

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

Quarterly report on consolidated results for the first quarter ended 31 March 2006.

The figures have not been audited.

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTER ENDED 31 MARCH 2006**

	2006 Current Quarter 31.03.2006 RM'000	2005 Comparative Quarter 31.03.2005 RM'000	2006 3 months Cumulative 31.03.2006 RM'000	2005 3 months Cumulative 31.03.2005 RM'000
Revenue	312,418	115,153	312,418	115,153
Operating expenses	(301,556)	(108,090)	(301,556)	(108,090)
Other operating income	1,221	187	1,221	187
Finance cost	(4,136)	(2,645)	(4,136)	(2,645)
Profit before taxation	7,947	4,605	7,947	4,605
Taxation	(420)	(11)	(420)	(11)
Profit for the period	7,527	4,594	7,527	4,594
Attributable to:				
Equity holders of the parent	7,527	4,594	7,527	4,594
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	6.84	7.66	6.84	7.66
- Diluted (sen)	5.88	7.66	5.88	7.66

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005

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**CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 31 MARCH 2006**

	31.03.2006	31.12.2005
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	<u>158,353</u>	<u>151,502</u>
Current assets		
Inventories	148,264	239,281
Receivables	267,756	163,366
Tax recoverable	43	22
Deposits with licensed banks	53,545	48,716
Cash and bank balances	<u>5,474</u>	<u>5,830</u>
	<u>475,082</u>	<u>457,215</u>
TOTAL ASSETS	<u><u>633,435</u></u>	<u><u>608,717</u></u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	110,000	110,000
Share premium	23,213	23,213
Retained profits	<u>80,203</u>	<u>72,676</u>
Total equity	<u>213,416</u>	<u>205,889</u>
Non-current liabilities		
Borrowings	4,824	5,423
Deferred taxation	<u>16,230</u>	<u>16,293</u>
	<u>21,054</u>	<u>21,716</u>
Current liabilities		
Trade and other payables	30,711	29,753
Overdrafts and short term borrowings	367,549	351,066
Provision for taxation	<u>705</u>	<u>293</u>
	<u>398,965</u>	<u>381,112</u>
Total liabilities	<u>420,019</u>	<u>402,828</u>
TOTAL EQUITY AND LIABILITIES	<u><u>633,435</u></u>	<u><u>608,717</u></u>
Net assets per share (RM)	1.94	1.87

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005.

Note: The comparative figures are extracted from the audited financial statements for the year ended 31 December 2005.

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 MARCH 2006**

	Ordinary Share Capital RM'000	Retained Profits RM'000	Share Premium RM'000	Total RM'000
<u>3 months quarter ended</u>				
<u>31 March 2006</u>				
Balance at beginning of period	110,000	72,676	23,213	205,889
<u>Movements</u>				
<u>during the period</u>				
Retained profit for the period	-	7,527	-	7,527
Balance at end of period	110,000	80,203	23,213	213,416
<u>3 months quarter ended</u>				
<u>31 March 2005</u>				
Balance at beginning of period	60,000	58,517	6,202	124,719
<u>Movements</u>				
<u>during the period</u>				
Retained profit for the period	-	4,594	-	4,594
Balance at end of period	60,000	63,111	6,202	129,313

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2006**

	2006	2005
	3 months ended	3 months ended
	31.03.2006	31.03.2005
	RM'000	RM'000
Net profit for the period	7,527	4,594
Adjustments for non -cash flow :		
Non-cash items	5,743	4,159
Operating profit before working capital changes	13,270	8,753
Changes in working capital		
Net change in current assets	(50,130)	(32,400)
Net change in current liabilities	37,816	(3,581)
	956	(27,228)
Interest paid	(4,136)	(2,596)
Interest received	283	84
Tax paid	(92)	(199)
Net cash flows from operating activities	(2,989)	(29,939)
Investing activities		
Purchase of property, plant and equipment	(8,346)	(5,682)
Financing activities		
Term loan (repayment)/receipt	(2,072)	2,553
Short term borrowings	6,249	50,762
Hire purchase/lease financing	(226)	(184)
	3,951	53,131
Net change in cash and cash equivalents	(7,384)	17,510
Cash and cash equivalents at beginning of the period	19,862	4,840
Cash and cash equivalents at end of the period	12,478	22,350

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005.

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Selected Explanatory Notes pursuant to Para 16, MASB 26 Interim Financial Reporting

A1 Accounting Policies and Methods of Computation

This quarterly financial report is prepared in accordance with FRS 134 "Interim Financial Reporting" and Chapter 9 Part K of the Listing Requirement of the Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's financial statements for the year ended 31 December 2005.

A2 Changes in Accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for the financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interest in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 2, 3, 5, 102, 108, 110, 116, 124, 121, 127, 128, 131, 132, 133, 136, 138 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from adoption of the other new/revised FRS are presented below:

(a) FRS 101: Presentations of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

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A3 Qualification of Financial Statements

The financial statements for the year ended 31 December 2005 were not qualified.

A4 Seasonal or Cyclical Factors

The operation of the Group during the financial period under review were not significantly affected by any seasonality or cyclical factors.

A5 Unusual Items

There were no unusual items in the current quarter and financial year-to-date.

A6 Changes in Estimates

There was no changes in the estimates of amounts reported in prior interim periods of the current financial year.

A7 Debt and Equity Securities

There was no debt and equity securities issue during for the financial period under review.

A8 Dividend proposed

The Directors proposed a tax-exempt dividend of 5 sen per Kinsteel Berhad share for the year ended 31 December 2005 based on the entire enlarged issued and paid up share capital of 110,000,000 shares. This recommendation is subject to the approval of the Kinsteel Berhad's shareholders at the Annual General Meeting which will be held on 15 June 2006.

No dividend has been paid for the financial period under review.

A9 Segmental Information

No segmental information is presented as the Group is only involved in the manufacture and sales of steel bars and related products. The Group's operations are only within Malaysia.

A10 Valuation

Property, plant and equipment are stated at cost less accumulated depreciation.

A11 Subsequent events

On 2 May 2006, the Company had acquired two (2) ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of Super World Metro Sdn. Bhd. ("SWMSB") for a total cash consideration of RM2.00 ("the Acquisition"). Upon completion of the Acquisition, SWMSB will be a wholly-owned subsidiary of the Company.

The Acquisition is not expected to have any material effect on the earnings per share, net tangible assets, share capital and the substantial shareholdings of the Company for the financial year ending 31 December 2006.

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A12 Changes in the composition of the Group

On 26 January 2006, the Company had acquired two (2) ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of Perfect Channel Sdn. Bhd. ("PCSB") for a total cash consideration of RM2.00 ("the Acquisition"). Upon completion of the Acquisition, PCSB will be a wholly-owned subsidiary of the Company.

A13 Contingent liabilities and contingent assets

There were no contingent liabilities and contingent assets since the last annual balance sheet date.

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Selected Explanatory Notes pursuant to Part A of Appendix 9B of the Listing Requirement

B1 Review of performance

For the three months period ended 31 March 2006, the Group recorded a turnover of RM312.4 million and a profit before taxation of RM7.9 million. The results were from the sales of steel bars and related products.

B2 Comparison with preceding quarter's results

The Group's revenue for the first quarter ended 31 March 2006 increased by RM144.1 million or 85.6% to RM312.4 million, as compared to RM168.3 million in the preceding quarter. This is mainly attributable to the increase in quantities of steel bars and related products sold during the current quarter.

The Group achieved a profit before tax of RM7.9 million for the quarter under review which is 146.9% or RM4.7 million higher than the profit before tax of RM3.2 million in the preceding quarter. This is attributable to the additional contribution from the increased sales volume of steel bars and related products during the period.

B3 Current year prospects

In the absence of any unforeseen circumstances, the Directors are optimistic on the performance of the Group for 2006 and expects that the current performance of the Group will be sustained.

B4 Profit forecast

Not applicable as the Group did not issue any profit forecast/guarantee to the public.

B5 Taxation

(a) Taxation comprises the following :-

	Current year quarter 31/03/2006 RM '000	Current year- to-date 31/03/2006 RM '000
Current income taxation	483	483
Deferred taxation	(63)	(63)
	<u>420</u>	<u>420</u>

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(b) Reconciliation of income tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory income tax rate of 28% as follows:-

	Current quarter 31/03/2006 RM '000	Current year- to-date 31/03/2006 RM '000
Group profit before tax	7,947	7,947
Tax calculated at a tax rate of 20%	105	105
Tax calculated at a tax rate of 28%	2,078	2,078
Tax effect of expenses that are not deductible in determining taxable profit	257	257
Utilisation of previously unrecognised reinvestment allowances to reduce current tax	(2,019)	(2,019)
Others	(1)	(1)
Tax charge	420	420

B6 Sale of unquoted investments and/or properties

There were no sale of unquoted investments and properties for the current quarter and financial year-to-date.

B7 Purchase or disposal of quoted securities

There were no investments in quoted securities as at the end of the quarter. There were no purchase and disposal of quoted securities for the current quarter and financial year-to date.

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B8 (a) Status of corporate proposals

(1) Proposed Issue of RM100,000,000 nominal value seven (7)-year serial Bai-Bithaman Ajil Islamic Debt Securities;

- The Company is still in the process of reviewing the terms of the debt instrument.

(2) Proposed Strategic Alliance with various subsidiaries of Maju Holdings Sdn Bhd which involved the following:

(i) proposed acquisition by Kinsteel Berhad ("Kinsteel") from Equal Concept Sdn Bhd ("ECSB"), a wholly owned subsidiary of Maju Holdings Sdn Bhd, of 620,252,159 ordinary shares of RM1.00 each in Perwaja Steel Sdn Bhd, representing 51% equity interest in Perwaja Steel Sdn Bhd, for a purchase consideration of RM197.6 million; and

(ii) proposed acquisition by a special purpose vehicle, from the following owners of the respective assets located in Gurun, Kedah Darul Aman ("Gurun Assets") detailed hereunder, for a consideration based on independent market valuations:

(a) a beam and section mill erected on lands held under Lots 8071 (PT 1813) and 8070 (PT 1814), all in the Mukim of Gurun, Daerah Kuala Muda including the lands, plants, structures, fittings, fixtures and buildings erected on such land (including all spares, stocks and finished products contained or located therein) currently owned by Perwaja Rolling Mill & Development Sdn Bhd, a wholly-owned subsidiary of Maju Holdings Sdn Bhd;

(b) a bar and wire rod rolling mill together with the wire conditioning, nail processing and wire mesh factories erected on lands held under Lots 8067 (PT 1810) and 8068 (PT 1811), all in the Mukim of Gurun, Daerah Kuala Muda including lands, plants, structures, fittings, fixtures and buildings erected on such land (including all spares, stocks and finished products contained or located therein) currently owned by Perwaja Rolling Mill & Development Sdn Bhd, Maju Steel Centre Sdn Bhd and Maju Rebar Coatings Sdn Bhd, all wholly-owned subsidiaries of Maju Holdings Sdn Bhd; and

(c) 2 pieces of vacant land held under Lots 8069 (PT 1812) and 8072 (PT 1815), all in the Mukim of Gurun, Daerah Kuala Muda currently owned by Perwaja Rolling Mill & Development Sdn Bhd and PS Water Sdn Bhd respectively, all wholly-owned subsidiaries of Maju Holdings Sdn Bhd.

- The Ministry of International Trade and Industry has, vide its letter dated 19 April 2006, stated that it has no objection to the implementation of the proposal, subject to the approval of the Securities Commission ("SC") being obtained and compliance with the Foreign Investment Committee's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests for the Proposed Strategic Alliance.

- The SC has, vide its letter dated 3 May 2006 informed that:

(i) the Proposed Kinsteel Exemption and Proposed Gurun Assets Vendors Exemption under Practice Note 2.9.6 of the Malaysian Code on Take-Overs and Mergers, 1998 ("Code") has been approved;

(ii) the SC will consider the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code after the following conditions have been fulfilled:-

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following conditions have been fulfilled:-

(a) approval for the Proposed ECSB Exemption is obtained from the independent shareholders of Kinsteel, on a poll in a general meeting in which the interested parties are to abstain from voting. The result of the poll has to be confirmed by an independent auditor; and

(b) provision is made for the shareholders of Kinsteel for competent independent advice regarding the Proposed ECSB Exemption. The appointment of the independent adviser and the independent adviser's circular to the shareholders are to be first approved and consented by the SC respectively.

Details on the aforesaid Proposed Kinsteel Exemption, Proposed Gurun Assets Vendors Exemption and Proposed ECSB Exemption were set out and defined in Kinsteel's previous announcement dated 7 October 2005.

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(a) approval for the Proposed ECSB Exemption is obtained from the independent shareholders of Kinsteel, on a poll in a general meeting in which the interested parties are to abstain from voting. The result of the poll has to be confirmed by an independent auditor; and

(b) provision is made for the shareholders of Kinsteel for competent independent advice regarding the Proposed ECSB Exemption. The appointment of the independent adviser and the independent adviser's circular to the shareholders are to be first approved and consented by the SC respectively.

Details on the aforesaid Proposed Kinsteel Exemption, Proposed Gurun Assets Vendors Exemption and Proposed ECSB Exemption were set out and defined in Kinsteel's previous announcement dated 7 October 2005.

(b) Status of utilisation of proceeds raised from listing exercise

	Total Proceeds (RM'000)	Utilised (RM'000)	Unutilised (RM'000)
Capital expenditure	66,640	51,457	15,183
Rights issue expenses	1,360	989	371
Total	<u>68,000</u>	<u>52,446</u>	<u>15,554</u>

B9 Group borrowings

31/03/2006
RM'000

Secured	154,163
Unsecured	218,210
Total borrowings	<u>372,373</u>

Short term borrowings

Bank overdrafts	6,591
Hire purchase/lease creditors	926
Bankers' acceptance and trust receipts	358,312
Term loans	1,720
Sub-total	<u>367,549</u>

Long term borrowings

Term loans	3,830
Hire purchase/lease creditors	994
Sub-total	<u>4,824</u>

Total borrowings	<u>372,373</u>
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The above Group borrowings are denominated in Ringgit Malaysia.

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B10 Off balance sheet financial instruments

The Group does not have any off balance sheet financial instruments as at the date of this quarterly report.

B11 Material litigation

There were no material litigations pending since 31 March 2006 up to 26 May 2006 (being the latest practicable date which is not later than 7 days from the date of issuance of this quarterly report).

B12 Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2005 other than that stated in Note A8.

B13 Earnings per share

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

	Current year quarter 31/03/2006 RM'000	Current year to date 31/03/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	7,527	7,527
Weighted average number of ordinary shares in issue ('000)	110,000	110,000
Basic earnings per share (sen)	6.84	6.84

(b) Diluted earnings per share

	Current year quarter 31/03/2006 RM'000	Current year to date 31/03/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	7,527	7,527
Weighted average number of ordinary shares in issue ('000)	110,000	110,000
Adjustment for dilutive effect of warrants ('000)	18,027	18,027
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>128,027</u>	<u>128,027</u>
Diluted earnings per share (sen)	5.88	5.88