

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

*Quarterly report on consolidated results for the first quarter ended 31 March 2013.
The figures have not been audited.*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 MARCH 2013**

	Current Quarter 3 Months Ended		Cumulative Quarter 3 Months Ended	
	31.03.2013 RM'000	31.03.2012 RM'000	31.03.2013 RM'000	31.03.2012 RM'000
Revenue	410,054	506,074	410,054	506,074
Operating expenses	(403,265)	(459,329)	(403,265)	(459,329)
Other operating income	779	1,809	779	1,809
Finance costs	(31,370)	(30,329)	(31,370)	(30,329)
(Loss)/Profit before taxation	(23,802)	18,225	(23,802)	18,225
Taxation	(11)	(11)	(11)	(11)
(Loss)/Profit after taxation	(23,813)	18,214	(23,813)	18,214
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	-	-	-
Total comprehensive (expense)/income	(23,813)	18,214	(23,813)	18,214
(Loss)/Profit attributable to:				
Owners of the parent	(8,422)	10,266	(8,422)	10,266
Non-controlling interests	(15,391)	7,948	(15,391)	7,948
	(23,813)	18,214	(23,813)	18,214
Total comprehensive (expense)/income attributable to:				
Owners of the parent	(8,422)	10,266	(8,422)	10,266
Non-controlling interests	(15,391)	7,948	(15,391)	7,948
	(23,813)	18,214	(23,813)	18,214
(Loss)/Earnings per share attributable to owners of the parent:				
- Basic (sen)	(0.81)	0.99	(0.81)	0.99

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying explanatory notes attached to the interim financial statements.

KINSTEEL BHD.

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2013**

	As at 31.03.2013 RM'000	As at 31.12.2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,331,764	2,287,999
Intangible assets	1,293	1,293
Deferred tax assets	120,000	120,000
	<u>2,453,057</u>	<u>2,409,292</u>
Current assets		
Inventories	1,321,507	1,343,662
Trade and other receivables	241,370	227,442
Tax recoverable	479	414
Deposits with licensed banks	53,555	14,355
Cash and bank balances	9,818	29,532
	<u>1,626,729</u>	<u>1,615,405</u>
TOTAL ASSETS	<u>4,079,786</u>	<u>4,024,697</u>
EQUITY AND LIABILITIES		
Share capital	209,872	209,872
Redeemable Convertible Unsecured Loan Stocks (RCULS)	261	261
Share premium	30,493	30,493
Treasury shares	(4,153)	(4,153)
Retained earnings	292,278	300,700
Equity attributable to owners of the parent	<u>528,751</u>	<u>537,173</u>
Non-controlling interests	<u>483,389</u>	<u>498,780</u>
Total equity	<u>1,012,140</u>	<u>1,035,953</u>
Non-current liabilities		
Loans and borrowings	181,056	188,951
Deferred taxation	8,821	8,821
	<u>189,877</u>	<u>197,772</u>
Current liabilities		
Trade and other payables	1,083,719	1,100,228
Overdrafts and short term borrowings	1,791,192	1,688,029
Provision for taxation	2,858	2,715
	<u>2,877,769</u>	<u>2,790,972</u>
Total liabilities	<u>3,067,646</u>	<u>2,988,744</u>
TOTAL EQUITY AND LIABILITIES	<u>4,079,786</u>	<u>4,024,697</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.50	0.51

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2012 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 2012.*

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2013**

	← Attributable to owners of the parent →						Total Equity 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 01.01.2013	209,872	(4,153)	30,493	-	261	300,700	537,173	498,780	1,035,953
Comprehensive expense for the period	-	-	-	-	-	(8,422)	(8,422)	(15,391)	(23,813)
Balance at 31.03.2012	209,872	(4,153)	30,493	-	261	292,278	528,751	483,389	1,012,140
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)	-	-	-	-	20	-	20	33	53
Comprehensive expense for the period	-	-	-	-	-	10,266	10,266	7,948	18,214
Balance at 31.03.2012	209,872	(4,153)	30,493	-	20	421,162	657,394	677,577	1,334,971

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2012 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 31 MARCH 2013**

	3 Months Ended	
	31.03.2013 RM'000	31.03.2012 RM'000
(Loss)/Profit before tax	(23,802)	18,225
Adjustments for :		
Depreciation	26,279	19,491
Interest expense	31,370	30,329
Interest income	(123)	(696)
Inventories written down	-	-
Other non-cash item	-	-
Operating cash flows before working capital changes	33,724	67,349
Changes in working capital		
Decrease/(Increase) in inventories	22,155	(113,097)
Decrease/(Increase) in receivables	15,972	(12,920)
(Decrease)/Increase in payables	(30,488)	91,761
	41,363	33,093
Interest paid	(17,210)	(28,100)
Interest received	123	150
Tax refund	-	-
Tax paid	(117)	(114)
Net cash flows from operating activities	24,159	5,029
Investing activities		
Purchase of property, plant and equipment	(94,688)	(9,602)
Proceeds from disposal of property, plant and equipment	-	-
Net cash flows for investing activities	(94,688)	(9,602)
Financing activities		
Deposits pledged for bank borrowings withdrawn	-	-
Proceeds from issuance of RCULS	-	5,264
Proceeds from exercise of warrants	-	-
Short term borrowings	97,949	(52,621)
Repayment of Murabahah Commercial Papers	-	-
Repayment of Murabahah Medium Term Notes	-	-
Proceeds/(Repayment) of loans	(4,812)	27,046
Repayment of government loan	-	-
Repayment of hire purchase/lease liabilities	(1,854)	(1,876)
Dividends paid	-	-
Net cash flows from/(for) financing activities	91,283	(22,187)
Net change in cash and cash equivalents	20,754	(26,760)
Effects of foreign exchange rate changes	-	-
Cash and cash equivalents at beginning of period	19,603	33,727
Cash and cash equivalents at end of period	40,357	6,967

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying explanatory notes attached to the interim financial statements.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER AND PERIOD ENDED 31 MARCH 2013

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 should be read in conjunction with the audited financial statements for the year ended 31 December 2012. 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 2012.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2012 were prepared in accordance with MFRS. 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 2012, except for the adoption of the following MFRSs, Amendments to MFRSs and IC Interpretations with effect from 1 January 2013:

MFRS 101	Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)
MFRS 3	Business Combination (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosures of Interest in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (2011)
MFRS 127	Separate Financial Statements (2011)
MFRS 128	Investments in Associates and Joint Ventures (2011)
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to MFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
Amendments to MFRS 10	Consolidated Financial Statements: Transition Guidance
Amendments to MFRS 11	Joint Arrangements: Transition Guidance
Amendments to MFRS 12	Disclosures of Interest in Other Entities: Transition Guidance
Annual Improvements to MFRS	2009 – 2011 Cycle

The adoption of the above standards, amendments and interpretation will have no material impact on the financial statements of the Group.

The following MFRSs, Amendments to MFRSs 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	1 January 2015
Amendments to MFRS 132	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities	1 January 2014

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

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 RM95.4 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 (1Q13), the Group reported a lower revenue of RM410.1 million as compared to RM506.1 million or 19.0% recorded in the preceding year corresponding quarter (1Q12). The Group recorded a pre-tax loss of RM23.8 million as compared to pre-tax profit of RM18.2 million reported in 1Q12.

The decrease in revenue for the quarter under review was due to a slowdown in the overall steel market. Further, increase in raw material prices which impacted margins and resulted in a net loss during the current quarter.

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 RM23.8 million as compared to RM169.1 million in the preceding quarter. The higher loss recorded in preceding quarter is mainly due to the inventories written down of RM90.0 million made.

B3. Prospects for the Financial Year 2013

The Group remains cautiously optimistic on the iron and steel industry for 2013. The outlook for the global steel industry remain stagnant due to further rises in steel raw materials prices and continuing sluggish growth in advanced economies. Meanwhile in the domestic market, the demand for steel will be supported by various government mega projects to be rolled out under the ETP projects. The ETP projects spanning across six growth corridors which comprise Greater KL, Iskandar Malaysia, the Northern Corridor Economic Region (“NCER”), East Coast Economic Region (“ECER”), Sabah Development Corridor (“SDC”) and Sarawak Corridor of Renewable Energy (“SCORE”). The growth corridors offer a range of opportunities across property and infrastructure sectors.

In light of the opportunities and positive outlook, the Group is well placed to continue benefitting from the robust construction growth in Malaysia. Perwaja’s growth will be further enhanced with the completion of the concentration and pelletizing plant, which will provide the Group with a good hedge against the volatile fluctuations of raw material prices leading to an improvement in earnings.

The construction progress of the concentration and pelletizing plants is delayed due to some technical constraints and poor weather conditions. The Group expects the concentration plant to be fully commissioned in the third quarter of 2013, while the pelletizing plant is estimated to be commissioned six months after the commissioning of the concentration plant.

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 3 months ended	
	31.03.2013 RM'000	31.03.2012 RM'000	31.03.2013 RM'000	31.03.2012 RM'000
Income tax				
- Current year	11	11	11	11
	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>

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 3 months ended	
	31.03.2013 RM'000	31.03.2012 RM'000	31.03.2013 RM'000	31.03.2012 RM'000
Interest income	123	696	123	696
Interest expense	31,370	30,329	31,370	30,329
Depreciation of property, plant and equipment	26,279	19,491	26,279	19,491

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 March 2013 were as follows:-

	31.03.2013 RM'000
Secured	1,053,807
Unsecured	918,441
Total borrowings	<u>1,972,248</u>

	31.03.2013 RM'000
<u>Short term borrowings:-</u>	
Bank Overdraft	23,016
Hire Purchases / Lease Creditors	11,900
Bankers' acceptance and trust receipts	1,292,722
Term Loans	180,709
Government Loan	106,775
Related Party Loan	76,070
Murabahah Commercial Papers/ Murabahah Medium Term Notes	100,000
	<u>1,791,192</u>
<u>Long Term borrowings:-</u>	
RCULS	69,068
Hire Purchases / Lease Creditors	1,988
Murabahah Medium Term Notes	110,000
	<u>181,056</u>
Total borrowings	<u>1,972,248</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 March 2013, 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 Petroliam 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. PSSB's solicitors are of the view that PSSB stands a fair chance of defending the case. Therefore, the Board does not expect any loss arising from the claim.

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 2012 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 31.03.2013	Current year-to-date 31.03.2013
Net loss attributable to ordinary shareholders (RM'000)	(8,422)	(8,422)
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)	(0.81)	(0.81)

B13. Realised and Unrealised Profits Disclosure

The accumulated profits as at 31 March 2013 and 31 December 2012 is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised profits	(736,674)	(713,029)
- Unrealised profits	111,179	111,347
	(625,495)	(601,682)
Less: Consolidated adjustments	917,773	902,382
Total group accumulated profits as per consolidated financial statements	292,278	300,700

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer

Date: 28 May 2013