

KINSTEEL BHD.

Company No : 210470-M

Incorporated in Malaysia

*Quarterly report on consolidated results for the quarter ended 30 September 2013.**The figures have not been audited.***CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND PERIOD ENDED 30 SEPTEMBER 2013**

	Current Quarter 3 Months Ended		Cumulative Quarter 9 Months Ended	
	30.09.2013 RM'000	30.09.2012 RM'000	30.09.2013 RM'000	30.09.2012 RM'000
Revenue	345,457	412,700	1,172,200	1,588,399
Operating expenses	(428,843)	(418,095)	(1,301,337)	(1,531,456)
Other operating income	1,585	1,819	5,777	6,427
Finance costs	(58,527)	(40,404)	(126,892)	(100,317)
Loss before taxation	(140,328)	(43,980)	(250,252)	(36,947)
Taxation	(120,013)	(11)	(120,037)	(35)
Loss after taxation	(260,341)	(43,991)	(370,289)	(36,982)
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	-	-	-
Total comprehensive expense	(260,341)	(43,991)	(370,289)	(36,982)
Loss attributable to:				
Owners of the parent	(111,677)	(16,435)	(155,501)	(10,433)
Non-controlling interests	(148,664)	(27,556)	(214,788)	(26,549)
	(260,341)	(43,991)	(370,289)	(36,982)
Total comprehensive expense attributable to:				
Owners of the parent	(111,677)	(16,435)	(155,501)	(10,433)
Non-controlling interests	(148,664)	(27,556)	(214,788)	(26,549)
	(260,341)	(43,991)	(370,289)	(36,982)
Loss per share attributable to owners of the parent:				
- Basic (sen)	(10.72)	(1.58)	(14.93)	(1.00)

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 30 SEPTEMBER 2013**

	As at 30.09.2013 RM'000	As at 31.12.2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,650,806	2,287,999
Intangible assets	1,293	1,293
Deferred tax assets	-	120,000
	<u>2,652,099</u>	<u>2,409,292</u>
Current assets		
Inventories	469,227	1,343,662
Trade and other receivables	182,628	227,442
Tax recoverable	299	414
Deposits with licensed banks	12,001	14,355
Cash and bank balances	1,328	29,532
	<u>665,483</u>	<u>1,615,405</u>
TOTAL ASSETS	<u><u>3,317,582</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	145,199	300,700
Equity attributable to owners of the parent	381,672	537,173
Non-controlling interests	283,992	498,780
Total equity	<u>665,664</u>	<u>1,035,953</u>
Non-current liabilities		
Loans and borrowings	109,290	188,951
Deferred taxation	8,821	8,821
	<u>118,111</u>	<u>197,772</u>
Current liabilities		
Trade and other payables	713,014	1,100,228
Overdrafts and short term borrowings	1,818,217	1,688,029
Provision for taxation	2,576	2,715
	<u>2,533,807</u>	<u>2,790,972</u>
Total liabilities	<u>2,651,918</u>	<u>2,988,744</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,317,582</u></u>	<u><u>4,024,697</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.36	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 SEPTEMBER 2013**

	← Attributable to owners of the parent →						Total	Non-controlling Interests	Total Equity
	Share Capital	Treasury Shares	Share Premium	Fair Value Reserve	RCULS	Distributable Retained Earnings			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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	-	-	-	-	-	(155,501)	(155,501)	(214,788)	(370,289)
Balance at 30.09.2013	209,872	(4,153)	30,493	-	261	145,199	381,672	283,992	665,664
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 period	-	-	-	-	-	(10,433)	(10,433)	(26,549)	(36,982)
Balance at 30.09.2012	209,872	(4,153)	30,493	-	261	400,463	636,936	643,485	1,280,421

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 SEPTEMBER 2013**

	9 Months Ended	
	30.09.2013 RM'000	30.09.2012 RM'000
Loss before tax	(250,252)	(36,947)
Adjustments for :		
Depreciation	78,841	72,062
Interest expense	126,892	100,317
Interest income	(325)	(2,366)
Inventories written down	-	-
Other non-cash item	(15)	21,914
Operating cash flows before working capital changes	(44,859)	154,980
Changes in working capital		
Decrease/(Increase) in inventories	715,043	(174,638)
Decrease in receivables	50,071	69,114
(Decrease)/Increase in payables	(569,736)	89,265
	150,519	138,721
Interest paid	(69,987)	(97,316)
Interest received	325	545
Tax refund	354	4
Tax paid	(395)	(367)
Net cash flows from operating activities	80,816	41,587
Investing activities		
Purchase of property, plant and equipment	(140,387)	(91,600)
Proceeds from disposal of property, plant and equipment	15	-
Net cash flows for investing activities	(140,372)	(91,600)
Financing activities		
Proceeds from issuance of RCULS	-	70,000
Short term borrowings	(48,513)	48,030
Repayment of Murabahah Commercial Papers	-	(10,000)
Repayment of Murabahah Medium Term Notes	(10,000)	(60,000)
Proceeds/(Repayment) of loans	91,577	(23,872)
Repayment of hire purchase/lease liabilities	(2,186)	(4,054)
Net cash flows from financing activities	30,878	20,104
Net change in cash and cash equivalents	(28,678)	(29,909)
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	(9,075)	3,818

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.

KINSTEEL BHD (210470-M)

(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER AND PERIOD ENDED 30 SEPTEMBER 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

On 26 September 2013, the Group obtained approval from Corporate Debt Restructuring Committee (CDRC) to mediate with the financial lenders of the Group for debt restructuring exercise.

Save as disclosed above, 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

During the quarter under review, the Company has redeemed the fifth tranche of its Murabahah Medium Term Notes facility of RM10.0 million on 6 September 2013.

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. Thereafter, further indulgence has been granted to the Company until 27 December 2013. In relation thereto, we wish to inform that the

Company is in midst of finalising documentations to redeem the Maturing CP with a term loan provided by RHB IB.

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 RM116.0 million for the Group.

A12. Material Subsequent Events

(i) On 29 October 2013, the subsidiary, Perwaja Steel Sdn Bhd (PSSB) was granted court approval on creditors protection under Section 176 of the Companies Act, 1965. PSSB will have 90 days to present a restructuring scheme and to convene creditors meeting to approve the restructuring scheme in 180 days from 29 October 2013.

(ii) On 26 November 2013, its subsidiary, Perwaja Holdings Berhad (PHB) is designated an Affected Listed Issuer under Practice Note ("PN") 1 and PN 17 of the Bursa Malaysia Securities Berhad's Main Market Listing Requirements ("the MMLR"). Accordingly, PHB is required to inter alia submit a regularisation plan to the relevant authority within 12 months from the date of such announcement. PHB is currently in the process of formulating such regularisation plan.

Save as disclosed above, 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 (3Q13), the Group reported a lower revenue of RM345.5 million or 16.3% lower as compared to the RM412.7 million recorded in the preceding year corresponding quarter (3Q12). The Group recorded a pre-tax loss of RM140.3 million as compared to a pre-tax loss of RM44.0 million reported in 3Q12.

The decrease in revenue and increase in pre-tax loss in 3Q13 was mainly driven by dropped in production and sales volume as compared to 3Q12 as well as lower selling price of steel products. During the quarter under review, the operation of a subsidiary was affected by the gas supply curtailment for 2 months with Petroleum National Berhad pending final settlement of outstanding liability.

Revenue and pre-tax loss for the 9 months ended 30 September 2013 were lower at RM1,172.2 million and RM250.3 million as compared to revenue and pre-tax loss of RM1,588.4 million and RM36.9 million recorded in the corresponding financial period of 2012.

The decrease in revenue and increase in pre-tax loss for the nine month period to date was mainly due to decrease in production level, sales volume and lower margin and the gas supply issue mentioned above.

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 RM140.3 million as compared to the preceding quarter's pre-tax loss of RM86.1 million. The higher loss was mainly due to lower production and sales volume during the quarter under review, resulting in higher cost of sales. The lower production was due to curtailment of gas as mentioned in Note B1 above.

B3. Prospects for the Financial Year 2013

Whilst there are still a lot of uncertainties in the Global economy and the commodities market, the Group remains cautiously optimistic on the iron and steel industry for the remainder of 2013.

On 26 November 2013, its subsidiary, Perwaja Holdings Berhad (PHB) is designated an Affected Listed Issuer under Practice Note ("PN") 1 and 17 of the Bursa Malaysia Securities Berhad's Main Market Listing Requirements ("the MMLR"). Accordingly, PHB is required to inter alia submit a regularisation plan to the relevant authority within 12 months from the date of such announcement. PHB is currently in the process of formulating such regularisation plan.

The Group has undertaken a debt restructuring exercise to address its liquidity issue.

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	
	30.09.2013 RM'000	30.09.2012 RM'000	30.09.2013 RM'000	30.09.2012 RM'000
Income tax				
- Current year	13	11	37	35
Deferred tax				
- Current year	120,000	11	120,000	35
	<u>120,013</u>	<u>11</u>	<u>120,037</u>	<u>35</u>

The Group's effective tax rate for the current quarter and financial year to date was higher than the prevailing statutory tax rate of 25%, mainly due to reversal 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	
	30.09.2013 RM'000	30.09.2012 RM'000	30.09.2013 RM'000	30.09.2012 RM'000
Interest income	5	610	325	2,366
Interest expense	58,527	40,404	126,892	100,317
Depreciation of property, plant and equipment	26,274	26,297	78,841	72,062
Termination benefits paid to employees of a subsidiary	-	-	-	8,878
Impairment loss on trade receivables	-	21,875	-	21,914

B7. Status of Corporate Proposal**(i) Proposed Private Placement**

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.

(ii) Corporate Debt Restructuring Committee (CDRC)

On 26 September 2013, the Group obtained approval from CDRC to mediate with the financial lenders of the Group for the purpose of debt restructuring exercise with the financial lenders.

(iii) Restraining Order under Section 176 (10) of the Companies Act, 1965

On 29 October 2013, the subsidiary, Perwaja Steel Sdn Bhd (PSSB) was granted court approval on creditors protection under Section 176 of the Companies Act, 1965. PSSB will have 90 days to present the creditors scheme of arrangement and to convene creditors meeting to approve the restructuring scheme within 180 days from 29 October 2013.

B8. Group Borrowings and Debt Securities

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

	30.09.2013 RM'000
Secured	1,059,307
Unsecured	868,200
Total borrowings	<u>1,927,507</u>
<u>Short term borrowings:-</u>	
Bank Overdraft	22,404
Hire Purchases / Lease Creditors	11,170
Bankers' acceptance and trust receipts	1,226,249
Term Loans	197,823
Government Loan	117,131
Related Party Loan	83,440
Murabahah Commercial Papers/ Murabahah Medium Term Notes	160,000
	<u>1,818,217</u>
<u>Long Term borrowings:-</u>	
RCULS	69,068
Hire Purchases / Lease Creditors	222
Murabahah Medium Term Notes	40,000
	<u>109,290</u>
Total borrowings	<u>1,927,507</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 2013, neither the Company nor the 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 Company or the Group and the 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. Petronas filed an application for summary judgment and the hearing was fixed on 13 June 2013.

Perwaja filed an application for an interim injunction against the suspension of service 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 Perwaja’s counterclaim and the application for an interim injunction.

On 14 June 2013, Perwaja 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 case management on 22 December 2013.

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

**(ii) Kuala Lumpur High Court Suit No. 22NCVC-491-08/2013
Tenaga Nasional Berhad (“TNB”) vs PSSB**

PSSB has received a Writ of Summons and a statement of claim from Tenaga Nasional Berhad (“TNB”) for 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.

This above case is one of the cases by TNB. Other claims for the same nature which was filed earlier and of which the claims has been amended to RM21,675,580.48, RM32,450,331.00 and RM38,657,757.74 respectively. The trial date for these others claims were fixed on 17 September 2013, 30 October 2013 and 30 October 2013 respectively and judgment was given in favour of TNB.

On 31 October 2013, the Court was informed that a Restraining Order pursuant to Section 176 of the Companies Act 1965 has been obtained by PSSB. The Court fixed the matter for further case management on 11 February 2014 pending the outcome of the proposed restructuring scheme.

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 30.09.2013	Current year-to-date 30.09.2013
Net loss attributable to ordinary shareholders (RM'000)	(111,677)	(155,501)
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)	(10.72)	(14.93)

B13. Realised and Unrealised Profits Disclosure

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

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated profits of the Company and subsidiaries:		
- Realised	(963,150)	(822,809)
- Unrealised	(8,821)	111,179
	(971,971)	(711,630)
Less: Consolidation adjustments	1,117,170	968,506
Total group accumulated profits as per consolidated financial statements	145,199	256,876

B14. Change of Financial Year End

On 25 November 2013, the Board has approved to change the financial year end from 31 December to 30 June and the next audited financial statements shall be for a period of 18 months, made up from 1 January 2013 to 30 June 2014.

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer
Date: 27 November 2013

Part A3 : ADDITIONAL INFORMATION
KINSTEEL BHD

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	30-09-2013 [dd/mm/yyyy] RM'000	30-09-2012 [dd/mm/yyyy] RM'000	30-09-2013 [dd/mm/yyyy] RM'000	30-09-2012 [dd/mm/yyyy] RM'000
1 Gross interest income	5	610	325	2,366
2 Gross interest expense	58,527	40,404	126,892	100,317