

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

*Quarterly report on consolidated results for the second quarter ended 30 June 2013.
The figures have not been audited.*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND PERIOD ENDED 30 JUNE 2013**

	Current Quarter 3 Months Ended		Cumulative Quarter 6 Months Ended	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Revenue	416,689	669,625	826,743	1,175,699
Operating expenses	(469,229)	(654,032)	(872,494)	(1,113,361)
Other operating income	3,413	2,799	4,192	4,608
Finance costs	(36,995)	(29,584)	(68,365)	(59,913)
(Loss)/Profit before taxation	(86,122)	(11,192)	(109,924)	7,033
Taxation	(13)	(13)	(24)	(24)
(Loss)/Profit after taxation	(86,135)	(11,205)	(109,948)	7,009
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	-	-	-
Total comprehensive (expense)/income	(86,135)	(11,205)	(109,948)	7,009
(Loss)/Profit attributable to:				
Owners of the parent	(35,402)	(4,264)	(43,824)	6,002
Non-controlling interests	(50,733)	(6,941)	(66,124)	1,007
	(86,135)	(11,205)	(109,948)	7,009
Total comprehensive (expense)/income attributable to:				
Owners of the parent	(35,402)	(4,264)	(43,824)	6,002
Non-controlling interests	(50,733)	(6,941)	(66,124)	1,007
	(86,135)	(11,205)	(109,948)	7,009
(Loss)/Earnings per share attributable to owners of the parent:				
- Basic (sen)	(3.40)	(0.41)	(4.21)	0.58

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.

Company No : 210470-M

Incorporated in Malaysia

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013**

	As at 30.06.2013 RM'000	As at 31.12.2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,439,985	2,287,999
Intangible assets	1,293	1,293
Deferred tax assets	120,000	120,000
	<u>2,561,278</u>	<u>2,409,292</u>
Current assets		
Inventories	1,019,416	1,343,662
Trade and other receivables	213,642	227,442
Tax recoverable	563	414
Deposits with licensed banks	11,652	14,355
Cash and bank balances	2,046	29,532
	<u>1,247,319</u>	<u>1,615,405</u>
TOTAL ASSETS	<u><u>3,808,597</u></u>	<u><u>4,024,697</u></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	256,876	300,700
Equity attributable to owners of the parent	<u>493,349</u>	<u>537,173</u>
Non-controlling interests	<u>432,656</u>	<u>498,780</u>
Total equity	<u>926,005</u>	<u>1,035,953</u>
Non-current liabilities		
Loans and borrowings	180,393	188,951
Deferred taxation	8,821	8,821
	<u>189,214</u>	<u>197,772</u>
Current liabilities		
Trade and other payables	981,773	1,100,228
Overdrafts and short term borrowings	1,708,787	1,688,029
Provision for taxation	2,818	2,715
	<u>2,693,378</u>	<u>2,790,972</u>
Total liabilities	<u>2,882,592</u>	<u>2,988,744</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,808,597</u></u>	<u><u>4,024,697</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.47	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 30 JUNE 2013**

	← 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 01.01.2013	209,872	(4,153)	30,493	-	261	300,700	537,173	498,780	1,035,953
Comprehensive expense for the period	-	-	-	-	-	(43,824)	(43,824)	(66,124)	(109,948)
Balance at 30.06.2013	209,872	(4,153)	30,493	-	261	256,876	493,349	432,656	926,005
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

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 30 JUNE 2013**

	6 Months Ended	
	30.06.2013 RM'000	30.06.2012 RM'000
(Loss)/Profit before tax	(109,924)	7,033
Adjustments for :		
Depreciation	52,567	45,765
Interest expense	68,365	59,913
Interest income	(320)	(1,756)
Inventories written down	-	-
Other non-cash item	-	39
Operating cash flows before working capital changes	10,688	110,994
Changes in working capital		
Decrease in inventories	324,246	7,219
(Increase)/Decrease in receivables	(56,322)	81,439
Increase in payables	(139,801)	(167,806)
	138,811	31,846
Interest paid	(48,289)	(59,022)
Interest received	320	402
Tax refund	-	-
Tax paid	(254)	(284)
Net cash flows from/ (for) operating activities	90,588	(27,058)
Investing activities		
Purchase of property, plant and equipment	(129,174)	(32,276)
Net cash flows for investing activities	(129,174)	(32,276)
Financing activities		
Proceeds from issuance of RCULS	-	70,000
Short term borrowings	24,463	71,456
Proceeds/(Repayment) of loans	(7,650)	(67,939)
Repayment of hire purchase/lease liabilities	(2,183)	(5,146)
Net cash flows from financing activities	14,630	68,371
Net change in cash and cash equivalents	(23,956)	9,037
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	(4,353)	42,764

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 30 JUNE 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

The Company's Commercial Papers/Medium Term Notes ("CP/MTN") programme has expired on 28 August 2013 and the RM40 million outstanding CP/MTN programme ("Maturing CP") was due on the same day. On even date, the Company has received a letter from RHB Investment Bank ("RHB IB"), being the sole noteholder for the CP/MTN programme, granting the Company an indulgence until 5 September 2013 for the redemption of the Maturing CP. In relation thereto, we wish to inform that the Company is in discussions with RHB IB on proposals to repay the Maturing CP.

Save as disclosed 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 RM77.0 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.

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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 (2Q13), the Group reported a lower revenue of RM416.7 million or 37.8% lower as compared to the RM669.6 million recorded in the preceding year corresponding quarter (2Q12). The Group recorded a pre-tax loss of RM86.1 million as compared to a pre-tax loss of RM11.2 million reported in 2Q12.

The decrease in revenue in the quarter under review was mainly driven by the drop in sales volume as well as lower selling price of steel products as compared to 2Q12. Further, the Group has undertaken its yearly shut-down for maintenance during the quarter under review, leading to a higher cost of production and maintenance cost, resulting on the Group having a pre-tax loss.

Revenue and pre-tax loss for the six months ended 30 June 2013 were lower at RM826.7 million and RM109.9 million as compared to revenue and pre-tax profit of RM1,175.7 million and RM7.0 million recorded in the corresponding financial period of 2012.

The financial performance for the six months period under review compared to the previous first half year's results was lower due to a significant decrease in production level and margin.

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

The Group recorded a pre-tax loss of RM86.1 million as compared to the preceding quarter's pre-tax loss of RM23.8 million. The higher loss registered was mainly due to yearly shut-down undertaken by the Group for maintenance during the quarter under review that resulted in a higher cost of production and maintenance cost, coupled with lower sales volume and margin.

B3. Prospects for the Financial Year 2013

Whilst uncertainties surrounding the recovery of global economy and commodities market lingers, the Group remains cautiously optimistic on the global iron and steel industry for the remainder of 2013. Meanwhile in the domestic market, the Group expects demand for steel to be supported by on-going government mega projects under the Economic Transformation Programme.

The Group is looking forward to enhance its performance with the completion of its concentration and pelletizing plant, which is expected to provide the Group with a good hedge against the volatile fluctuations of raw material prices and lead to an improvement in earnings. The Group expects the concentration plant to be fully commissioned in the fourth quarter of 2013, while the pelletizing plant is estimated to be commissioned six months after the commissioning of the concentration plant.

The group is currently proposing a restructuring exercise, and has been engaging with its financial lenders and major creditors.

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 6 months ended	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Income tax				
- Current year	13	13	24	24
	13	13	24	24

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	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Interest income	197	1,060	320	1,756
Interest expense	36,995	29,584	68,365	59,913
Depreciation of property, plant and equipment	26,288	26,274	52,567	45,765
Termination benefits paid to employees of a subsidiary	-	8,878	-	8,878
Impairment loss on trade receivables	-	39	-	39

B7. Status of Corporate Proposal

On 6 August 2013, the Company has make an announcement to Bursa Malaysia Securities Berhad ("**Bursa Securities**") on its proposal to undertake a private placement of up to 10% of the issued and paid-up share capital of the Company to third party investors ("**Proposed Private Placement**"). Bursa Securities had on 23 August 2013 approved the listing application in respect of the Proposed Private Placement and the Company has to complete the implementation of the Proposed Private Placement within six (6) months from the aforesaid date. The Company will make the necessary announcement should there be any changes to the utilisation of proceeds from the Proposed Private Placement which was earlier intended to repay the Maturing CP prior to the implementation of the Proposed Private Placement.

B8. Inventories

Included in inventories of the Group are amounts of RM321.2 million which are related to the product financing included in trade and other payables.

B9. Group Borrowings and Debt Securities

The Group's borrowings as at 30 June 2013 were as follows:-

	30.06.2013 RM'000
Secured	1,027,886
Unsecured	861,294
Total borrowings	<u>1,889,180</u>
<u>Short term borrowings:-</u>	
Bank Overdraft	18,051
Hire Purchases / Lease Creditors	10,784
Bankers' acceptance and trust receipts	1,210,921
Term Loans	186,186
Government Loan	106,775
Related Party Loan	76,070
Murabahah Commercial Papers/ Murabahah Medium Term Notes	100,000
	<u>1,708,787</u>
<u>Long Term borrowings:-</u>	
RCULS	69,068
Hire Purchases / Lease Creditors	1,325
Murabahah Medium Term Notes	110,000
	<u>180,393</u>
Total borrowings	<u>1,889,180</u>

B10. Derivative Financial Instruments

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

B11. Material Litigation

Save as disclosed below, 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
Petroleum Nasional Berhad ("Petronas") vs PSSB**

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

PSSB. In another writ of summons and Statement of Claims Petronas on 22 July 2013 claiming the sum of RM91,659,109.71 and RM2,912,318.97 for the supply of dry gas by Petronas to PSSB and interest respectively.

For the former, Petronas filed an application for summary judgment and the hearing was fixed on 13 June 2013. PSSB filed an application for an interim injunction against the suspension of gas supply from Petronas and the hearing was fixed on 13 June 2013. On 13 June 2013, the Court has allowed the summary judgment in favour of Petronas and dismissed PSSB's application for the interim injunction. PSSB filed 2 separate appeals to the Court of Appeal against the summary judgment application and the dismissal of the interim injunction application. The two appeals have been fixed for hearing on 12 September 2013.

As for the later, the case management is on the 3 September 2013. PSSB is actively seeking amicable settlement with the party.

**(ii) Kuala Lumpur High Court
Tenaga Nasional Berhad ("TNB") vs PSSB**

On 29 August 2013, PSSB received a writ of summons by TNB claiming the sum of RM44,730,801.56 as debt due and owing for electricity supplied, together with a claim for surcharge and KWTBB (Kumpulan Wang Tenaga Boleh Baharu) charge of RM8,302,926.99 and RM285,855.07 respectively and interest at the rate of 8% per annum on the sum of RM53,319,583.62 till full settlement. The matter has been fixed for case management on 5 September 2013.

On various dates, TNB has served PSSB writ of summons claiming on the same nature as mentioned above but the amount of the claims has been amended to RM21,675,580.48, RM32,450,331.00 and RM38,657,757.74 respectively. The trial date was fixed on 17 September 2013, 7 October 2013 and 11 October 2013 for respective claims.

PSSB is actively seeking amicable settlement with the party.

B12. Proposed Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2012 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 30.06.2013	Current year-to-date 30.06.2013
Net loss attributable to ordinary shareholders (RM'000)	(35,402)	(43,824)
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)	(3.40)	(4.21)

B14. Realised and Unrealised Profits Disclosure

The accumulated profits as at 30 June 2013 and 31 March 2013 is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised	(822,809)	(736,674)
- Unrealised	<u>111,179</u>	<u>111,179</u>
	(711,630)	(625,495)
Less: Consolidation adjustments	<u>968,506</u>	<u>917,773</u>
Total group accumulated profits as per consolidated financial statements	<u>256,876</u>	<u>292,278</u>

By order of the Board,

Dato' Henry Pheng Chin Guan

Chief Executive Officer

Date: 30 August 2013