

KINSTEEL BHD (210470-M)
(In Liquidation)
(Incorporated in Malaysia)



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER AND PERIOD ENDED 31 DECEMBER 2018

KINSTEEL BHD (210470-M)**(In Liquidation)**

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER AND PERIOD ENDED 31 DECEMBER 2018

	Individual Quarter (Q1)		Cumulative Quarter (6Mths)	
	Current Period Quarter	Preceding Period Corresponding Quarter	Current Period to Date	Preceding Period Corresponding Year
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Revenue	31,293	48,859	65,566	91,795
Operating expenditure	(37,171)	(65,587)	(79,389)	(129,422)
Other income	948	3,507	3,328	7,036
Finance costs	(18,067)	(18,207)	(36,136)	(36,276)
Loss before taxation	(22,997)	(31,428)	(46,631)	(66,867)
Taxation	-	392	-	864
Loss after taxation	(22,997)	(31,036)	(46,631)	(66,003)
Other Comprehensive Expenses				
Fair value changes of available-for-sale financial asset	-	-	-	-
	(22,997)	(31,036)	(46,631)	(66,003)
Loss after taxation				
Equity holders of the parent	(19,128)	(26,847)	(38,576)	(55,945)
Non-controlling interest	(3,869)	(4,189)	(8,055)	(10,058)
	(22,997)	(31,036)	(46,631)	(66,003)
Total comprehensive expenses attributable to:				
Equity holders of the parent	(19,128)	(26,847)	(38,576)	(55,945)
Non-controlling interest	(3,869)	(4,189)	(8,055)	(10,058)
	(22,997)	(31,036)	(46,631)	(66,003)
Loss per share (Note 25)				
- Basic LPS (sen)-Continuing Operation	(1.84)	(2.58)	(3.70)	(5.37)

The above condensed consolidated statement of profit or loss should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

KINSTEEL BHD (210470-M)
(In Liquidation)
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	As at End of Financial Period 31.12.2018	As at Unaudited Financial Year End 30.06.2018
	RM'000	RM'000
ASSETS		
Investment in associates	500	500
Property, plant and equipment	553,969	562,289
	<u>554,469</u>	<u>562,789</u>
Current assets		
Inventories	94,005	99,118
Receivables	62,375	58,879
Tax recoverable	1,069	1,069
Cash and bank balances	2,051	675
	<u>159,500</u>	<u>159,741</u>
TOTAL ASSETS	<u>713,969</u>	<u>722,530</u>
EQUITY AND LIABILITIES		
Share capital	82,961	82,961
Share premium	-	-
Treasury shares	(4,153)	(4,153)
Accumulated losses	(808,426)	(769,850)
Reserves	143,844	143,844
Equity attributable to owners of the parent	(585,774)	(547,198)
Non-controlling interest	49,513	57,568
Total equity	<u>(536,261)</u>	<u>(489,630)</u>
Non-current liabilities		
Deferred taxation	5,093	5,089
Loan and borrowings (Note 21)	-	-
	<u>5,093</u>	<u>5,089</u>
Current liabilities		
Trade and other payables	443,040	403,579
Overdrafts and short term borrowings (Note 21)	802,097	803,492
	<u>1,245,137</u>	<u>1,207,071</u>
Total liabilities	<u>1,250,230</u>	<u>1,212,160</u>
TOTAL EQUITY AND LIABILITIES	<u>713,969</u>	<u>722,530</u>
Net assets per share attributable to equity holders of the parent (sen)	<u>(51.48)</u>	<u>(47.01)</u>

The above condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

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(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2018

	Attributable to Equity Holders of the Company								
	Non-distributable	Distributable							
	Share Capital	Treasury Shares							
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance at 01.07.2018	82,961	(4,153)	-	143,844	-	(769,850)	(547,198)	57,568	(489,630)
Loss after taxation for the financial year	-	-	-	-	-	(38,576)	(38,576)	(8,055)	(46,631)
Adjustment for no Par value	-	-	-	-	-	-	-	-	-
Comprehensive expenses for the financial year	-	-	-	-	-	-	-	-	-
-Fair value changes of available-for-sale financial asset	-	-	-	-	-	-	-	-	-
Total comprehensive expenses for the financial period	-	-	-	-	-	(38,576)	(38,576)	(8,055)	(46,631)
Balance at 31.12.2018	82,961	(4,153)	-	143,844	-	(808,426)	(585,774)	49,513	(536,261)
Balance at 01.07.2017	82,961	(4,153)	-	143,844	-	(479,332)	(256,680)	264,241	7,561
Loss after taxation for the financial year	-	-	-	-	-	(290,518)	(290,518)	(206,673)	(497,191)
Adjustment for no Par value	-	-	-	-	-	-	-	-	-
Comprehensive income for the financial year	-	-	-	-	-	-	-	-	-
-Fair value changes of available-for-sale financial asset	-	-	-	-	-	-	-	-	-
Total comprehensive income/(expenses) for the financial year	-	-	-	-	-	(290,518)	(290,518)	(206,673)	(497,191)
Balance at 30.06.2018	82,961	(4,153)	-	143,844	-	(769,850)	(547,198)	57,568	(489,630)

The above condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

KINSTEEL BHD (210470-M)**(In Liquidation)**

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED
31 DECEMBER 2018**

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Cash Flows For Operating Activities		
Loss before taxation	(46,631)	(66,867)
Adjustments for non-cash flow :		
Allowance for impairment loss on receivables	-	8,621
Depreciation of property, plant and equipment	8,320	13,752
Loss on disposal of fixed assets	-	5,114
Interest income	-	(6,373)
Interest expense	36,136	36,276
Operating loss before working capital changes	(2,175)	(9,477)
Decrease in inventories	5,113	17,942
Increase in receivables	(3,496)	(5,475)
Increase/(Decrease) in payables	3,329	(4,029)
Changes in working capital	2,771	(1,039)
Income tax refund	0	193
Net Cash From/(For) Operating Activities	2,771	(846)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	0	(41)
Proceeds from disposal of property and equipment	0	1,495
Net Cash From Investing Activities	0	1,454
Cash Flows For Financing Activities		
Net drawdown of bankers' acceptance	-	2,493
Repayment of loans	(2,543)	(5,615)
Repayment of hire purchase obligations	0	(85)
Net Cash For Financing Activities	(2,543)	(3,207)
Net Increase/(Decrease) In Cash And Cash Equivalents	228	(2,599)
Cash and cash equivalents at beginning of the period	(118,077)	(114,624)
Cash And Cash Equivalents At End Of The Period	(117,849)	(117,223)
Composition of cash and cash equivalents		
Cash and bank balances	2,051	316
Bank overdrafts	(119,900)	(117,539)
Cash And Cash Equivalents At End Of The Period	(117,849)	(117,223)

The above condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

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(In Liquidation)
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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of Malaysian Financial Reporting Standards 134 (MFRS134): “Interim Financial Reporting”, International Accounting Standard 34 (“IAS 34”) : “Interim Financial Reporting” and Chapter 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 financial year ended 30 June 2017. 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 financial year ended 30 June 2017.

The financial statements have been prepared on the assumption the Group is going concerns. The Group incurred net losses during the financial period ended 31 December 2018 of RM808.426 million, as of that date, the Group had net current liabilities of RM1,085,637 million.

The Group is currently working on the restructuring scheme and engaged with both financial lenders and major creditors in the exercise. A scheme adviser has been appointed. On 26 September 2013, Corporate Debt Restructuring Committee (“CDRC”) has approved the application for assistance to mediate between the Group and its lenders and the Group is required to submit a proposed restructuring scheme within 60 days and the proposed restructuring scheme must comply with CDRC’s restructuring principles for the Group to continue to remain under the informal standstill arrangement with the lenders.

On 30 April 2014, the Group’s scheme advisor has presented a proposed restructuring scheme and the proposed restructuring scheme was reviewed subsequently by an independent financial advisor. The existing loans of the Group will be restructured in accordance with the proposed restructuring scheme.

In June and July 2014, the Group has received approval from all the banks on the proposed restructuring scheme presented which was subjected to the terms and conditions. On 26 February 2015, the Group has signed a debt restructuring agreement (“DRA”) with all the banks on the restructuring scheme presented.

On 30 July 2015, the Group’s scheme advisor has presented a proposed DRA variations. The proposed DRA variations provide a better repayment scheme to the Group as compared to the DRA signed on 26 February 2015.

On 21 August 2015, the Group and the Company received a letter from the lead bank which summarised the matters and events to be performed. Upon successful performance of the events, the bankers will table the proposed DRA variations to their management committee/EXCO/board as the case may be for decision.

On 28 October 2015, the Group and the Company received a reminder letter from the lead bank on the non-performance of the three major outstanding matters and events. The bankers have extended the deadline to 6 November 2015 for the Group to complete the outstanding matters.

On 11 November 2015, the Group and the Company announced that the stamp office has confirmed the adjudicated amount of stamp duties payable, and that the Group and the Company are to remit the balance stamp duties to the Creditors’ agent by 25 November 2015. As at to-date, the Group and the Company has yet to remit the balance of the stamp duties. The Creditors’ agent has on 25 November 2015 notified the Group and the Company that the proposed DRA variations are still pending consideration by the Creditors.

On 1 June 2016, the Group and the Company announced that the application to Ministry of Finance (“MOF”) on the waiver of stamp duty for the DRA has been rejected. The Management is currently seeking legal advice as to the viability of further appeal for reduction of stamp duty in respect of those loan facilities which was previously exempted from payment of stamp duty being Syariah compliant activities.

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1. Basis of preparation (Cont'd)

On 27 October 2016, the Group announced that the Company is an affected listed issuer under Practice Note 17 (“PN 17”) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“MMLR”) (“Bursa Securities”). This is due to the Group having triggered paragraph 2.1(d) of PN17 as the Company’s auditors have expressed a disclaimer opinion in the Group’s audited financial statements for the financial year ended 30 June 2016.

On 3 January 2017, the Company has been granted an order pursuant to Section 176(1) and 176(10) of the Companies Act, 1965 (the “Act”), by the High Court of Malaya in Kuala Lumpur (“High Court”) to restrain all further proceedings, and any and all actions or proceedings brought by any party including its Scheme Creditors consisting of creditors and bankers up to 28 February 2017 (“the Order”).

On 7 February 2017, the Board of Directors of the Group were informed that the CDRC has notified the Company of its removal from CDRC’s purview effective on that date as the Group has not been able to fulfil the conditions precedent in the DRA including payment for the balance of the stamp duties. The Group and the Company together with the scheme’s advisor are currently negotiating a resolution of debts directly with the major lenders.

On 11 April 2017, the Company has been granted an order pursuant to Section 366(1) and 368(1) of the Companies Act 2016 (the “Act”), by the High Court of Malaya in Alor Setar in the state of Kedah Darul Aman (“High Court”) to restrain all proceedings and actions brought by any party including its Scheme Creditors consisting of creditors and bankers for a period of three (3) months effective from 11 April 2017 (“the Order”).

On 11 July 2017, Kinsteel Bhd., Kin Kee Marketing Sdn. Bhd. and Perfect Channel Sdn. Bhd. have been granted an Order pursuant to Section 366(1) and 368(1) of the Companies Act 2016 by the High Court of Malaya in Shah Alam to restrain all proceedings and actions brought by any party including its creditors for a period of ninety (90) days effective from the date of the Order been granted.

On 9 October 2017, the Company has been granted an order pursuant to Section 366(1) of the Company Act 2016 (the “Act”) by the High Court of Malaya in Ipoh to restrain all proceedings and actions brought by any party including its creditors for a period of three (3) months effective from 9 October 2017.

The Company is required to submit a regularisation plan to Securities Commission or Bursa Securities by 26 October 2017. On 23 October 2017, the Company submitted an application to Bursa for the extension of time for submission of its regularisation plan as the negotiation with all the major lenders are still on going.

The Company had on 27 December 2017 received a letter of suspension and de-listing of the securities of Kinsteel Bhd from Bursa Securities due to the Company’s failure to submit its regularisation plan to the Securities Commission or Bursa Securities for approval within the stipulated timeframe under Paragraph 8.04(3)(a) of the Bursa Securities's Main Market Listing Requirements (“Main LR”) and rejection of the Kinsteel's Application.

On 4 January 2018, The Company submitted an appeal against the suspension and de-listing to Bursa Securities (“Appeal”). On 5 February 2018, the Company announced that Bursa Malaysia Securities Berhad (“Bursa Securities”) had vide its letter dated 5 February 2018 informed that after due consideration of all facts and circumstances of the appeal submitted by the Company to Bursa Securities on 4 January 2018 had decided to grant the Company an extension of time until 30 June 2018 to submit its regularisation plan to the relevant authorities for approval (“the Extended Timeframe”) provided that the Company makes the Requisite Announcement by 31 March 2018.

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1. Basis of preparation (Cont'd)

Bursa Securities further decided to de-list the securities of the Company from the Official List of Bursa Securities pursuant to Paragraph 8.04 of the Main LR in the event:-

- (i) the Company fails to make the Requisite Announcement on or before 31 March 2018;
- (ii) the Company fails to submit the regularisation plan to the relevant authorities for approval within the Extended Timeframe i.e. on or before 30 June 2018;
- (iii) the Company fails to obtain the approval for the implementation of its regularisation plan and does not appeal within the timeframe [or extended timeframe(s), as the case may be] prescribed to lodge an appeal;
- (iv) the Company does not succeed in its appeal; or
- (v) the Company fails to implement its regularisation plan within the timeframe or extended timeframe(s) stipulated by the relevant authorities.

Upon occurrence of any of the events set out in paragraphs (i) to (v) above, the securities of the Company shall be removed from the Official List of Bursa Securities upon the expiry of two (2) market days from the date the Company is notified by Bursa Securities or on such other date as may be specified by Bursa Securities.

On 30 March 2018, the Company announced that The Board of Directors of Kinsteel ("Board") is currently developing a composite restructuring scheme for the Company. As such, the Board will submit an application to Bursa Securities for extension of time up to 30 April 2018 to make the requisite announcement.

On 20 April 2018, The Board of Directors of the Company wishes to announce that Bursa Securities has deferred the determination of the Further Appeal in respect of the application to Bursa Malaysia Securities Berhad ("Bursa Securities") for an extension of time to make the requisite announcement ("the Further Appeal") until the conclusion of the Court Proceedings.

On the 22 January 2018, the Company announced that the High Court of Malaya at Kuantan has made a winding-up order pursuant to the Section 218 of the Companies Act, 1965 served on 22 December 2016 by Messrs T.J. Goh & Co., acting for Knusford Marketing Sdn Bhd ("Plaintiff") against the Company and Kin Kee Marketing Sdn Bhd, a 100% owned subsidiary of Kinsteel.

The Company has submitted an appeal against the decision of the winding up order by Messrs Chooi, Saw & Lim to High Court of Malaya at Kuantan on the 25 January 2018. The Court had hear the first appeal hearing on 8 March 2018 and postponed the decision to stay the Winding Up order to 16 March 2018. Subsequently, the Court had on 16 March 2018 further postponed the decision to stay the Winding Up order to 3 April 2018.

On 3 April 2018, The Board of Directors of the Company wishes to announce that the High Court of Malaya at Kuantan has dismissed the Company's application for a stay of the Winding Up Order dated 22 January 2018 pending the hearing of the Company's appeal against the Winding Up Order. Subsequently, the Company had on 12 April 2018 filed for a further application ("Motion") to stay the Winding Up Order with the Court of Appeal together with an Affidavit in Support. The Court of Appeal has directed Knusford Marketing Sdn Bhd ("Respondent") to file their Affidavit in Reply by 2 May 2018. The Motion to stay the Winding Up Order with the Court of Appeal and the appeal against the decision of the Winding Up Order shall collectively be referred to as "Court Proceedings".

On 13 February 2018, the Company was served with a notice of appointment of a liquidator, Mr Duar Tuan Kiat of Messrs. Ernst & Young situated at Level 23A, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur.

On 01 November 2018, the Company has failed to submit its Annual Report that includes the annual audited financial statements together with the auditors' and directors' reports in respect of the financial year ended 30 June 2018 ("AR 2018") to Bursa Malaysia Securities Berhad ("Bursa Securities") for public release within the stipulated timeframe i.e. 31 October 2018, pursuant to paragraph 9.23(1) of Bursa Securities' Main Market Listing Requirements ("LR").

KINSTEEL BHD (210470-M)
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1. Basis of preparation (Cont'd)

Pursuant to Paragraph 9.28(5) of the LR, if a listed issuer fails to issue the outstanding financial statements within 5 market days after the expiry of the relevant timeframes stated in Paragraph 9.23(1) of the LR ("Relevant Timeframes") (the last day of the 5 market days is referred to as "Suspension Deadline"), in addition to any enforcement action that Bursa Securities may take, Bursa Securities shall suspend the trading in the securities of such listed issuer. The suspension shall be affected on the next market day after the Suspension Deadline.

In view of the above and in accordance with Paragraph 9.28(5) of the LR, a trading suspension will be imposed on the securities of the Company. However, as the Company's securities has been suspended from trading since 5 January 2018, please be advised that the suspension of trading will continue until further notice.

Pursuant to Paragraph 9.28(6) of the LR, if a listed issuer fails to issue the outstanding financial statements within 6 months from the expiry of the relevant timeframes, in addition to any enforcement action that Bursa Securities may take; de-listing procedures shall be commenced against such listed issuer.

Pursuant to Paragraph 9.28(3A) of the MMLR of Bursa Securities, On 18 December 2018, the Board announced the following:

(a) The reason for failing to issue the Annual Report 2018 within the Relevant Timeframe to Bursa Securities was due to the delay and issues faced in the appointment of auditors. The auditors could not be formally appointed due to the cessation of the Board's powers in the Company upon the appointment of the Liquidator, which caused the delay in the preparation of Financial Statements for the financial year ended 30 June 2018.

(b) The Board of Directors of the Company ("Board") had agreed to consult the Court for guidance in relation to the Board's authority to appoint auditors on behalf of the Company. As of the date of this announcement, the application is in process. Upon receiving guidance from the Court, the Company will make an immediate announcement pertaining to the issuance of the Annual Report 2018.

On 31 January 2019, pursuant to Paragraph 9.28(3A) of the MMLR of Bursa Securities, the Board of the Directors of the Company ("Board") announced that the application to the Court for guidance in relation to the Board's authority to appoint auditors on behalf of the Company is still in process. Upon receiving guidance from the Court, the Company will make an immediate announcement pertaining to the issuance of the Annual Report 2018.

The financial and operational impact of the winding-up proceedings on the Company is that the Company would be wound up and dissolved. At this moment, the Company is unable to ascertain the extent of the effect of the winding-up of the Company on the Group. The Company will provide updates on this matter in due course. In view of the ongoing, the preparation of the financial statements of the Group for the current quarter are prepared on a going concern basis, and do not include any adjustments relating to the amount and classification of assets and liabilities that may be necessary on the winding up of the Company on the Group.

KINSTEEL BHD (210470-M)
(In Liquidation)
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1. Basis of preparation (Cont'd)

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 30 June 2017.

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 15: Clarification of MFRS 15 "Revenue from Contracts with Customers"	1 January 2018
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Annual Improvements to MFRS Standards 2014-2016 Cycles: - Amendments to MFRS 12: Clarification of the Scope of the Standard	1 January 2017
Annual Improvements to MFRS Standards 2014-2016 Cycles: - Amendments to MFRS 1: Deletion of Short-term Exemptions for First-time Adopters - Amendments to MFRS 128: Measuring an Associate or Joint Venture at Fair Value	1 January 2018

The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Group operations except as follows:-

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(In Liquidation)
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1. Basis of preparation (Cont'd)

(i) MFRS 9 Financial Instruments

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces the existing guidance in MFRS 139 and introduces a revised guidance on the classification and measurement of financial instruments, including a single forward-looking 'expected loss' impairment model for calculating impairment on financial assets, and a new approach to hedge accounting. Under this MFRS 9, the classification of financial assets is driven by cash flow characteristics and the business model in which a financial asset is held. The Group is currently assessing the financial impact of adopting MFRS 9.

(ii) MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a single comprehensive model for revenue recognition and will supersede the current revenue recognition guidance and other related interpretations when it becomes effective. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the distinct promised goods or services underlying the particular performance obligation is transferred to the customers. The amendments to MFRS is further clarify the concept of "distinct" for the purpose of this accounting standard. In addition, extensive disclosures are also required by MFRS 15. The Group anticipates that the application of MFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the financial impacts of MFRS 15 until the Group performs a detailed review.

2. Auditors' report

The Auditors had expressed a disclaimer opinion in its report for the Audited Financial Statements of the Company for the Financial Year Ended 30 June 2017 and pursuant to Paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of Kinsteel had announced that on 15 December 2017.

3. Seasonal or cyclical factors

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

4. Items of unusual nature and amount

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. Material changes in estimates

There were no changes in the estimates of amount relating to the prior financial period 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 quarter and financial period.

7. Dividends paid

No dividend was paid during the financial period.

KINSTEEL BHD (210470-M)
(In Liquidation)
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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 operation is principally 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

There were no material capital commitments approved and contracted for as at 31st December 2018.

11. Subsequent event

There is no material event subsequent to current quarter ended 31st December 2018 up to date of this announcement.

12. Changes in the Composition of the Group

There is no material changes in the composition of the Group during the financial period ended 31st December 2018.

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 of the Company and its principal subsidiaries

For the current quarter under review, the Group reported a lower revenue of RM31.29 million against the preceding period corresponding quarter of RM48.86 million and a lower loss before tax of RM23.00 million against RM31.43 million in preceding period corresponding quarter.

The Group posted an unfavorable revenue for the current quarter against preceding period corresponding quarter were mainly due to decrease in production of steel products.

15. Material changes in the current quarter results compared to the results of the immediate preceding quarter

	Q2 2019 (RM mil)	Q1 2019 (RM mil)
Revenue	31.29	34.27
Loss before tax	(23.00)	(23.63)

The Group's revenue for the current quarter decreased by 8.7% or RM2.98million as compared to immediate preceding quarter was mainly due to decrease in production of steel products as the Group is in the midst of restructuring of its debts with its lenders and difficulty to obtain further credit facilities to procure raw material from suppliers.

16. Commentary on prospects.

The Group is undertaking a debt restructuring exercise to address its liquidity issue. The Group's prospect is highly dependent on the successful implementation of the proposed restructuring scheme with its financial lenders and major creditors. The Group requires operating profitably to generate sufficient cash in the future to fulfill their obligations as and when they fall due and financial support from the lenders and shareholders.

On 13 February 2018, the Company was served with a notice of appointment of a liquidator, Mr Duar Tuan Kiat of Messrs. Ernst & Young situated at Level 23A, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur.

The financial and operational impact of the winding-up proceedings on the Company is that the Company would be wound up and dissolved. At this moment, the Company is unable to ascertain the extent of the effect of the winding-up of the Company on the Group. The Company will provide updates on this matter in due course. In view of the ongoing, the preparation of the financial statements of the Group for the current quarter are prepared on a going concern basis, and do not include any adjustments relating to the amount and classification of assets and liabilities that may be necessary on the winding up of the Company on the Group.

In view of the above, the prospects will continue to be challenging.

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

The Group's effective tax rate for the current quarter and financial period is lower than the prevailing statutory tax rate of 24%, mainly due to the tax losses in the current quarter and financial period.

KINSTEEL BHD (210470-M)
(In Liquidation)
(Incorporated in Malaysia)

19. Loss Before Taxation

Included in the loss before taxation are the following items:

	Current quarter		Cumulative quarter	
	3 months ended		6 months	6months
	31.12.2018	31.12.2017	ended	ended
	RM'000	RM'000	31.12.2018	31.12.2017
			RM'000	RM'000
Depreciation of property, plant and equipment	4,166	6,858	8,320	13,752
Loss on disposal of fixed assets	-	523	-	5,114
Interest expense	18,067	18,208	36,136	36,276
Interest income	-	(3,189)	-	(6,373)

20. Status of Corporate Proposal

Corporate Debt Restructuring Committee (CDRC)

The Company and its subsidiary, Perfect Channel Sdn Bhd had on 26 February 2015 entered into a Debt Restructuring Agreement (“DRA”) with RHB Bank Berhad, OCBC Bank (Malaysia) Berhad, Bank Muamalat Malaysia Berhad, Standard Chartered Bank Malaysia Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Hong Leong Bank Berhad, Amlslamic Bank Berhad, Ambank (M) Berhad and TMF Trustees Malaysia Berhad (collectively referred to as “Creditors”) for the proposed restructuring and settlement of debts owing to the Creditors (“Proposed Debts Restructuring”).

As part of the Proposed Debts Restructuring, Kinsteel also proposes to undertake a corporate restructuring exercise involving a capital reduction of the Company’s issued and paid-up share capital, a fund raising exercise and proposed disposal of the shares or assets of PCSB. (“Proposed Corporate Restructuring Exercise”).

The Company had on 1 April 2016 submitted the information memorandum in relation to the Proposed DRA Variations to the Creditors for their consideration.

The Group has not been able to fulfil the conditions precedent in the DRA. Following the lapse of time under the DRA, the CDRC has notified the Company of its removal from CDRC’s purview effective from 7 February 2017. Moving forward, Kinsteel will negotiate a resolution of its debts directly with the lenders. The Board is currently deliberating on the next course of action.

Perfect Channel Sdn Bhd

On 12 February 2015, the Company announced that the Company with its subsidiary, Perfect Channel Sdn Bhd had entered into a Memorandum of Agreement, with Vibrant Holdings Sdn Bhd (“Vibrant”) and Beijing Industrial Designing and Researching Institute of China (“BIDR”) to explore the possibility of Vibrant and BIDR undertaking the contract work for the Enhancement Project via the installation of a new blast furnace and related downstream manufacturing facilities and infrastructural work.

BIDR had made a feasibility study site visit to Perfect Channel Sdn Bhd on 11th and 12th March 2015 and further study is currently on going.

KINSTEEL BHD (210470-M)
(In Liquidation)
(Incorporated in Malaysia)

21. Group borrowings and debt securities

The Group's borrowings as at 31 December 2018 were as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings:-</u>			
Bankers' acceptances	-	482,299	482,299
Murabahah Medium Term Loan	50,000	-	50,000
Short-term loan	40,000	109,898	149,898
Bank Overdraft	-	119,900	119,900
	90,000	712,097	802,097

22. Derivative Financial Instruments

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

23. Material Litigation

Knusford Marketing Sdn Bhd

On 11 May 2016, The Board of Directors of Kinsteel announced that the Company and its wholly-owned subsidiary, Kin Kee Marketing Sdn Bhd (collectively known as "Defendants") had on 28 April 2016 been served with a Writ of Summons and Statement of Claims filed by Knusford Marketing Sdn Bhd ("Plaintiff") against the Defendants.

The Plaintiff is claiming that the Defendants had failed to deliver steel bars in the agreed quantity where payment has been paid by the Plaintiff. Kinsteel Bhd provided an irrevocable corporate guarantee to secure the performance of Kin Kee Marketing Sdn Bhd. Therefore, the Plaintiff is claiming from the Defendants the value of the outstanding goods that remains undelivered and the interest accrued thereon.

The amount claimed for includes:

- (i) the value of the outstanding goods amounting to RM20,074,567.90
- (ii) Interest calculated on the sum of RM20,074,567.90 at the rate of 3% per annum from 7 May 2014 to 8 April 2016;
- (iii) Interest calculated on the sum of RM20,074,567.90 at the rate of 8% per annum from 9 April 2016 to the date of full payment;
- (iv) Costs of this action; and
- (v) Such further and/or other relief as the Court deems fit.

The case management for the Claim had been fixed on 18 May 2016 at the Kuantan High Court and the Board of Directors will further assess the financial impact of the Claim subsequent to the case management. The maximum amount from the Claim is RM20,074,567.90 plus interest and costs as disclosed in our announcement dated 11 May 2016. The principal amount of RM20,074,567.90 was recognised as payables in the current financial statements of Kin Kee Marketing Sdn Bhd. Subject to the outcome of settlement for the amount claimed by Knusford Marketing Sdn Bhd, the Board is of the opinion that there is no immediate operational and financial impact to the Group.

A settlement agreement was reached on 5 September 2016.

The Company is given 21 days from the date of service of the notice i.e. 25 November 2016 to settle the said outstanding amount failing which winding up proceedings is expected to be commenced against the Company.

KINSTEEL BHD (210470-M)
(In Liquidation)
(Incorporated in Malaysia)

23. Material Litigation (Cont'd)

The Company is currently exploring an out of court settlement to reschedule the repayment terms of the amount due to the Plaintiff.

The subsidiary has made sufficient provision on the principal amount of RM20,074,567.90.

On 11 April 2017, the Company has been granted an order pursuant to Section 366(1) and 368(1) of the Company Act 2016 (the "Act") by the High Court of Malaya in Alor Setar ("High Court") to restrain all proceedings and actions brought by any party including its creditors for a period of three (3) months effective from 11 April 2017 ("the Order"). The Order was applied by CTJ Logistics Sdn Bhd, the unsecured creditor of Kinsteel, to facilitate Kinsteel to convene a meeting with its creditors pursuant to Section 366(1) of the Act for the purpose of considering and if thought fit, to approve with or without any alteration or modification, a proposed scheme of arrangement and compromise for Kinsteel including the amount due to plaintiff. On 11 July 2017, Kinsteel Bhd, Kin Kee Marketing Sdn Bhd and Perfect Channel Sdn Bhd have been granted an Order pursuant to Section 366(1) and 368(1) of the Companies Act, 2016 by the High Court of Malaya in Shah Alam to restrain all proceedings and actions brought by any party including its creditors for a period of ninety (90) days effective from the date of the Order been granted.

On 9 October 2017, the Company has been granted an order pursuant to Section 366(1) of the Company Act 2016 (the "Act") by the High Court of Malaya in Ipoh to restrain all proceedings and actions brought by any party including its creditors for a period of three (3) months effective from 9 October 2017. The court order was applied by OA Engineering Consultants, the unsecured creditor of Kinsteel, to facilitate Kinsteel to convene a meeting with its creditors pursuant to Section 366(1) of the Act for the purpose of considering and if thought fit, to approve with or without any alteration or modification, a proposed scheme of arrangement and compromise for Kinsteel including the amount due to plaintiff.

On 29 January 2018, the Company announced that the High Court of Malaya at Kuantan has made a winding-up order pursuant to the Section 218 of the Companies Act, 1965 against the Company and Kin Kee Marketing Sdn Bhd, a 100% owned subsidiary of Kinsteel on the 22 January 2018.

The Company has submitted an appeal against the decision of the winding up order by Messrs Chooi, Saw & Lim to High Court of Malaya at Kuantan on the 25 January 2018. The Court had hear the first appeal hearing on 8 March 2018 and postponed the decision to stay the Winding Up order to 16 March 2018. Subsequently, the Court had on 16 March 2018 further postponed the decision to stay the Winding Up order to 3 April 2018.

On 3 April 2018, The Board of Directors of the Company wishes to announce that the High Court of Malaya at Kuantan has dismissed the Company's application for a stay of the Winding Up Order dated 22 January 2018 pending the hearing of the Company's appeal against the Winding Up Order. Subsequently, the Company had on 12 April 2018 filed for a further application ("Motion") to stay the Winding Up Order with the Court of Appeal together with an Affidavit in Support. The Court of Appeal has directed Knusford Marketing Sdn Bhd ("Respondent") to file their Affidavit in Reply by 2 May 2018. The Motion to stay the Winding Up Order with the Court of Appeal and the appeal against the decision of the Winding Up Order shall collectively be referred to as "Court Proceedings".

ICBC Standard Bank Plc

On 22 March 2016, The Board of Directors of Kinsteel announced that the Company and its associated company, Perwaja Holdings Berhad ("PHB"), had on 17 March 2016 been served with a summary judgement for the case where ICBC Standard Bank Plc ("ICBC") is claiming from PHB and Kinsteel (collectively known as the "Defendants") pursuant to the Deed of Guarantee and Indemnity between ICBC and PHB dated 8 May 2012 and Deed of Guarantee and Indemnity between ICBC and Kinsteel dated 6 June 2012 ("Guarantees") together with interests and costs of enforcing the Guarantees on a full indemnity basis, including (without limitation) the costs of proceedings.

KINSTEEL BHD (210470-M)
(In Liquidation)
(Incorporated in Malaysia)

23. Material Litigation (Cont'd)

The Guarantees had arisen whereby PHB and Kinsteel had agreed to guarantee the payment of and indemnify ICBC for any failure by Perwaja Steel Sdn Bhd (“PSSB”) to pay monies owing to ICBC pursuant to a sale and purchase agreement entered into between PSSB and ICBC for the sale of steel scrap by ICBC to PSSB.

The summary judgement had been entered for ICBC in the sum of USD1,633,895.64 together with interest in the sum of USD1,501,369.56. The Defendants shall pay ICBC’s costs summarily assessed on the standard basis in the sum of GBP75,000 by 31 March 2016.

The Company is currently seeking the necessary legal advice to appeal to the above judgement.

Tenaga Nasional Berhad

On 15 Nov 2017, The Board of Kinsteel announced that on 26 October 2017, the Company was served with a winding up petition dated 23 October 2017 by Messrs. Deol & Gill acting for Tenaga Nasional Berhad (“Petitioner”). The petition shall be heard in the High Court of Malaya at Kuantan (“Court”) on 25 January 2018.

The Petitioner is claiming for RM20,000.00 being cost awarded by the Court pursuant to the judgment dated 12 May 2017.

The Company has taken steps to resolve the matter by paying the sum of RM20,000.00 by 30 November 2017 to Tenaga Nasional Berhad.

Except for the above claim, as at 18 November 2017, neither our Company nor any of our subsidiaries is engaged in any additional material litigation and arbitration either as plaintiff or defendant, save and except those that have been disclosed previously, 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.

25. Loss Per Share “LPS”

The basic LPS is calculated based on the Group's net loss 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 3 months ended 31.12.2018 RM'000	Cumulative 6 months ended 31.12.2018 RM'000
Net loss attributable to ordinary shareholders of the owners of the Company	(19,128)	(38,576)
Weighted average number of ordinary shares in issue	1,041,604	1,041,604
Basic LPS (sen)	(1.84)	(3.70)

There is no diluted EPS as the Company does not have any options or convertible shares at the end of the financial period.

KINSTEEL BHD (210470-M)
(In Liquidation)
(Incorporated in Malaysia)

26. Realised and Unrealised Losses Disclosure

The accumulated profits as at 31 December 2018 and 30 June 2017(unaudited) is analysed as follows:

	As at 31.12.2018 RM'000	As at 30.06.2017 RM'000
Total accumulated losses :		
- Realised	(1,479,524)	(934,691)
- Unrealised	(5,093)	(6,105)
	<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
	(1,484,617)	(940,796)
Total share of loss of associate:		
- Realized	-	-
	<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
	(1,484,617)	(940,796)
Less: Consolidation adjustments	676,191	461,464
Total Accumulated Losses	<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
	(808,426)	(479,332)

27. Comparatives

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

28. Significant Related Party Transactions

	As at 31.12.2018 RM'000
Sales of goods	1,723