

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

*Quarterly report on consolidated results for the first quarter ended 31 March 2007.*

*The figures have not been audited.*

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE QUARTER ENDED 31 MARCH 2007**

	<b>2007 Current Quarter  31.03.2007 RM'000</b>	<b>2006 Comparative Quarter  31.03.2006 RM'000</b>	<b>2007 3 months Cumulative  31.03.2007 RM'000</b>	<b>2006 3 months Cumulative  31.03.2006 RM'000</b>
Revenue	<b>463,472</b>	312,418	<b>463,472</b>	312,418
Operating expenses	<b>(397,904)</b>	(301,556)	<b>(397,904)</b>	(301,556)
Other operating income	<b>663</b>	1,221	<b>663</b>	1,221
Finance cost	<b>(18,260)</b>	(4,136)	<b>(18,260)</b>	(4,136)
Profit before taxation	<b>47,971</b>	7,947	<b>47,971</b>	7,947
Taxation	<b>(3,355)</b>	(420)	<b>(3,355)</b>	(420)
Profit for the period	<b>44,616</b>	7,527	<b>44,616</b>	7,527
Attributable to:				
Equity holders of the parent	<b>27,243</b>	7,527	<b>27,243</b>	7,527
Minority Interests	<b>17,373</b>	-	<b>17,373</b>	-
Profit for the period	<b>44,616</b>	7,527	<b>44,616</b>	7,527
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	<b>15.84</b>	6.84	<b>15.84</b>	6.84
- Diluted (sen)	<b>13.68</b>	5.88	<b>13.68</b>	5.88

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 31 MARCH 2007**

	31.03.2007 RM'000	31.12.2006 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,347,957	2,357,773
Prepaid lease payments	41,566	41,786
Deferred tax assets	110,000	110,000
	<u>2,499,523</u>	<u>2,509,559</u>
<b>Current assets</b>		
Inventories	440,287	432,564
Receivables	317,850	347,015
Tax recoverable	144	153
Deposits with licensed banks	18,261	23,803
Cash and bank balances	34,373	23,680
	<u>810,915</u>	<u>827,215</u>
<b>TOTAL ASSETS</b>	<u><u>3,310,438</u></u>	<u><u>3,336,774</u></u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	171,940	170,000
Reserves	509,242	481,997
<b>Equity attributable to equity holders of the parent</b>	681,182	651,997
<b>Minority interest</b>	628,413	611,041
<b>Total equity</b>	<u>1,309,595</u>	<u>1,263,038</u>
<b>Non-current liabilities</b>		
Borrowings	723,253	685,307
Deferred taxation	21,183	18,626
	<u>744,436</u>	<u>703,933</u>
<b>Current liabilities</b>		
Trade and other payables	697,844	833,629
Overdrafts and short term borrowings	556,926	535,235
Provision for taxation	1,637	939
	<u>1,256,407</u>	<u>1,369,803</u>
<b>Total liabilities</b>	<u>2,000,843</u>	<u>2,073,736</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>3,310,438</u></u>	<u><u>3,336,774</u></u>
<b>Net assets per share attributable to ordinary equity holders of the parent (RM)</b>	<b>3.96</b>	3.84

The Condensed Consolidated Balance Sheets should be read in conjunction with the audited financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the interim financial statements.

Note: The comparative figures are extracted from the audited financial statements for the year ended 31 December 2006.

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 31 MARCH 2007**

	←-----Attributable to Equity Holders of the Company-----→					
	Share Capital RM'000	Share Premium RM'000	Retained Profits RM'000	Total RM'000	Minority Interest RM'000	Total Equity RM'000
Balance at 1.1.2007	170,000	30,493	451,506	651,999	611,041	1,263,040
<b><u>Movements</u></b> <b><u>during the period</u></b>						
Exercise of warrants	1,940	-	-	1,940	-	1,940
Retained profit for the period	-	-	27,243	27,243	17,372	44,615
Dividends paid	-	-	-	-	-	-
<b>Balance at 31.03.2007</b>	<b>171,940</b>	<b>30,493</b>	<b>478,749</b>	<b>681,182</b>	<b>628,413</b>	<b>1,309,595</b>
Balance at 1.1.2006	110,000	23,213	72,676	205,889	-	205,889
<b><u>Movements</u></b> <b><u>during the period</u></b>						
Retained profit for the period			7,527	7,527		7,527
<b>Balance at 31.03.2006</b>	<b>110,000</b>	<b>23,213</b>	<b>80,203</b>	<b>213,416</b>	<b>-</b>	<b>213,416</b>

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE QUARTER ENDED 31 MARCH 2007**

	31.03.2007 RM'000	31.12.2006 RM'000
<b>Profit before tax</b>	<b>47,971</b>	435,736
<b>Adjustments for non -cash flow :</b>		
<b>Depreciation</b>	<b>25,201</b>	37,780
<b>Non-cash items</b>	<b>17,088</b>	(362,232)
<b>Operating profit before working capital changes</b>	<b>90,260</b>	111,284
<b>Changes in working capital</b>	<b>(92,675)</b>	(271,108)
	<b>(2,415)</b>	(159,824)
Interest paid	<b>(8,714)</b>	(31,243)
Interest received	<b>136</b>	1,058
Tax paid	<b>(91)</b>	(3,385)
<b>Net cash flows from operating activities</b>	<b>(11,084)</b>	(193,394)
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(14,573)</b>	(83,235)
Acquisition of subsidiary	<b>-</b>	(105,148)
	<b>(14,573)</b>	(188,383)
<b>Financing activities</b>		
Conversion of warrants	<b>1,940</b>	-
Pursuant to the Strategic Alliance	<b>-</b>	(7,120)
Term loan (repayment)/receipt	<b>35,570</b>	(40,209)
Receipt from Murabahah Medium Term Notes ("MMTN") and Murabahah Commercial Papers and /or Medium Term Notes ("CP/MTN")		425,000
Short term borrowings	<b>7,490</b>	27,748
Hire purchase/lease financing	<b>(836)</b>	(9,515)
Dividends paid		(5,500)
	<b>44,164</b>	390,404
<b>Net change in cash and cash equivalents</b>	<b>18,507</b>	8,627
<b>Cash and cash equivalents at beginning of the period</b>	<b>28,489</b>	19,862
<b>Cash and cash equivalents at end of the period</b>	<b>46,996</b>	28,489

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the interim financial statements.

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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 2006.

**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 2006 except for the adoption of the revised FRS 117 - Leases and FRS 124 - Related Party Disclosures that are mandatory for financial period beginning on or after 1 October 2006.

**A3 Qualification of Financial Statements**

The financial statements for the year ended 31 December 2006 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 cyclicity factors.

**A5 Unusual Items**

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

**A6 Changes in Estimates**

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

**A7 Debt and Equity Securities**

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

**A8 Dividend Paid/Proposed**

The Directors proposed a tax-exempt dividend of 7.5 sen per Kinsteel Berhad share for the year ended 31 December 2006 based on the entire enlarged issued and paid up share capital as at 25 July 2007. This recommendation is subject to the approval of the Kinsteel Bhd's shareholders at the Annual General Meeting which will be held on 18 June 2007.

**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.

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**A10 Valuation**

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

**A11 Material subsequent events**

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

**A12 Changes in the composition of the Group**

There were no changes in the composition of the Group during the current quarter.

**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 2007, the Group recorded a turnover of RM463.5 million and a profit before tax of RM48.0 million.

**B2 Comparison with preceding quarter's results**

The Group's revenue for the first quarter ended 31 March 2007 increased by RM31.9 million or 7.4 % to RM463.5 million, as compared to RM431.6 million in the preceding quarter. This is mainly due to increased sales of steel bars and related products.

The Group achieved a profit before tax of RM48.0 million for the quarter under review which is 81.1% higher than the profit before tax of RM26.5 million in the preceding quarter. This is attributable to improved sales, demand, market condition and prices for steel products.

**B3 Current year prospects**

We believe the commencement of construction projects to be undertaken under the Ninth Malaysian Plan will be a catalyst for the further growth of the domestic demand for steel products.

The Group's position to meet the demands from both local and international markets will be enhanced with the ongoing expansion of the Group's products range which cover upstream, midstream and downstream products.

In the absence of any unforeseen circumstances, the Directors are optimistic on the performance of the Group for year 2007.

**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 31/03/2007 RM '000	Current year- to-date 31/03/2007 RM '000
Current income taxation	798	798
Deferred taxation	2,557	2,557
	<u>3,355</u>	<u>3,355</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 as follows:-

	Current year quarter 31/03/2007 RM '000	Current year- to-date 31/03/2007 RM '000
Group profit before tax	<u>47,721</u>	<u>47,721</u>
Tax calculated at a tax rate of 20%	1,056	1,056
Tax calculated at a tax rate of 27%	11,459	11,459
Tax effect of expenses that are not deductible in determining taxable profit	13	13
Utilisation of unabsorbed tax losses	<u>(9,173)</u>	<u>(9,173)</u>
Tax charge	<u>3,355</u>	<u>3,355</u>

**B6 Sale of unquoted investments and/or properties**

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

**B7 Purchase or disposal of quoted securities**

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

**B8 (a) Status of corporate proposals**

There was no corporate proposal announced but not completed for the current financial year todate.

**(b) Status of utilisation of proceeds**

Not applicable.

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**B9 Group borrowings**

31.03.2007

RM'000

Secured	548,154
Unsecured	732,025
<b>Total borrowings</b>	<u>1,280,179</u>

**Short term borrowings**

Bank overdrafts	5,638
Hire purchase/lease creditors	5,189
Bankers' acceptance and trust receipts	515,255
Trade loan	9,124
Term loans	6,720
Murabahah Commercial Papers	15,000
<b>Sub-total</b>	<u>556,926</u>

**Long term borrowings**

Term loans	57,110
Government loan	255,430
Hire purchase/lease creditors	713
Murabahah Medium Term Notes	410,000
<b>Sub-total</b>	<u>723,253</u>

<b>Total borrowings</b>	<u>1,280,179</u>
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The above Group borrowings are denominated in Ringgit Malaysia.

**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.

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**B11 Material litigation**

Material litigations pending since the last annual balance sheet date arise from a subsidiary of i.e. PSSB as follows:

- (i) Shah Alam High Court Civil Suit No. MT4-22-204-2002  
Nesaga Technology Sdn Bhd (“Nesaga”) vs. PSSB

PSSB is alleged to have failed to adhere to 4 maintenance agreements in 1996 whereby Nesaga was to provide various services to PSSB. The claim was about RM5.3 million with interest calculated at the rate of 8% per annum from 1 July 1996 until date of judgment and until realisation.

The solicitors of PSSB believe that the aforesaid case needs to be tried.

- (ii) Kuala Lumpur High Court Civil Suit No. D1-22-785-2005  
PSSB vs. Arus Zaman Sdn Bhd (formerly known as MK Farlin Development Sdn Bhd) (“Arus Zaman”)

The claim was filed by PSSB in 2005 whereby PSSB is claiming a sum of RM15.5 million for construction works done in Cyberjaya.

PSSB’s solicitors are of the opinion that PSSB has a good chance of success.

- (iii) Kuala Terengganu High Court Summons No. 22-35-2003  
Majlis Perbandaran Kemaman (“MPK”) vs PSSB

Payment of Notice of Assessment Tax amounting to RM5.4 million together with interest at the rate of 8% per annum from the date of judgment until full and final settlement of the claim.

PSSB and MPK have reached an amicable settlement of the matter and the suit will be withdrawn in due course.

**B12 Dividend**

No dividend has been proposed, paid or declared by the Company since 31 December 2006 other than that stated in Note A8.

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**B13 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 31/03/2007	Current year to date 31/03/2007
	RM'000	RM'000
Net profit attributable to ordinary shareholders (RM'000)	27,243	27,243
Weighted average number of ordinary shares in issue ('000)	171,940	171,940
Basic earnings per share (sen)	15.84	15.84

**(b) Diluted earnings per share**

	Current year quarter 31/03/2007	Current year to date 31/03/2007
	RM'000	RM'000
Net profit attributable to ordinary shareholders (RM'000)	27,243	27,243
Weighted average number of ordinary shares in issue ('000)	171,940	171,940
Adjustment for dilutive effect of warrants ('000)	27,179	27,179
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>199,119</u>	<u>199,119</u>
Diluted earnings per share (sen)	13.68	13.68