

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

*Quarterly report on consolidated results for the second quarter ended 30 June 2006.*

*The figures have not been audited.*

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE QUARTER ENDED 30 JUNE 2006**

	<b>2006 Current Quarter  30.06.2006 RM'000</b>	<b>2005 Comparative Quarter  30.06.2005 RM'000</b>	<b>2006 6 months Cumulative  30.06.2006 RM'000</b>	<b>2005 6 months Cumulative  30.06.2005 RM'000</b>
Revenue	<b>237,978</b>	127,400	<b>550,393</b>	242,553
Operating expenses	<b>(229,876)</b>	(119,129)	<b>(531,429)</b>	(227,219)
Other operating income	<b>2,531</b>	535	<b>3,752</b>	722
Finance cost	<b>(3,978)</b>	(2,762)	<b>(8,114)</b>	(5,407)
Profit before taxation	<b>6,655</b>	6,044	<b>14,602</b>	10,649
Taxation	<b>(757)</b>	(172)	<b>(1,177)</b>	(183)
Profit for the period	<b>5,898</b>	5,872	<b>13,425</b>	10,466
Attributable to:				
Equity holders of the parent	<b>5,898</b>	5,872	<b>13,425</b>	10,466
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	<b>5.36</b>	8.59	<b>12.20</b>	15.32
- Diluted (sen)	<b>4.90</b>	4.98	<b>10.78</b>	9.43

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 30 JUNE 2006**

	<b>30.06.2006</b>	31.12.2005
	<b>RM'000</b>	RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	<u>171,983</u>	<u>151,502</u>
<b>Current assets</b>		
Inventories	70,745	239,281
Receivables	278,783	163,366
Tax recoverable	65	22
Deposits with licensed banks	27,532	48,716
Cash and bank balances	<u>6,086</u>	<u>5,830</u>
	<u>383,211</u>	<u>457,215</u>
<b>TOTAL ASSETS</b>	<u><u>555,194</u></u>	<u><u>608,717</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	110,000	110,000
Share premium	23,213	23,213
Retained profits	<u>86,101</u>	<u>72,676</u>
<b>Total equity</b>	<u>219,314</u>	<u>205,889</u>
<b>Non-current liabilities</b>		
Borrowings	13,688	5,423
Deferred taxation	<u>16,177</u>	<u>16,293</u>
	<u>29,865</u>	<u>21,716</u>
<b>Current liabilities</b>		
Trade and other payables	36,848	29,753
Overdrafts and short term borrowings	268,436	351,066
Provision for taxation	<u>731</u>	<u>293</u>
	<u>306,015</u>	<u>381,112</u>
<b>Total liabilities</b>	<u>335,880</u>	<u>402,828</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>555,194</u></u>	<u><u>608,717</u></u>
<b>Net assets per share (RM)</b>	<b>1.99</b>	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 30 JUNE 2006**

	Ordinary Share Capital RM'000	Retained Profits RM'000	Share Premium RM'000	Total RM'000
<b><u>6 months quarter ended</u></b>				
<b><u>30 June 2006</u></b>				
Balance at beginning of period	110,000	72,676	23,213	205,889
<b><u>Movements</u></b>				
<b><u>during the period</u></b>				
Retained profit for the period	-	13,425	-	13,425
Balance at end of period	<u>110,000</u>	<u>86,101</u>	<u>23,213</u>	<u>219,314</u>
<b><u>6 months quarter ended</u></b>				
<b><u>30 June 2005</u></b>				
Balance at beginning of period	60,000	58,517	6,202	124,719
<b><u>Movements</u></b>				
<b><u>during the period</u></b>				
Arising from Rights Issue	50,000	-	18,000	68,000
Rights issue expenses	-	-	(820)	(820)
Retained profit for the period	-	10,466	-	10,466
Balance at end of period	<u>110,000</u>	<u>68,983</u>	<u>23,382</u>	<u>202,365</u>

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 SECOND QUARTER ENDED 30 JUNE 2006**

	<b>2006</b>	2005
	<b>6 months ended</b>	6 months ended
	<b>30.06.2006</b>	30.06.2005
	<b>RM'000</b>	RM'000
<b>Net profit for the period</b>	<b>13,424</b>	10,466
<b>Adjustments for non -cash flow :</b>		
<b>Non-cash items</b>	<b>11,612</b>	8,310
<b>Operating profit before working capital changes</b>	<b>25,036</b>	18,776
<b>Changes in working capital</b>		
Net change in current assets	<b>12,536</b>	13,077
Net change in current liabilities	<b>47,900</b>	(9,777)
	<b>85,472</b>	22,076
Interest paid	<b>(8,112)</b>	(5,357)
Interest received	<b>614</b>	521
Tax paid	<b>(898)</b>	(402)
<b>Net cash flows from operating activities</b>	<b>77,076</b>	16,838
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(23,561)</b>	(13,583)
<b>Financing activities</b>		
Rights issue	<b>-</b>	67,180
Term loan (repayment)/receipt	<b>11,974</b>	468
Short term borrowings	<b>(72,599)</b>	(24,701)
Hire purchase/lease financing	<b>(462)</b>	(383)
	<b>(61,087)</b>	42,564
<b>Net change in cash and cash equivalents</b>	<b>(7,572)</b>	45,819
<b>Cash and cash equivalents at beginning of the period</b>	<b>19,862</b>	4,840
<b>Cash and cash equivalents at end of the period</b>	<b>12,290</b>	50,659

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.

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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 cyclicity factors.

**A5 Unusual Items**

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

**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 for the financial period under review.

**A8 Dividend proposed**

A final tax-exempt dividend of 5 sen per Kinsteel Berhad share for the year ended 31 December 2005 based on the entire issued and paid up share capital of 110,000,000 shares has been paid on 2 August 2006.

No other dividend has been proposed or 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 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 was no change 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 six months period ended 30 June 2006, the Group recorded a turnover of RM550.4 million and a profit before taxation of RM14.6 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 second quarter ended 30 June 2006 decreased by RM74.4 million or 23.8% to RM238.0 million, as compared to RM312.4 million in the preceding quarter. This is mainly due to lower sales of related steel products.

The Group achieved a profit before tax of RM6.7 million for the quarter under review which is 15.2% or RM1.2 million lower than the profit before tax of RM7.9 million in the preceding quarter. This is mainly due to the lower sales during the quarter.

**B3 Current year prospects**

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

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 30/06/2006 RM '000	Current year- to-date 30/06/2006 RM '000
Current income taxation	810	1,293
Deferred taxation	(53)	(116)
	<u>757</u>	<u>1,177</u>

(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 30/06/2006 RM '000	Current year- to-date 30/06/2006 RM '000
Group profit before tax	6,655	14,602
Tax calculated at a tax rate of 20%	<u>4</u>	<u>109</u>

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Tax calculated at a tax rate of 28%	1,857	3,935
Tax effect of expenses that are not deductible in determining taxable profit	352	609
Utilisation of previously unrecognised reinvestment allowances to reduce current tax	(2,139)	(4,158)
Others	683	682
Tax charge	<u>757</u>	<u>1,177</u>

**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.

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

(1) Proposed Strategic Alliance with of Maju Holdings Sdn Bhd ("Maju") and a few of its subsidiaries ("Perwaja Vendors"):

On 7 October 2005, the Company had announced that it had on the same date entered into a conditional strategic alliance agreement with the Perwaja Vendors that will provide the parties with a platform for future growth in the steel industry. The Proposed Strategic Alliance will be achieved through the following proposals:

(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 ("PSSB") representing 51% equity interest in PSSB for a purchase consideration of RM197,600,000 ("Proposed PSSB Acquisition") to be satisfied in the following manner:

(a) an issuance of 60,000,000 new ordinary shares of RM1.00 each in Kinsteel ("Kinsteel Shares") at an issue price of RM1.36 per Kinsteel Share; and

(b) cash settlement for the remaining balance of RM116,000,000 payable in 67 equal monthly instalments of RM1,705,883 each and 1 final instalment of RM1,705,839, commencing upon the completion of the Proposed Strategic Alliance;

(ii) Proposed acquisition by Kinsteel from Perwaja Rolling Mill & Development Sdn Bhd ("PRMD"), Maju Steel Centre Sdn Bhd ("MSC"), Maju Rebar Coatings Sdn Bhd ("MRC") and PS Water Sdn Bhd ("PSW") of 51% interest in the following assets for a cash consideration of RM100,000,000 via Perfect Channel Sdn Bhd:

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(a) a beam and section mill erected on freehold lands held under Lots 8071 (PT 1813) and 8070 (PT 1814), all in the Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman including the lands, plants, structures, fittings, fixtures and buildings erected on such land:

(b) a bar and wire rod rolling mill together with the wire conditioning, nail processing and wire mesh factories erected on freehold 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: and

(c) 2 pieces of vacant freehold land held under Lots 8069 (PT 1812) and 8072 (PT 1815), all in the Mukim of Gurun, Daerah Kuala Muda, Kedah Darul Aman.

MSC and MRC are wholly-owned subsidiaries of Maju while PRMD and PSW are wholly-owned subsidiaries of ECSB.

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

On 5 May 2006, the Company had further announced that 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 Code has been approved; and

(ii) the SC will consider the Proposed ECSB Exemption under Practice Note 2.9.1 of the Code after the conditions as set out in Section 9.3 of the Circular to Shareholders dated 27 July 2006 ("Circular") have been fulfilled.

Subsequently, on 6 June 2006, the Company had announced that the SC has, vide its letter dated 5 June 2006 approved the Proposed Strategic Alliance subject to the conditions set out in Section 9.2 of the Circular.

It was also announced that the SC in the aforesaid letter approved the Proposed Strategic Alliance pursuant to the FIC Guidelines on Acquisition of Interests, Mergers and Takeovers by Local and Foreign Interests and Guidelines on the Acquisition of Properties by Local and Foreign Interests.

In addition to the proposed acquisition of shares and assets stated above, the following resolutions were duly passed by the shareholders of the Company at the Extraordinary General Meeting held on 11 August 2006:-

(i) Proposed exemption under Practice Note 2.9.1 of the Malaysian Code on Take-overs and Mergers, 1998 to ECSB and persons acting in concert from the obligation to undertake a mandatory offer for the remaining ordinary shares of RM1.00 each in Kinsteel not held by them upon the completion of the Proposed PSSB Acquisition; and

(ii) Proposed increase in the authorised share capital of Kinsteel from RM200,000,000 comprising 200,000,000 ordinary shares of RM1.00 each to RM300,000,000 comprising 300,000,000 ordinary shares of RM1.00 each.

- The authorised share capital of Kinsteel has been increased to RM300,000,000 on 11 August 2006.

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

	<b>Total Proceeds (RM'000)</b>	<b>Utilised (RM'000)</b>	<b>Unutilised (RM'000)</b>
Capital expenditure	66,640	64,990	1,650
Rights issue expenses	1,360	989	371
<b>Total</b>	<b>68,000</b>	<b>65,979</b>	<b>2,021</b>

**B9 Group borrowings**

30/6/2006  
RM'000

Secured	111,725
Unsecured	170,399
<b>Total borrowings</b>	<b>282,124</b>

**Short term borrowings**

Bank overdrafts	9,147
Hire purchase/lease creditors	873
Bankers' acceptance and trust receipts	251,696
Term loans	6,720
<b>Sub-total</b>	<b>268,436</b>

**Long term borrowings**

Term loans	12,876
Hire purchase/lease creditors	812
<b>Sub-total</b>	<b>13,688</b>
<b>Total borrowings</b>	<b>282,124</b>

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.

**B11 Material litigation**

There were no material litigations pending since 30 June 2006 up to 25 August 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.

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**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 30/06/2006 RM'000	Current year to date 30/06/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	5,898	13,425
Weighted average number of ordinary shares in issue ('000)	110,000	110,000
Basic earnings per share (sen)	5.36	12.20

**(b) Diluted earnings per share**

	Current year quarter 30/06/2006 RM'000	Current year to date 30/06/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	5,898	13,425
Weighted average number of ordinary shares in issue ('000)	110,000	110,000
Adjustment for dilutive effect of warrants ('000)	10,487	14,536
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>120,487</u>	<u>124,536</u>
Diluted earnings per share (sen)	4.90	10.78