

KINSTEEL BHD.

Company No : 210470-M

Incorporated in Malaysia

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND 18 MONTHS ENDED 30 JUNE 2014**

	Unaudited 3 Months Ended		Unaudited	Audited
	30.06.2014	30.06.2013	18 months ended 30.06.2014	12 months ended 31.12.2012
	RM'000	RM'000	RM'000	RM'000
Revenue	152,145	N/a	1,657,665	2,146,511
Operating expenses	(369,380)	N/A	(2,292,035)	(2,239,947)
Other operating income	2,163	N/A	12,816	17,333
Finance costs	(89,404)	N/A	(300,116)	(160,040)
Loss before taxation	<u>(304,476)</u>	<u>-</u>	<u>(921,670)</u>	<u>(236,143)</u>
Taxation	10,663	N/A	(109,397)	(45,307)
Loss after taxation	<u>(293,813)</u>	<u>-</u>	<u>(1,031,067)</u>	<u>(281,450)</u>
Other comprehensive income	<u>-</u>	<u>N/A</u>	<u>-</u>	<u>N/A</u>
Total comprehensive expense	<u><u>(293,813)</u></u>	<u><u>-</u></u>	<u><u>(1,031,067)</u></u>	<u><u>(281,450)</u></u>
Equity holders of the parent	(121,719)	N/A	(421,494)	(110,196)
Non-controlling interests	<u>(172,094)</u>	<u>N/A</u>	<u>(609,573)</u>	<u>(171,254)</u>
	<u><u>(293,813)</u></u>	<u><u>-</u></u>	<u><u>(1,031,067)</u></u>	<u><u>(281,450)</u></u>
Loss per share attributable (Note 25) to owners of the parent:				
- Basic (sen)	(11.69)	N/A	(40.47)	(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 30 JUNE 2014**

	Unaudited As at 30.06.2014 RM'000	Audited As at 31.12.2012 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,271,043	2,287,999
Intangible assets	-	1,293
Deferred tax assets	-	120,000
	<u>2,271,043</u>	<u>2,409,292</u>
Current assets		
Inventories	363,630	1,343,662
Trade and other receivables	200,869	227,442
Tax recoverable	749	414
Deposits with licensed banks	2,843	14,355
Cash and bank balances	1,285	29,532
	<u>569,376</u>	<u>1,615,405</u>
TOTAL ASSETS	<u><u>2,840,419</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 (accumulated losses)	(120,794)	300,700
Equity attributable to owners of the parent	<u>115,679</u>	<u>537,173</u>
Non-controlling interests	<u>(110,793)</u>	<u>498,780</u>
Total equity	<u>4,886</u>	<u>1,035,953</u>
Non-current liabilities		
Loans and borrowings	109,256	188,951
Deferred taxation	240	8,821
	<u>109,496</u>	<u>197,772</u>
Current liabilities		
Trade and other payables	881,822	1,100,228
Overdrafts and short term borrowings	1,843,481	1,688,029
Provision for taxation	735	2,715
	<u>2,726,038</u>	<u>2,790,972</u>
Total liabilities	<u>2,835,534</u>	<u>2,988,744</u>
TOTAL EQUITY AND LIABILITIES	<u><u>2,840,419</u></u>	<u><u>4,024,697</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.11	0.51

The financial year end 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 of 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 CHANGES IN EQUITY
 FOR THE PERIOD ENDED 30 JUNE 2014**

	← Attributable to owners of the parent					→ Non-		Total	
	Non-distributable					controlling			
	Share	Treasury	Share	Fair Value	RCULS	Retained Earnings / (Accumulated losses)	Interests		Equity
Capital	Shares	Premium	Reserve	RCULS	losses)	Total	Interests	Equity	
	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	-	-	-	-	-	(421,494)	(421,494)	(609,573)	(1,031,067)
Balance at 30.06.2014	209,872	(4,153)	30,493	-	261	(120,794)	115,679	(110,793)	4,886
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	209,872	(4,153)	30,493	261	-	300,700	537,173	498,780	1,035,953

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 EIGHTEEN MONTHS ENDED 30 JUNE 2014**

	Unaudited 18 months ended 30.06.2014 RM'000	Audited 12 months ended 31.12.2012 RM'000
Loss before tax	(921,670)	(236,143)
Adjustments for :		
Depreciation	162,838	106,219
Interest expense	317,942	160,040
Interest income	(29)	(844)
Inventories written down	90,000	90,564
Impairment of receivables	3,058	21,889
Intangible assets written off	1,293	-
Fixed assets written off	90,140	-
Operating cash flows before working capital changes	665,242	141,725
Changes in working capital		
Decrease/(Increase) in inventories	799,892	(461,089)
Decrease / (Increase) in receivables	23,515	56,718
(Decrease)/Increase in payables	(349,979)	493,359
	1,138,670	230,713
Interest paid	(166,473)	(129,968)
Interest received	29	844
Tax refund	-	917
Tax paid	(2,315)	(478)
Net cash flows from / for operating activities	969,911	102,028
Investing activities		
Purchase of property, plant and equipment	(145,882)	(134,737)
Proceeds from disposal of property, plant and equipment	-	113
Net cash flows for investing activities	(145,882)	(134,624)
Financing activities		
Deposits pledged for bank borrowings withdrawn	-	55,835
Proceeds of term loan	-	51,720
Decrease in DSRA/FSRA account	-	2,120
Proceeds from issuance of RCULS	-	70,000
Short term borrowings	(96,051)	-
Repayment of Murabahah Commercial Papers	-	(10,000)
Repayment of Murabahah Medium Term Notes	(10,000)	(60,000)
Proceeds/(Repayment) of loans	100,098	(82,954)
Repayment of hire purchase/lease liabilities	(8,606)	(8,453)
Net cash flows for / from financing activities	(14,559)	18,268
Net change in cash and cash equivalents	(112,200)	(14,328)
Effects of foreign exchange rate changes	-	204
Cash and cash equivalents at beginning of period	24,858	33,727
Cash and cash equivalents at end of period	(87,342)	19,603

The above 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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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE EIGHTEEN MONTH ENDED 30 JUNE 2014 (continued)**

	Unaudited 18 months ended 30.06.2014 RM'000	Audited 12 months ended 31.12.2012 RM'000
Composition of cash and cash equivalents		
Fixed Deposits with financial institution	2,843	14,355
Cash and bank balances	1,285	29,532
Deposits in DSRA / FSRA account	10,964	(5,255)
Bank Overdrafts	(102,434)	(19,029)
Cash and cash equivalents at end of period	<u>(87,342)</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.

KINSTEEL BHD (210470-M)
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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER AND EIGHTEEN (18) MONTHS ENDED 30 JUNE 2014

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. 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.

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 to be no longer appropriate, adjustments would have 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 Amendment 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 (2011)
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
MFRS 128	Investments in Associates and Joint Ventures (2011)
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
Amendments to MFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
	Consolidated Financial Statements: Transition Guidance

Amendments to MFRS 10	
Amendments to MFRS 12	Disclosures of Interest in Other Entities: 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

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:-

MFRS 9	Financial Instruments
Amendments to MFRS 9	Mandatory Effective Date of MFRS 9 and Transition Disclosure
Amendments to MFRS 10, MFRS12 and MFRS 127	Investment Entities
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities

2. Audit Report

The preceding year's audited 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 outlook of the global economy, as well as the festive seasons.

4. 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.

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. On 25 July 2014, PSSB was granted a further extension of 180 days.

During the financial period, PSSB has made a full reversal of deferred tax assets amounting to RM120 million, an inventory written down of RM90 million and an assets write 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.

5. Changes in Estimates

There were no changes in the estimates that have had 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 quarter and financial period.

7. Dividends Paid or Proposed

No dividends have been proposed nor paid for the current quarter under review.

8. Segmental information

Segmental information is not provided as the Group's primary business segment is engaged in the manufacturing and trading of steel related products and its operation is located in Malaysia.

9. Valuation of Property, Plant and Equipment

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

10. Capital commitments

The total capital commitments being approved and contracted for as at the end of current quarter and financial period amount to RM95.4 million.

11. Material Subsequent Events

There were no material subsequent events that have not been reflected at the date of issue of this announcement.

12. Changes in the Composition of the Group

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

13. Contingent Liabilities and Contingent Assets

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 the 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

For the current quarter under review, the Group reported a revenue of RM152.1 million and a pre-tax loss of RM304.5 million. The financial year end 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 each year. Accordingly, there are no corresponding quarter for the preceding year.

The low revenue and pre-tax loss in current quarter was mainly driven by zero production in PSSB, and consequently affect supplies of raw materials for production. In addition, fluctuation of market selling price with downtrend indication also contributed to the loss of the Group.

Revenue and pre-tax loss for the 18 months ended 30 June 2014 were lower at RM1,657.7 million and RM921.7 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.

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 RM304.5 million as compared to the preceding quarter's pre-tax loss of RM94.6 million. The higher pre-tax loss in current quarter is mainly due to the provision for default interest on the trade lines and bank loans.

16. Prospects for the Financial Period 2014

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.

17. Profit Forecast

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

18. Taxation

	Current quarter 3 months ended		Cumulative quarter 18 months ended	
	30.06.2014	30.06.2013	30.06.2014	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Income tax				
- Current year	2,836	N/A	2,836	2,913
Deferred tax				
- Current year	7,827	N/A	(112,233)	42,394
	10,663	N/A	(109,397)	45,307

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

19. Loss before Taxation

Included in the profit before tax are the following items:

	Current quarter 3 months ended		Cumulative quarter 18 months ended	
	30.06.2014	30.06.2013	30.06.2014	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Interest income	-	N/A	29	236
Interest expense	124,673	N/A	317,942	160,040
Depreciation of property, plant and equipment	30,957	N/A	162,838	106,219
Termination benefits paid to employees of a subsidiary	-	N/A	-	8,878
Impairment loss on trade receivables	3,058	N/A-	3,058	21,875
Impairment loss on property, plant and equipment	-	N/A	-	79,940
Intangible assets written off	-	N/A	1,293	N/A
Assets written off	-	N/A	90,140	-
Inventories written down	-	N/A	90,000	90,564

20. Status of Corporate Proposal

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, the subsidiary, Perwaja Steel Sdn Bhd (PSSB) was granted court approval on creditors protection under Section 176 of the Companies Act, 1965. 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. On 25 July 2014, PSSB was granted a further extension of 180 days.

21. Group Borrowings and Debt Securities

The Group's borrowings as at 30 June 2014 were as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings:-</u>			
Bank overdrafts	15,871	75,600	91,471
Trade financing	721,692	481,306	1,202,998
Hire purchases	7,097	-	7,097
Term loan	181,344	-	181,344
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>1,086,004</u>	<u>757,477</u>	<u>1,843,481</u>
<u>Long term borrowings:-</u>			
Hire purchases	39	-	39
Murabahah Commercial Papers / Murabahah Medium Term Notes	40,000	-	40,000
RCULS	-	69,217	69,217
	<u>40,039</u>	<u>69,217</u>	<u>109,256</u>
Total	<u>1,126,043</u>	<u>826,694</u>	<u>1,952,737</u>

Included in cash and bank balances of the Group is an amount of RM11.0 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

On 1 August 2014, The Board of Directors of the Company has announced that following a Summary Judgement obtained by Nippon Oxygen Sdn Bhd (hereinafter as "NOX") on 30 May 2014, a Notice pursuant to Section 218 of the Companies Act, 1965 was served on the Company on 31 July 2014 by Messrs Rahmat Lim & Partners, Advocates & Solicitors acting for NOX demanding therein the payment of RM9,000,000 with interest to be calculated at 5% per annum from 30 May 2014 until the date of full and final settlement with cost of RM8,000.

The Company has filed an appeal against the said Summary Judgement on 10 June 2014 and intends to vigorously contest the Summary Judgement by way of an appeal which is set for case management on 5 August 2014. The Company's solicitors shall file an Application pursuant to Section 44 of the Court of Judicature Act 1964 to restrain any action on the said Summary Judgement pending disposal of the appeal.

On 29 August 2014, the Kuantan High Court had allowed the Company up till 2 September 2014 to reply to the submission by NOX. The Judge has also concurrently extended the interim stay until 5 September 2014 for decision.

24. Proposed Dividend

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

25. Loss Per Share

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 as follows:

	Current quarter 30.06.2014	Current 18 months to-date 30.06.2014
Net loss attributable to ordinary shareholders (RM'000)	(121,719)	(421,494)
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)	(11.69)	(40.47)

26. Realised and Unrealised Profits (Losses) Disclosure

The accumulated losses as at 30 June 2014 and 31 March 2014 is analysed as follows:

	Current Quarter ended 30.06.2014 RM'000	Immediate Preceding Quarter 31.03.2014 RM'000
Total accumulated losses of the Company and subsidiaries:		
- Realised	(110,793)	(94,629)
- Unrealised	-	-
	<u>(110,793)</u>	<u>(94,629)</u>

27. Change of Financial Year End

On 25 November 2013, the Board 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, from 1 January 2013 to 30 June 2014.

By order of the Board,

Dato' Henry Pheng Chin Guan

Chief Executive Officer

Date: 29 August 2014