

KINSTEEL BHD.

Company No : 210470-M

Incorporated in Malaysia

*Quarterly report on consolidated results for the quarter ended 31 December 2013.**The figures have not been audited.***CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2013**

	Current Quarter 3 Months Ended		Cumulative Quarter 12 Months Ended	
	31.12.2013 RM'000	31.12.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000
Revenue	170,955	558,112	1,343,155	2,146,511
Operating expenses	(240,431)	(708,491)	(1,541,768)	(2,239,947)
Other operating income	631	10,906	6,408	17,333
Finance costs	(50,591)	(59,723)	(177,483)	(160,040)
Loss before taxation	(119,436)	(199,196)	(369,688)	(236,143)
Taxation	(14)	(45,272)	(120,051)	(45,307)
Loss after taxation	(119,450)	(244,468)	(489,739)	(281,450)
Other comprehensive income, net of tax Available-for-sale (AFS) investment's fair value movements	-	-	-	-
Total comprehensive expense	(119,450)	(244,468)	(489,739)	(281,450)
Loss attributable to:				
Owners of the parent	(49,645)	(99,763)	(205,146)	(110,196)
Non-controlling interests	(69,805)	(144,705)	(284,593)	(171,254)
	(119,450)	(244,468)	(489,739)	(281,450)
Total comprehensive expense attributable to:				
Owners of the parent	(49,645)	(99,763)	(205,146)	(110,196)
Non-controlling interests	(69,805)	(144,705)	(284,593)	(171,254)
	(119,450)	(244,468)	(489,739)	(281,450)
Loss per share attributable to owners of the parent:				
- Basic (sen)	(4.77)	(9.58)	(19.70)	(10.58)

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.
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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	As at 31.12.2013 RM'000	As at 31.12.2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,663,456	2,287,999
Intangible assets	1,293	1,293
Deferred tax assets	-	120,000
	<u>2,664,749</u>	<u>2,409,292</u>
Current assets		
Inventories	424,206	1,343,662
Trade and other receivables	154,397	227,442
Tax recoverable	103	414
Deposits with licensed banks	11,256	14,355
Cash and bank balances	1,290	29,532
	<u>591,252</u>	<u>1,615,405</u>
TOTAL ASSETS	<u><u>3,256,001</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	95,554	300,700
Equity attributable to owners of the parent	<u>332,027</u>	<u>537,173</u>
Non-controlling interests	<u>214,187</u>	<u>498,780</u>
Total equity	<u><u>546,214</u></u>	<u><u>1,035,953</u></u>
Non-current liabilities		
Loans and borrowings	109,251	188,951
Deferred taxation	8,821	8,821
	<u>118,072</u>	<u>197,772</u>
Current liabilities		
Trade and other payables	763,043	1,100,228
Overdrafts and short term borrowings	1,826,096	1,688,029
Provision for taxation	2,576	2,715
	<u>2,591,715</u>	<u>2,790,972</u>
Total liabilities	<u><u>2,709,787</u></u>	<u><u>2,988,744</u></u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,256,001</u></u>	<u><u>4,024,697</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.32	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 DECEMBER 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	-	-	-	-	-	(205,146)	(205,146)	(284,593)	(489,739)
Balance at 31.12.2013	<u>209,872</u>	<u>(4,153)</u>	<u>30,493</u>	<u>-</u>	<u>261</u>	<u>95,554</u>	<u>332,027</u>	<u>214,187</u>	<u>546,214</u>
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	-	-	-	-	-	(110,196)	(110,196)	(171,254)	(281,450)
Balance at 31.12.2012	<u>209,872</u>	<u>(4,153)</u>	<u>30,493</u>	<u>-</u>	<u>261</u>	<u>300,700</u>	<u>537,173</u>	<u>498,780</u>	<u>1,035,953</u>

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 DECEMBER 2013**

	12 Months Ended	
	31.12.2013 RM'000	31.12.2012 RM'000
Loss before tax	(369,688)	(236,143)
Adjustments for :		
Depreciation	104,920	106,219
Interest expense	177,483	160,040
Interest income	(325)	(844)
Inventories written down	-	90,564
Other non-cash item	(15)	21,889
Operating cash flows before working capital changes	(87,625)	141,725
Changes in working capital		
Decrease/(Increase) in inventories	760,064	(461,089)
Decrease in receivables	97,637	56,718
(Decrease)/Increase in payables	(597,491)	493,359
	172,585	230,713
Interest paid	(99,088)	(129,968)
Interest received	325	844
Tax refund	354	917
Tax paid	(503)	(478)
Net cash flows from operating activities	73,673	102,028
Investing activities		
Purchase of property, plant and equipment	(147,120)	(134,737)
Proceeds from disposal of property, plant and equipment	15	113
Net cash flows for investing activities	(147,105)	(134,624)
Financing activities		
Proceeds from issuance of RCULS	-	70,000
Decrease in FSRA accounts	5,255	2,120
Short term borrowings	(73,724)	55,835
Repayment of Murabahah Commercial Papers	-	(10,000)
Repayment of Murabahah Medium Term Notes	(10,000)	(60,000)
Repayment of Collateralised Loan	-	(40,000)
Proceeds/(Repayment) of loans	97,898	51,720
Repayment of bridging loan	-	(42,954)
Repayment of hire purchase/lease liabilities	(2,747)	(8,453)
Net cash flows from financing activities	16,682	18,268
Net change in cash and cash equivalents	(56,750)	(14,328)
Effects of foreign exchange rate changes	-	204
Cash and cash equivalents at beginning of period	19,603	33,727
Cash and cash equivalents at end of period	(37,147)	19,603

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 DECEMBER 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

(i) 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.

(ii) On 29 October 2013, the subsidiary of Perwaja Holdings Berhad (PHB), 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.

(iii) On 26 November 2013, PHB was designated an Affected Listed Issuer under Practice Note 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 the plan.

(iv) During the financial year-to-date, PSSB has made a full reversal of deferred tax assets amounting to RM120 million recognized in prior years.

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 28 February 2014. RHB IB as the sole noteholder of the RM40.0 million CPs has concluded that no further indulgence period will be required/granted to Kinsteel in view of its current debt restructuring exercise.

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 27 January 2014, PSSB was granted court approval on the extension of creditors protection under Section 176 of the Companies Act, 1965. PSSB will have to present a restructuring scheme and to convene creditors meeting to approve the restructuring scheme within 180 days from 27 January 2014.

(ii) On 10 February 2014, PSSB has entered into settlement agreement with Petroleum Nasional Berhad ('Petronas') for full and final settlement of outstanding amount due to Petronas and the provision for the future supply of dry gas.

On 18 February 2014, PSSB has entered into settlement agreement with Tenaga Nasional Berhad ('TNB') for full and final settlement of outstanding amount due to TNB. PSSB also signed the supplemental agreement with TNB for the reconnection and future supply of electricity to PSSB's manufacturing facilities located at Kawasan Perindustrian Teluk Kalong, Kemaman, Terengganu. 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 (4Q13), the Group reported a lower revenue of RM171.0 million or 67.7% lower as compared to the RM558.1 million recorded in the preceding year corresponding quarter (4Q12). The Group recorded a pre-tax loss of RM119.4 million as compared to a pre-tax loss of RM199.2 million reported in 4Q12.

The decrease in revenue and pre-tax loss in 4Q13 was mainly driven by dropped in production and sales volume as compared to 4Q12 as well as lower selling price of steel products. There was zero production for PSSB as it was affected by the gas and electricity supply curtailment by Petronas and TNB at the material time.

Revenue and pre-tax loss for the 12 months ended 31 December 2013 were lower at RM1,343.2 million and RM369.7 million as compared to revenue and pre-tax loss of RM2,146.5 million and RM236.1 million recorded in the corresponding financial period of 2012.

The decrease in revenue and increase in pre-tax loss for the 12 months period to date was mainly due to decrease in production level, sales volume and lower margin and the gas and electricity 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 RM119.4 million as compared to the preceding quarter's pre-tax loss of RM140.3 million. The lower loss was mainly due to lower production and sales volume during the quarter under review as a result of zero production in PSSB. There was an one off adjustment to fair value of PSSB's financial liabilities in 3Q13 amounting to RM17m.

B3. Prospects for the Financial Year 2014

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 2014.

On 26 November 2013, its subsidiary, Perwaja Holdings Berhad (PHB) was designated an Affected Listed Issuer under Practice Note 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 is undertaking 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 12 months ended	
	31.12.2013 RM'000	31.12.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000
Income tax				
- Current year	14	2,878	51	2,913
Deferred tax				
- Current year	120,000	42,394	120,000	42,394
	120,013	45,272	120,051	45,307

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 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	
	31.12.2013 RM'000	31.12.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000
Interest income	-	-	325	844
Interest expense	50,591	59,723	177,483	160,040
Depreciation of property, plant and equipment	26,079	34,157	104,920	106,219
Termination benefits paid to employees of a subsidiary	-	-	-	8,878
Impairment loss on trade receivables	-	-	-	21,914

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

On 21 February 2014, the Company had announced to Bursa Malaysia Securities Berhad ("Bursa Securities") that the proposed private placement approved on 23 August 2013 had lapsed on 22 June 2014.

(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, PSSB was granted court approval on creditors protection under Section 176 of the Companies Act, 1965. On 27 January 2014, PSSB was granted court approval on the extension of creditors protection to present the creditors scheme of arrangement and to convene creditors meeting to approve the restructuring scheme within 180 days from 27 January 2014.

B8. Group Borrowings and Debt Securities

The Group's borrowings as at 31 December 2013 were as follows:-

	31.12.2013 RM'000
Secured	1,067,170
Unsecured	868,177
Total borrowings	<u>1,935,347</u>
 <u>Short term borrowings:-</u>	
Bank Overdraft	49,693
Hire Purchases / Lease Creditors	10,649
Bankers' acceptance and trust receipts	1,201,039
Term Loans	204,144
Government Loan	117,131
Related Party Loan	83,440
Murabahah Commercial Papers/ Murabahah Medium Term Notes	160,000
	<u>1,826,096</u>
 <u>Long Term borrowings:-</u>	
RCULS	69,068
Hire Purchases / Lease Creditors	183
Murabahah Medium Term Notes	40,000
	<u>109,251</u>
Total borrowings	<u>1,935,347</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 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.

PSSB 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 PSSB’s counterclaim and the application for an interim injunction.

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

After numerous rounds of negotiation, the parties had reached an amicable settlement on 10 February 2014 for full and final settlement of outstanding amount due to Petronas.

(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 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.

Both parties had entered into settlement agreement on 18 February 2014 for full and final settlement of outstanding amount due to TNB.

B11. Proposed Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2012.

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 31.12.2013	Current year-to-date 31.12.2013
Net loss attributable to ordinary shareholders (RM'000)	(49,645)	(205,146)
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)	(4.77)	(19.70)

B13. Realised and Unrealised Profits Disclosure

The accumulated profits as at 31 December 2013 and 30 September 2013 is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total accumulated losses of the Company and subsidiaries:		
- Realised	(1,091,420)	(963,150)
- Unrealised	-	(8,821)
	<u>(1,091,420)</u>	<u>(971,971)</u>
Less: Consolidation adjustments	1,186,978	1,117,170
Total group accumulated profits as per consolidated financial statements	<u>95,554</u>	<u>145,199</u>

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: 28 February 2014