

**KINSTEEL BHD.**

Company No : 210470-M

Incorporated in Malaysia

*Quarterly report on consolidated results for the fourth quarter ended 31 December 2012.**The figures have not been audited.***CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE QUARTER AND YEAR ENDED 31 DECEMBER 2012**

	Current Quarter 3 Months Ended		Cumulative Quarter 12 Months Ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Revenue	529,916	554,480	2,118,315	1,999,306
Operating expenses	(659,413)	(756,915)	(2,190,869)	(2,211,381)
Other operating income	10,246	4,479	16,673	44,348
Finance costs	(49,850)	(42,878)	(150,167)	(140,355)
Loss before taxation	(169,101)	(240,834)	(206,048)	(308,082)
Taxation	(55,128)	(23,541)	(55,163)	(25,837)
Loss after taxation	(224,229)	(264,375)	(261,211)	(333,919)
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	69	-	267
Total comprehensive expense	(224,229)	(264,306)	(261,211)	(333,652)
Loss attributable to:				
Owners of the parent	(92,120)	(112,481)	(102,553)	(131,328)
Non-controlling interests	(132,109)	(151,894)	(158,658)	(202,591)
	(224,229)	(264,375)	(261,211)	(333,919)
Total comprehensive expense attributable to:				
Owners of the parent	(92,120)	(112,456)	(102,553)	(131,229)
Non-controlling interests	(132,109)	(151,850)	(158,658)	(202,423)
	(224,229)	(264,306)	(261,211)	(333,652)
Loss per share attributable to owners of the parent:				
- Basic (sen)	(8.84)	(11.05)	(9.85)	(13.48)

*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

Incorporated in Malaysia

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2012**

	As at 31.12.2012 RM'000	As at 31.12.2011 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,293,199	2,283,412
Intangible assets	1,293	1,293
Deferred tax assets	110,000	160,000
	<u>2,404,492</u>	<u>2,444,705</u>
<b>Current assets</b>		
Inventories	1,335,545	944,808
Trade and other receivables	269,000	307,924
Tax recoverable	414	1,096
Deposits with licensed banks	16,887	38,169
Cash and bank balances	19,275	21,240
	<u>1,641,121</u>	<u>1,313,237</u>
<b>TOTAL ASSETS</b>	<u><u>4,045,613</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	308,343	410,896
<b>Equity attributable to owners of the parent</b>	<u>544,816</u>	<u>647,108</u>
<b>Non-controlling interests</b>	<u>511,376</u>	<u>669,596</u>
<b>Total equity</b>	<u>1,056,192</u>	<u>1,316,704</u>
<b>Non-current liabilities</b>		
Loans and borrowings	375,386	330,693
Deferred taxation	8,702	6,194
	<u>384,088</u>	<u>336,887</u>
<b>Current liabilities</b>		
Trade and other payables	1,118,313	589,198
Overdrafts and short term borrowings	1,484,326	1,515,108
Provision for taxation	2,694	45
	<u>2,605,333</u>	<u>2,104,351</u>
<b>Total liabilities</b>	<u>2,989,421</u>	<u>2,441,238</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>4,045,613</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>0.52</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 YEAR ENDED 31 DECEMBER 2012**

	← Attributable to owners of the parent →						Total	Non-controlling Interests	Total Equity
	Non-distributable				Distributable				
	Share Capital	Treasury Shares	Share Premium	Fair Value Reserve	RCULS	Retained Earnings			
RM'000	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 expense for the year	-	-	-	-	-	(102,553)	(102,553)	(158,658)	(261,211)
<b>Balance at 31.12.2012</b>	<b>209,872</b>	<b>(4,153)</b>	<b>30,493</b>	<b>-</b>	<b>261</b>	<b>308,343</b>	<b>544,816</b>	<b>511,376</b>	<b>1,056,192</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	18,615	-	-	-	-	-	18,615	-	18,615
Comprehensive expense for the year	-	-	-	-	-	(131,328)	(131,328)	(202,591)	(333,919)
Other comprehensive income for the year	-	-	-	99	-	-	99	168	267
Dividends paid	-	-	-	-	-	(9,603)	(9,603)	-	(9,603)
<b>Balance at 31.12.2011</b>	<b>209,872</b>	<b>(4,153)</b>	<b>30,493</b>	<b>-</b>	<b>-</b>	<b>410,896</b>	<b>647,108</b>	<b>669,596</b>	<b>1,316,704</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.**  
Company No : 210470-M  
Incorporated in Malaysia

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Year Ended	
	31.12.2012 RM'000	31.12.2011 RM'000
<b>Loss before tax</b>	<b>(206,048)</b>	<b>(308,082)</b>
<b>Adjustments for :</b>		
Depreciation	97,127	118,444
Interest expense	150,167	140,355
Interest income	(14,667)	(31,511)
Inventories written down	90,000	122,046
Other non-cash item	23,208	10,867
<b>Operating cash flows before working capital changes</b>	<b>139,787</b>	<b>52,119</b>
<b>Changes in working capital</b>		
(Increase)/Decrease in inventories	(480,737)	236,092
Decrease/(Increase) in receivables	64,233	(5,629)
Increase/(Decrease) in payables	512,077	(106,463)
	<b>235,360</b>	<b>176,119</b>
Interest paid	(120,437)	(119,008)
Interest received	1,268	1,603
Tax refund	1,023	10
Tax paid	(577)	(734)
<b>Net cash flows from operating activities</b>	<b>116,637</b>	<b>57,990</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(137,751)	(90,847)
Proceeds from disposal of property, plant and equipment	113	217
<b>Net cash flows for investing activities</b>	<b>(137,638)</b>	<b>(90,630)</b>
<b>Financing activities</b>		
Deposits pledged for bank borrowings withdrawn	7,375	2,125
Proceeds from issuance of RCULS	70,000	-
Proceeds from exercise of warrants	-	18,615
Short term borrowings	7,337	14,995
Repayment of Murabahah Commercial Papers	(10,000)	-
Repayment of Murabahah Medium Term Notes	(60,000)	(60,000)
Proceeds/(Repayment) of loans	(6,233)	70,398
Repayment of government loan	-	(2,696)
Repayment of hire purchase/lease liabilities	(5,854)	(6,715)
Dividends paid	-	(9,603)
<b>Net cash flows from financing activities</b>	<b>2,625</b>	<b>27,119</b>
<b>Net change in cash and cash equivalents</b>	<b>(18,376)</b>	<b>(5,521)</b>
<b>Effects of foreign exchange rate changes</b>	<b>-</b>	<b>223</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>33,727</b>	<b>39,025</b>
<b>Cash and cash equivalents at end of year</b>	<b>15,351</b>	<b>33,727</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 YEAR ENDED 31 DECEMBER 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) During the financial year, the Company has redeemed its Murabahah Commercial Papers facility of RM10.0 million on 17 August 2012.
- 2) During the financial year, 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 RM176.1 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 (4Q12), the Group reported a lower revenue of RM529.9 million as compared to RM554.5 million or 4.4% recorded in the preceding year corresponding quarter (4Q11). The Group recorded a pre-tax loss of RM169.1 million as compared to RM240.8 million reported in 4Q11.

The decrease in revenue in 4Q12 was mainly driven by lower sales price as compared to 4Q11. The pre-tax loss during the quarter under review was due to inventories written down of RM90.0 million. In the corresponding quarter in 2011, a write down of RM122.0 million was made.

Revenue for the financial year ended 31 December 2012 was higher at RM2,118.3 million and per-tax loss was lower at RM206.0 million as compared to revenue and pre-tax loss of RM1,999.3 million and RM308.1 million recorded in the corresponding financial year of 2011.

The increase in revenue and lower losses for the year to date was due to improved production level, margin and improved DRI market. The Group has made an inventories written down of RM90.0 million and an impairment loss on receivables of RM23.3 million during the financial year 2012 as compared to RM122.0 million in the corresponding financial year.

**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 RM169.1 million as compared to RM44.0 million in the preceding quarter. The higher loss recorded in current quarter is mainly due to the inventories written down of RM90.0 million made in current quarter.

**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 2013. Meanwhile in the domestic 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 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 12 months ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Income tax				
- Current year	2,851	(282)	2,886	234
- Previous years	-	(7)	-	(7)
Deferred tax				
- Current year	52,277	24,642	52,277	26,422
- Previous years	-	(812)	-	(812)
	<b>55,128</b>	<b>23,541</b>	<b>55,163</b>	<b>25,837</b>

The Group's effective tax rate is higher than the prevailing statutory tax rate of 25%, mainly due to the reversal of deferred tax assets 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 12 months ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Interest income	12,301	23,590	14,667	31,511
Interest expense	49,850	42,878	150,167	140,355
Depreciation of property, plant and equipment	25,065	29,932	97,127	118,444
Gain on disposal of property, plant and equipment	113	11	113	120
Termination benefits	-	-	8,878	-
Impairment loss on receivables	1,407	8,840	23,321	8,840
Impairment loss on other investment	-	4,000	-	4,000
Inventories written down	90,000	122,046	90,000	122,046

**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 31 December 2012 were as follows:-

	31.12.2012 RM'000
Secured	1,158,861
Unsecured	<u>700,851</u>
Total borrowings	<u>1,859,712</u>
<u>Short term borrowings:-</u>	
Bank Overdraft	20,811
Hire Purchases / Lease Creditors	5,813
Bankers' acceptance and trust receipts	1,255,136
Term Loans	35,173
Government Loan	45,231
Related Party Loan	22,162
Murabahah Commercial Papers/ Murabahah Medium Term Notes	<u>100,000</u>
	<u>1,484,326</u>
<u>Long Term borrowings:-</u>	
RCULS	69,068
Term Loans	71,074
Government Loan	61,548
Related Party Loan	53,908
Hire Purchases / Lease Creditors	9,788
Murabahah Medium Term Notes	<u>110,000</u>
	<u>375,386</u>
Total borrowings	<u>1,859,712</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 31 December 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) Kuala Lumpur High Court Suit No. 22NCC-59-01/2013 Petroleum Nasional Berhad ("Petronas") vs PSSB

On 16 January 2013, PSSB was served with a writ of summons dated 14 January 2013, taken out by Petronas claiming the sum of RM146,138,690.52 together with a claim for interest of RM10,313,397.45 with reference to the total amount invoiced for the supply of dry gas by Petronas to PSSB.

On 13 February 2013, PSSB had entered into a defense via its solicitors due to disagreement in the credit terms. The Company does not expect any loss arising from the claim of RM146,138,690.52 and the Board wishes to inform that the Company has made sufficient provision to meet this claim. PSSB's solicitors are of the view that PSSB stands a fair chance of defending the case.

Nevertheless, it is still open to both parties to reach a negotiated settlement of this dispute.

## 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 31.12.2012	Current year-to-date 31.12.2012
Net loss attributable to ordinary shareholders (RM'000)	(92,120)	(102,553)
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 per share (sen)	<u>(8.84)</u>	<u>(9.85)</u>

### B13. Realised and Unrealised Profits Disclosure

The accumulated profits as at 31 December 2012 and 30 September 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>501,828</b>	408,566
- Unrealised profits	<b>100,298</b>	153,571
	<b>602,126</b>	562,137
Less: Consolidated adjustments	<b>(293,783)</b>	(161,674)
Total group accumulated profits as per consolidated financial statements	<b>308,343</b>	400,463

By order of the Board,

**Dato' Henry Pheng Chin Guan**

**Chief Executive Officer**

Date: 28 February 2013