation for the entire enlarged issued and paid-up share capital of Kinsteel on the Main Board of the KLSE is set out below:

Events	Date
Opening of the Application Lists	: 30 September 2002 (10 a.m.)
Closing of the Application Lists	: 14 October 2002 (8 p.m.) ⁽¹⁾
Tentative date for the balloting of applications	: 22 October 2002
Tentative date for the allotment of Kinsteel Shares to successful applicants	: 5 November 2002
Tentative date for the listing of Kinsteel Shares	: 12 November 2002

¹ *The Directors of Kinsteel and/or the Offerors may, at their absolute discretion, decide to extend the closing date for the Public Issue and Offer for Sale to a later date or dates.*

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DEFINITIONS

In this Prospectus, unless otherwise indicated, the following abbreviations shall apply throughout:

Act	-	The Companies Act, 1965 and any amendments thereto
ADA	-	Authorised Depository Agent
ADA Code	-	ADA (Broker) Code
AFTA	-	Asean Free Trade Area
Application Lists	-	List of applications for the IPO
Application Form(s)	-	The printed application form(s) for the application of the Issue Shares and Offer Shares accompanying this Prospectus
ATM	-	Automated teller machine
Bonus Issue	-	The bonus issue of 28,502,841 new Kinsteel Shares on the basis of approximately 1,326 new Kinsteel Shares for every 1,000 existing Kinsteel Shares held after the Conversion of Preference Shares
CCM	-	Companies Commission of Malaysia
CDS	-	Central Depository System
Conversion of Preference Shares	-	The conversion of 4,800,003 RCPS of RM1.00 each into 1,714,287 Kinsteel Shares credited as fully paid-up at RM2.80 per RCPS for 1 Kinsteel Share and 2,571,433 SRCPS of RM1.00 each into 2,571,433 Kinsteel Shares credited as fully paid-up at RM1.00 per SRCPS for 1 Kinsteel Share
EBITDA	-	Earnings before interest, taxation, depreciation and amortisation
Electronic Share Application	-	The application for the Issue Shares through a Participating Financial Institution's ATM
EPS	-	Earnings per share
FIC	-	Foreign Investment Committee
Financial Adviser	-	RHB Sakura, the financial adviser to the Company
Flotation Scheme	-	The Conversion of Preference Shares, Bonus Issue, Offer for Sale, Public Issue and Listing collectively
GDP	-	Gross Domestic Product
Harvard	-	Harvard Vision Sdn Bhd, a wholly-owned subsidiary of Kinsteel
IPO	-	Initial public offering of Kinsteel Shares comprising the Public Issue and Offer for Sale

DEFINITIONS *(Cont'd)*

Issue Shares	-	The 10,000,000 new Kinsteel Shares to be issued pursuant to the Public Issue
Kin Kee	-	Kin Kee Holdings Sdn Bhd
Kinsteel or Company	-	Kinsteel Berhad
Kinsteel Group or Group	-	Kinsteel and its subsidiaries
Kinsteel Shares or Shares	-	Ordinary shares of RM1.00 each in Kinsteel
KKM	-	Kin Kee Marketing Sdn Bhd, a wholly-owned subsidiary of Kinsteel
KLSE	-	Kuala Lumpur Stock Exchange
Listing	-	The listing of and quotation for Kinsteel's entire enlarged issued and paid-up share capital of RM60,000,000 comprising 60,000,000 Kinsteel Shares on the Main Board of the KLSE
Major Shareholders	-	Any person(s) who has an interest or interests in one or more voting shares in the company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than 5% of the aggregate of the nominal amounts of all the voting shares in the company
Managing Underwriter	-	RHB Sakura, the managing underwriter in respect of the Public Issue
MCD	-	Malaysian Central Depository Sdn Bhd
MIDFCCS or the Issuing House	-	MIDF Consultancy and Corporate Services Sendirian Berhad
MISIF	-	Malaysian Iron and Steel Industry Federation
MITI	-	Ministry of International Trade and Industry
mm	-	millimetres
mt	-	metric tonnes
NTA	-	Net tangible assets
Offer for Sale	-	The offer for sale by the Offerors of 5,100,000 Kinsteel Shares at an offer price of RM1.80 per ordinary share, payable in full on application
Offer Shares	-	5,100,000 Kinsteel Shares to be offered by the Offerors pursuant to the Offer for Sale

DEFINITIONS *(Cont'd)*

Offerors	-	The Major Shareholders of Kinsteel making the Offer for Sale, namely:	
			No. of Offer Shares
		Kin Kee	3,557,081
		SPSB	1,542,919
			<u>5,100,000</u>
Participating Financial Institution(s)	-	The participating financial institution(s) for Electronic Share Application as listed in Section 15 of this Prospectus	
PE Multiple	-	Price earnings multiple	
Placement Agent	-	RHB Sakura, the placement agent in respect of the Public Issue	
Public Issue	-	Public issue of 10,000,000 new Kinsteel Shares at an issue price of RM1.80 per new ordinary share, payable in full on application	
RCPS	-	Redeemable convertible preference shares of RM1.00 each in Kinsteel	
RHB Sakura	-	RHB Sakura Merchant Bankers Berhad	
RM and sen	-	Ringgit Malaysia and sen respectively	
SC	-	Securities Commission	
SIRIM	-	SIRIM Berhad, formerly known as Standard and Industrial Research Institute of Malaysia	
SPSB	-	Sumber Perindu Sdn Bhd	
SRCPS	-	Special redeemable convertible preference shares of RM1.00 each in Kinsteel	
Underwriters	-	RHB Sakura, OSK Securities Berhad, TA Securities Berhad and AmSecurities Sdn Bhd (<i>formerly known as Arab-Malaysian Securities Sdn Bhd</i>), the underwriters in respect of the Public Issue	

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I. CORPORATE DIRECTORY**DIRECTORS**

Name	Address	Occupation	Nationality
Dato' Md Sharif bin Shamsuddin <i>(Non-Executive Chairman)</i>	No. 15, Lorong IM 5/7 Bandar Indera Mahkota 25200 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Dato' Pheng Yin Huah <i>(Managing Director)</i>	No. 2, Lorong Kubang Buaya 89 25250 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Henry Pheng Chin Guan <i>(Chief Executive Officer)</i>	No. 2, Lorong Kubang Buaya 89 25250 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Hong Thian Hock <i>(Executive Director)</i>	No. 11, Jalan Kampung Jawa 25200 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Lew Choon <i>(Executive Director)</i>	No. 25, Lorong Pelindung 77 Taman Pelindung Aman 25300 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Hong Cheng Guat <i>(Executive Director)</i>	No. 25, Lorong Pelindung 77 Taman Pelindung Aman 25300 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Pheng Chin Kiat <i>(Executive Director)</i>	A-5188, Lorong Kubang Buaya 80 25250 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Kamaruddin bin Koskani Abdul Hamid <i>(Non-Executive Director)</i>	No. 36, Lorong Permatang Badak Baru 19 Perumahan Bukit Rangin 25150 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Pheng Chin Huat <i>(Non-Executive Director)</i>	No. 29 Jalan BU 11/1A Bandar Utama 47800 Petaling Jaya Selangor	Company Director	Malaysian
Rahadian Mahmud bin Mohammad Khalil <i>(Independent Non-Executive Director)</i>	Unit 313, Villa Aman Condominium Jalan Ritchie 55000 Kuala Lumpur	Company Director	Malaysian
Shamsudin @ Samad bin Kassim <i>(Independent Non-Executive Director)</i>	No. 53 Jalan SS3/33 Kelana Jaya 47300 Petaling Jaya Selangor	Company Director	Malaysian

1. CORPORATE DIRECTORY (Cont'd)

Name	Address	Occupation	Nationality
Kan Wai Mun <i>(Independent Non-Executive Director)</i>	A-1035 Taman Selamat 25050 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Chong Hoi Sheong @ Chong Hoi Cheong <i>(Independent Non-Executive Director)</i>	No. 3 Lorong Galing 16 Off Jalan Haji Ahmad 25300 Kuantan Pahang Darul Makmur	Company Director	Malaysian
Pheng Chin Shiun <i>(Alternate Director to Hong Cheng Guat)</i>	No. 35 Jalan BU 11/1A Bandar Utama 47800 Petaling Jaya Selangor	Company Director	Malaysian

AUDIT COMMITTEE

Name	Designation	Directorship
Shamsudin @ Samad bin Kassim	Chairman	Independent Non-Executive Director
Rahadian Mahmud bin Mohammad Khalil	Member	Independent Non-Executive Director
Henry Pheng Chin Guan	Member	Chief Executive Officer

COMPANY SECRETARIES

: Yeo Chee Liang
(MACS No. 00429)
A-5066, Taman Sri Kuantan
25250 Kuantan
Pahang Darul Makmur

Yong Kim Ling
(MACS No. 00911)
A-5262, Taman Jaya
Lorong Tok Sira 8
25050 Kuantan
Pahang Darul Makmur

REGISTERED OFFICE

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

MANAGEMENT OFFICE

: Wisma Kin Kee
No. 5, Persiaran Sultan Abu Bakar
Kawasan Perindustrian Ringan IM 6
Bandar Indera Mahkota
25200 Kuantan
Pahang Darul Makmur
Tel : 09 – 573 3333

1. CORPORATE DIRECTORY (Cont'd)

PRINCIPAL BANKERS	<p>: RHB Bank Berhad No. 45, Jalan Telok Sisek 25000 Kuantan Pahang Darul Makmur</p> <p>Bumiputra-CommerceBank Berhad Lot 32 Jalan Bank 25000 Kuantan Pahang Darul Makmur</p> <p>Hong Leong Bank Berhad No. 25 Jalan Tun Ismail 25000 Kuantan Pahang Darul Makmur</p> <p>Bank Muamalat Malaysia Bhd B-114 & B-116 Lorong Tun Ismail 9 Sri Dagangan 2 25000 Kuantan Pahang Darul Makmur</p>
AUDITORS AND REPORTING ACCOUNTANTS	<p>: PricewaterhouseCoopers Chartered Accountants 3rd Floor, HSBC Bank Building No. 1 Jalan Mahkota 25000 Kuantan Pahang Darul Makmur</p>
SOLICITORS FOR THE FLOTATION SCHEME	<p>: Jeff Leong, Poon & Wong Advocates & Solicitors A-11-3A, Level 11, Megan Phileo Avenue Jalan Yap Kwan Seng 50450 Kuala Lumpur</p>
ISSUING HOUSE	<p>: MIDF Consultancy and Corporate Services Sendirian Berhad Tingkat 12 Bangunan MIDF 195A Jalan Tun Razak 50400 Kuala Lumpur</p>
REGISTRAR	<p>: Tenaga Koperat Sdn Bhd 20th Floor, Plaza Permata Jalan Kampar Off Jalan Tun Razak 50400 Kuala Lumpur</p>
FINANCIAL ADVISER, MANAGING UNDERWRITER AND PLACEMENT AGENT	<p>: RHB Sakura Merchant Bankers Berhad Level 8, Tower Three RHB Centre, Jalan Tun Razak 50400 Kuala Lumpur</p>

1. CORPORATE DIRECTORY (Cont'd)

UNDERWRITERS	:	RHB Sakura Merchant Bankers Berhad Level 8, Tower Three RHB Centre, Jalan Tun Razak 50400 Kuala Lumpur
		AmSecurities Sdn Bhd (<i>formerly known as Arab-MalaysianSecurities Sdn Bhd</i>) 15 th Floor Bangunan AmBank Group 55 Jalan Raja Chulan 50200 Kuala Lumpur
		OSK Securities Berhad 20 th Floor Plaza OSK Jalan Ampang 50450 Kuala Lumpur
		TA Securities Berhad 34 th Floor Menara TA One No 22 Jalan P. Ramlee 50250 Kuala Lumpur
LISTING SOUGHT	:	Main Board of the KLSE

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2. SUMMARY INFORMATION

THE INFORMATION SET OUT BELOW IS A SUMMARY OF THE SALIENT INFORMATION ABOUT THE KINSTEEL GROUP AND INVESTORS SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER TO INVEST IN KINSTEEL SHARES.

2.1 HISTORY AND BUSINESS

Kinsteel was incorporated in Malaysia under the Act, on 3 January 1991 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. The Company was subsequently converted into a public limited company and adopted its present name on 25 April 1997.

Kinsteel is principally involved in the manufacture and trading of iron, steel bars and related products and investment holding.

The wholly-owned subsidiary companies of Kinsteel and their principal activities are as follows:

Subsidiary Company	Principal Activities
KKM	Trading of iron, steel bars and related products
Harvard	Property investment

Further information on the history and business of the Kinsteel Group is set out in Section 6 of this Prospectus.

2.2 INFORMATION ON PROMOTERS, MAJOR SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT

(i) Promoters

The promoters of Kinsteel and their shareholdings in the Company, after the Public Issue and Offer for Sale, are as follows:

Name	After Public Issue and Offer for Sale			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
Dato' Pheng Yin Huah	30,000 ¹	0.05	31,024,256 ²	51.7
Hong Thian Hock	30,000 ¹	0.05	31,024,256 ²	51.7
SPSB	13,457,084	22.4	-	-

Notes:

1. Allocation of Kinsteel Shares under the "pink form".
2. Deemed interested by virtue of his direct interest in Perniagaan Kin Kee Sdn Bhd, which in turn owns more than 15% in Kin Kee, the immediate holding company of Kinsteel.

2. SUMMARY INFORMATION (Cont'd)

(ii) Major Shareholders

The Major Shareholders of Kinsteel and their shareholdings in the Company, after the Public Issue and Offer for Sale, are as follows:

Name	After Public Issue and Offer for Sale		Indirect	
	Direct No. of Shares	%	No. of Shares	%
Kin Kee	31,024,256	51.7	-	-
Perniagaan Kin Kee Sdn Bhd	-	-	31,024,256 ¹	51.7
Dato' Pheng Yin Huah	30,000 ⁴	0.05	31,024,256 ²	51.7
Hong Thian Hock	30,000 ⁴	0.05	31,024,256 ²	51.7
SPSB	13,457,084	22.4	-	-
Yayasan Pahang	-	-	13,457,084 ³	22.4

Notes:

1. Deemed interested by virtue of its direct interest in Kin Kee, the immediate holding company of Kinsteel.
2. Deemed interested by virtue of his direct interest in Perniagaan Kin Kee Sdn Bhd, which in turn owns more than 15% in Kin Kee, the immediate holding company of Kinsteel.
3. Deemed interested by virtue of its direct interest in SPSB.
4. Allocation of Kinsteel Shares under the "pink form".

(iii) Directors

The directors of Kinsteel and their shareholdings in the Company, after the Public Issue and Offer for Sale, are as follows:

Name	Designation	After Public Issue and Offer for Sale		Indirect	
		Direct No. of Shares	%	No. of Shares	%
Dato' Md Sharif bin Shamsuddin	Non-Executive Chairman	30,000 ¹	0.05	-	-
Dato' Pheng Yin Huah	Managing Director	30,000 ¹	0.05	31,024,256 ²	51.7
Henry Pheng Chin Guan	Chief Executive Officer	30,000 ¹	0.05	-	-
Hong Thian Hock	Executive Director	30,000 ¹	0.05	31,024,256 ²	51.7
Lew Choon	Executive Director	30,000 ¹	0.05	-	-
Hong Cheng Guat	Executive Director	30,000 ¹	0.05	-	-
Pheng Chin Kiat	Executive Director	30,000 ¹	0.05	-	-
Kamaruddin bin Koskani Abdul Hamid	Non-Executive Director	30,000 ¹	0.05	-	-
Pheng Chin Huat	Non-Executive Director	30,000 ¹	0.05	-	-
Rahadian Mahmud bin Mohd Khalil	Independent Non-Executive Director	30,000 ¹	0.05	-	-
Shamsudin @ Samad bin Kassim	Independent Non-Executive Director	30,000 ¹	0.05	-	-
Kan Wai Mun	Independent Non-Executive Director	30,000 ¹	0.05	-	-
Chong Hoi Sheong @ Chong Hoi Cheong	Independent Non-Executive Director	30,000 ¹	0.05	-	-
Pheng Chin Shiun (alternate to Hong Cheng Guat)	Alternate Director	30,000 ¹	0.05	-	-

2. SUMMARY INFORMATION (Cont'd)

Notes:

1. Allocation of Kinsteel Shares under the "pink form".
2. Deemed interested by virtue of his direct interest in Perniagaan Kin Kee Sdn Bhd, which in turn owns more than 15% in Kin Kee, the immediate holding company of Kinsteel.

(iv) Key Management

The key management personnel of Kinsteel and their sharcholdings in the Company, after the Public Issue and Offer for Sale, are as follows:

Name	Designation	After Public Issue and Offer for Sale			
		Direct		Indirect	
		No. of Shares	%	No. of Shares	%
Dato' Pheng Yin Huah	Managing Director	30,000 ¹	0.05	31,024,256 ²	51.7
Henry Pheng Chin Guan	Chief Executive Officer	30,000 ¹	0.05	-	-
Hong Thian Hock	Executive Director	30,000 ¹	0.05	31,024,256 ²	51.7
Lew Choon	Executive Director	30,000 ¹	0.05	-	-
Hong Cheng Guat	Executive Director	30,000 ¹	0.05	-	-
Teh Foo Hock	Group Accountant	30,000 ¹	0.05	-	-
Chiang Yook Onn @ Chiang John	General Manager of Production Division of Kinsteel	30,000 ¹	0.05	-	-
Goh Yoke Lan @ Goh Mei Leng	Group Credit Controller	30,000 ¹	0.05	-	-

Notes:

1. Allocation of Kinsteel Shares under the "pink form".
2. Deemed interested by virtue of his direct interest in Perniagaan Kin Kee Sdn Bhd, which in turn owns more than 15% in Kin Kee, the immediate holding company of Kinsteel.

Further information on the promoters, Major Shareholders, directors and key management of Kinsteel Group is set out in Section 7 of this Prospectus.

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2. SUMMARY INFORMATION (Cont'd)

2.3 FINANCIAL INFORMATION

The table below, which is extracted from the Accountants' Report in Section 12 of this Prospectus and should be read in conjunction with the notes thereto, sets out a summary of the consolidated audited results of the Group for the five (5) financial years ended 31 December 2001 and the 4-month period ended 30 April 2002 which had been adjusted for changes in bases and accounting principles to be consistent with those adopted in the preparation of the audited financial statements for the 4-month period ended 30 April 2002 and in accordance with the applicable approved accounting standards in Malaysia.

	Financial year ended 31 December					4-month period ended
	1997	1998	1999	2000	2001	30 April 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	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	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
Weighted average number of ordinary shares ('000)						
- 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
EPS (sen)						
- basic	68	21	67	58	57	59*
- fully diluted	58	17	54	46	46	47*
EBITDA	13,959	15,146	24,686	23,855	23,800	8,096

* Annualised

Notes:

1. The increase in turnover in 1998 was mainly attributable to the commissioning of 3 additional new mills which commenced production in 1998. Despite an increase in turnover, profit before tax decreased mainly due to higher interest expense. In addition, the Company suffered a loss on foreign exchange of approximately RM3.085 million during the year.
2. The significant increase in turnover in 1999 was mainly due to an increase in demand for steel bars following the revival of infrastructure projects in Malaysia. The significant increase in profit before tax was in line with the increase in turnover.
3. The significant increase in turnover in 2000 was mainly due to an increase in the sales of iron ores on an ad-hoc basis. Despite an increase in turnover, profit before taxation decreased mainly due to a decrease in the selling price of steel bars.
4. In 2001, Kinsteel was able to maintain its financial performance and experienced only a slight decrease in turnover as compared to the preceding year. The slight decrease in profit before taxation was in line with the decrease in turnover.

2. SUMMARY INFORMATION (Cont'd)

5. *The decrease in turnover on an annualised basis for the 4-month period ended 30 April 2002 was mainly due to slower sales at the beginning of the year as a result of the festive seasons. Despite a decrease in turnover, profit before taxation on an annualised basis increased mainly due to an increase in the selling price of steel bars.*
6. *The other income mainly consists of interest income, rental income, gain on disposal of fixed assets and realised gain on foreign exchange.*
7. *There were no extraordinary items and exceptional items during the financial years under review.*
8. *The basic net EPS is calculated based on the weighted average fully paid-up ordinary shares in issue.*
9. *The fully diluted net EPS is calculated based on the weighted average fully paid-up ordinary shares in issue and the weighted average ordinary shares arising from the conversion of fully paid-up RCPS and SRCPS into ordinary shares.*
10. *For the past 5 financial years ended 31 December 2001 and the 4-month period ended 30 April 2002, the effective rate of taxation of the Group was lower than the statutory tax rate due to capital allowances and reinvestment allowances granted to the Company. There was no taxation charge on chargeable income for the financial year ended 31 December 1999 due to the tax waiver granted pursuant to Section 8 of the Income Tax (Amendment) Act, 1999.*
11. *The results in all the financial years under review were not subject to any auditors' qualification.*

Further information on the financial information of the Kinsteel Group is set out in Sections 11 and 12 of this Prospectus.

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2. SUMMARY INFORMATION (Cont'd)

2.4 PROFORMA CONSOLIDATED BALANCE SHEET

The proforma consolidated balance sheet of Kinsteel as at 30 April 2002 set out below has been prepared for illustrative purposes only to show the effects of the Flotation Scheme on the balance sheet of the Group as at 30 April 2002 had the Flotation Scheme been effected on that date.

	Audited consolidated balance sheet as at 30 April 2002 RM'000	Proforma I After Conversion of Preference Shares RM'000	Proforma II After Proforma I and Bonus Issue RM'000	Proforma III After Proforma II and Public Issue RM'000
Non current assets				
Property, plant and equipment	119,905	119,905	119,905	119,905
Current assets				
Inventories	22,912	22,912	22,912	22,912
Receivables, deposits and prepayments	56,815	56,815	56,815	56,815
Tax recoverable	68	68	68	68
Deposits, bank and cash balances	16,724	16,724	16,724	16,724
	<u>96,519</u>	<u>96,519</u>	<u>96,519</u>	<u>96,519</u>
Less: Current liabilities				
Payables	15,449	15,449	15,449	15,449
Borrowings (interest bearing)	93,733	93,733	93,733	84,228
Current tax liabilities	271	271	271	271
	<u>109,453</u>	<u>109,453</u>	<u>109,453</u>	<u>99,948</u>
Net current liabilities	<u>(12,934)</u>	<u>(12,934)</u>	<u>(12,934)</u>	<u>(3,429)</u>
Less: Non current liabilities				
Borrowings (interest bearing)	22,661	22,661	22,661	15,966
Deferred tax liabilities	13	13	13	13
	<u>22,674</u>	<u>22,674</u>	<u>22,674</u>	<u>15,979</u>
	<u>84,297</u>	<u>84,297</u>	<u>84,297</u>	<u>100,497</u>
Capital and reserves				
Share capital	24,583	21,497	50,000	60,000
Share premium	-	3,086	-	6,200
Retained earnings	59,714	59,714	34,297	34,297
Shareholders' equity	<u>84,297</u>	<u>84,297</u>	<u>84,297</u>	<u>100,497</u>
NTA per ordinary share (RM)	4.47	3.92	1.69	1.67

The proforma consolidated balance sheet as at 30 April 2002, the notes thereto and the Reporting Accountants' letter are set out in Sections 11.5 and 11.6 of this Prospectus respectively.

2. SUMMARY INFORMATION (Cont'd)

2.5 CONSOLIDATED PROFIT FORECAST

Year ending 31 December 2002		Forecast
Consolidated profit before taxation	(RM'000)	12,655
Consolidated profit after taxation	(RM'000)	11,024
Weighted average number of shares in issue	('000)	48,830 ¹
Enlarged issued and paid-up share capital	('000)	60,000
Gross EPS	(sen)	25.9 ¹
Net EPS	(sen)	22.6 ¹
Fully diluted gross EPS	(sen)	21.1 ²
Fully diluted net EPS	(sen)	18.4 ²
Gross PE Multiple based on issue/offer price of RM1.80 per Share	(times)	6.9 ¹
Net PE Multiple based on issue/offer price of RM1.80 per Share	(times)	8.0 ¹
Fully diluted gross PE Multiple based on issue/offer price of RM1.80 per Share	(times)	8.5 ²
Fully diluted net PE Multiple based on issue/offer price of RM1.80 per Share	(times)	9.8 ²

Notes:

1. Based on the weighted average number of 48,829,742 Kinsteel Shares during the financial year on the assumption that the Public Issue is completed by 31 October 2002.
2. Based on the enlarged share capital of 60,000,000 Kinsteel Shares.

The consolidated profit forecast of the Kinsteel Group for the financial year ending 31 December 2002 and the Reporting Accountants' letter are set out in Sections 11.3.1 and 11.3.3 of this Prospectus respectively.

2.6 DIVIDEND FORECAST

Year ending 31 December 2002		Forecast
Tax exempt dividend per Share	(sen)	3.0
Tax exempt dividend yield based on the issue/offer price of RM1.80 per Share	(%)	1.7
Net dividend cover	(times)	6.1

Further information on the dividend forecast is set out in Section 11.4 of this Prospectus.

2. SUMMARY INFORMATION *(Cont'd)*

2.7 PROFORMA GROUP NTA

Proforma Group NTA as at 30 April 2002 <i>(after Public Issue and deducting estimated listing expenses of RM1.8 million)</i>	(RM'000)	100,497
Proforma Group NTA per Share <i>(Based on the enlarged share capital of 60,000,000 Kinsteel Shares)</i>	(RM)	1.67

2.8 SHARE CAPITAL

	RM
<i>Authorised:</i>	
100,000,000 ordinary shares of RM1.00 each	100,000,000
<i>Issued and fully paid-up:</i>	
50,000,000 ordinary shares of RM1.00 each	50,000,000
<i>To be issued and fully paid-up pursuant to the Public Issue:</i>	
10,000,000 new ordinary shares of RM1.00 each	10,000,000
	<u>60,000,000</u>
<i>To be offered for sale pursuant to the Offer for Sale:</i>	
5,100,000 ordinary shares of RM1.00 each	<u>5,100,000</u>

The issue/offer price is RM1.80 per Issue/Offer Share.

There is only one class of shares in Kinsteel, namely ordinary shares of RM1.00 each. The Issue Shares and Offer Shares will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends that may be declared subsequent to the date of this Prospectus.

Further information on principal statistics relating to the Public Issue and Offer for Sale is set out in Section 3.2 of this Prospectus.

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2. SUMMARY INFORMATION *(Cont'd)*

2.9 RISK FACTORS

The following are some of the main risks factors (which may not be exhaustive) as extracted from Section 4 of this Prospectus which applicants for the Issue Shares and Offer Shares should carefully consider in addition to other information contained elsewhere in this Prospectus before applying for the Issue Shares and Offer Shares. For a more detailed commentary, please refer to Section 4 of this Prospectus.

- (i) No prior market for Kinsteel Shares
- (ii) Capital market risks
- (iii) Business risks
- (iv) Supply of raw materials
- (v) Economic and political considerations
- (vi) Dependence on the construction and infrastructure sectors
- (vii) Competition
- (viii) Licensing risks
- (ix) Government controlled pricing
- (x) Impact of AFTA
- (xi) Dependence on key personnel
- (xii) Borrowings
- (xiii) Controlling shareholders
- (xiv) Related party transactions
- (xv) Achievability of forward-looking statements

2.10 UTILISATION OF PROCEEDS

The gross proceeds receivable by Kinsteel from the Public Issue amounting to RM18,000,000 will be utilised as follows:

	RM
Repayment of bank borrowings	8,123,000
Working capital	8,077,000
Defray estimated listing expenses	1,800,000
	<u>18,000,000</u>

No parts of the proceeds of the Offer for Sale are receivable by Kinsteel. The gross proceeds of the Offer for Sale of RM9,180,000 will accrue entirely to the Offerors.

Further information on the utilisation of proceeds of the Public Issue and Offer for Sale is set out in Section 3.7 of this Prospectus.

2.11 MATERIAL LITIGATION, CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

(i) Material Litigation

Neither Kinsteel nor any of its subsidiaries is engaged in any litigation, either as plaintiff or defendant, which has a material effect on the financial position of Kinsteel or any of its subsidiaries and the Directors do not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of Kinsteel or any of its subsidiaries.

2. SUMMARY INFORMATION (Cont'd)

(ii) Capital Commitments

Save as disclosed below, as at 16 September 2002 (being the latest practicable date prior to the issue of this Prospectus), the Directors of Kinsteel are not aware of any capital commitments which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

Approved and not contracted for	RM'000
Purchases of property, plant and equipment	1,456
Purchases of raw materials	18,610
	<u>20,066</u>

(iii) Contingent Liabilities

As at 16 September 2002 (being the latest practicable date prior to the issue of this Prospectus), save for an unsecured corporate guarantee for credit facilities granted to a subsidiary company amounting to RM8,700,000, the Directors of Kinsteel are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

Further information on the material litigation, capital commitments and contingent liabilities is set out in Section 11.2 of this Prospectus.

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3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE

3.1 INTRODUCTION

This Prospectus is dated 30 September 2002.

A copy of this Prospectus has been registered by the SC and lodged with the CCM and neither the SC nor the CCM takes any responsibility for its contents.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the KLSE has prescribed Kinsteel as a prescribed security. In consequence thereof, the Kinsteel Shares issued/offered through this Prospectus will be deposited directly with the MCD and any dealings in these Kinsteel Shares will be carried out in accordance with the aforesaid Act and the Rules of the MCD.

An application will be made to the KLSE within 3 market days from the date of this Prospectus for admission to the Official List of the Main Board of the KLSE and for permission to deal in and for quotation of the entire enlarged issued and paid-up share capital of the Company, including the Issue Shares and Offer Shares which are the subject of this Prospectus. These Kinsteel Shares will be admitted to the Official List of the Main Board of the KLSE and official quotation will commence after the receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all the successful applicants.

Acceptance of applications will be conditional upon permission being granted by the KLSE to deal in and for the quotation of the entire enlarged issued and fully paid-up share capital of Kinsteel on the Main Board of the KLSE. Accordingly, monies paid in respect of any application accepted from the Public Issue and Offer for Sale will be returned, without interest, if the said permission is not granted, within 6 weeks from the date of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of the KLSE within the aforesaid timeframe.

In the case of an application by way of Application Form, an applicant should state his/her CDS Account number in the space provided in the Application Form if he/she presently has such an account. Where an applicant does not presently have a CDS Account, he/she should state in the Application Form his/her preferred ADA Code. Where an applicant already has a CDS Account, he/she should not complete the preferred ADA Code. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS Account can make an Electronic Share Application, and the applicant shall furnish his/her CDS account number to the Participating Financial Institution by way of keying in his/her CDS account number if the instructions on the ATM screen at which he/she enters his/her Electronic Share Application requires him/her to do so. A corporation or institution cannot apply for the Issue Shares and Offer Shares by way of Electronic Share Application.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and Offer for Sale and if given or made, such information or representation must not be relied upon as having been authorised by Kinsteel and/or the Offerors. Neither the delivery of this Prospectus nor any issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Kinsteel or the Group since the date hereof.

The distribution of this Prospectus and the sale of the Issue Shares and Offer Shares in other jurisdictions may be restricted by law. Persons into whose possession this Prospectus may come are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation of an offer to buy or offer to sell any of the Issue Shares and Offer Shares in any jurisdiction in which such invitation or offer is not authorised or lawful or to any persons to whom it is unlawful to make such an invitation or offer.

If you are in any doubt about this Prospectus, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

3.2 SHARE CAPITAL

	RM
<i>Authorised:</i> 100,000,000 ordinary shares of RM1.00 each	100,000,000
<i>Issued and fully paid-up:</i> 50,000,000 ordinary shares of RM1.00 each	50,000,000
<i>To be issued and fully paid-up pursuant to the Public Issue:</i> 10,000,000 new ordinary shares of RM1.00 each	10,000,000
	60,000,000
<i>To be offered for sale pursuant to the Offer for Sale:</i> 5,100,000 ordinary shares of RM1.00 each	5,100,000

The issue/offer price of RM1.80 per Issue/Offer Share is payable in full upon application.

There is only one class of shares in the Company, namely, ordinary shares of RM1.00 each. The Issue Shares and Offer Shares will rank *pari passu* in all respects with the existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and in respect of the whole of any surplus in the event of liquidation of the Company, in accordance with the Articles of Association of the Company.

At any general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each share held. A proxy may but need not be a member of the Company.

3.3 PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE

The Public Issue and Offer for Sale are subject to the terms and conditions of this Prospectus and upon acceptance will be allocated in the following manner:

(i) **Bumiputera investors approved by MITI**

5,100,000 Offer Shares have been reserved for Bumiputera investors approved by MITI;

(ii) **Eligible Directors, employees and customers of Kinsteel Group**

3,000,000 Issue Shares have been reserved for eligible Directors, employees and customers of the Kinsteel Group.

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

(iii) Private Placement

5,000,000 Issue Shares will be placed with Malaysian investors by the Placement Agent of which at least 30% is to be placed, to the extent possible, to Bumiputera investors; and

(iv) Malaysian public

2,000,000 Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives and institutions.

The Offer Shares in respect of paragraph (i) above are not required to be underwritten and are therefore not underwritten. The Issue Shares in respect of paragraph (iii) above need not be underwritten as irrevocable undertakings to subscribe for the said Issue Shares have been given by the identified places.

The Issue Shares made available to the Malaysian public as stipulated in paragraph (iv) above have been fully underwritten. Any Issue Shares in respect of paragraph (ii) above not subscribed for by the eligible Directors, employees, and customers of the Kinsteel Group will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions and will be underwritten by the Managing Underwriter.

There is no minimum subscription amount to be raised from the Public Issue as the Issue Shares made available for application by the Malaysian public and any Issue Shares not subscribed for by the eligible Directors, employees and customers of Kinsteel Group would have been fully underwritten.

3.4 CRITICAL TIMING OF EVENTS

The indicative timing of events leading up to the listing of and quotation for the entire enlarged issued and paid-up share capital of Kinsteel on the Main Board of the KLSE is set out below:

Events	Date
Opening of the Application Lists	: 30 September 2002 (10 a.m.)
Closing of the Application Lists	: 14 October 2002 (8 p.m.) ⁽¹⁾
Tentative date for the balloting of applications	: 22 October 2002
Tentative date for the allotment of Kinsteel Shares to successful applicants	: 5 November 2002
Tentative date for the listing of Kinsteel Shares	: 12 November 2002

1. *The Directors of Kinsteel and/or the Offerors may, at their absolute discretion, decide to extend the closing date for the Public Issue and Offer for Sale to a later date or dates.*

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

3.5 PURPOSES OF THE PUBLIC ISSUE AND OFFER FOR SALE

The purposes of the Public Issue and the Offer for Sale are as follows:

- (i) To provide an opportunity for the Malaysian public, eligible Directors, employees and customers of the Kinsteel Group to participate in the continuing growth of the Group by way of equity participation.
- (ii) To enable Kinsteel to gain access to the capital market in order to tap external sources of funding for future expansion and continued growth.
- (iii) To comply with the National Development Policy by providing an opportunity for Bumiputera investors and institutions approved by MITI to participate in the equity of Kinsteel.
- (iv) To obtain a listing of and quotation for the entire issued and paid-up share capital of Kinsteel on the Main Board of the KLSE.

3.6 BASIS OF ARRIVING AT THE ISSUE/OFFER PRICE

The issue/offer price of RM1.80 per share was determined and agreed upon by the Company, the Offerors and RHB Sakura as the Financial Adviser and Managing Underwriter based on various factors after taking into account the following:

- (i) the forecast net PE multiple of approximately 9.8 times based on the forecast consolidated net EPS of Kinsteel of approximately 18.4 sen for the financial year ending 31 December 2002 computed based on the enlarged share capital of 60,000,000 Kinsteel Shares and the issue/offer price of RM1.80 per Share;
- (ii) a premium of RM0.13 or 7.8% over the proforma NTA per Share of Kinsteel as at 30 April 2002 Group of RM1.67;
- (iii) the forecast tax-exempt dividend yield of approximately 1.7% based on the forecast tax-exempt dividend per Share of Kinsteel of 3.0 sen for the financial year ending 31 December 2002 and the issue/offer price of RM1.80 per Share;
- (iv) the Group's operating and financial history and conditions as described in Sections 6 and 11 respectively of this Prospectus;
- (v) the future plans and prospects of the Group as described in Section 6 of this Prospectus; and
- (vi) the prevailing market condition.

However, investors should note that the market price of Kinsteel upon listing on the KLSE are subject to the vagaries of market forces and other uncertainties which may affect the price of Kinsteel Shares being traded.

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**3.7 PROCEEDS OF THE PUBLIC ISSUE AND OFFER FOR SALE**

The gross proceeds receivable by Kinsteel from the Public Issue amounting to RM18,000,000 will be utilised as follows:

	Note	RM
Repayment of bank borrowings	(i)	8,123,000
Working Capital	(ii)	8,077,000
Defray estimated listing expenses	(iii)	1,800,000
		18,000,000

(i) Repayment of bank borrowings

As at 16 September 2002, the Group's total borrowings amounted to approximately RM109.3 million. Approximately RM8.1 million of the proceeds raised from the Public Issue will be utilised to retire Kinsteel's bank borrowing. The proposed retirement of bank borrowings amounting to RM8.1 million represents 7.4% of the Group's total borrowings as at 16 September 2002. Based on the current prevailing interest rate applicable to the Kinsteel Group's borrowings of approximately 8.2% per annum, the repayment is expected to contribute an interest savings of approximately RM155,000 to the Group for the financial year ending 31 December 2002.

(ii) Working Capital

The proceeds from the Public Issue earmarked for working capital will be solely used to retire Kinsteel's trust receipts and/or bankers acceptance which are used to purchase raw materials. The Group's total short term borrowings (which includes trust receipts and bankers acceptance) as at 16 September 2002 amounted to RM80.4 million. Based on the current prevailing interest rate applicable to the Kinsteel Group's trust receipts and/or bankers acceptance of approximately 4.6% per annum, the interest savings arising from the repayment is expected to be approximately RM62,000 for the financial year ending 31 December 2002.

(iii) Defray estimated expenses of the Flotation Scheme

Kinsteel will bear all expenses incidental to the listing of and quotation for the entire enlarged share capital of Kinsteel on the Main Board of the KLSE as follows:

	RM
Estimated professional fees	600,000
Authorities' fees	110,000
Advertisement and printing of Prospectus	300,000
Brokerage, underwriting commission and placement fee	300,000
Issuing House's fees	100,000
Contingencies	390,000
Total	1,800,000

In the event the actual listing expenses are less than RM1,800,000, the balance will be utilised for working capital purposes.

The gross proceeds of RM18,000,000 arising from the Public Issue is expected to be fully utilised for the above purposes within 1 month from the receipt of the proceeds.

The gross proceeds of RM9,180,000 arising from the Offer for Sale will accrue entirely to the Offerors and no part will be receivable by the Company. The Offerors, however, shall bear all expenses such as stamp duty, registration and share transfer fees relating to the Offer Shares, if any.

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE *(Cont'd)*

3.8 BROKERAGE, UNDERWRITING COMMISSION AND PLACEMENT FEE

(i) **Brokerage**

Brokerage relating to the Issue Shares will be paid by the Company while those relating to the Offer Shares will be borne by the Offerors at the rate of 1.0% of the issue/offer price of RM1.80 per Kinsteel Share in respect of successful applications which bear the stamps of RHB Sakura, member companies of the KLSE, members of the Association of Banks in Malaysia, members of Association of Merchant Banks in Malaysia or the Issuing House.

(ii) **Underwriting Commission**

The Underwriters have agreed to underwrite 2,000,000 Issue Shares to be issued to the Malaysian public. Underwriting commission is payable by the Company at the rate of 2.0% of the issue price of RM1.80 per Kinsteel Share.

The Managing Underwriter has further agreed to underwrite any of the Issue Shares not subscribed for by the eligible Directors, employees and customers of the Kinsteel Group. Underwriting commission is payable by the Company at an underwriting commission of 2.0% of the issue price of RM1.80 per Kinsteel Share.

(iii) **Placement Fee**

The Placement Agent's fee for the placement of 5,000,000 Issue Shares is payable by the Company at the rate of 0.25% of the issue price of RM1.80 per Kinsteel Share.

3.9 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

An underwriting agreement was entered into between the Company and the Managing Underwriter and the other Underwriters mentioned earlier in this Prospectus on 23 September 2002 to underwrite the Issue Shares mentioned in Section 3.8(ii) above.

Some of the salient terms of the underwriting agreements are summarised below:

- (i) The obligations of each of the Underwriters and the Managing Underwriter under this Agreement are conditional upon:
- (a) there having been on or prior to the Closing Date, neither any adverse change nor any development reasonably likely to result in any adverse change in the condition (financial or otherwise) of the Company or its Subsidiaries, which is material in the context of the Public Issue or the Offer for Sale from that set forth in the Prospectus, nor the occurrence of any event which makes any of the representations and warranties contained in Clause 3 of the Underwriting Agreement in the opinion of the Managing Underwriter (which opinion is final and binding) untrue and incorrect in any material respect as though they had been given and made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings contained in Clause 3 of the Underwriting Agreement;
 - (b) the delivery to the Managing Underwriter prior to the date of the registration of the Prospectus, a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the directors of the Company and the shareholders in general meeting approving the Underwriting Agreement, the Prospectus, the Public Issue and the Offer for Sale and authorising the execution of the Underwriting Agreement and the issuance of the Prospectus;

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE *(Cont'd)*

- (c) the delivery to the Managing Underwriter, prior to the date of the registration of the Prospectus, a certificate, in the form or substantially in the form contained in the Second Schedule of the Underwriting Agreement, dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 2.3.1 of the Underwriting Agreement;
- (d) the delivery to the Managing Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the board of directors of the Company as the Managing Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of the Underwriting Agreement that will adversely affect the performance or financial position of the Company or its Subsidiaries;
- (e) the Managing Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 14 of the Underwriting Agreement;
- (f) the Public Issue and the Offer for Sale not being prohibited by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;
- (g) the Company having complied and that the Public Issue and the Offer for Sale are in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto;
- (h) the acceptance for registration by the SC of the Prospectus and such other documents as may be required in accordance with the SC Act on or before their release under the Public Issue and the Offer for Sale; and
- (i) an application being made to the KLSE within three (3) Market Days from the day of issue of the Prospectus for admission to the official list of the KLSE and approval being granted before the expiration of 6 weeks from the date of issue of the Prospectus or such longer period as may specified by the SC.

If any of the conditions set out in Clause 2.3 of the Underwriting Agreement is not satisfied by the Closing Date, the Underwriters shall thereupon be entitled to terminate the Underwriting Agreement and in that event except for the liability of the Company for the payment of costs and expenses as provided in Clause 14 of the Underwriting Agreement incurred prior to or in connection with such termination there shall be no further claims by the Underwriters against the Company, and the Parties shall be released and discharged from their respective obligations hereunder PROVIDED THAT any of the Underwriters may at its discretion with respect to its own obligations waive compliance with any of the provisions of Clause 2.3 of the Underwriting Agreement.

- (ii) Underwriters who have agreed herein to collectively underwrite 50% or more of the Underwritten Shares as indicated in the Third Column of the First Schedule (White Form Shares) shall be entitled to terminate the Underwriting Agreement by notice in writing delivered to the Company prior to the Closing Date if the success of the Public Issue is, in the opinion of such Underwriter(s) who have agreed to collectively underwrite 50% or more of the Underwritten Shares as indicated in the Third Column of the First Schedule (White Form Shares), is seriously jeopardised by:
 - (a) any material change in any law, regulation, directive, policy or ruling in any jurisdiction which seriously affects or will seriously affect the business of the Company;

3. PARTICULARS OF THE PUBLIC ISSUE AND OFFER FOR SALE *(Cont'd)*

- (b) any material breach by the Company of any of the representations, warranties or undertakings contained in Clause 3 of the Underwriting Agreement (which, if capable of remedy, is not remedied within three (3) Market Days after notice of such breach shall have been given to the Company by the Underwriters or the Managing Underwriter or by the Closing Date, whichever is the earlier);
 - (c) any material and adverse change in the condition (financial or otherwise) of the Company and / or its Subsidiaries from that described in this Prospectus;
 - (d) any material and adverse changes in the markets of its products; or
 - (e) any change in national or international monetary, financial, political or economic conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or exchange control legislation or regulations or currency exchange rates or an occurrence as a result of an act or acts of God as would in its reasonable opinion materially prejudice the success of the offering of the Underwritten Shares and their distribution or sale (whether in the primary market or in respect of dealings in the secondary market) or in the event of national disorder, outbreak of war or the declaration of a state of national emergency.
- (iii) It will be an event of force majeure if in the reasonable opinion of the Underwriters who have agreed herein to collectively underwrite 50% or more of the Underwritten Shares as indicated in the Third Column of the First Schedule (White Form Shares) that the success of the IPO is seriously jeopardised by the Kuala Lumpur Composite Index falling below 600 points and remaining below 600 points for 3 consecutive Market Days at any time between the effective date of the Agreement and up to and including the Closing Date.
- (a) In the event of a force majeure pursuant to Clause 11.1 of the Underwriting Agreement, the Underwriters who have agreed herein to collectively underwrite 50% or more of the Underwritten Shares as indicated in the Third Column of the First Schedule (White Form Shares) may, subject to prior consultation with the Company, at any time prior to the Closing Date
 - (i) terminate the Underwriting Agreement by giving notice to the Company in the manner as set out in Clause 15 of the Underwriting Agreement; or
 - (ii) request for the Closing Date to be extended to such reasonable date as the Underwriters may decide.
 - (b) Upon delivery of the notice of termination pursuant to Clause 11.2(i) of the Underwriting Agreement, the Underwriting Agreement will terminate and thereafter each party's rights and obligations will cease and none of the parties will have any claim against each other.
 - (c) In the event of a delivery of a request under Clause 11.2(ii) of the Underwriting Agreement, the Company shall consent to such request for the extension of the Closing Date.
 - (d) The delivery of a request under Clause 11.2(ii) of the Underwriting Agreement shall not preclude any Underwriters from giving a further request for extension pursuant to Clause 11.2(ii) of the Underwriting Agreement or the giving of a notice to terminate pursuant to Clause 11.2(i) of the Underwriting Agreement.

4. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF THE GROUP, AS OUTLINED IN THIS PROSPECTUS, APPLICANTS FOR THE ISSUE/OFFER SHARES SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS (WHICH MAY NOT BE EXHAUSTIVE) WHICH MAY HAVE A SIGNIFICANT IMPACT IN THE FUTURE PERFORMANCE OF THE GROUP IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE HEREIN, BEFORE APPLYING FOR THE ISSUE/OFFER SHARES.

(i) No prior market for Kinsteel Shares

Prior to this Public Issue and Offer for Sale, there has been no public market for Kinsteel Shares. There can be no assurance that an active market for Kinsteel Shares will develop upon its listing on the Main Board of the KLSE or, if developed that such market will be sustained. There can be no assurance that the Kinsteel Shares will be traded above the issue/offer price of RM1.80 upon or subsequent to the listing of Kinsteel. The issue/offer price was entirely determined and agreed upon by Kinsteel, the Offerors and RHB Sakura as Financial Adviser and Managing Underwriter, after taking into the consideration a number of factors, set out in Section 3.6 of the Prospectus.

There can be no assurance that the issue/offer price will correspond to the price at which Kinsteel Shares will trade on the Main Board of the KLSE upon or subsequent to its listing or that an active market for Kinsteel Shares will develop and continue upon or subsequent to its listing.

(ii) Capital market risks

As an investor of Kinsteel, it is to be noted that Kinsteel will be listed on the Main Board of the KLSE. The performance of the KLSE is, to a certain extent, dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Market sentiments are also largely driven by internal factors such as the economic and political conditions of the country as well as the potential growth of the various sectors of the economy. These factors will invariably contribute to the volatility of trading volumes on the KLSE, thus adding risk to the market price of the shares of Kinsteel. Nevertheless, the profitability of Kinsteel is not dependent on the performance of the KLSE.

(iii) Business risks

Kinsteel is subject to certain risks inherent in the manufacturing industry. These include labour and raw material shortages, increases in costs of labour and raw materials, changes in general economic, and business and credit conditions. Although the Group seeks to limit these risk through, *inter-alia*, semi-automated operations, conservative management policies, and maintaining long term business relationships with its suppliers and customers, no assurance can be given that any change to these factors will not have a material adverse effect on the Group's business.

(iv) Supply of raw materials

Kinsteel is highly dependent on steel billets as a source of raw material. Since the imposition of import restriction on steel billets by MITI in March 1999, all steel billets must be sourced locally. However, certain sizes of steel billets, which are not available locally, are permitted by the MITI to be sourced externally, on a case-by-case basis.

4. RISK FACTORS (Cont'd)

To-date, Kinsteel has not encountered any shortage in the supply of steel billets as there are currently 6 steel billet producers in Malaysia, i.e. Perwaja Steel Sdn Bhd, Amsteel Mills Sdn Bhd, Southern Steel Berhad, Malayawata Steel Berhad, Antara Steel Mills Sdn Bhd and Malaysia Steel Works (KL) Sdn Bhd. Further, Kinsteel has been able to obtain import permits from MITI to import steel billets of certain sizes (ranging between 80mm to 200mm) which are not available locally.

Notwithstanding the above, there is no assurance that Kinsteel's operations will not be adversely affected if Kinsteel is unable to obtain adequate supply of steel billets in a timely manner or on viable commercial terms to the Kinsteel Group. In an effort to reduce the Group's dependence on external parties for the supply of billets, Kinsteel plans to construct its own steel billets plant in year 2005 to manufacture its own steel billets, details of which are set out in Section 6.6 below.

(v) Economic and political considerations

The Group's business activities are focused mainly in Malaysia. Any adverse development in the economic, political and financial conditions in Malaysia could materially and adversely affect the financial and operational conditions and profitability of the Group. These risks include the risks of an economic downturn, changes in interest rates and unfavourable changes in government policies such as changes in method of taxation and introduction of new regulations. Whilst the Group will continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political and economics factors will not materially affect the Group.

(vi) Dependence on the construction and infrastructure sectors

The steel products manufactured by Kinsteel (such as round bars, deformed bars and angle bars) are mainly used in the construction and infrastructure sectors. As such, demand for Kinsteel's products is mainly dependent on, *inter-alia*, the prospects of the construction industry. In an effort to reduce the Group's dependence on the construction industry, Kinsteel had commenced the manufacture of U-channel bars in 2001 which are mainly used for fabrication works in the manufacturing industry as well as building construction.

However, the construction and manufacturing industry are affected by general economic factors, which affect the markets for the Group's steel products. Many of these factors, such as fluctuations in interest rates, imposition of more stringent requirements by relevant authorities, increase in the cost of labour and raw material, and shortage of labour and raw material, are beyond the Group's control.

(vii) Competition

The steel industry is highly competitive. Due to lack of conspicuous product differentiation, competition among manufacturers is based largely on price and timely delivery. As such, the Kinsteel Group competes in its markets with various competitors. Whilst the Company seeks to constantly improve its production process to increase production efficiency so as to remain competitive, however, no assurance can be given that Kinsteel will be able to maintain or increase its existing market share in the future.

4. RISK FACTORS (Cont'd)

(viii) Licensing risks

Kinsteel is required to comply with the conditions contained in the manufacturing licences issued by MITI in relation to the operation of its steel business. The manufacturing licences issued by MITI for the manufacture of steel bars stipulates, *inter-alia*, that Kinsteel is required to export at least 50% of its steel products ("Export Condition"). In this regard, Kinsteel has not complied with the Export Condition and has obtained from MITI an extension of time up to 31 December 2003 to comply with the Export Condition. However, no assurance can be given that Kinsteel will not be adversely affected if the Company is unable to comply with the Export Condition after 31 December 2003 or if no further extension of time is granted by MITI to comply with the Export Condition.

(ix) Government controlled pricing

The selling price of round and deformed bars, and steel billets in Malaysia are presently capped by MITI in accordance with MITI's circular dated 6 April 1989 as follows:

– Round and deformed bars

Ceiling Price Set By MITI	Mild Steel Round Bars (RM/mt)	High Tensile Deformed Bar (RM/mt)
10 mm	1,189	1,229
12 mm	1,152	1,189
16 mm	1,085	1,124
25 mm	1,085	1,124
28 mm	1,085	1,124
32 mm	1,085	1,124

– Steel billets

Grades	Ceiling Price Set By MITI (RM/mt)
Low carbon	815
Mild steel	815
High tensile	830
High tensile with vanadium	880

The price of round and deformed bars, and steel billets are not expected to change significantly unless MITI revises the ceiling price of round and deformed bars, and steel billets. Although discounts are given to customers for the sale of round and deformed bars, and steel billets, the effective selling price is normally kept near the ceiling price fixed by MITI.

There can be no assurance that prices for and volumes of the steel products sold by the Group will not decline in the future or that such declines will not have a material adverse effect on the Group's financial condition. Further, any increase in the cost of steel billets could also adversely affect the financial condition of the Group.

4. RISK FACTORS (Cont'd)

(x) Impact of AFTA

The AFTA agreement was signed in 1992 between Malaysia, Thailand, Singapore, Indonesia, Philippines and Brunei to promote economic co-operation and increase competitiveness by reducing inter-regional tariffs between member countries. AFTA will result in a gradual reduction of trade barriers in the Association of South-East Asian Nations ("ASEAN") countries by the year 2003. Traditional protection in the form of import tariffs will be virtually removed. Under AFTA, member countries will have to commence lowering tariffs, export subsidies and tax relief from the year 2000 and are to abolish them by 2003. With the initiation of the Common Effective Preferential Tariff scheme under AFTA, tariff on goods traded within the region, which meet a 40% Asean content requirement, will be reduced to 0 – 5% by the year 2003 (2006 for Vietnam, and 2008 for Laos and Myanmar). This would result in a liberalised market and intensify competition among steel producers in the region.

Although competition among steel producers is expected to intensify under AFTA, the market liberalisation of the steel industry is expected to present opportunities to efficiently run steel producers to increase their market shares both domestically and regionally if they are able to emerge as low cost producers under the AFTA regime. To enhance its competitiveness under the AFTA regime, Kinsteel plans to lower its production cost by constructing its own steel billets plant in year 2005 to produce its own billets. In addition, Kinsteel is periodically upgrading its machinery and training its workforce to keep abreast with current production technologies and technical know-how. Presently, Kinsteel is applying a steel rolling technology adopted from Taiwan in its manufacturing process which has enabled the Company to reduce its production costs and wastage of raw materials.

Although every effort has been taken by the Group to maintain its competitiveness, there is no assurance that AFTA will not have any adverse effect on the Group's business and financial conditions.

(xi) Dependence on key personnel

The Company believes that its continued success depends to some extent upon the abilities and continued efforts of its existing Directors and senior management. The loss of any of the key members of the Group, Directors and senior management could adversely affect the Group's performance. However, ongoing effort is presently made to groom the younger members of the management to progressively take over from the senior members to ensure a smooth transition in the management team.

(xii) Borrowings

The Group's total borrowings as at 16 September 2002 amounted to approximately RM109.3 million. Any increase in interest rates will increase the burden of the Group with respect to interest payments of the borrowings depending on the total outstanding borrowings as at the point in time. There can be no assurance that the performance of the Group would remain favourable in the event of adverse changes in interest rates. The Directors of Kinsteel seek to minimise this risk by utilising approximately RM8,123,000 and RM8,077,000 of the proceeds from the Public Issue to repay bank borrowings and short term bank facilities respectively.

(xiii) Controlling shareholders

Following the completion of the Public Issue and Offer for Sale, Kin Kee and SPSB will be the Major Shareholders of Kinsteel holding 51.7% and 22.4% equity interest in the Company respectively. As a result, Kin Kee and SPSB would be able to effectively control the business directions and the outcome of certain matters requiring the votes of the Company's shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

4. RISK FACTORS (Cont'd)

(xiv) Related party transactions

Certain Directors and Major Shareholders of Kinsteel Group have interest in companies carrying out similar business activities as the Kinsteel Group and contracts or arrangements which are significant in relation to the business of the Group. Please refer to Section 9 of this Prospectus for details of disclosure on any potential conflict of interests and factors that would avert any potential conflict of interests.

The Group may continue to enter into business or other transactions with related parties in the future. However, the Audit Committee of Kinsteel will monitor the related party transactions to ensure that these transactions are carried out at arms length basis and on commercial terms which will not be detrimental to the interest of the Kinsteel Group.

(xv) Achievability of Forward-Looking Statements

The Prospectus contains a profit forecast of the Kinsteel Group for the year ending 31 December 2002, based on assumptions made by the Directors of Kinsteel and considered by them to be reasonable at the time of the issuance of the Prospectus but which are nevertheless subject to numerous uncertainties and contingencies. There can be no assurance that the profit forecast contained herein will be realised due to the subjective judgements and inherent uncertainties of forecasts. Because events and circumstances may not occur as expected, actual results may be materially different from those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the profit forecast contained in the Prospectus.

The forward-looking statements in the Prospectus involve known and unknown risks, uncertainties and other factors which may affect actual outcomes, many of which are outside the control of Kinsteel. These factors include economic conditions in the markets in which the Kinsteel Group operates and achievement of the Company's business forecasts. These factors will cause the actual results, performance or achievements of Kinsteel to differ, perhaps materially, from the results, performance or achievements expressed or implied by those forward-looking statements. These forward-looking statements do not constitute a representation that future results will be achieved in the amounts or by the dates indicated.

Their inclusion in the Prospectus should not be regarded as a representation or warranty by the Company or Financial Adviser that the plans and objectives of the Kinsteel Group will be achieved. Further, the Group is not under any obligation to update or revise such forward-looking statements to reflect any change in expectations or circumstances.

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5. INDUSTRY OVERVIEW

5.1 THE MALAYSIAN ECONOMY

The Malaysian economy entered 2002 on a stronger footing, after recovering from a downturn experienced in the last two quarters of 2001. Riding on the back of an earlier than expected recovery of the United States economy and a stronger upturn in the second half of 2002, the Malaysian economy is expected to register a higher but moderate GDP growth.

According to the Economic Report 2002/2003, with GDP expanding by 2.5% in the first half of 2002, the full year GDP growth for 2002 is projected to be in the range of 4% - 5%. The accommodative monetary policy and intensified efforts to speed up the implementation of public sector projects as well as increased activity in the construction sector are expected to result in a stronger domestic demand in 2002.

Led by further improvements in both external and domestic demand, the Malaysian economy is envisaged to strengthen further in 2003. With the mild recovery intact in 2002, the world economy is projected to register output growth of 3.7% with trade expanding at 6.6% in 2003. The Malaysian economy, with stronger macroeconomic fundamentals already in place and complemented by more resilient corporate and financial sectors, is poised to benefit from the much-improved global economic environment projected for 2003. Output expansion is anticipated in all sectors of the economy, with a projected GDP growth of 6% - 6.5% in 2003 arising from a broader based economy with growth emanating from a more pronounced role by the private sector.

(Source: Economic Report 2002/2003)

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5. INDUSTRY OVERVIEW (Cont'd)

5.2 THE STRUCTURE OF THE MALAYSIAN STEEL INDUSTRY

The table below shows the structure of the Malaysian steel industry in 2000, by product type and number of establishments.

Sub-Sector	Product Type	Number of Establishments	Rated Capacity ('000 mt)
(i) Primary Products			
-Scrap-Substitutes	• Direct Reduced Iron (DRI)	1	1,200
	• Hot Briquetted Iron (HBI)	1	720
Primary Products -Crude Steel (semi-finished)	• Billets	6	4,400
	• Blooms	1	750
	• Slabs	-	*2,500
(ii) Rolling/Finished Products			
- Long Products	• Rolled Products (Bars & Wire Rods)	51	5,000
	• Medium to Heavy Sections	1	700
Rolling/Finished Products - Flat Products	• Hot-Rolled Coils	1	2,000
	• Cold-Rolled Coils	2	680
	• Plates	1	**200
(iii) Secondary Products			
- Long Products	• Wire Mesh	40	550
	• Hard Drawn Wire	40	200
	• Nails	14	90
	• Galvanised Wire	8	150
	• Welding Electrodes	10	40
	• Bolts and Nuts	15	80
	• Shafting Bars	7	50
	• Others	6	100
	• Steel service centres	25	900
Secondary Flats - Flat Products	• Steel and Cement Lined Pipes	31	2,300
	• Pipe Fittings	4	n/a
	• Tinplate	1	250
	• Galvanised, pre-painted and roll-formed sheets	51	400
	• Steel service centres	25	900

Notes:

* Capacity inclusive of Megasteel Sdn Bhd ("Megasteel") to make hot-rolled coils

** Capacity inclusive of Jikang Dimensi Sdn Bhd.

(Source: The 5th Report of Status and Outlook of the Malaysian Iron and Steel Industry 2001 ("MISIF Report 2001"))

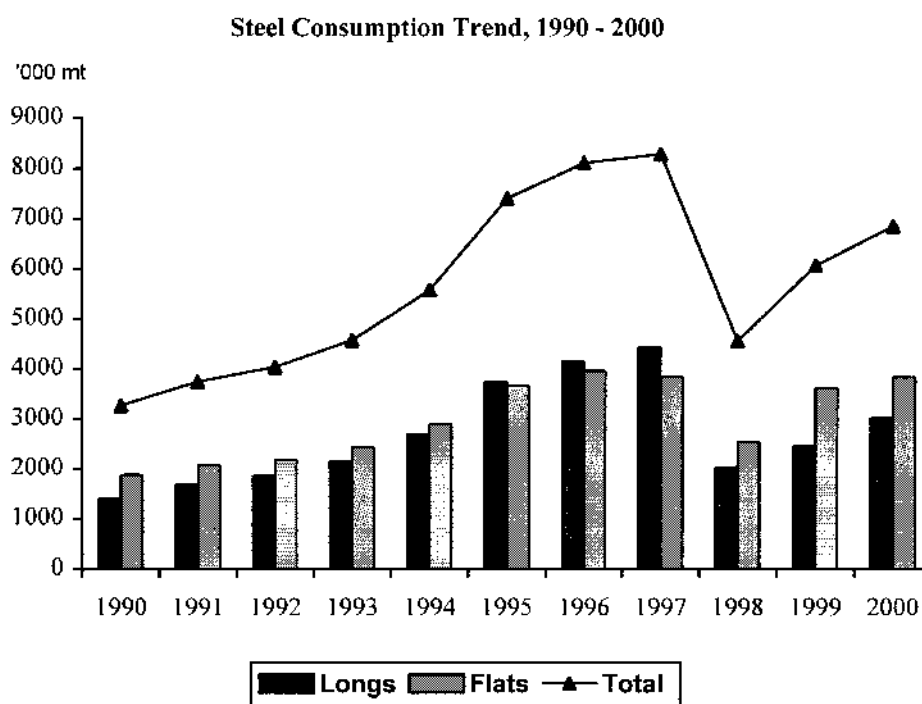
5. INDUSTRY OVERVIEW (Cont'd)

To a large extent, the steel industry in Malaysia is centred around the country's construction, infrastructure and manufacturing needs. Steel production is dominated by long products, especially bars and wire-rods to cater to the demand from the construction sector. With continued emphasis on the manufacturing sector as the engine of growth, the importance of flats and steel sections has increased in recent years.

(Source: MISIF Report 2001)

5.3 GROWTH OF THE STEEL INDUSTRY

Malaysia's aggregate steel consumption trend (1990-2000) is illustrated below:



In the 10 years preceding the 1997-98 financial crisis, steel consumption grew steadily from 1.5 million mt in 1986 to 3.3 million mt in 1990, and 8.1 million mt in 1996. Consumption peaked in 1997 at 8.3 million mt despite signs of an economic slowdown. In 1998, steel consumption declined sharply as the crisis rooted itself in the real sector of the economy. Consumption experienced an unprecedented 45% decrease to 4.6 million mt in 1998, before picking up strongly by 33% in 1999 to 6.1 million mt. In 2000, aggregate steel consumption recorded 6.9 million mt, with long products accounting for 44% of total consumption and flat products making up to the remaining 56%.

The consumption of long products stood at 3.0 million mt in 2000. Bars and wire rods made up the bulk of the consumption for longs in 2000, at 58% and 30% respectively. Sections accounted for 12% of all long products consumed. The consumption of flat products, on the other hand, stood at 3.8 million mt in 2000. Among the major categories of flat products consumed during the year were hot-rolled sheets and strips (38%), cold-rolled sheets and coils (23%), galvanised iron sheets (12%), pipes and tubes (7%), and plates (7%).

5. INDUSTRY OVERVIEW *(Cont'd)*

Between 1990 – 1994, and from 1998 – 2000, the ratio of flats to longs consumed was higher. The trend, however, reversed from 1995 – 1997 with the consumption of long products outstripping that of flats. A possible explanation for this trend is that construction activity was at its peak in the mid-1990s. Over the five-year period between 1993 – 1997, the GDP for the construction sector grew at an average annual rate of 13%. Growth was fuelled by a buoyant real estate market coupled with major infrastructure and building projects. Such projects resulted in the extensive use of rolled long products, such as bars, wire rods and sections.

The manufacturing sector is the major consumer of finished flat products. Like the construction sector, the manufacturing sector also grew at an average annual rate of 13% between 1993 – 1997. This high growth rate was a key factor which contributed to the increase in consumption of flat products, prior to the economic crisis in 1997 – 1998. With the manufacturing sector growing strongly in 1999 and 2000, and the construction sector remaining relatively flat, the consumption of flats outstripped longs again in 1999 and 2000.

(Source: MISIF Report 2001)

5.4 OUTLOOK OF THE STEEL INDUSTRY

Products from the steel industry play a key role in supporting the construction, infrastructure and manufacturing sectors and hence, any future growth in the steel industry will be closely linked to the growth cycles of the aforesaid sectors.

In view of the above, the following discussion on the prospects of the construction, infrastructure and manufacturing sectors are not intended to be exhaustive but reflects some of the factors which are relevant to understand the prospects of the steel industry based on prevailing local economic trends and developments.

Outlook of the Construction and Infrastructure Industry

Growth in the construction sector continues to be bolstered by projects implemented under the fiscal stimulus programme and housing development and is therefore expected to register a stronger growth of 3.8% in 2002 as compared to 2.3% in 2001.

The ongoing fiscal stimulus programs which includes the implementation of several privatised projects is expected to boost private investment. These projects include KL Monorel, Lebuh raya Baru Pantai, Penyuraian Trafik Lingkaran Kajang and Penyuraian Trafik KL Barat. Housing property development continues to remain strong, due mainly to the stable and low interest rate environment. At the same time, the Government's extension of the stamp duty exemptions for the purchase of houses for another six months from January 2002 to June 2002, is expected to stimulate demand further.

The construction sector is envisaged to record a higher growth of 4.5% in 2003. Public sector infrastructure projects in health and education sub-sectors in particular, as well as for rural development, will continue to drive the construction sector. Housing development is also expected to contribute significantly to growth in the construction sector in view of the increasing demand, especially for low and medium-cost houses.

(Source: Economic Report 2002/2003)

5. INDUSTRY OVERVIEW *(Cont'd)*

Outlook of the Manufacturing Sector

For the manufacturing sector, signs of a turnaround have become more visible in the second quarter of 2002. After experiencing 11 months of consecutive decline, output of the manufacturing sector has improved from -11% recorded in the fourth quarter of 2001 to bounce back with 3 straight months of positive growth since April 2002. A steady recovery in the manufacturing sector is anticipated for the rest of 2002 with a projected growth of 5.1%, on account of a revival in external demand and sustained growth in domestic consumption. Capacity utilisation for the manufacturing sector remained generally above 70% in the first half of 2002. As growth in external demand and domestic consumption continues to accelerate, the capacity utilisation rate is expected to improve further to above 80% by end of 2002.

Construction-related material industries, such as iron and steel as well as non-metallic minerals, are expected to benefit from the ongoing implementation of fiscal stimulus projects and sustained growth in the housing sub-sector. On the whole, the construction-related industries recorded a growth of 5.5% in the first 6 months of 2002 (January – June 2001: 10%). Capacity utilisation for the iron and steel industry is expected to increase to over 65% in 2002 compared to 55% in 2001 due to the positive effects of fiscal stimulus as well as better external demand.

The anticipated growth in the global economy and world electronics is expected to contribute to a more robust and broad-based growth in the manufacturing sector. Likewise, growth in domestic-oriented industries is also expected to pick up. This is on account of robust income effect from higher export earnings as well as positive wealth effect given that the stock market is expected to trend up in 2003. This trend is expected to spur higher private consumption. Thus, the overall value added of the manufacturing sector is expected to register a stronger growth of 8.5% in 2003.

(Source: Economic Report 2002/2003)

5.5 STEEL INDUSTRY DYNAMICS

(i) Cyclicality

The iron and steel industry is regarded as cyclical in nature due to the inherent high operating leverage and high level of profit volatility. Generally, demand for iron and steel products bear a strong relationship with economic growth and is significantly driven by the growth of the construction, infrastructure and manufacturing sectors.

(ii) Barriers to Entry

The Directors of Kinsteel do not expect the entrance of new large players (for steel products currently manufactured by Kinsteel) in the short to medium term as the iron and steel industry is highly capital intensive. Generally, the Directors of Kinsteel estimate that it will cost approximately RM15 million to RM20 million to set up a single production line with a production capacity of 10,000 mt per month for the production of steel bars. Further, to undertake the manufacture of iron and steel products, a manufacturing licence from MITI is generally required.

(iii) Threat of Substitute Products

There are no substitutes for iron and steel products due to its intrinsic qualities, strength and malleability (i.e. the ability to shape into various forms and shapes). The Directors of Kinsteel believe that efforts to seek comparable substitutes, at this time, are both non-economical and technologically non-feasible. Further, due to its recyclable nature, its usage is very much in line with the preservation and conservation of natural resources.

5. INDUSTRY OVERVIEW (Cont'd)

(iv) Elasticity of Demand

The consumption of steel products is highly dependent on the performance of the construction, infrastructure and manufacturing industries. Generally, steel products play a significant role in the daily operations of these industries, where, to a large extent, steel products are considered necessities.

(v) Government Policies and Incentives

Protective barriers have been imposed by the government to protect the Malaysian steel industry against dumping by foreigners. For example, a flat tariff rate of RM180/tonne is imposed on the imports of round and deformed bars with approved permits from MITI. Based on the experience of the management of Kinsteel, MITI had discontinued issuing permits since March 1999 for the import of billets except for certain sizes of billets which are not available locally.

To encourage the development of the Malaysian steel industry, the government has provided incentives in the form of reinvestment allowances, incentives for research and development, and pioneer status/investment tax allowance which allow each manufacturing company to apply for tax exemption or deduction.

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