

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 construction sector, 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

A final tax exempt dividend of 1.7 sen per ordinary share for the financial year ended 31 December 2008 was approved at the Annual General Meeting held on 3 June 2009 and will be paid on 20 August 2009 to Depositors registered in the Record of Depositors on 24 July 2009.

No dividends have been proposed nor paid for the financial period ended 30 June 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 RM34.7 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 RM639.1 million and a loss before tax of RM74 million.

The drop in revenue was mainly due to 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 second quarter ended 30 June 2009 had increased by RM198.8 million or 45% to RM639.1 million, as compared to RM440.3 million in the preceding quarter.

The Group suffered a loss before tax of RM74 million for the quarter under review which has improved by 21% as compared to the loss before tax of RM93.3 million in the preceding quarter.

The increased in revenue and improved loss before tax for current quarter are mainly due to improved demand for steel products.

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. Improvement in steel demand will depend on, amongst others, the effects of government stimulus packages, continuous stabilization of financial systems and return of consumer's confidence.

Whilst the operating climate likely to remain challenging for the next quarter, there are signs of improvement in the market recently which will augur 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 Quarter 30/06/09 RM '000	Current year-to-date 30/06/09 RM '000
Current income taxation	(66)	(141)
Deferred taxation	13,110	30,110
	<u>13,044</u>	<u>29,969</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 30 June 2009 were as follows:-

	30/06/09 RM'000
Secured	1,048,340
Unsecured	571,132
Total borrowings	<u>1,619,472</u>

Short term borrowing:-

Bank Overdraft	10,847
Hire Purchases / Lease Creditors	5,949
Bankers' acceptance and Trust Receipts	909,311
Term Loan	5,000
Government Loan	14,906
Related Party Loan	420
Murabahah Commercial Papers / Medium Term Notes	80,000
	<u>1,026,433</u>

	30/06/09 RM'000
<u>Long Term borrowings:-</u>	
Term Loans	44,165
Government Loan	103,585
Related Party Loan	85,326
Hire Purchases / Lease Creditors	9,963
Murabahah Medium Term Notes	350,000
	<u>593,039</u>
Total borrowings	<u>1,619,472</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 30 June 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 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 (approximate total claim is RM4,151,858.54 based on relevant conversion rate in year 2002) with interest calculated at the rate of 8% per annum from 1 July 1996 until date of judgment.

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 and was subsequently being struck off. PSSB has filed an application to amend its Defence and to include a Counter-claim 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 court has fixed 1 September 2009 for hearing of Nesaga’s said appeal and for mention of case management.

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 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 13 October 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 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 on admission of the Outstanding Sum, the hearing of which is fixed on 30 July 2009. The Court has also fixed the matter for mention of case management on 27 August 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.

**(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. The present state of the proceedings against PSSB is that both Petronas and PSSB have exchanged their respective pleadings. PSSB is disputing the claim.

By its Defence and Counterclaim dated 15 June 2009, PSSB is defending the Claim and is counterclaiming for either a sum of RM105,258,714.45 or alternatively RM99,831,484.28, depending the rate applicable. As the pre-trial steps have not been completed yet, there is no date for trial of the suit.

As at present advised PSSB's solicitors, the Board is of the opinion that PSSB has reasonable prospects of success. Nevertheless, it is still open to both parties to reach a negotiated settlement of this dispute.

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 quarter 30/06/2009	Current year-to-date 30/06/2009
Net loss attributable to ordinary shareholders (RM'000)	(7,878)	(42,639)
Weighted average number of ordinary shares in issue including Treasury shares ('000)	927,084	927,043
Treasury shares ('000)	(7,754)	(7,754)
Weighted average number of ordinary shares in issue ('000)	919,330	919,289
Basic loss per share (sen)	(0.86)	(4.64)

(b) Diluted loss per share

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

By order of the Board,

Dato' Henry Pheng Chin Guan

Chief Executive Officer

Date: 19 August 2009