

**KINSTEEL BHD.**  
Company No : 210470-M  
Incorporated in Malaysia

*Quarterly report on consolidated results for the third quarter ended 30 September 2012.  
The figures have not been audited.*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE QUARTER AND PERIOD ENDED 30 SEPTEMBER 2012**

	Current Quarter 3 Months Ended		Cumulative Quarter 9 Months Ended	
	30.09.2012 RM'000	30.09.2011 RM'000	30.09.2012 RM'000	30.09.2011 RM'000
Revenue	412,700	403,765	1,588,399	1,444,826
Operating expenses	(418,095)	(402,738)	(1,531,456)	(1,454,466)
Other operating income	1,819	5,635	6,427	39,869
Finance costs	(40,404)	(32,422)	(100,317)	(97,477)
Loss before taxation	(43,980)	(25,760)	(36,947)	(67,248)
Taxation	(11)	(13)	(35)	(2,296)
Loss for the period	(43,991)	(25,773)	(36,982)	(69,544)
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	66	-	198
Total comprehensive expense	(43,991)	(25,707)	(36,982)	(69,346)
Loss attributable to:				
Owners of the parent	(16,435)	(8,802)	(10,433)	(18,847)
Non-controlling interests	(27,556)	(16,971)	(26,549)	(50,697)
	(43,991)	(25,773)	(36,982)	(69,544)
Total comprehensive expense attributable to:				
Owners of the parent	(16,435)	(8,777)	(10,433)	(18,773)
Non-controlling interests	(27,556)	(16,930)	(26,549)	(50,573)
	(43,991)	(25,707)	(36,982)	(69,346)
Loss per share attributable to owners of the parent:				
- Basic (sen)	(1.58)	(0.92)	(1.00)	(1.96)

*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.**  
Company No : 210470-M  
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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2012**

	As at 30.09.2012 RM'000	As at 31.12.2011 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,262,305	2,283,412
Intangible assets	1,293	1,293
Deferred tax assets	160,000	160,000
	<u>2,423,598</u>	<u>2,444,705</u>
<b>Current assets</b>		
Inventories	1,119,446	944,808
Trade and other receivables	271,837	307,924
Tax recoverable	1,391	1,096
Deposits with licensed banks	13,507	38,169
Cash and bank balances	14,157	21,240
	<u>1,420,338</u>	<u>1,313,237</u>
<b>TOTAL ASSETS</b>	<u><u>3,843,936</u></u>	<u><u>3,757,942</u></u>
<b>EQUITY AND LIABILITIES</b>		
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	400,463	410,896
<b>Equity attributable to owners of the parent</b>	<u>636,936</u>	<u>647,108</u>
<b>Non-controlling interests</b>	<u>643,485</u>	<u>669,596</u>
<b>Total equity</b>	<u>1,280,421</u>	<u>1,316,704</u>
<b>Non-current liabilities</b>		
Loans and borrowings	341,318	330,693
Deferred taxation	6,429	6,194
	<u>347,747</u>	<u>336,887</u>
<b>Current liabilities</b>		
Trade and other payables	680,469	589,198
Overdrafts and short term borrowings	1,535,274	1,515,108
Provision for taxation	25	45
	<u>2,215,768</u>	<u>2,104,351</u>
<b>Total liabilities</b>	<u>2,563,515</u>	<u>2,441,238</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>3,843,936</u></u>	<u><u>3,757,942</u></u>
<b>Net assets per share attributable to ordinary equity holders of the parent (RM)</b>	<b>0.61</b>	<b>0.62</b>

*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.*

**KINSTEEL BHD.**

Company No : 210470-M

Incorporated in Malaysia

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

	← Attributable to owners of the parent →						Non-controlling Interests	Total Equity	
	Non-distributable			Distributable					
	Share Capital	Treasury Shares	Share Premium	Fair Value Reserve	RCULS	Retained Earnings			Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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	-	-	-	-	-	(10,433)	(10,433)	(26,549)	(36,982)
<b>Balance at 30.09.2012</b>	<b>209,872</b>	<b>(4,153)</b>	<b>30,493</b>	<b>-</b>	<b>261</b>	<b>400,463</b>	<b>636,936</b>	<b>643,485</b>	<b>1,280,421</b>
Balance at 01.01.2011	191,257	(4,153)	30,493	(99)	-	551,827	769,325	872,019	1,641,344
Exercise of warrant	2,403	-	-	-	-	-	2,403	-	2,403
Comprehensive expense for the period	-	-	-	-	-	(18,847)	(18,847)	(50,697)	(69,544)
Other comprehensive income for the period	-	-	-	74	-	-	74	124	198
Dividends paid	-	-	-	-	-	(9,603)	(9,603)	-	(9,603)
<b>Balance at 30.09.2011</b>	<b>193,660</b>	<b>(4,153)</b>	<b>30,493</b>	<b>(25)</b>	<b>-</b>	<b>523,377</b>	<b>743,352</b>	<b>821,446</b>	<b>1,564,798</b>

*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.*

**KINSTEEL BHD.**  
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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2012**

	9 Months Ended	
	30.09.2012 RM'000	30.09.2011 RM'000
<b>Loss before tax</b>	<b>(36,947)</b>	<b>(67,248)</b>
<b>Adjustments for :</b>		
Depreciation	72,062	88,512
Interest expense	100,317	97,477
Interest income	(2,366)	(7,921)
Other non-cash item	21,914	(27,456)
<b>Operating cash flows before working capital changes</b>	<b>154,980</b>	<b>83,364</b>
<b>Changes in working capital</b>		
Decrease/(Increase) in inventories	(174,638)	87,698
Decrease/(Increase) in receivables	69,114	(18,757)
Increase in payables	89,265	37,161
	<b>138,721</b>	<b>189,466</b>
Interest paid	(97,316)	(82,847)
Interest received	545	1,166
Tax refund	4	-
Tax paid	(367)	(588)
<b>Net cash flows from operating activities</b>	<b>41,587</b>	<b>107,197</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(91,600)	(63,824)
Proceeds from disposal of property, plant and equipment	-	109
<b>Net cash flows for investing activities</b>	<b>(91,600)</b>	<b>(63,715)</b>
<b>Financing activities</b>		
Proceeds from issuance of RCULS	70,000	-
Proceeds from exercise of warrants	-	2,403
Short term borrowings	48,030	3,413
Repayment of Murabahah Commercial Papers	(10,000)	-
Repayment of Murabahah Medium Term Notes	(60,000)	(60,000)
Repayment of loans	(23,872)	-
Repayment of government loan	-	(800)
Repayment of hire purchase/lease liabilities	(4,054)	(3,520)
Dividends paid	-	(9,603)
<b>Net cash flows from/(for) financing activities</b>	<b>20,104</b>	<b>(68,107)</b>
<b>Net change in cash and cash equivalents</b>	<b>(29,909)</b>	<b>(24,625)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>33,727</b>	<b>39,025</b>
<b>Cash and cash equivalents at end of period</b>	<b>3,818</b>	<b>14,400</b>

*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 SEPTEMBER 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 year's audited financial statements 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 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 17 August 2012, the Company has redeemed its Murabahah Commercial Papers facility of RM10.0 million.
- 2) During the quarter under review, the Group has redeemed the fourth tranche of its Murabahah Medium Term Notes facility of RM10.0 million and RM50.0 million on 7 September 2012 and 25 September 2012 respectively.

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 RM181.7 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 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.

## **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 current quarter under review (3Q12), the Group reported a higher revenue of RM412.7 million as compared to RM403.8 million or 2.2% recorded in the preceding year corresponding quarter (3Q11). The Group recorded a pre-tax loss of RM44.0 million as compared to RM25.8 million reported in 3Q11.

The slight increase in revenue in 3Q12 was mainly driven by improvement in sales volume as compared to 3Q11. The increase in pre-tax loss is due to an impairment loss on receivables of RM21.9 million made during the quarter under review.

Revenue for the 9 months ended 30 September 2012 was higher at RM1,588.4 million and per-tax loss was lower at RM36.9 million as compared to revenue and pre-tax loss of RM1,444.8 million and RM67.2 million recorded in the corresponding financial period of 2011.

The increase in revenue and lower losses for the 9 months 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 RM44.0 million as compared to RM11.2 million in the preceding quarter. This was mainly due to lower production and sales recorded during the quarter under review. The lower production volume has resulted in higher cost of production. In additions, an impairment loss on receivables of RM21.9 million was made 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 demand for steel will be supported by various government mega projects to be rolled out under the ETP.

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**

The Group did not issue any profit forecast in a public document during the current financial period.

**B5. Taxation**

	Current quarter 3 months ended		Cumulative quarter 9 months ended	
	<b>30.09.2012</b> RM'000	30.09.2011 RM'000	<b>30.09.2012</b> RM'000	30.09.2011 RM'000
Income tax				
- Current year	<b>11</b>	472	<b>35</b>	516
Deferred tax				
- Current year	-	(459)	-	1,780
	<b>11</b>	13	<b>35</b>	2,296

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 9 months ended	
	<b>30.09.2012</b> RM'000	30.09.2011 RM'000	<b>30.09.2012</b> RM'000	30.09.2011 RM'000
Interest income	<b>610</b>	4,744	<b>2,366</b>	7,921
Interest expense	<b>40,404</b>	32,422	<b>100,317</b>	97,477
Depreciation of property, plant and equipment	<b>26,297</b>	29,660	<b>72,062</b>	88,512
Gain on disposal of property, plant and equipment	-	19	-	109
Termination benefits	-	-	<b>8,878</b>	-
Impairment loss on receivables	<b>21,875</b>	-	<b>21,914</b>	-

**B7. Status of Corporate Proposal**

There were no corporate proposals announced but not completed as at the reporting date.

## B8. Group Borrowings and Debt Securities

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

	30.09.2012 RM'000
Secured	1,175,561
Unsecured	701,031
Total borrowings	<u>1,876,592</u>
<u>Short term borrowings:-</u>	
Bank Overdraft	23,846
Hire Purchases / Lease Creditors	14,717
Bankers' acceptance and trust receipts	1,297,220
Term Loans	32,098
Government Loan	45,231
Related Party Loan	22,162
Murabahah Commercial Papers/ Murabahah Medium Term Notes	100,000
	<u>1,535,274</u>
<u>Long Term borrowings:-</u>	
RCULS	69,068
Term Loans	56,509
Government Loan	54,465
Related Party Loan	48,486
Hire Purchases / Lease Creditors	2,790
Murabahah Medium Term Notes	110,000
	<u>341,318</u>
Total borrowings	<u>1,876,592</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 September 2012, neither the Company 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.

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.

The management has met with representatives of Star Steel but unfortunately without any progress on recovery. Negotiations to extract other forms of compensation will continue. In the meantime, the Board is of the view that we should provide fully for this amount and have a closure to this matter.

#### **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 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 30.09.2012	Current year-to-date 30.09.2012
Net loss attributable to ordinary shareholders (RM'000)	(16,435)	(10,433)
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
<b>Basic loss per share (sen)</b>	<b>(1.58)</b>	<b>(1.00)</b>

**B13. Realised and Unrealised Profits Disclosure**

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

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised profits	<b>408,566</b>	397,444
- Unrealised profits	<b>153,571</b>	153,571
	<b>562,137</b>	551,015
Less: Consolidated adjustments	<b>(161,674)</b>	(134,117)
Total group accumulated profits as per consolidated financial statements	<b>400,463</b>	416,898

By order of the Board,

**Dato' Henry Pheng Chin Guan**  
**Chief Executive Officer**  
Date: 30 November 2012