

**KINSTEEL BHD.**

(Incorporated in Malaysia)

*Quarterly report on consolidated results for the first quarter ended 30 September 2008.*

*The figures have not been audited.*

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2008**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Current</b>	<b>Comparative</b>	<b>9 months</b>	<b>9 months</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Cumulative</b>	<b>Cumulative</b>
	<b>30.09.2008</b>	<b>30.09.2007</b>	<b>30.09.2008</b>	<b>30.09.2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	844,914	582,360	2,080,447	1,530,181
Operating expenses	(739,800)	(509,404)	(1,646,754)	(1,333,208)
Other operating income	20,136	12,652	28,648	15,055
Finance cost	(22,506)	(15,138)	(76,701)	(50,301)
Profit before taxation	<u>102,744</u>	<u>70,470</u>	<u>385,640</u>	<u>161,727</u>
Taxation	7,417	(386)	8,641	(727)
Profit for the period	<u><u>110,161</u></u>	<u><u>70,084</u></u>	<u><u>394,281</u></u>	<u><u>161,000</u></u>
Attributable to:				
Equity holders of the parent	57,986	40,474	234,853	97,340
Minority Interests	<u>52,175</u>	<u>29,610</u>	<u>159,428</u>	<u>63,660</u>
Profit for the period	<u><u>110,161</u></u>	<u><u>70,084</u></u>	<u><u>394,281</u></u>	<u><u>161,000</u></u>
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	6.26	4.50	25.34	10.81
- Diluted (sen)	5.49	3.94	22.25	9.47

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

(Company No : 210470-M)

**KINSTEEL BHD.**  
(Incorporated in Malaysia)

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**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 30 SEPTEMBER 2008**

	30.09.2008 RM'000	31.12.2007 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,307,087	2,313,284
Prepaid lease payments	40,327	41,064
Other investment	4,000	4,000
Deferred tax assets	110,000	110,000
	<u>2,461,414</u>	<u>2,468,348</u>
<b>Current assets</b>		
Inventories	1,338,564	569,805
Receivables	268,466	238,555
Tax recoverable	114	124
Deposits with licensed banks	308,730	109,076
Cash and bank balances	17,050	76,127
	<u>1,932,924</u>	<u>993,687</u>
<b>TOTAL ASSETS</b>	<u>4,394,338</u>	<u>3,462,035</u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	185,397	180,320
Treasury shares	(1,330)	-
Reserves	818,071	598,952
<b>Equity attributable to equity holders of the parent</b>	<u>1,002,138</u>	<u>779,272</u>
<b>Minority interest</b>	<u>1,095,257</u>	<u>699,494</u>
<b>Total equity</b>	<u>2,097,395</u>	<u>1,478,766</u>
<b>Non-current liabilities</b>		
Borrowings	562,266	672,596
Deferred taxation	9,525	19,024
	<u>571,791</u>	<u>691,620</u>
<b>Current liabilities</b>		
Trade and other payables	784,101	473,549
Overdrafts and short term borrowings	940,485	816,692
Provision for taxation	566	1,408
	<u>1,725,152</u>	<u>1,291,649</u>
<b>Total liabilities</b>	<u>2,296,943</u>	<u>1,983,269</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>4,394,338</u>	<u>3,462,035</u>
<b>Net assets per share attributable to ordinary equity holders of the parent (RM)</b>		
	1.08	0.86

The Condensed Consolidated Balance Sheets should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

Note: The comparative figures are extracted from the audited financial statements for the year ended 31 December 2007.

**KINSTEEL BHD.**  
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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 30 SEPTEMBER 2008**

**Attributable to Equity Holders of the Company**

	Share Capital RM'000	Treasury Shares RM'000	Share Premium RM'000	Retained Profits RM'000	Total RM'000	Minority Interest RM'000	Total Equity RM'000
Balance at 1.1.2008	180,320	-	30,493	568,459	779,272	699,494	1,478,766
<u>Movements during the period</u>							
Exercise of warrants	5,077	-	-	-	5,077	-	5,077
Retained profit for the period	-	-	-	234,853	234,853	159,428	394,281
Dividends paid	-	-	-	(15,734)	(15,734)	-	(15,734)
Disposal of subsidiary	-	-	-	-	-	236,335	236,335
Reserve on consolidation of subsidiary	-	-	-	-	-	-	-
Treasury Shares	-	(1,330)	-	-	(1,330)	-	(1,330)
Balance at 30.09.2008	<u>185,397</u>	<u>(1,330)</u>	<u>30,493</u>	<u>787,578</u>	<u>1,002,138</u>	<u>1,095,257</u>	<u>2,097,395</u>
Balance at 1.1.2007	170,000	-	30,493	451,505	651,998	611,041	1,263,039
<u>Movements during the period</u>							
Exercise of warrants	10,025	-	-	-	10,025	-	10,025
Retained profit for the period	-	-	-	97,340	97,340	63,660	161,000
Dividends paid	-	-	-	(13,497)	(13,497)	-	(13,497)
Balance at 30.09.2007	<u>180,025</u>	<u>-</u>	<u>30,493</u>	<u>535,348</u>	<u>745,866</u>	<u>674,701</u>	<u>1,420,567</u>

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

(Company No : 210470-M)

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2008**

	Current period ended 30.09.2008 RM'000	Year ended 31.12.2007 RM'000
<b>Profit before tax</b>	385,640	221,033
<b>Adjustments for non -cash flow :</b>		
<b>Depreciation</b>	80,686	101,424
<b>Non-cash items</b>	188,942	(959)
<b>Operating profit before working capital changes</b>	<u>655,268</u>	<u>321,498</u>
<b>Changes in working capital</b>	<u>(686,695)</u>	<u>(314,013)</u>
	(31,427)	7,485
Interest paid	(76,700)	(76,126)
Interest received	18,305	3,136
Tax paid	(1,690)	(1,232)
<b>Net cash flows from operating activities</b>	<u>(91,512)</u>	<u>(66,737)</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(59,478)	(48,568)
Prepayment of land lease	-	(156)
Subscription of subordinated bonds	-	(4,000)
	<u>(59,478)</u>	<u>(52,724)</u>
<b>Financing activities</b>		
Proceeds from exercise of warrants	5,077	10,320
Proceeds from disposal of subsidiary	96,356	-
Proceeds from listing of subsidiary	161,317	-
Term loan (repayment)/receipt	(5,898)	(5,055)
Short term borrowings	116,813	272,474
Repayment of government loan	(50,793)	-
Hire purchase/lease liabilities repayment	(4,170)	(9,568)
Dividends paid	(15,735)	(13,498)
	<u>302,967</u>	<u>254,673</u>
<b>Net change in cash and cash equivalents</b>	151,977	135,212
<b>Effects of foreign exchange rate changes</b>	-	(3,828)
<b>Cash and cash equivalents at beginning of the period/ year</b>	<u>159,873</u>	<u>28,489</u>
<b>Cash and cash equivalents at end of the period/year</b>	<u><u>311,850</u></u>	<u><u>159,873</u></u>

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

## **KINSTEEL BHD**

(Company No: 210470-M)

(Incorporated in Malaysia with limited liability under the Companies Act, 1965)

### Selected Explanatory Notes in accordance with FRS 134 Interim Financial Reporting

#### **A1. Accounting Policies and Methods of Computation**

This quarterly financial report is prepared in accordance with the FRS134 "Interim Financial Reporting" and Chapter 9 Part K of the Listing Requirement of the Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's financial statements for the year ended 31 December 2007.

#### **A2. Changes in Accounting policies**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2007.

#### **A3. Qualification of Financial Statements**

The financial statements for the year ended 31 December 2007 were not qualified.

#### **A4. Seasonal or Cyclical Factors**

The business operation of the Group is generally affected by the demand in the construction sector and commodities market condition as well as the fourth quarter and first quarter festive seasons.

#### **A5. Items of unusual nature and amount**

Except for a write down to net realisable value of inventories amounting to RM120.2 million being made during the quarter under review, there were no items affecting assets, liabilities, equity, net income or cash flow of the Group that are unusual because of their nature, size or incidence for the current quarter and financial year-to-date.

#### **A6. Changes in Estimates**

There were no changes in the estimates of amounts reported in prior interim periods of the current financial period.

**A7. Issuances, Cancellations, Repurchase, Resale and Repayments of Debt and Equity Securities**

(1) Pursuant to the Initial Public Offering (IPO) of Perwaja Holdings Berhad (formerly known as Vertical Winners Sdn Bhd) ("PHB"), The Securities Commission (SC) requires PHB to address its accumulated losses (from its subsidiary, i.e Perwaja Steel Sdn Bhd ("PSSB")) before end of financial year ending 31 December 2008. In this respect, PSSB has made the necessary application to the Court and on 23 July 2008, the Court has granted its order to PSSB to exercise the capital reduction scheme to address its accumulated losses as follow:

- (i) The cancellation of PSSB's entire audited share premium account of RM121.6 million as at 31 December 2007 and
- (ii) The reduction of PSSB's issued and paid-up share capital from RM1,216.2 million comprising 1,216.2 million PSSB Share to RM787.8 million comprising 787.8 million PSSB Share by cancellation of 428.4 million PSSB Share,

whereby the total credit arising amounting to RM550.0 million will be utilized to eliminate PSSB's accumulated losses in its entirety as at 31 December 2007.

On 24 June 2008, PHB issued 499,999,998 new ordinary shares of RM1.00 each for the acquisition of the entire equity interest in PSSB as disclosed in Note A13 in this interim financial report.

(2) After the acquisition of PSSB, PHB has placed out 156,123,000 ICULS to Kinsteel Bhd at an issue price of RM0.10 per ICULS. The conversion price of the ICULS is RM2.90 per share and with maturity date of 10 years from the date of issuance of ICULS. The ICULS will not be listed on any stock exchange.

(3) Share buyback of Kinsteel Bhd

During the quarter ended 30 September 2008, the Company had bought 2,766,400 shares at a total consideration of RM1.777 million from the open market. The shares bought back are held as treasury shares in accordance with Section 67A of the Companies Act 1965.

Save for the above, there have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period under review.

**A8. Dividends Paid/Proposed**

The final tax-exempt dividend of 1.7 cent per ordinary share for the year ended 31 December 2007 based on the entire enlarged issued and paid up share capital as at 25 July 2008 was approved in the Annual General Meeting and paid on 20 August 2008.

No dividends have been paid for the financial period under review.

**A9. Segmental information**

The Group's activities are identified as one business segment, predominantly, in the manufacturing and trading of steel related products. Accordingly no information on the Group's operations by business segment has been disclosed. The Group's operations are only within Malaysia. Accordingly, no information on the Group's operation by geographical segment has been disclosed.

**A10. Valuation of Property, Plant and Equipment**

Property, plant and equipment are stated at cost or fair values less accumulated depreciation.

**A11. Capital Commitments**

The total capital commitments being approved and contracted for as at the end of current quarter and financial year to date are amounting to RM6.5 million for the Group.

**A12. Material Subsequent Events**

There were no material subsequent events that have not been reflected at the date of issue of this announcement.

**A13. Changes in the Composition of the Group**

Save as disclosed below, there were no changes in the current quarter and financial year-to-date in the composition of the Group:

- (i) Acquisition by PHB of PSSB from Kinsteel Bhd and the minority shareholders of PSSB pursuant to the listing exercise.

Acquisition by PHB of the entire issued and paid-up share capital of PSSB comprising 1,216,180,704 ordinary shares of RM1.00 each for a purchase consideration of RM966,253,600 to be satisfied by the issuance of 499,999,998 new ordinary shares of RM1.00 each at an issue price of RM1.93 per ordinary share. The acquisition of PSSB was completed on 24 June 2008.

- (ii) Acquisition of Esteem Score Sdn Bhd

Acquisition of the entire issued and paid-up share capital of Esteem Score Sdn Bhd comprising 2 ordinary shares of RM1.00 each for a purchase consideration of RM2.00. The acquisition was completed on 10 September 2008.

**A14. Contingent Liabilities and Contingent Assets**

Save as disclosed in Note B11, there is no contingent liability or contingent asset, which upon becoming enforceable, may have a material effect on the Net Assets, profits or financial position of our Group.



## **KINSTEEL BHD**

(Company No: 210470-M)

(Incorporated in Malaysia with limited liability under the Companies Act, 1965)

### **Selected Explanatory Notes pursuant to Part A of Appendix 9B of the Listing Requirement**

#### **B1. Review of performance**

For the nine months period ended 30 September 2008, the Group recorded a turnover of RM2.08 billion and a profit after tax of RM394.3 million.

In the opinion of the Directors, save for the write down to net realisable values in inventories of RM120.2 million in PHB, the result for the current quarter and financial period to date have not been affected by any transactions or events of a material nature which has arisen between 31 December 2007 and the date of this report.

#### **B2. Comparison with preceding quarter's results**

The Group's revenue for the third quarter ended 30 September 2008 increased by RM192.9 million or 30% to RM844.9 million, as compared to RM652 million in the preceding quarter.

The Group achieved a profit after tax of RM110.2 million for the quarter under review which is 40% lower than the profit after tax of RM182.9 million in the preceding quarter. This is attributable to lower margin for steel products and the write down to net realisable values in inventories of RM120.2 million in PHB.

#### **B3. Current year prospects**

Steel prices have been volatile with downward bias since September 2008 due to uncertainties surrounding the financial market that has resulted in the weakening of the global economy. In view of this, demand for steel products locally and globally has been affected. The Group is taking all precautionary steps to mitigate any negative effect on the Group's performance arising from the global slowdown.

Looking forward, the Group's full year performance for the current financial year is expected to be satisfactory due to strong performance recorded in the first three quarters of the financial year.

#### **B4. Profit Forecast**

Not applicable as the Group did not issue any profit forecast/guarantee to the public.

**B5. Taxation**

Taxation comprises the following :-

	Current year quarter 30/09/08 RM '000	Current year- to-date 30/09/08 RM '000
Current taxation	(82)	(459)
Deferred taxation	7,500	9,100
	<u>7,418</u>	<u>8,641</u>

**B6. Sale of unquoted investments and/or properties**

There was no sale of unquoted investments and properties for the current quarter and financial year-to-date.

**B7. Purchase or disposal of quoted securities**

There was no investment in quoted securities as at the end of the quarter. There was no purchase and disposal of quoted securities for the current quarter and financial year-to-date.

**B8. Status of Corporate Proposal**

In conjunction with the flotation exercise undertaken by PHB, PHB has, on 21 July 2008, issued a Prospectus in relation to the following:-

**(A) Public Issue**

The IPO comprising an offering of 90,000,000 IPO shares under the Offer for Sale and 60,000,000 IPO shares under the Public Issue and to be allocated in the following manner, all payable in full upon application:

1. 101,476,000 Restricted Shares are available for application by the Entitled Shareholders of Kinsteel Bhd at the Restricted Offer Price at RM2.23 each;
2. 26,124,000 IPO Shares are available for private placement to identified investors at IPO price of RM2.90
3. 11,200,000 IPO Shares are available for application by the eligible Directors and Employees of Kinsteel Group and the Group and persons who have contributed to the Group's success at IPO price of RM2.90.
4. 11,200,000 IPO Shares are available for application by the Malaysian public at IPO price of RM2.90.

**(B) Listing**

The admission to the official list and the listing of and quotation for the entire issued and paid-up share capital of the PHB on the Main Board of Bursa Securities was successfully done on 20 August 2008.

**(C) Utilisation of proceeds of PHB**

	Proposed Utilisation RM'000	Actual Utilisation RM'000
Part repayment of bank borrowings	50,000	25,000
Working capital	112,511	2,379
Estimated listing expenses	11,000	12,194
	173,511	39,573

**B9. Group borrowings and debt securities**

The Group's borrowings as at 30 September 2008 are as follows:-

	30/09/08 RM'000
Secured	679,008
Unsecured	823,743
Total borrowings	1,502,751
<u>Short term borrowing:-</u>	
Bank Overdraft	13,930
Hire Purchases / Lease Creditors	19,545
Bankers' acceptance and trust receipts	665,479
Trade loan	0
Term Loan	176,530
Murabahah Commercial Papers	65,000
	940,484
<u>Long Term borrowings:-</u>	
Term Loans	47,916
Government Loan	153,844
Hire Purchases / Lease Creditors	507
Murabahah Medium Term Notes	360,000
	562,267
Total borrowings	1,502,751

## **B10. Off Balance Sheet Financial Instruments**

The Group does not have any off balance sheet financial instruments as at the date of this quarterly report.

## **B11. Material Litigation**

Save as disclosed below, as at 30 September 2008, neither Kinsteel Bhd and its Group is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of Kinsteel Bhd and its Group and our Directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of Kinsteel Bhd and its Group.

### **(i) Shah Alam High Court Civil Suit No. MT4-22-204-2002 Nesaga Technology Sdn Bhd (“Nesaga”) vs. PSSB**

PSSB is alleged to have failed to adhere to 4 maintenance agreements in 1996 whereby Nesaga was to provide various services to PSSB. PSSB had entered into a settlement dated 28 June 1996 with various terms and conditions and PSSB allegedly agreed to all the terms in the settlement via a letter dated 1 July 1996.

On 22 March 2002, Nesaga filed a Writ of Summons and Statement of Claim at the High Court of Malaya at Shah Alam against PSSB. The claim was for LIRE356,996,800.00, RM404,180.00 and USD826,117.40 with interest calculated at the rate of 8% per annum from 1 July 1996 until date of judgment.

Nesaga has filed an application under Order 27 Rule 3 of the Rules of High Court 1980 on 4 March 2005 for judgment on admission (Enclosure 10). Enclosure 10 is now fixed for mention on 10 December 2008. PSSB has filed an application to amend its defence to include a counterclaim (Enclosure 31) which application is now fixed for decision on 10 December 2008. This matter is also fixed for case management on 6 January 2009 pending the disposal of both Enclosure 10 and Enclosure 31.

PSSB's solicitors are of the view that PSSB stands a fair chance of defending the case.

### **(ii) Kuala Lumpur High Court Civil Suit No. D1-22-785-2005 PSSB vs. Arus Zaman Sdn Bhd (formerly known as MK Farlin Development Sdn Bhd) (“Arus Zaman”)**

The claim was filed by PSSB in 2005 whereby PSSB is claiming a sum of RM15.5 million together with damages, interest calculated at the rate of 8% from 15 July 1999 to date of judgment and interest calculated at 8% from the date of judgment to the date of full and final realisation and costs for construction works done under an agreement dated 20 October 1998 for the Multimedia University Campus Development in Cyberjaya.

Arus Zaman has filed a Counter-Claim against PSSB for the sum of RM69,014.13 for overpayment together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. On 18 January 2006, the court allowed Arus Zaman's application to amend their Defence and Counterclaim which the claim is amended to RM400,227.52 together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. PSSB has since filed an application to amend their Reply and Defence to Counterclaim and the application was allowed on 19 November 2008. The matter is now fixed for Case Management on 11 December 2008.

The solicitors of PSSB are of the view that since a substantial part of the documents for PSSB's claim, at first sight are not certified, PSSB may not have a strong claim against Arus Zaman, until and unless the necessary documents substantiating PSSB's claim are complete.

**(iii) Kuala Lumpur High Court Suit No. D8-22-1464-2007 ("D8 Suit")  
Megasteel Sdn Bhd ("Megasteel") vs PSSB**

Megasteel filed Writ of Summons and Statement of Claim for sum of RM36,079,860.33 ("Megasteel's Claim") as damages for an alleged breach of contract against PSSB. On 17 December 2007, PSSB in its defence argued, inter-alia, that Megasteel has continued to accept the delivery of the goods unconditionally after the alleged stipulated time, causing time to be at large hence time is no longer of the essence. In addition there were variations to the contract causing time to be at large as well.

PSSB has also filed a Counter-Claim against Megasteel for inter-alia the sum of RM3,390,509.03 ("Outstanding Sum") for the DRI supplied to Megasteel. Plaintiff filed an application for summary judgment which is fixed for hearing on 14 January 2009. The matter is also fixed for mention of case management on 22 January 2009 pending disposal of the application for summary judgment.

The solicitors of PSSB are of the opinion that PSSB stands a fair chance of success of defending Megasteel's claim and that Megasteel has no viable defence to the Outstanding Sum which Megasteel is seeking to set off the Outstanding Sum against Megasteel's Claim.

**B12. Dividend**

No dividend has been proposed, paid or declared by the Company since 31 December 2007 other than that stated in Note A8.

**B13. Earnings per share**

**(a) Basic earnings per share**

Basic earnings per share of the Group is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

ERRATA

	Current year quarter 30/09/2008 RM'000	Current year- to-date 30/09/2008 RM'000
Net profit attributable to ordinary shareholders of the company	57,986	234,853
Weighted average number of ordinary shares in issue	926,983	926,983
<b>Basic earnings per share (sen)</b>	<b>6.26</b>	<b>25.34</b>
<b>(b) Diluted earnings per share</b>		
	Current year quarter 30/09/2008 RM'000	Current year- to-date 30/09/2008 RM'000
Adjusted net profit attributable to ordinary shareholders of the company	57,986	234,853
Adjusted weighted average number of ordinary shares in issue and issuable	1,055,705	1,055,705
<b>Diluted earnings per share (sen)</b>	<b>5.49</b>	<b>22.25</b>

By order of the Board,

Henry Pheng Chin Guan  
Chief Executive Officer  
Date: 25 November 2008