

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 Financial Reporting Standards 134 (FRS134) "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board (MASB) and Appendix 9B Part A 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 and global economy as well as the first quarter and fourth quarter festive seasons.

A5. Items of unusual nature and amount

Except for a write down to net realisable value of inventories amounting to RM307.6 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 financial years that have a material effect to current financial quarter under review.

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 31 December 2008, the Company had bought 7,753,700 shares at a total consideration of RM4.153 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.

The Board of Directors recommended a first and final dividend of 1.7 sen per share (tax exempt) in respect of the financial year ended 31 December 2008 for the shareholders approval in the forthcoming Annual General Meeting.

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 RM27.4 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 year ended 31 December 2008, the Group recorded a turnover of RM2.46 billion and a profit after tax of RM54.94 million.

In the opinion of the Directors, save for the write down to net realisable values in inventories of RM307.6 million in current quarter and financial year to date of RM427.8 million for the Group, the results for the current quarter and financial year 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 fourth quarter ended 31 December 2008 decreased by RM463.9 million or 55% to RM381 million, as compared to RM844.9 million in the preceding quarter.

The Group suffered a loss after tax of RM339.3 million for the quarter under review which is 408% lower than the profit after tax of RM110.1 million in the preceding quarter. This is attributable to lower sales and margin for steel products and the write down to net realisable values in inventories of RM307.6 million.

B3. Current year prospects

The Group's performance for the financial year ended 2008 was affected considerably by the slowdown of the world economy and the Malaysian economy in particular which took full effect in the last quarter of 2008.

The Group is cautiously optimistic for the financial year 2009 despite the uncertainties in the current economic climate as implementation of the Malaysian Government's spending under the stimulus package commences.

Whilst the operating climate likely to remain challenging for the first quarter, there are signs of improvement in the market recently which will augurs well for the Group. In addition, the lower electricity and gas costs will help in the Group's recovery.

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 31/12/08 RM '000	Current year- to-date 31/12/08 RM '000
Current taxation	350	(109)
Deferred taxation	7,751	16,851
	<u>8,101</u>	<u>16,742</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	50,000
Working capital	112,511	111,502
Estimated listing expenses	11,000	12,009
	<u>173,511</u>	<u>173,511</u>

B9. Group borrowings and debt securities

The Group's borrowings as at 31 December 2008 are as follows:-

	31/12/08 RM'000
Secured	1,003,153
Unsecured	579,088
Total borrowings	<u>1,582,241</u>
<u>Short term borrowing:-</u>	
Bank Overdraft	15,602
Hire Purchases / Lease Creditors	155,362
Bankers' acceptance and trust receipts	713,675
Trade loan	0
Term Loan	55,794
Murabahah Commercial Papers	90,000
	<u>1,030,433</u>
<u>Long Term borrowings:-</u>	
Term Loans	46,666
Government Loan	153,844
Hire Purchases / Lease Creditors	1,298
Murabahah Medium Term Notes	350,000
	<u>551,808</u>
Total borrowings	<u>1,582,241</u>

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 31 December 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 18 March 2009. PSSB has filed an application to amend its defence to include a counterclaim (Enclosure 31) which application was allowed on 10 December 2008. Nesaga has filed an appeal to the Judge in Chambers on 16 December 2008 against the Order dated 10 December 2008 in allowing PSSB application to amend its Defence and to include a Counterclaim. This matter is now fixed for decision/clarification of Enclosure 10 and also mention of case management on 31 March 2009.

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 mention of Case Management on 21 May 2009.

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
Kuala Lumpur High Court Suit No. D2-22-1594-2007
(consolidated by the Order of the Court of Appeal dated 17 January 2008)
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. On 27 March 2008, Megasteel filed an application for summary judgment which was dismissed with costs on 14 January 2009. The matter is now fixed for mention of case management on 23 April 2009.

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.

	Current year quarter 31/12/2008 RM'000	Current year- to-date 31/12/2008 RM'000
(Loss)/profit attributable to ordinary shareholders of the company	(185,553)	37,373
Weighted average number of ordinary shares in issue	927,001	927,001
Basic (loss)/earnings per share (sen)	(20.02)	4.03

(b) Diluted earnings per share

	Current year quarter 31/12/2008 RM'000	Current year- to-date 31/12/2008 RM'000
(Loss)/profit attributable to ordinary shareholders of the company	(185,553)	37,373
Weighted average number of ordinary shares in issue and issuable	1,050,000	1,050,000
Diluted (loss)/earnings per share (sen)	(17.67)	3.56

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer
Date: 26 February 2009