

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

The Group had on 25 September 2009 redeemed the first tranche of its Murabahah Medium Term Notes facility of RM50.0 million.

Save as disclosed above, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial year 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 and paid on 20 August 2009 to Depositors registered in the Record of Depositors on 24 July 2009.

The Board of Directors recommended a first and final tax exempt dividend of 1 sen per share in respect of the financial year ended 31 December 2009 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 RM42.7 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 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

Revenue and pre-tax loss for the year ended 31 December 2009 were lower at RM1,928.1 million and RM98.1 million as compared to revenue and pre-tax profit of RM2,457.9 million and RM10.3 million recorded in the corresponding financial year of 2008. The Group's overall performance for financial year 2009 was affected by lower selling price and slower pace of momentum in the steel industry, consequential effects of global financial crisis.

For the current quarter under review, the Group recorded a revenue of RM390.9 million and a pre-tax profit of RM52.3 million as compared to revenue of RM377.4 million and pre-tax loss of RM375.3 million respectively in the preceding year corresponding quarter. The increase in revenue and pre-tax profit in the current quarter under review was mainly due to the higher selling prices of steel products and improvement in demand, in line with the progressive recovery of steel industry as well as reversal of provision for impairment no longer required.

B2. Comparison with preceding quarter's results

The Group's revenue for fourth quarter ended 31 December 2009 had decreased by RM66.8 million or 15% to RM390.9 million, as compared to RM457.7 million in the preceding quarter. However, the Group recorded a profit before tax of RM52.3 million for the current quarter under review as compared to RM16.9 million in the preceding quarter.

B3. Current year prospects

The Group is cautiously optimistic on the prospects for 2010 as it is dependent on the continued recovery of the economy.

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 31/12/09 RM '000	Current year-to-date 31/12/09 RM '000
Current income taxation	91	(50)
Deferred taxation	(1,398)	42,812
	<u>(1,307)</u>	<u>42,762</u>

The effective tax rate of the Group is lower than the statutory tax rate mainly due to utilization of deferred tax assets not recognized in prior years and expected utilization of unutilized capital allowances, tax losses and tax incentives.

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 December 2009 were as follows:-

	31/12/09 RM'000
Secured	1,054,812
Unsecured	578,336
Total borrowings	<u>1,633,148</u>

	31/12/09 RM'000
<u>Short term borrowing:-</u>	
Bank Overdraft	13,425
Hire Purchases / Lease Creditors	4,776
Bankers' acceptance and Trust Receipts	920,415
Term Loan	66,206
Government Loan	30,419
Related Party Loan	21,574
Murabahah Commercial Papers / Medium Term Notes	85,000
	<u>1,141,815</u>
<u>Long Term borrowings:-</u>	
Term Loan	41,665
Government Loan	87,640
Related Party Loan	63,724
Hire Purchases / Lease Creditors	8,304
Murabahah Medium Term Notes	290,000
	<u>491,333</u>
Total borrowings	<u>1,633,148</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 2009, neither Kinsteel Bhd nor 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 on 19 May 2009. PSSB has filed an application to amend its Defence and to include a Counter-claim which application was allowed on 10 December 2008 by the Registrar of the High Court. Nesaga has filed an appeal on 16 December 2008 against the Order dated 10 December 2008. The appeal was allowed with costs in the cause of 7 January 2010 by the High Court Judge. PSSB filed an appeal to Court of Appeal on 15 January 2010 and an application to stay the proceedings at High Court pending appeal on 5 February 2010. Mention of case management is fixed on 22 March 2010.

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. Arus Zaman has recently changed their solicitors and filed an application to amend their amended Defence and Counterclaim on 11 December 2009. The application is now fixed for hearing on 23 February 2010. Case Management of the matter is fixed for mention on 30 March 2010.

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.

Megasteel filed a summary judgment application on the Megasteel's Claim on 27 March 2008 and the same was dismissed on 14 January 2009. Megasteel did not file an appeal against this decision.

Meanwhile, 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 an application for judgment on admission of the Outstanding Sum on 30 March 2009 of which was also dismissed on 26 October 2009. PSSB filed an appeal to the Court of Appeal against the dismissal of the application for judgment on admission on 20 November 2009. The Case Management which was fixed on 19 February 2010 has been adjourned to a date to be fixed and the court will inform the parties of the new date in due course.

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
Petroleum National Berhad ("Petronas") vs PSSB**

On 12 May 2009, PSSB was served with a writ of summons, dated 27 April 2009, initiated by Petronas claiming for 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. Petronas filed an application to strike out PSSB's Defence and Counterclaim on 24 December 2009. The Court has fixed 6 April 2010 for case management for the parties to file their respective affidavits.

As at present and as advised by 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. 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 quarter 31/12/2009	Current year-to-date 31/12/2009
Net profit attributable to ordinary shareholders (RM'000)	41,118	18,264
Weighted average number of ordinary shares in issue including Treasury shares ('000)	941,428	934,186
Treasury shares ('000)	(7,754)	(7,754)
Weighted average number of ordinary shares in issue ('000)	933,674	926,432
Basic earnings per share (sen)	4.40	1.97

(b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, the weighted average number of ordinary shares in issue have been adjusted for the dilutive effects of all potential conversion of any convertible securities issued during the period as set out below:-

	Current quarter 31/12/2009	Current year-to-date 31/12/2009
Net profit attributable to ordinary shareholders (RM'000)	41,118	18,264
Weighted average number of ordinary shares in issue ('000)	933,674	926,432
Effects of dilution ('000)	85,924	81,736
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	1,019,598	1,008,168
Diluted earnings per share (sen)	4.03	1.81

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer
Date: 25 February 2010