

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 Paragraph 9.22 of the Listing Requirement of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's financial statements for the year ended 31 December 2008.

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 2008.

A3. Qualification of Financial Statements

The financial statements for the year ended 31 December 2008 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 festive seasons.

A5. Items of unusual nature and amount

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

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period under review.

A8. Dividends Paid/Proposed

The Directors proposed that a final dividend of 1.7 sen per ordinary share tax exempt , for the financial year ended 31 December 2008 will be paid on 20 August 2009 to Depositors whose names appear in the Record of Depositors on 24 July 2009. This recommendation is subject to the approval of the Kinsteel Bhd's shareholders at the Annual General Meeting which will be held on 3 June 2009.

No dividends have been proposed nor paid for the financial year ended 31 March 2009.

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 RM27.6 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

There were no changes in the current quarter and financial year-to-date in the composition of the Group.

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.

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

B1. Review of performance

For the current quarter under review, the Group recorded a turnover of RM440.3 million and a loss after tax of RM76.4 million.

The drop in revenue was mainly due to the sharp contraction in steel demand and prices which contributed to the severe margin squeeze resulting the Group incurring a loss during the current quarter.

B2. Comparison with preceding quarter's results

The Group's revenue for the first quarter ended 31 March 2009 was increased by RM59.4 million or 16% to RM440 million, as compared to RM381 million in the preceding quarter.

The Group suffered a loss after tax of RM76.4 million for the quarter under review which has improved by 77% as compared to the loss after tax of RM339.3 million in the preceding quarter. The immediate preceding quarter had a write down of net realisable value in inventories amounted to RM425 million.

B3. Current year prospects

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 next quarter, there are signs of improvement in the market recently which will augurs well for the Group.

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 and year-to-date 31/03/09 RM '000
Current taxation	(75)
Deferred taxation	17,000
	<u>16,925</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

There were no corporate proposals announced but not completed as at the reporting date.

B9. Group borrowings and debt securities

The Group's borrowings as at 31 March 2009 were as follows:-

	31/03/09 RM'000
Secured	1,014,923
Unsecured	597,468
Total borrowings	<u>1,612,391</u>

Short term borrowing:-

Bank Overdraft	14,603
Hire Purchases / Lease Creditors	6,297
Bankers' acceptance and trust receipts	890,703
Term Loan	5,000
Government Loan	14,906
Related Party Loan	294
Murabahah Commercial Papers	85,000
	<u>1,016,803</u>

Long Term borrowings:-

Term Loans	45,416
Government Loan	103,885
Related Party Loan	85,452
Hire Purchases / Lease Creditors	10,835
Murabahah Medium Term Notes	350,000
	<u>595,588</u>
Total borrowings	<u>1,612,391</u>

Note: Regarded as government loan by virtue of the back-to-back arrangement between the Government of Malaysia and the related party.

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 March 2009, 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. Perwaja Steel Sdn Bhd
 (“PSSB”)**

PSSB is alleged to have failed to adhere to 4 maintenance agreements 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 on the above sums from 1 July 1996 until date of judgment and interest calculated at the rate of 8% per annum on the above sums from date of judgment until realisation.

Nesaga has also 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 decision on 19 May 2009. PSSB has filed an application to amend its Defence and to include a Counter-claim (Enclosure 31) which application was allowed on 10 December 2008. Nesaga has filed an appeal on 16 December 2008 against the Order

dated 10 December 2008. This matter is fixed for mention of case management on 19 May 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 on 7 June 2005 whereby PSSB is claiming a sum of RM15,541,193.98 for construction works done under an agreement dated 20 October 1998 for the Multimedia University Campus Development in Cyberjaya ("Contract"). The total contract sum was RM34,733,882.27 including RM20,125,213.39 for building, mechanical and engineering works and RM14,608,668.88 for variation works. As at 25 September 2005, Arus Zaman has paid PSSB a total of RM19,192,668.29 and to date a balance of RM15,541,193.98 remains outstanding.

In its Re-Amended Defence and Counter-Claim dated 28 April 2006, Arus Zaman is alleging that no variation works were ordered by Arus Zaman or Telekom Malaysia Berhad, the main employer. The alleged variation works do not exist and/or were not approved by Arus Zaman and/or the main employer. Arus Zaman is also alleging that PSSB has been overpaid and has failed, refused and/or neglected to rectify and complete the works pursuant to a Non-Compliance Report and as a result Arus Zaman has suffered losses and therefore, is counterclaiming for a sum of RM400,227.52 and interest from the date of judgment until realisation and costs. PSSB's application for the Amended Reply to the Defence and Counter-Claim was allowed on 19 November 2008. This case is now fixed for 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 completed.

**(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**

On 29 October 2007, Megasteel filed the Writ of Summons and Statement of Claim at the High Court of Malaya at Kuala Lumpur claiming for a sum of RM36,079,860.33 ("Megasteel's Claim") as damages for an alleged breach of contract against PSSB. PSSB has sold and delivered DRI to Megasteel where there is currently an outstanding sum of RM3,390,509.03 due to PSSB by Megasteel. Megasteel alleged that PSSB has failed to deliver the required quantity of DRI as per the contracts within the stipulated time agreed upon by the parties. PSSB has filed its Memorandum of Appearance on 21 November 2007.

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 filed a Counter-Claim against Megasteel on 17 December 2007 for *inter-alia*, the outstanding sum of RM3,390,509.03 (“Outstanding Sum”) as at 6 November 2007 for the DRI supplied to Megasteel. PSSB has also filed a summary judgment for the Outstanding Sum, the hearing of which is fixed on 6 May 2009. The Court has fixed the matter for mention of case management on 23 June 2009.

The solicitors of PSSB are of the opinion that PSSB stands a fair chance of defending Megasteel’s Claim. Meanwhile the solicitors are also of the view that Megasteel has no viable defence to the Outstanding Sum which Megasteel is seeking to set off the Outstanding Sum against Megasteel’s Claim.

**(iv) Kuala Lumpur High Court Suit No. D22-788-2009
Petroliam National Berhad (“Petronas”) vs PSSB**

On 12 May 2009, PSSB was served with a writ of summons, dated 27 April 2009, taken out by Petronas claiming the sum of RM85,795,957.50 being the alleged balance of the unpaid purchase price for the supply of gas to PSSB together with interest on various bases. PSSB is disputing the claim and the difference is in principle due to PSSB’s natural gas price computation based on the negotiation with the GOM (including the international price and the relevant discount), and Petronas’ own price. PSSB will defend the suit while not precluding an amicable resolution of this dispute. PSSB is in the process of instructing its solicitors to take the necessary steps to protect the interest of PSSB.

PSSB’s solicitors are of the preliminary view that PSSB has reasonable prospects of success.

B12. Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2008 other than as stated in Note A8.

B13. Loss per share

(a) Basic loss per share

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

	Current year quarter 31/03/2009 RM’000	Current year- to-date 31/03/2009 RM’000
Loss attributable to ordinary shareholders of the company	(34,761)	(34,761)
Ordinary shares in issue	927,001	927,001
Treasury shares	(7,753)	(7,753)
Weighted average number of ordinary shares in issue	919,248	919,248
Basic loss per share (sen)	(3.78)	(3.78)

Fully diluted loss per share for current quarter has not been presented as the effect is anti-dilutive.

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer
Date: 18 May 2009