

KINSTEEL BHD.

Company No : 210470-M

Incorporated in Malaysia

*Quarterly report on consolidated results for the second quarter ended 30 June 2012.**The figures have not been audited.***CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND PERIOD ENDED 30 JUNE 2012**

	Current Quarter 3 Months Ended		Cumulative Quarter 6 Months Ended	
	30.06.2012 RM'000	30.06.2011 RM'000	30.06.2012 RM'000	30.06.2011 RM'000
Revenue	669,625	485,464	1,175,699	1,041,061
Operating expenses	(654,032)	(507,722)	(1,113,361)	(1,051,728)
Other operating income	2,799	32,811	4,608	34,234
Finance costs	(29,584)	(31,938)	(59,913)	(65,055)
Profit/(Loss) before taxation	(11,192)	(21,385)	7,033	(41,488)
Taxation	(13)	(13)	(24)	(2,283)
Profit/(Loss) for the period	(11,205)	(21,398)	7,009	(43,771)
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	66	-	132
Total comprehensive income/(expense)	(11,205)	(21,332)	7,009	(43,639)
Profit/(Loss) attributable to:				
Owners of the parent	(4,264)	(6,481)	6,002	(10,045)
Non-controlling interests	(6,941)	(14,917)	1,007	(33,726)
	(11,205)	(21,398)	7,009	(43,771)
Total comprehensive income/(expense) attributable to:				
Owners of the parent	(4,264)	(6,457)	6,002	(9,996)
Non-controlling interests	(6,941)	(14,875)	1,007	(33,643)
	(11,205)	(21,332)	7,009	(43,639)
Earnings/(Loss) per share attributable to owners of the parent:				
- Basic (sen)	(0.41)	(0.68)	0.58	(1.05)

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

KINSTEEL BHD.
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Incorporated in Malaysia

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	As at 30.06.2012 RM'000	As at 31.12.2011 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,227,007	2,283,412
Intangible assets	1,293	1,293
Deferred tax assets	160,000	160,000
	<u>2,388,300</u>	<u>2,444,705</u>
Current assets		
Inventories	937,589	944,808
Trade and other receivables	283,411	307,924
Tax recoverable	1,297	1,096
Deposits with licensed banks	40,586	38,169
Cash and bank balances	18,844	21,240
	<u>1,281,727</u>	<u>1,313,237</u>
TOTAL ASSETS	<u>3,670,027</u>	<u>3,757,942</u>
EQUITY AND LIABILITIES		
Share capital	209,872	209,872
Redeemable Convertible Unsecured Loan Stocks (RCULS)	261	-
Share premium	30,493	30,493
Treasury shares	(4,153)	(4,153)
Retained earnings	416,898	410,896
Equity attributable to owners of the parent	<u>653,371</u>	<u>647,108</u>
Non-controlling interests	<u>671,041</u>	<u>669,596</u>
Total equity	<u>1,324,412</u>	<u>1,316,704</u>
Non-current liabilities		
Loans and borrowings	374,374	330,693
Deferred taxation	6,429	6,194
	<u>380,803</u>	<u>336,887</u>
Current liabilities		
Trade and other payables	421,692	589,198
Overdrafts and short term borrowings	1,543,120	1,515,108
Provision for taxation	-	45
	<u>1,964,812</u>	<u>2,104,351</u>
Total liabilities	<u>2,345,615</u>	<u>2,441,238</u>
TOTAL EQUITY AND LIABILITIES	<u>3,670,027</u>	<u>3,757,942</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.62	0.62

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2011 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 2011.*

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2012**

	← Attributable to owners of the parent →						Total RM'000	Non- controlling Interests RM'000	Total Equity RM'000
	Non-distributable			Distributable					
	Share Capital RM'000	Treasury Shares RM'000	Share Premium RM'000	Fair Value Reserve RM'000	RCULS RM'000	Retained Earnings RM'000			
Balance at 01.01.2012	209,872	(4,153)	30,493	-	-	410,896	647,108	669,596	1,316,704
Issuance of RCULS (Equity component)	-	-	-	-	261	-	261	438	699
Comprehensive income for the period	-	-	-	-	-	6,002	6,002	1,007	7,009
Balance at 30.06.2012	209,872	(4,153)	30,493	-	261	416,898	653,371	671,041	1,324,412
Balance at 01.01.2011	191,257	(4,153)	30,493	(99)	-	551,827	769,325	872,019	1,641,344
Exercise of warrant	2,278	-	-	-	-	-	2,278	-	2,278
Comprehensive expense for the period	-	-	-	-	-	(10,045)	(10,045)	(33,726)	(43,771)
Other comprehensive income for the period	-	-	-	49	-	-	49	83	132
Balance at 30.06.2011	193,535	(4,153)	30,493	(50)	-	541,782	761,607	838,376	1,599,983

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2012**

	6 Months Ended	
	30.06.2012	30.06.2011
	RM'000	RM'000
Profit/(Loss) before tax	7,033	(41,488)
Adjustments for :		
Depreciation	45,765	58,852
Interest expense	59,913	65,055
Interest income	(1,756)	(3,177)
Other non-cash item	39	(27,422)
Operating cash flows before working capital changes	110,994	51,820
Changes in working capital		
Increase in inventories	7,219	175,265
Decrease/(Increase) in receivables	81,439	(36,905)
Decrease in payables	(167,806)	(37,390)
	31,846	152,790
Interest paid	(59,022)	(56,992)
Interest received	402	559
Tax paid	(284)	(244)
Net cash flows (for)/from operating activities	(27,058)	96,113
Investing activities		
Purchase of property, plant and equipment	(32,276)	(51,450)
Proceeds from disposal of property, plant and equipment	-	90
Net cash flows for investing activities	(32,276)	(51,360)
Financing activities		
Proceeds from issuance of RCULS	70,000	-
Proceeds from exercise of warrants	-	2,278
Short term borrowings	71,456	(6,634)
Repayment of loans	(67,939)	(2,082)
Repayment of government loan	-	(800)
Repayment of hire purchase/lease liabilities	(5,146)	(2,754)
Net cash flows from/(for) financing activities	68,371	(9,992)
Net change in cash and cash equivalents	9,037	34,761
Cash and cash equivalents at beginning of period	33,727	39,025
Cash and cash equivalents at end of period	42,764	73,786

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2011 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 PERIOD ENDED 30 JUNE 2012

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with Malaysia Financial Reporting Standards 134 (MFRS134): “Interim Financial Reporting” and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The interim financial statements also comply with IAS 34, Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards (“FRS”).

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2011. The explanatory notes attached to these 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 2011.

These are the Group’s condensed consolidated interim financial statements for part of the period covered by the Group’s first MFRS framework annual financial statements and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied. The transition to MFRS framework does not have any financial impact to the financial statements of the Group.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011.

The following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:-

		Effective for annual periods beginning on or after
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosures of Interest in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits (as amended in June 2011)	1 January 2013
MFRS 127	Separate Financial Statements (as amended by IASB in May 2011)	1 January 2013

MFRS 128	Investment in Associates and Joint Ventures (as amended by IASB in May 2011)	1 January 2013
Amendments to MFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

A3. Audit Report

The preceding financial year's audit report was not subject to and qualification.

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

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 that have had a material effect in the current quarter under review.

A7. Debt and Equity Securities

- 1) On 4 January 2012, its subsidiary, Perwaja Holdings Berhad (PHB), had provisionally allotted RM280 million nominal value of RCULS to the Company, at 100% of its nominal value. The Restricted Issue was deemed completed upon issuance of the RCULS to the Company on 26 March 2012 and the entitled shareholders of PHB under ROS on 30 March 2012 following the listing of and quotation for the RCULS to the Official List of Main Market of Bursa Securities.
- 2) On 28 February 2012, PHB allotted 280 million Free Warrants to its entitled shareholders. The Free Warrants issue was completed on 2 March 2012 following the listing and quotation for the Free Warrants.
- 3) On 18 April 2012, the Group had fully settled the Collateralised Loan of RM40 million.

Save for the above, there have been no issuance, cancellation, repurchases, resale and repayments of debt and equity securities during the current period and year to date.

A8. Dividends Paid or Proposed

No dividends have been proposed nor paid for the current quarter under review.

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 RM200.3 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 B10, 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 (2Q12), the Group reported a higher revenue of RM669.6 million as compared to the RM485.5 million or 37.9% recorded in the preceding year corresponding quarter (2Q11). The Group recorded a pre-tax loss of RM11.2 million as compared to a pre-tax loss of RM21.4 million reported in 2Q11.

The increase in revenue and improved pre-tax loss in 2Q12 was mainly driven by improvement in sales volume as compared to 2Q11. The termination benefits paid to employees of a subsidiary of RM9 million was a main factor for the loss for the period.

Revenue and pre-tax profit for the 6 months ended 30 June 2012 were higher at RM1,175.7 million and RM7.0 million as compared to revenue and pre-tax loss of RM1,041.1 million and RM41.5 million recorded in the corresponding financial period of 2011.

The increase in revenue and improved performance for the quarter under review and the six month period to date was due to improved production level, margin and improved DRI market.

B2. Material changes in profit before tax for the current quarter results compared to the results of the preceding quarter

The Group recorded pre-tax loss of RM11.2 million as compared to pre-tax profit RM18.2 million in the preceding quarter. This was mainly due to the higher cost of production and termination benefits paid to employees of a subsidiary of RM9 million during the quarter under review.

B3. Prospects for the Financial Year 2012

Whilst there are still a lot of uncertainties in the Global economy and the commodities industry, the Group remains cautiously optimistic on the iron and steel industry for the remainder of 2012 due to the rollout of the projects under the Economic Transformation Programme (ETP). Meanwhile in the domestic steel market, the second quarter of 2012 saw domestic contracts totaling RM5.1 billion from jobs from the Klang Valley Mass Rapid Transit Sungai Buloh- Kajang line rolling out progressively. This is seen to have the potential to fuel the jobs flow for the remainder of the year, partly boosted by the potential awards of the Gemas-Johor Bharu electrified double tracking project, West Coast Expressway (WCE), as well as Kuala Lumpur Outer Ring Road (KLORR) (source: OSK Research/StarBiz, 4 July 2012).

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 is looking forward to its mining contribution in coming quarters. 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

	Current quarter 3 months ended		Cumulative quarter 6 months ended	
	30.06.2012 RM'000	30.06.2011 RM'000	30.06.2012 RM'000	30.06.2011 RM'000
Income tax				
- Current year	13	(446)	24	44
Deferred tax				
- Current year	-	459	-	2,239
	13	13	24	2,283

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. Profit Before Tax

Included in the profit before tax are the following items:

	Current quarter 3 months ended		Cumulative quarter 6 months ended	
	30.06.2012 RM'000	30.06.2011 RM'000	30.06.2012 RM'000	30.06.2011 RM'000
Interest income	1,060	2,790	1,756	3,177
Interest expense	29,584	31,938	59,913	65,055
Depreciation of property, plant and equipment	26,274	29,587	45,765	58,852
Gain on disposal of property, plant and equipment	-	25	-	90
Termination benefits paid to employees of a subsidiary	8,878	-	8,878	-
Impairment loss on trade receivables	39	-	39	-

B7. 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 Free Warrants was allotted on 28 February 2012 to the entitled shareholders whose names appear in PHB's Record of Depositors on the Entitlement Date. The Free Warrants issue was completed on 2 March 2012 following the listing and quotation for the 280 million Free Warrants.

The Company has carried 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.

On 26 March 2012, the Restricted Issue was completed following the issuance of RM280 million nominal value of RCULS by PHB.

The ROS was completed on 30 March 2012 following the admission of RM280 million nominal value of the RCULS to the Official List of Bursa Securities, and the listing of and quotation for the aforesaid securities on the Main Market of Bursa Securities.

The status of utilisation of proceeds from the RCULS as at the end of the financial period is as follows:-

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Balance Unutilised RM'000	Intended time frame for utilisation
Working capital	276,500	276,500	-	Within 12 months from the date of completion of the Proposed Restricted Issue
Expenses for the Proposals and proposed ROS	3,500	3,500	-	Within 6 months from the date of completion of the Proposals and Proposed ROS
	280,000	280,000	-	

B8. Group Borrowings and Debt Securities

The Group's borrowings as at 30 June 2012 were as follows:-

	30.06.2012 RM'000
Secured	1,152,831
Unsecured	764,663
Total borrowings	<u>1,917,494</u>

Short term borrowings:-

Bank Overdraft	16,666
Hire Purchases / Lease Creditors	16,182
Bankers' acceptance and trust receipts	1,317,879
Term Loans	15,000
Government Loan	45,231
Related Party Loan	22,162
Murabahah Commercial Papers/ Murabahah Medium Term Notes	110,000
	<u>1,543,120</u>

	30.06.2012 RM'000
<u>Long Term borrowings:-</u>	
RCULS	69,068
Term Loans	29,526
Government Loan	54,465
Related Party Loan	48,486
Hire Purchases / Lease Creditors	2,829
Murabahah Medium Term Notes	170,000
	<u>374,374</u>
Total borrowings	<u>1,917,494</u>

B9. Derivative Financial Instruments

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

B10. Material Litigation

Save as disclosed below, as at 30 June 2012, 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.

B11. Proposed Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2011 other than as stated in Note A8.

B12. (Loss)/Earnings Per Share**(a) Basic (loss)/earnings per share**

Basic (loss)/earnings per share is calculated by dividing the Group's net (loss)/profit 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 30.06.2012	Current year-to-date 30.06.2012
Net (loss)/profit attributable to ordinary shareholders (RM'000)	(4,264)	6,002
Weighted average number of ordinary shares in issue including Treasury shares ('000)	1,049,358	1,049,358
Treasury shares ('000)	(7,754)	(7,754)
Weighted average number of ordinary shares in issue ('000)	1,041,604	1,041,604
Basic (loss)/earnings per share (sen)	(0.41)	0.58

B13. Realised and Unrealised Profits Disclosure

The accumulated profits as at 30 June 2012 and 31 March 2012 and is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised profits	397,444	394,550
- Unrealised profits	153,571	153,787
	551,015	548,337
Less: Consolidated adjustments	(134,117)	(127,175)
Total group accumulated profits as per consolidated financial statements	416,898	421,162

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer

Date: 29 August 2012