

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

Quarterly report on consolidated results for the fourth quarter ended 31 December 2011.

The figures have not been audited.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND YEAR ENDED 31 DECEMBER 2011**

	2011 Current Quarter 31.12.2011 RM'000	2010 Comparative Quarter 31.12.2010 RM'000	2011 12 months Cumulative 31.12.2011 RM'000	2010 12 months Cumulative 31.12.2010 RM'000
Revenue	540,981	413,330	1,985,807	1,688,494
Operating expenses	(662,755)	(487,221)	(2,117,221)	(1,686,379)
Other operating income	(4,394)	9,097	35,475	25,602
Finance costs	(35,179)	(31,363)	(132,656)	(123,567)
Loss before taxation	<u>(161,347)</u>	<u>(96,157)</u>	<u>(228,595)</u>	<u>(95,850)</u>
Taxation	(78,282)	(3,893)	(80,578)	(4,228)
Loss for the period	<u>(239,629)</u>	<u>(100,050)</u>	<u>(309,173)</u>	<u>(100,078)</u>
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	<u>68</u>	<u>62</u>	<u>266</u>	<u>248</u>
Total comprehensive loss	<u>(239,561)</u>	<u>(99,988)</u>	<u>(308,907)</u>	<u>(99,830)</u>
Loss attributable to:				
Equity holders of the parent	(102,780)	(46,777)	(121,627)	(35,405)
Minority Interests	<u>(136,849)</u>	<u>(53,273)</u>	<u>(187,546)</u>	<u>(64,673)</u>
	<u>(239,629)</u>	<u>(100,050)</u>	<u>(309,173)</u>	<u>(100,078)</u>
Total comprehensive loss attributable to:				
Equity holders of the parent	(102,754)	(46,753)	(121,527)	(35,312)
Minority Interests	<u>(136,807)</u>	<u>(53,235)</u>	<u>(187,380)</u>	<u>(64,518)</u>
	<u>(239,561)</u>	<u>(99,988)</u>	<u>(308,907)</u>	<u>(99,830)</u>
Loss per share attributable to equity holders of the parent:				
- Basic (sen)	(10.10)	(4.94)	(12.49)	(3.75)
- Diluted (sen)	N.A.	N.A.	N.A.	N.A.

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	As at 31.12.2011 RM'000	As at 31.12.2010 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,269,473	2,293,267
Intangible assets	1,293	1,293
Other investment	4,000	3,733
Deferred tax assets	105,000	181,922
	<u>2,379,766</u>	<u>2,480,215</u>
Current assets		
Inventories	1,110,408	1,302,946
Receivables	376,199	320,493
Tax recoverable	1,069	775
Deposits with licensed banks	44,574	48,300
Cash and bank balances	2,129	15,885
	<u>1,534,379</u>	<u>1,688,399</u>
TOTAL ASSETS	<u><u>3,914,145</u></u>	<u><u>4,168,614</u></u>
EQUITY AND LIABILITIES		
Share capital	209,872	191,257
Treasury shares	(4,153)	(4,153)
Reserves	451,090	582,221
Equity attributable to equity holders of the parent	656,809	769,325
Minority interest	684,640	872,019
Total equity	<u>1,341,449</u>	<u>1,641,344</u>
Non-current liabilities		
Borrowings	325,052	368,154
Deferred taxation	5,956	2,506
	<u>331,008</u>	<u>370,660</u>
Current liabilities		
Trade and other payables	720,770	690,975
Overdrafts and short term borrowings	1,520,897	1,465,388
Provision for taxation	21	247
	<u>2,241,688</u>	<u>2,156,610</u>
Total liabilities	<u>2,572,696</u>	<u>2,527,270</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,914,145</u></u>	<u><u>4,168,614</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.63	0.80

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

Note: *The comparative figures are extracted from the audited financial statements for the year ended 31 December 2010.*

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

	← Attributable to Equity Holders of the Company →					Total RM'000	Minority Interests RM'000	Total Equity RM'000
	Share Capital RM'000	Treasury Shares RM'000	Share Premium RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000			
Balance at 01.01.2011	191,257	(4,153)	30,493	(99)	551,827	769,325	872,019	1,641,344
Exercise of warrant	18,615	-	-	-	-	18,615	-	18,615
Comprehensive loss for the year	-	-	-	-	(121,627)	(121,627)	(187,546)	(309,173)
Other comprehensive income for the year	-	-	-	99	-	99	167	266
Dividends paid	-	-	-	-	(9,603)	(9,603)	-	(9,603)
Balance at 31.12.2011	209,872	(4,153)	30,493	-	420,597	656,809	684,640	1,341,449
Balance at 01.01.2010	188,293	(4,153)	30,493	-	587,826	802,459	922,036	1,724,495
Effect arising from adoption of FRS 139	-	-	-	(192)	8,834	8,642	14,501	23,143
Balance at 1.1.2010, as restated	188,293	(4,153)	30,493	(192)	596,660	811,101	936,537	1,747,638
Exercise of warrant	2,964	-	-	-	-	2,964	-	2,964
Comprehensive loss for the year	-	-	-	-	(35,405)	(35,405)	(64,673)	(100,078)
Other comprehensive income for the year	-	-	-	93	-	93	155	248
Dividends paid	-	-	-	-	(9,428)	(9,428)	-	(9,428)
Balance at 31.12.2010	191,257	(4,153)	30,493	(99)	551,827	769,325	872,019	1,641,344

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Current year ended 31.12.2011 RM'000	Preceding year ended 31.12.2010 RM'000
Loss before tax	(228,595)	(95,850)
Adjustments for non-cash flow :		
Depreciation	119,121	116,202
Non-cash items	181,928	133,552
Operating profit before working capital changes	<u>72,454</u>	<u>153,904</u>
Changes in working capital	<u>65,136</u>	<u>(43,503)</u>
	137,590	110,401
Interest paid	(111,108)	(113,281)
Interest received	2,517	18,457
Tax refund	5	-
Tax paid	(729)	(233)
Net cash flows from operating activities	<u>28,275</u>	<u>15,344</u>
Investing activities		
Purchase of property, plant and equipment	(77,777)	(55,333)
Proceeds from disposal of property, plant and equipment	109	119
Net cash flows for investing activities	<u>(77,668)</u>	<u>(55,214)</u>
Financing activities		
Deposits pledged for bank borrowings withdrawn	-	2,000
Proceeds from exercise of warrants	18,615	2,964
Short term borrowings	64,524	246,597
Receipts of Murabahah Commercial Papers/ Medium Terms Notes	-	25,000
Repayment of Murabahah Medium Term Notes	(60,000)	(60,000)
Drawdown/(repayment) of loans	29,191	(128,664)
Repayment of government loan	(464)	(464)
Hire purchase/lease liabilities repayment	(5,126)	(5,628)
Dividends paid	(9,603)	(9,428)
Net cash flows from financing activities	<u>37,137</u>	<u>72,377</u>
Net change in cash and cash equivalents	(12,256)	32,507
Effects of foreign exchange rate changes	-	(1,584)
Cash and cash equivalents at beginning of year	<u>39,025</u>	<u>8,102</u>
Cash and cash equivalents at end of year	<u>26,769</u>	<u>39,025</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

KINSTEEL BHD (210470-M)

(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER AND YEAR ENDED 31 DECEMBER 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 outlook of the global economy, as well as the festive seasons.

A5. Items of Unusual Nature and Amount

Except for a write down to net realisable value in value of inventories amounting to RM94.2 million being made during the current 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. 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

During the financial year, the Group has redeemed the third tranche of its Murabahah Medium Term Notes facility of RM10.0 million and RM50.0 million on 7 September 2011 and 25 September 2011 respectively.

Save for the disclosure above, 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

A final tax exempt dividend of 1 sen per ordinary share for the financial year ended 31 December 2010 was approved at the Annual General Meeting held on 16 June 2011 and paid on 19 August 2011 to Depositors registered in the Record of Depositors on 22 July 2011.

No dividends have been proposed nor paid for the financial year ended 31 December 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 RM197.9 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.

KINSTEEL BHD (210470-M)

(Incorporated in Malaysia)

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

B1. Review of Performance

For the quarter under review (4Q11), the Group recorded a 30.9% or RM127.7 million increase in revenue to RM541.0 million, from RM413.3 million in the corresponding quarter a year ago (4Q10) largely contributed by higher selling prices. The Group's pre-tax loss was higher at RM161.3 million as compared to RM96.2 million in 4Q10.

Revenue for the year ended 31 December 2011 improved by RM297.3 million to RM1,985.8 million, as compared to RM1,688.5 million in the previous corresponding financial year. Pre-tax loss of the Group for the current year ended 31 December 2011 was higher at RM228.6 million as compared to pre-tax loss of RM95.9 million in the corresponding financial year of 2010. The lower profitability was mainly due to write down to net realizable value in inventory of RM94.2 million in the current quarter and financial year.

B2. Comparison with Preceding Quarter's Results

The Group recorded a pre-tax loss of RM161.3 million as compared to the preceding quarter's pre-tax loss of RM25.8 million. The lower profitability was mainly due to write down to net realizable value in inventory of RM94.2 million in the current quarter.

B3. Prospects for the Financial Year 2012

The Group remains cautiously optimistic on the iron and steel industry for 2012. The outlook for the global steel industry is still promising with growth in global demand but the downside risk remain, including further rises in steel raw materials prices, continuing sluggish growth in advanced economies and higher oil prices, assuming the market response to the European debt crisis does not result in increased volatility in the global financial system. Meanwhile in the domestic market, the demand for steel will be supported by various government mega projects to be rolled out under the ETP.

Therefore, as iron ore prices are expected to remain high, the Group will have to closely monitor the price fluctuations and adopt a prudent purchasing and inventory management strategy. We, being one of the larger players in the market, are confident in our ability to capitalise on any turnaround in the market conditions as the Malaysian Government rolls out major projects.

The Group has embarked on the construction of a concentration and pelletizing plant which when completed, will reduce the Group's reliance on imported pellets and the exposure to raw material price fluctuations when it is fully operational. The Group believes that the concentration and pelletizing plant will significantly reduce the Group's production cost, and hence enable it to position itself more competitively going forward.

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

The Company has on 25 July 2011 announced that it is proposing to undertake the following proposals:

- i) Proposed subscription of RM280,000,000 nominal value of Redeemable Convertible Unsecured Loan Stocks ("RCULS") issued by its subsidiary, Perwaja Holdings Berhad (PHB) at 100% of its nominal value; and
- ii) Proposed renounceable restricted offer for sale ("ROS") of such nominal value of the RCULS held by it to the entitled shareholders of PHB, other than the Company, on the basis of RM1.00 nominal value of RCULS for every two existing ordinary shares of RM1.00 each in PHB held on the entitlement date, upon completion of the proposed restricted issue.

Perwaja Holdings Berhad (PHB) has on 25 July 2011 announced that it is proposing to undertake the following proposals:

- i) Proposed restricted issue of RM280,000,000 nominal value of Redeemable Convertible Unsecured Loan Stocks ("RCULS") to Kinsteel Bhd at 100% of its nominal value;
- ii) Proposed issue of 280,000,000 free warrants on the basis of one free warrant for every two existing PHB shares held by the entitled shareholders on the entitlement date.

On 4 August 2011, Bank Negara Malaysia has granted its approval on the proposed issue of free warrants to non-resident shareholders of PHB.

On 26 August 2011, Securities Commission has granted its approval on the proposed issue of RCULS under the PDS Guidelines while the Proposed ROS is not subject to SC's approval.

On 25 October 2011, Bursa Securities has granted its approval for the admission of the RCULS and Free Warrants to the Official List of Bursa Securities and the listing of and quotation for the RCULS, Free Warrants and the new PHB Shares to be issued arising from the conversion of the RCULS and exercise of the Free Warrants on the Main Market of Bursa Securities.

On 4 November 2011, the Company and PHB have dispatched the Circular to the shareholders respectively informing on the Extraordinary General Meeting (EGM) to be held on 22 November 2011 to vote on the Proposals. At the EGM held on 22 November 2011, both the shareholders of the Company and PHB have approved the resolutions for the Proposals.

On 4 January 2012 and 9 February 2012, the Company has paid the full subscription price of RM280 million for the RCULS. On 4 January, PHB has provisionally allotted RM280 million nominal value of RCULS to the Company at 100% of its nominal value. The Restricted Issue will be deemed completed upon the issuance of the RCULS to the Company and the Entitled Shareholders under the ROS.

On 10 February 2012, PHB has announced the Entitlement Date which is fall on 24 February 2012. On the Entitlement Date, the Entitled Shareholders will be provisionally offered the Offer RCULS based on their respective shareholdings in PHB. The Free Warrants will also be issued to PHB's shareholders whose names appeared in the Record of Depositors on the Entitlement Date.

The Company is now carrying out the ROS of RM175,450,000 nominal value of RCULS held by it to the Entitled Shareholders, on the basis of RM1.00 nominal value of RCULS for every two (2) existing shares of PHB held on the Entitlement Date.

Barring unforeseen circumstances, the Proposed ROS is expected to be completed in March 2012.

B9. Group Borrowings and Debt Securities

The Group's borrowings as at 31 December 2011 were as follows:-

	31/12/2011 RM'000
Secured	1,133,877
Unsecured	712,072
Total borrowings	<u>1,845,949</u>
 <u>Short term borrowings:-</u>	
Bank Overdraft	19,934
Hire Purchases / Lease Creditors	7,618
Bankers' acceptance and trust receipts	1,248,399
Short Term Loans	42,954
Term Loans	40,000
Government Loan	30,418

Related Party Loan	21,574
Murabahah Commercial Papers/ Murabahah Medium Term Notes	110,000
	<u>1,520,897</u>
<u>Long Term borrowings:-</u>	
Term Loans	29,526
Government Loan	65,370
Related Party Loan	46,317
Hire Purchases / Lease Creditors	13,839
Murabahah Medium Term Notes	170,000
	<u>325,052</u>
Total borrowings	<u>1,845,949</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 December 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) Dubai Court of Cassation Appeal No.: 131/2011 PSSB v Star Steel International LLC (“Star Steel”)

On 13 June 2011, PSSB issued a legal notice to Star Steel (an associate of ETA ASCON STAR Group) to recover the outstanding payment for the steel products being USD9,375,000. Star Steel has yet to reply to the legal notice.

Besides the above claim, PSSB has filed a claim against Star Steel for a sum of USD5,625,000 being payment for goods sold and delivered on 27 July 2010. Judgment was granted in favour of PSSB. Subsequently, Star Steel successfully appealed against PSSB on grounds that the dispute was subject to arbitration. PSSB filed an appeal against the decision but was dismissed with cost on 25 January 2012.

PSSB’s claim shall now be subject to arbitration proceedings under the arbitration rules of the Dubai International Arbitration Centre. Both parties have yet to commence the arbitration proceedings. The solicitors for PSSB believe that, based on the documents provided by PSSB, PSSB has a good chance of claiming back the sum due and owing by Star Steel.

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 31/12/2011	Current year-to-date 31/12/2011
Net loss attributable to ordinary shareholders (RM'000)	(102,780)	(121,627)
Weighted average number of ordinary shares in issue including Treasury shares ('000)	1,025,844	981,742
Treasury shares ('000)	(7,754)	(7,754)
Weighted average number of ordinary shares in issue ('000)	1,018,090	973,988
Basic loss per share (sen)	(10.10)	(12.49)

Fully diluted loss per share is not presented as there are no dilutive potential ordinary shares in the quarter under review and financial year to date.

B14. Realised and Unrealised Profits Disclosure

The accumulated profits as at 31 December 2011 and 30 September 2011 is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised profits	201,458	362,452
- Unrealised profits	99,060	177,652
	<u>300,518</u>	<u>540,104</u>
Less: Consolidated adjustments	<u>120,079</u>	<u>(16,727)</u>
Total group accumulated profits as per consolidated financial statements	<u>420,597</u>	<u>523,377</u>

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer
Date: 29 February 2012