

KINSTEEL BHD (210570-M)
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND FIFTEEN MONTHS ENDED 31 MARCH 2014**

	Unaudited 3 months ended		Unaudited 15 months ended	Audited 12 months ended
	31.03.2014	31.03.2013	31.03.2014	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Revenue	162,365	N/A	1,505,520	2,146,511
Operating expenditure	(380,886)	N/A	(1,922,654)	(2,239,947)
Other income	4,245	N/A	10,653	17,333
Finance costs	(33,229)	N/A	(210,712)	(160,040)
Loss before taxation	(247,505)	-	(617,193)	(236,143)
Taxation	(9)	N/A	(120,060)	(45,307)
Loss after taxation	(247,514)	-	(737,253)	(281,450)
Other comprehensive income, net of tax	-	N/A	-	-
Total comprehensive expense	(247,514)	-	(737,253)	(281,450)
Total comprehensive expense attributable to:				
Equity holders of the parent	(94,629)	N/A	(299,775)	(110,196)
Non-controlling interests	(152,885)	N/A	(437,478)	(171,254)
	(247,514)	-	(737,253)	(281,450)
Loss per share (Note 25) :				
- Basic LPS (sen)	(9.08)	-	(28.78)	(10.58)

The financial period of the Group has been changed from 31 December to 30 June to cover the 18-month period from 1 January 2013 to 30 June 2014 and thereafter, to end on 30 June each year. Accordingly, there are no comparative figures to be presented in this Condensed Consolidated Statement of Comprehensive Income.

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2014**

	Unaudited As at 31.03.2014 RM'000	Audited As at 31.12.2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,457,765	2,287,999
Intangible assets	-	1,293
Deferred tax assets	-	120,000
	<u>2,457,765</u>	<u>2,409,292</u>
Current assets		
Inventories	410,831	1,343,662
Receivables	176,388	227,442
Tax recoverable	107	414
Deposits with licensed banks	1,827	14,355
Cash and bank balances	13,778	29,532
	<u>602,931</u>	<u>1,615,405</u>
TOTAL ASSETS	<u><u>3,060,696</u></u>	<u><u>4,024,697</u></u>
EQUITY AND LIABILITIES		
Share capital	209,872	209,872
Redeemable Convertible Unsecured Loan Stocks	261	261
Reserves	27,265	327,040
Equity attributable to owners of the parent	237,398	537,173
Non-controlling interests	61,302	498,780
Total equity	<u>298,700</u>	<u>1,035,953</u>
Non-current liabilities		
Deferred taxation	8,079	8,821
Loan and borrowings (Note 21)	113,398	188,951
	<u>121,477</u>	<u>197,772</u>
Current liabilities		
Trade and other payables	812,673	1,100,228
Provision for taxation	2,660	1,688,029
Overdrafts and short term borrowings (Note 21)	1,825,186	2,715
	<u>2,640,519</u>	<u>2,790,972</u>
Total liabilities	<u>2,761,996</u>	<u>2,988,744</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,060,696</u></u>	<u><u>4,024,697</u></u>
Net assets per share attributable to equity holders of the parent (RM)	<u>0.23</u>	<u>0.51</u>

The above 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.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2014**

	Attributable to Equity Holders of the Company							
	Non-distributable				Distributable	Total Equity	Non- Controlling interests	Total Equity
	Share Capital	Treasury Shares	Share Premium	RCULS	Retained Earnings			
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Balance at 1 January 2013	209,872	(4,153)	30,493	261	300,700	537,173	498,780	1,035,953
Comprehensive expense for the period	-	-	-	-	(299,775)	(299,775)	(437,478)	(737,253)
Balance at 31 March 2014	209,872	(4,153)	30,493	261	925	237,398	61,302	298,700
Balance at 1 January 2012	209,872	(4,153)	30,493	-	410,896	647,108	669,596	1,316,704
Comprehensive expense for the period	-	-	-	-	(110,196)	(110,196)	(171,254)	(281,450)
Issuance of RCULS (Equity component)	-	-	-	261	-	261	438	699
Balance at 31 December 2012	209,872	(4,153)	30,493	261	300,700	537,173	498,780	1,035,953

The above 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.

KINSTEEL BHD (210570-M)

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2014**

	Unaudited 15 months ended 31.03.2014 RM'000	Audited 12 months ended 31.12.2012 RM'000
Cash Flows From Operating Activities		
Loss before taxation	(617,193)	(236,143)
Adjustments for non-cash flow :		
Depreciation	130,581	106,219
Assets written off	90,140	-
Other non-cash item	-	21,889
Inventories written down	90,000	90,564
Intangible assets written off	1,293	-
Interest income	(380)	(844)
Interest expense	210,712	160,040
Operating (loss)/profit before working capital changes	(94,847)	141,725
Decrease/(increase) in inventories	596,138	(461,089)
Decrease in receivables	51,054	56,718
(Decrease)/increase in payables	(287,555)	493,359
	264,790	230,713
Interest paid	(125,675)	(129,968)
Interest received	325	844
Tax refund	-	917
Income tax paid	(632)	(478)
Net cash from operating activities	138,808	102,028
Cash Flows for Investing Activities		
Purchase of property, plant and equipment	(147,387)	(134,737)
Proceeds from disposal of property, plant and equipment	29	113
Net cash for investing activities	(147,358)	(134,624)
Cash Flows From Financing Activities		
(Repayment)/Drawdown of short term borrowings	(75,067)	55,835
Proceeds of term loan	66,564	51,720
Decrease in DSRA/FSRA account	5,255	2,120
Proceeds from issuance of RCULS	-	70,000
Repayment of Murabahah Medium Term Loan	-	(60,000)
Repayment of Murabahah Commercial Papers	-	(10,000)
Repayment of Collateralised Loan	-	(40,000)
Repayment of bridging loan	-	(42,954)
Repayment of hire purchase obligations	(3,962)	(8,453)
Net cash from financing activities	(7,210)	18,268
Net (decrease) in cash and cash equivalents	(15,760)	(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	3,843	19,603

KINSTEEL BHD (210570-M)
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2014 (Continued)

	Unaudited 15 months ended 31.03.2014 RM'000	Audited 12 months ended 31.12.2012 RM'000
Composition of cash and cash equivalents		
Fixed deposits with financial institutions	1,827	14,355
Cash and bank balances	13,778	29,532
Deposits in DSRA / FSRA account	(7,096)	(5,255)
Bank overdrafts	(4,666)	(19,029)
Cash and cash equivalents at end of period	<u>3,843</u>	<u>19,603</u>

The above 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.

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

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. Basis of reporting preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of Financial Reporting Standards 134 (FRS134): “Interim Financial Reporting” and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statement should be read in conjunction with the audited financial statements for the year ended 31 December 2012. These explanatory notes attached to the 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.

The appropriateness of preparing the financial statements of the Group on a going concern basis is dependent upon the successful and timely formulation and implementation of a regularization plan, the successful negotiation and settlement of the Group’s bank borrowings and the continuing financial support from shareholders, creditors and lenders.

Should the going concern basis of preparing the financial statements be no longer appropriate, adjustments would have to be made to reduce the value of all assets to their estimated realizable values, and to provide further estimated liabilities that may arise, and to reclassify all non-current assets and non-current liabilities as current assets and current liabilities respectively.

The financial statements of the Group does not include any adjustments and classifications relating to the recorded assets and liabilities that may be necessary if the Group is unable to continue as going concern.

The significant accounting policies adopted are in consistent with those of the audited financial statements for the year ended 31 December 2012, except for the adoption of the following new Amendments to FRSs and Interpretations with effect from 1 January 2013:

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 (as amended in June 2011)
MFRS 127	Separate Financial Statements (as amended by IASB in May 2011)
MFRS 128	Investment in Associates and Joint Ventures (as amended by IASB in May 2011)
Amendments to MFRS 1	Government Loans
Amendments to MFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities

1. Basis of reporting preparation (continued)

Amendments to MFRS 10, MFRS 11 and MFRS 12	Transition Guidance
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvement to MFRSs 2009 – 2011 Cycle	

The adoption of the above standards, amendments and interpretations do not have significant impact on the financial statements of the Group.

The following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:-

MFRS 9	Financial Instruments
Amendments to MFRS 9	Mandatory Effective Date of MFRS 9 and Transition Disclosure
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities

2. Auditors' report

The preceding audited annual financial statements were not qualified.

3. Seasonal or cyclical factors

The business operation of the Group is generally affected by the demand in construction sector, commodities market condition and global economy, as well as the fourth quarter and first quarter festive seasons.

4. Items of unusual nature and amount

On 26 November 2013, Perwaja Holdings Berhad (PHB) was designated an Affected 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 26 November 2013. PHB is currently in the process of formulating the plan.

During the financial period-to-date, PHB's subsidiary, Perwaja Steel Sdn Bhd (PSSB) has made a full reversal of deferred tax assets amounting to RM120 million recognized in prior years, an inventory written down of RM90 million and an assets written off of RM90 million.

Except for the above, there were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group during the current quarter and financial period-to-date.

5. Material changes in estimates

There were no changes in the estimates of amount relating to the prior financial years that have a material effect in the current quarter under review.

6. Debt and equity securities

There have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current period and period to date.

7. Dividends paid

No dividend was paid during the financial period-to-date.

8. 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 operations are principally located in Malaysia.

9. Valuation of property, plant and equipment

There was no valuation of the property, plant and equipment in the current period under review.

10. 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.

11. Subsequent event

There was no material event subsequent to the current quarter.

12. Changes in the Composition of the Group

There were no changes in the composition of the Group during the financial period-to-date.

13. Contingent Liabilities and Contingent Assets

As at the 31 March 2014, there is no contingent liability or contingent asset, 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

14. Review of performance of the Company and its principal subsidiaries

For the current quarter under review, the Group reported a revenue of RM162.4 million and a pre-tax loss of RM247.5 million. The financial period of the Company has been changed from 31 December to 30 June to cover the 18-month period from 1 January 2013 to 30 June 2014 and thereafter, to end on 30 June. Accordingly, there are no comparatives presented in respect of corresponding quarter for the preceding period.

The low revenue and pre-tax loss in current quarter was mainly driven by zero production in PSSB, low sales volume and also PSSB's inventory written down of RM90 million and an assets written off of RM90 million. The zero production was as the result of the gas and electricity supply curtailment by Petronas and TNB in PSSB at the material time.

Revenue for the 15 months financial period ended 31 March 2014 were lower at RM1,505.5 million as compared to RM2,146.5 million recorded in the financial year ended 31 December 2012. Despite the lower revenue, the loss before taxation was higher at RM617.1 million as compared to RM236.1 million recorded in previous year. The decrease in revenue and increase in pre-tax loss for the 15 months financial period to date was mainly due to decrease in production level, sales volume, lower margins, the gas and electricity supply issues and the assets and inventory adjustments as mentioned above.

15. 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 RM247.5 million as compared to the preceding quarter's pre-tax loss of RM119.4 million. This is mainly because of zero production in PSSB since August 2013 and also PSSB's inventory written down of RM90 million and an assets written off of RM90 million.

16. Prospects for the financial year 2014

On 26 November 2013, the PHB was designated an Affected Listed Issuer under Practice Note ("PN") 1 and PN 17 of the MMLR. Accordingly, the Company 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. The Group's prospect is highly dependent on successful:

- i) approval of the restructuring scheme by the scheme creditors;
- ii) negotiation with secured lenders and Government of Malaysia; and
- iii) implementation of the restructuring scheme.

In view of the above, the prospects will be challenging but hopeful with the implementation of the construction of several highways worth an estimated RM20 billion will start over the next 18 months (source : Starbiz , 26 May 2014).

17. Variance between Actual Profit and Forecast Profit

The Group did not issue any profit forecast in a public document during the current financial period.

18. Taxation

	Current quarter		Cumulative period	
	31.03.2014	31.12.2012	15 months ended 31.03.2014	12 months ended 31.12.2012
	RM'000	RM'000	RM'000	RM'000
Income tax				
- Current year	9	2,878	60	2,913
Deferred tax				
- Current year	-	42,394	120,000	42,394
	9	45,272	120,060	45,307

The Group's effective tax rate for the current quarter and financial period to date was higher than the prevailing statutory tax rate of 25%, mainly due to reversal of deferred tax assets recognized in prior years.

19. Loss Before Taxation

Included in the loss before taxation are the following items:

	Current quarter		Cumulative period	
	3 months ended		15 months ended	12 months ended
	31.03.2014	31.03.2013	31.03.2014	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Interest income	55	N/A	380	844
Interest expense	33,229	N/A	210,712	160,040
Impairment loss on receivables	-	N/A		
Inventory written down	90,000	-	90,000	-
Intangible assets written off	1,293	-	1,293	-
Termination benefits paid to employees of a subsidiary				8,878
Assets written off	90,140	N/A	90,140	-
Depreciation of property, plant and equipment	25,662	N/A	130,581	106,219

The financial period of the Group has been changed from 31 December to 30 June to cover the 18-month period from 1 January 2013 to 30 June 2014 and thereafter, to end on 30 June. Accordingly, there are no comparative figures for the corresponding quarter to be presented.

20 Status of Corporate Proposals

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.

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

On 29 October 2013, 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.

21. Group borrowings and debt securities

The Group's borrowings as at 31 March 2014 were as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowing:-</u>			
Bank overdrafts	11,763	74,905	86,668
Trade Financing	714,596	485,100	1,199,696
Hire Purchases	5,441	-	5,441
Term Loan	172,810	-	172,810
Murabahah Commercial Papers / Murabahah Medium Term Notes	160,000	-	160,000
Related Party Loan	-	83,440	83,440
Government Loan	-	117,131	117,131
	<u>1,064,610</u>	<u>760,576</u>	<u>1,825,186</u>
<u>Long Term borrowings:-</u>			
Hire Purchases	4,176	-	4,176
Murabahah Medium Term Notes	40,000	-	40,000
RCULS	69,222	-	69,222
	<u>113,398</u>	<u>-</u>	<u>113,398</u>
Total	<u>1,178,008</u>	<u>760,576</u>	<u>1,938,584</u>

Included in cash and bank balances of the Group is an amount of RM11 million being deposited into DSRA accounts for the term loans provided to the Group.

22. Derivative Financial Instruments

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

23. Material Litigation

As at 31 March 2014, neither our Company nor any of our subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of our Company or our subsidiaries 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 our Company or our subsidiaries.

24. Proposed Dividend

There was no dividend proposed or declared for the current quarter and the financial period-to-date.

25. Loss Per Share (“LPS”)

The basic LPS is calculated based on the Group's net losses attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in issue during the current quarter and the financial period-to-date as follow:

	Current quarter RM'000	Period-to- date RM'000
Net loss attributable to ordinary shareholders	(94,629)	(299,775)
Weighted average number of ordinary shares in issue including Treasury shares	1,049,358	1,049,358
Treasury Shares	(7,754)	(7,754)
Weighted average number of ordinary shares in issue	1,041,604	1,041,604
Basic LPS (sen)	<u>(9.08) sen</u>	<u>(28.78) sen</u>

Fully diluted LPS for current quarter and financial period-to-date have not been presented as the effect is anti-dilutive.

226. Realised and Unrealised Profits/Losses Disclosure

The retained earnings as at 31 March 2014 and 31 December 2013 is analysed as follows:

	Current Quarter RM'000	Immediate Preceding Quarter RM'000
Total retained earnings of the Company and subsidiaries:		
- Realised profit	925	95,554
- Unrealised profit	-	-
Total group retained earnings as per consolidated financial statements	<u>925</u>	<u>95,554</u>

27. Change of Financial Period

On 25 November 2013, the Board has approved to change the financial period 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.

28. Comparatives

Certain comparative figures have been reclassified to conform with the current period's presentation.

By order of the Board,

Dato' Henry Pheng Chin Guan
Chief Executive Officer
Date: 30 May 2014