

**KINSTEEL BHD (210470-M)**  
(Incorporated in Malaysia)

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2011**

**PART A – EXPLANATORY NOTES PURSUANT TO FRS 134**

**A1. Basis of Preparation**

The interim financial statements are unaudited and have been prepared in accordance with the requirement of Financial Reporting Standards 134 (FRS134): “Interim Financial Reporting” and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statement should be read in conjunction with the audited financial statements for the year ended 31 December 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2010.

**A2. Significant Accounting Policies**

The significant accounting policies adopted are in consistent with those of the audited financial statements for the year ended 31 December 2010, except for the adoption of the following new Amendments to Financial Reporting Standards (FRSs) and Interpretations with effect from 1 January 2011:

Amendments to FRS 1 (Revised)	Limited Exemptions from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Group Cash-settled Share-based Payment Transaction
Amendments to FRS 7	Improving Disclosures about Financial Instruments
IC Interpretation 4	Determining Whether An Arrangement Contains a Lease
IC Interpretation 18	Transfers of Assets from Customers
Amendments to IC Interpretation 13	Customer Loyalty Programmes
Amendments to FRSs	Annual Improvements to FRS (2010)

The adoption of the above standards, amendments and interpretations do not have significant impact on the financial statements of the Group.

**A3. Auditors’ Report**

The preceding financial year’s audit report was 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. Material Changes in Estimates**

There were no changes in the estimates of amount relating to the prior financial years that have a material effect in the current quarter under review.

**A7. Debt and Equity Securities**

There were no issuance, cancellation, repurchases, resale and repayments of debt and equity securities during the financial year-to-date.

**A8. Dividends Paid or Proposed**

The Directors proposed that a first and final tax exempt dividend of 1 sen per ordinary share, for the financial year ended 31 December 2010 will be paid on 19 August 2011 to Depositors whose names appear in the Record of Depositors on 22 July 2011. This recommendation is subject to the shareholders' approval at the forthcoming Annual General Meeting which will be held on 16 June 2011.

No dividends have been proposed nor paid for the financial year ended 31 March 2011.

**A9. Segmental information**

Segmental information is not provided as the Group's primary business segment is principally engaged in the manufacturing and trading of steel related products and its operation is principally located in Malaysia.

**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 RM214.6 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 were no contingent liabilities or contingent assets, which upon becoming enforceable, may have a material effect on the net assets, profits or financial position of our Group.

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### **PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

#### **B1. Review of Performance**

For the current quarter under review, the Group reported revenue of RM555.6 million as compared to RM540.4 million recorded in the preceding year corresponding quarter (1Q10). The Group recorded a pre-tax loss of RM20.1 million as compared to a pre-tax profit of RM36.8 million reported in 1Q10.

The increase in revenue was mainly driven by higher steel prices. However, the cost of raw materials has further increased, which impacted margins and resulted in a net loss during the current quarter.

#### **B2. Comparison with Preceding Quarter's Results**

The Group's revenue for the current quarter increased by RM197.3 million to RM555.6 million from RM358.3 million in the immediate preceding quarter due to improved demand and selling price for the steel products. However, as the cost of raw material has increased in tandem with the selling price, the Group recorded a pre-tax loss of RM20.1 million as compared to the preceding quarter's pre-tax loss of RM90.3 million. This represents an improvement of RM70.2 million.

#### **B3. Current Year Prospects**

The Group is cautious over the prospects in financial year 2011 whilst domestic steel consumption has risen in tandem with the rebound in construction activities from both public and private sectors.

Prices of iron ore have increased significantly. The Group will continue to find ways to reduce exposure to raw material price volatility to minimize the impact of the volatile steel market. The Group has embarked on a concentration and pelletizing plant which when completed, will reduce the Group's exposure to import of iron ore pellets and significantly reduce the Group's production cost.

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

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

**B5. Taxation**

The Group's effective tax rate is lower than the prevailing statutory tax rate of 25%, mainly due to the utilization of deferred tax assets not recognized in prior years.

**B6. Sale of Unquoted Investments and/or Properties**

There were no disposals of unquoted investments and/or 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 2011 were as follows:-

	31/03/2011 RM'000
Secured	1,114,630
Unsecured	731,157
Total borrowings	<u>1,845,787</u>
<u>Short term borrowing:-</u>	
Bank Overdraft	15,528
Hire Purchases / Lease Creditors	5,940
Bankers' acceptance and trust receipts	1,080,216
Term Loan	201,265
Government Loan	14,696
Related Party Loan	504
Murabahah Commercial Papers/ Murabahah Medium Term Notes	110,000
	<u>1,428,149</u>
<u>Long Term borrowings:-</u>	
Government Loan	94,936
Related Party Loan	77,841
Hire Purchases / Lease Creditors	14,861
Murabahah Medium Term Notes	230,000
	<u>417,638</u>
Total borrowings	<u>1,845,787</u>

## **B10. Derivative Financial Instruments**

There were no derivative financial instruments as at the reporting date.

## **B11. Material Litigation**

Save as disclosed below, as at 31 March 2011, 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 the 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 the Group.

**(i) 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 a Writ of Summons and Statement of Claim for the sum of RM36,079,860.33 (“Megasteel’s Claim”) as damages for an alleged breach of contract against PSSB in respect of the sale and purchase of 170,000 mt of DRI in 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 also filed a Counter-Claim against Megasteel on 17 December 2007 for *inter-alia*, the outstanding sum of RM3,390,509.03 inclusive of interest (“Outstanding Sum”) as at 6 November 2007 for the DRI supplied to Megasteel.

The High Court Suits proceeded with trial on 14 -16 March 2011 and was adjourned to 31 March 2011 and 01 April 2011 for continuation. However, the dates are now fixed for continued trial on 13 -15 September 2011 and 3 - 4 October 2011.

Meanwhile, PSSB has filed an appeal to the Court of Appeal against the dismissal of their application to amend the Defence and Counterclaim. The appeals are pending and will be accelerated before the next trial date at the High Court.

The solicitors of PSSB are of the opinion that PSSB has a fair chance of succeeding in its defence against 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.

**(ii) 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, 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. 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 on the rate applicable. Petronas filed an application to strike out PSSB's Defence and Counterclaim on 24 December 2009 which was dismissed with costs by the Judge on 30 July 2010.

On 21 March 2011, the Judicial Commissioner ("JC") fixed 3 October 2011 to 7 October 2011 for trial. Parties are also required to file the relevant documents before the final case management date on 26 August 2011. The JC has also directed that the matter has to go for mediation before another Judge prior to trial. Parties will be notified of the mediation date.

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 for this dispute.

## B12. Proposed Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2010 other than as stated in Note A8.

## B13. Loss Per Share

### (a) Basic loss per share

Basic loss per share is calculated by dividing the Group's net loss attributable to equity holders for the period by the weighted average number of ordinary shares in issue during the current quarter and the financial year to date.

	Current quarter 31/03/2011	Current year-to-date 31/03/2011
Net loss attributable to ordinary shareholders (RM'000)	(3,564)	(3,564)
Weighted average number of ordinary shares in issue including Treasury shares ('000)	965,272	965,272
Treasury shares ('000)	(7,754)	(7,754)
Weighted average number of ordinary shares in issue ('000)	957,518	957,518
<b>Basic loss per share (sen)</b>	<b>(0.37)</b>	<b>(0.37)</b>

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

**B14. Realised and Unrealised Profits Disclosure**

The accumulated profits as at 31 March 2011 and 31 December 2010 is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised profits	<b>419,158</b>	443,007
- Unrealised profits	<b>177,636</b>	176,120
	<b>596,794</b>	619,127
Less: Consolidated adjustments	<b>(48,531)</b>	(67,300)
Total group accumulated profits as per consolidated financial statements	<b>548,263</b>	551,827

By order of the Board,

**Dato' Henry Pheng Chin Guan**  
**Chief Executive Officer**

Date: 25 May 2011