

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

*Quarterly report on consolidated results for the first quarter ended 31 March 2008.*

*The figures have not been audited.*

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE QUARTER ENDED 31 MARCH 2008**

	<b>2008 Current Quarter  31.03.2008 RM'000</b>	<b>2007 Comparative Quarter  31.03.2007 RM'000</b>	<b>2008 3 months Cumulative  31.03.2008 RM'000</b>	<b>2007 3 months Cumulative  31.03.2007 RM'000</b>
Revenue	<b>583,490</b>	463,472	<b>583,490</b>	463,472
Operating expenses	<b>(463,118)</b>	(397,904)	<b>(463,118)</b>	(397,904)
Other operating income	<b>7,382</b>	663	<b>7,382</b>	663
Finance cost	<b>(27,860)</b>	(18,260)	<b>(27,860)</b>	(18,260)
Profit before taxation	<b>99,894</b>	47,971	<b>99,894</b>	47,971
Taxation	<b>1,343</b>	(3,355)	<b>1,343</b>	(3,355)
Profit for the period	<b>101,237</b>	44,616	<b>101,237</b>	44,616
Attributable to:				
Equity holders of the parent	<b>61,616</b>	27,243	<b>61,616</b>	27,243
Minority Interests	<b>39,621</b>	17,373	<b>39,621</b>	17,373
Profit for the period	<b>101,237</b>	44,616	<b>101,237</b>	44,616
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	<b>6.99</b>	3.17	<b>6.99</b>	3.17
- Diluted (sen)	<b>6.11</b>	2.74	<b>6.11</b>	2.74

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 31 MARCH 2008**

	31.03.2008 RM'000	31.12.2007 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,306,414	2,313,284
Prepaid lease payments	40,765	41,064
Other investment	4,000	4,000
Deferred tax assets	110,000	110,000
	<u>2,461,179</u>	<u>2,468,348</u>
<b>Current assets</b>		
Inventories	641,303	569,805
Receivables	340,922	238,555
Tax recoverable	117	124
Deposits with licensed banks	92,551	109,076
Cash and bank balances	61,299	76,127
	<u>1,136,192</u>	<u>993,687</u>
<b>TOTAL ASSETS</b>	<u><u>3,597,371</u></u>	<u><u>3,462,035</u></u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	181,747	180,320
Reserves	660,568	598,952
<b>Equity attributable to equity holders of the parent</b>	842,315	779,272
<b>Minority interest</b>	739,115	699,494
<b>Total equity</b>	<u>1,581,430</u>	<u>1,478,766</u>
<b>Non-current liabilities</b>		
Borrowings	701,846	672,596
Deferred taxation	17,424	19,024
	<u>719,270</u>	<u>691,620</u>
<b>Current liabilities</b>		
Trade and other payables	523,550	473,549
Overdrafts and short term borrowings	771,624	816,692
Provision for taxation	1,497	1,408
	<u>1,296,671</u>	<u>1,291,649</u>
<b>Total liabilities</b>	<u>2,015,941</u>	<u>1,983,269</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>3,597,371</u></u>	<u><u>3,462,035</u></u>
<b>Net assets per share attributable to ordinary equity holders of the parent (RM)</b>	<b>0.95</b>	0.88

The Condensed Consolidated Balance Sheets should be read in conjunction with the audited financial statements for the year ended 31 December 2007 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 2007.

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 31 MARCH 2008**

	←-----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 1.1.2008	180,320	30,493	568,459	779,272	699,494	1,478,766
<b><u>Movements</u></b>						
<b><u>during the period</u></b>						
Exercise of warrants	1,427			1,427		1,427
Retained profit for the period	-	-	61,616	61,616	39,621	101,237
<b>Balance at 31.03.2008</b>	<b>181,747</b>	<b>30,493</b>	<b>630,075</b>	<b>842,315</b>	<b>739,115</b>	<b>1,581,430</b>
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
<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>

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE QUARTER ENDED 31 MARCH 2008**

	<b>Quarter ended 31.03.2008 RM'000</b>	<b>Year ended 31.12.2007 RM'000</b>
<b>Profit before tax</b>	<b>99,894</b>	221,033
<b>Adjustments for non -cash flow :</b>		
<b>Depreciation</b>	<b>25,967</b>	101,424
<b>Non-cash items</b>	<b>42,430</b>	(959)
<b>Operating profit before working capital changes</b>	<b>168,291</b>	321,498
<b>Changes in working capital</b>	<b>(123,864)</b>	(314,013)
	<b>44,427</b>	7,485
Interest paid	<b>(23,794)</b>	(76,126)
Interest received	<b>846</b>	3,136
Tax paid	<b>(161)</b>	(1,232)
<b>Net cash flows from operating activities</b>	<b>21,318</b>	(66,737)
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(19,097)</b>	(48,568)
Prepayment of land lease		(156)
Subscription of subordinated bonds	<b>-</b>	(4,000)
	<b>(19,097)</b>	(52,724)
<b>Financing activities</b>		
Proceeds from exercise of warrants	<b>1,427</b>	10,320
Term loan (repayment)/receipt	<b>(3,159)</b>	(5,055)
Short term borrowings	<b>(11,563)</b>	272,474
Hire purchase/lease liabilities repayment	<b>(1,096)</b>	(9,568)
Dividends paid	<b>-</b>	(13,498)
	<b>(14,391)</b>	254,673
<b>Net change in cash and cash equivalents</b>	<b>(12,170)</b>	135,212
<b>Effects of foreign exchange rate changes</b>		(3,828)
<b>Cash and cash equivalents at beginning of the period/ year</b>	<b>159,873</b>	28,489
<b>Cash and cash equivalents at end of the period/year</b>	<b>147,703</b>	159,873

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements.

**KINSTEEL BHD.**

( Incorporated in Malaysia)

**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 2007.

**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 2007.

**A3 Qualification of Financial Statements**

The financial statements for the year ended 31 December 2007 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 final tax-exempt dividend of 1.7 sen per ordinary share for the year ended 31 December 2007 based on the entire enlarged issued and paid up share capital as at 25 July 2008. This recommendation is subject to the approval of the Kinsteel Bhd's shareholders at the Annual General Meeting which will be held on 11 June 2008.

**A9 Segmental Information**

The Group's activities are identified as one business segment, predominantly, in the manufacturing and trading of steel related products. Accordingly no information on the Group's operations by business segment has been disclosed. The Group's operations are only within Malaysia. Accordingly, no information on the Group's operations by geographical segment has been disclosed.

*(Company No : 210470-M)*

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**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.

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**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 2008, the Group recorded a turnover of RM583.5 million and a profit after tax of RM101.2 million.

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

The Group's revenue for the first quarter ended 31 March 2008 decreased slightly by RM4.5 million or 1% to RM583.5 million, as compared to RM588.0 million in the preceding quarter.

The Group achieved a profit after tax of RM101.2 million for the quarter under review which is 53% higher than the profit after tax of RM66.2 million in the preceding quarter. This is attributable to improved margin for steel products.

**B3 Current year prospects**

The Board of Directors is of the opinion that the prices and demand for steel products both locally and internationally will continue to be strong for the rest of the year.

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 Board of Directors is confident that the performance of the Group for remaining year 2008 will show better results compared to the first quarter.

**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 31/03/2008 RM '000	Current year- to-date 31/03/2008 RM '000
Current taxation	(257)	(257)
Deferred taxation	1,600	1,600
	<u>1,343</u>	<u>1,343</u>

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**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**

On 31 January 2008, a subsidiary, Perwaja Steel Sdn Bhd ("PSSB") had submitted an application to the Securities Commission for the proposed listing on the Main Board of the Bursa Malaysia Securities Berhad. Perwaja Holdings Berhad, a newly incorporated company, will be the holding company of PSSB to facilitate the proposed floatation.

The application was approved by the Securities Commission on 31 March 2008 and the proposed floatation was approved by the Ministry of International Trade and Industry on 11 April 2008.

The proposed floatation will be tabled for members' approval at the coming Extraordinary General Meeting of the Company on 11 June 2008.

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

Not applicable.

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**B9 Group borrowings**

31.03.2008  
RM'000

Secured	657,172
Unsecured	816,298
<b>Total borrowings</b>	<u>1,473,470</u>

**Short term borrowings**

Bank overdrafts	6,147
Hire purchase/lease creditors	10,392
Bankers' acceptance and trust receipts	640,407
Trade loan	
Term loans	99,678
Murabahah Commercial Papers	15,000
<b>Sub-total</b>	<u>771,624</u>

**Long term borrowings**

Term loans	50,416
Government loan	241,430
Hire purchase/lease creditors	-
Murabahah Medium Term Notes	410,000
<b>Sub-total</b>	<u>701,846</u>

<b>Total borrowings</b>	<u>1,473,470</u>
-------------------------	------------------

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.

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**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. PSSB had entered into a settlement dated 28 June 1996 with various terms and conditions and PSSB allegedly agreed to all the terms in the settlement via a letter dated July 1996.

On 22 March 2002, Nesaga filed a Writ of Summons and Statement of Claim at the High Court of Malaya at Shah Alam against PSSB. The claim was for LIRE356,996,800.00, RM404,180.00 and USD826,117.40 with interest calculated at the rate of 8% per annum on the above sums from 1 July 1996 until date of judgment and interest calculated at the rate of 8% per annum on the above sums from date of judgment until realisation.

Nesaga has also filed an application under Order 27 Rule 3 of the Rules of High Court 1980 on 4 March 2005 for judgment on admission (Enclosure 10). Enclosure 10 is now fixed for mention on 17 July 2008. PSSB has filed an application to amend its defence to include a counterclaim (Enclosure 31) which application is now fixed for hearing on 17 July 2008. This matter is also fixed for case management on 19 August 2008 pending the disposal of both Enclosure 10 and Enclosure 31.

PSSB's solicitors are of the view that PSSB stands a fair chance of defending the case.

- (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 may not have a strong claim against Arus Zaman, until and unless the necessary documents substantiating PSSB's claim are complete.

- (iii) Kuala Lumpur High Court Suit No. D8-22-1464-2007 ("D8 Suit")  
Megasteel Sdn Bhd (“Megasteel”) Plaintiff) vs PSSB (Defendant)

Megasteel filed Writ of Summons and Statement of Claim for sum of RM36,079,860.33 as damages for an alleged breach of contract against PSSB. On 17 December 2007, PSSB in its defence argued, inter-alia, that Megasteel has continued to accept the delivery of the goods unconditionally after the alleged stipulated time, causing time to be at large hence time is no longer of the essence. In addition there were variations to the contract causing time to be at large as well.

PSSB has also filed a Counter-Claim against Megasteel for inter-alia the sum of RM3,390,509.03 (“Outstanding Sum”) for the DRI supplied to Megasteel. PSSB has then issued a statutory notice under Section 218 of the Companies Act 1965 (“S218 Notice”) to wind up Megasteel for the Outstanding Sum on 9 November 2007 (please see item (iv) below). Plaintiff filed an application for summary judgment which is fixed for hearing on 18 July 2008. The matter is also fixed for case management on 25 July 2008 pending disposal of the application for summary judgment.

The solicitors of PSSB are of the opinion that PSSB stands a fair chance of success of defending Megasteel's claim and that Megasteel has no viable defence to the Outstanding Sum which Megasteel is seeking to set off the Outstanding Sum against Megasteel's Claim.

- (iv) Kuala Lumpur High Court Suit No. D2-22-1594-2007 ("D2 Suit")  
Megasteel Sdn Bhd (“Megasteel”) Plaintiff) vs PSSB (Defendant)  
Kuala Lumpur High Court Companies Winding-Up Petition No. D1-28-33-2008 ("D1 Suit")

**KINSTEEL BHD.**

(Incorporated in Malaysia)

Kuala Lumpur High Court Companies Winding-Up Petition No. D1-26-33-2006 ( D1 Suit )

PSSB vs Megasteel

The solicitors of PSSB are of the opinion that Megasteel has no viable defense to PSSB's claim in the D1 Suit. The Solicitors are also of the opinion that the Court of Appeal has decided on the appeal wrongly as the said court failed to consider that PSSB has an undisputed claim against Megasteel. Since the Federal Court exercises sparingly its discretion in giving leave to appeal based on point of law, PSSB stands a fair chance of succeeding in the D2 Suit.

**B12 Dividend**

No dividend has been proposed, paid or declared by the Company since 31 December 2007 other than that stated in Note A8.

**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 31/03/2008 RM'000	Current year to date 31/03/2008 RM'000
Net profit attributable to ordinary shareholders (RM'000)	61,616	61,616
Weighted average number of ordinary shares in issue ('000)	882,021	882,021
Basic earnings per share (sen)	6.99	6.99

**(b) Diluted earnings per share**

	Current year quarter 31/03/2008 RM'000	Current year to date 31/03/2008 RM'000
Net profit attributable to ordinary shareholders (RM'000)	61,616	61,616
Weighted average number of ordinary shares in issue ('000)	882,021	882,021
Adjustment for dilutive effect of warrants ('000)	126,168	126,168
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>1,008,189</u>	<u>1,008,189</u>
Diluted earnings per share (sen)	6.11	6.11