

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

*Quarterly report on consolidated results for the first quarter ended 30 June 2007.*

*The figures have not been audited.*

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE QUARTER ENDED 30 JUNE 2007**

	<b>2007 Current Quarter  30.06.2007 RM'000</b>	<b>2006 Comparative Quarter  30.06.2006 RM'000</b>	<b>2007 6 months Cumulative  30.06.2007 RM'000</b>	<b>2006 6 months Cumulative  30.06.2006 RM'000</b>
Revenue	<b>484,349</b>	237,978	<b>947,821</b>	<b>550,393</b>
Operating expenses	<b>(425,900)</b>	(229,876)	<b>(823,804)</b>	<b>(531,429)</b>
Other operating income	<b>1,740</b>	2,531	<b>2,403</b>	<b>3,752</b>
Finance cost	<b>(16,903)</b>	(3,978)	<b>(35,163)</b>	<b>(8,114)</b>
Profit before taxation	<b>43,286</b>	6,655	<b>91,257</b>	14,602
Taxation	<b>3,014</b>	(757)	<b>(341)</b>	<b>(1,177)</b>
Profit for the period	<b>46,300</b>	5,898	<b>90,916</b>	13,425
Attributable to:				
Equity holders of the parent	<b>29,623</b>	5,898	<b>56,866</b>	13,425
Minority Interests	<b>16,677</b>	-	<b>34,050</b>	-
Profit for the period	<b>46,300</b>	5,898	<b>90,916</b>	13,425
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	<b>16.88</b>	5.36	<b>32.41</b>	12.20
- Diluted (sen)	<b>14.66</b>	4.90	<b>28.48</b>	10.78

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.

(Company No : 210470-M)

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(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 30 JUNE 2007**

	30.06.2007 RM'000	31.12.2006 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,331,012	2,357,773
Prepaid lease payments	41,347	41,786
Deferred tax assets	110,000	110,000
	<u>2,482,359</u>	<u>2,509,559</u>
<b>Current assets</b>		
Inventories	495,519	432,564
Receivables	271,036	347,015
Tax recoverable	133	153
Deposits with licensed banks	97,589	23,803
Cash and bank balances	39,360	23,680
	<u>903,637</u>	<u>827,215</u>
<b>TOTAL ASSETS</b>	<u><u>3,385,996</u></u>	<u><u>3,336,774</u></u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	175,458	170,000
Reserves	538,864	481,997
<b>Equity attributable to equity holders of the parent</b>	714,322	651,997
<b>Minority interest</b>	645,091	611,041
<b>Total equity</b>	<u>1,359,413</u>	<u>1,263,038</u>
<b>Non-current liabilities</b>		
Borrowings	721,727	685,307
Deferred taxation	17,926	18,626
	<u>739,653</u>	<u>703,933</u>
<b>Current liabilities</b>		
Trade and other payables	640,491	833,629
Overdrafts and short term borrowings	644,658	535,235
Provision for taxation	1,781	939
	<u>1,286,930</u>	<u>1,369,803</u>
<b>Total liabilities</b>	<u>2,026,583</u>	<u>2,073,736</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>3,385,996</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>4.07</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.

(Company No : 210470-M)

**KINSTEEL BHD.**  
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 30 JUNE 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	451,505	651,998	611,041	1,263,039
<b><u>Movements</u></b> <b><u>during the period</u></b>						
Exercise of warrants	5,458	-	-	5,458	-	5,458
Retained profit for the period	-	-	56,866	56,866	34,050	90,916
Dividends paid	-	-	-	-	-	-
<b>Balance at 30.06.2007</b>	<b>175,458</b>	<b>30,493</b>	<b>508,371</b>	<b>714,322</b>	<b>645,091</b>	<b>1,359,413</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	-	-	13,425	13,425	-	13,425
<b>Balance at 31.03.2006</b>	<b>110,000</b>	<b>23,213</b>	<b>86,101</b>	<b>219,314</b>	<b>-</b>	<b>219,314</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.

(Company No : 210470-M)

**KINSTEEL BHD.**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE QUARTER ENDED 30 JUNE 2007**

	30.06.2007 RM'000	31.12.2006 RM'000
<b>Profit before tax</b>	<b>91,257</b>	435,736
<b>Adjustments for non -cash flow :</b>		
<b>Depreciation</b>	<b>50,650</b>	37,780
<b>Non-cash items</b>	<b>34,248</b>	(362,232)
<b>Operating profit before working capital changes</b>	<b>176,155</b>	111,284
<b>Changes in working capital</b>	<b>(179,808)</b>	(271,108)
	<b>(3,653)</b>	(159,824)
Interest paid	<b>(39,591)</b>	(31,243)
Interest received	<b>5,038</b>	1,058
Tax paid	<b>(179)</b>	(3,385)
<b>Net cash flows from operating activities</b>	<b>(38,385)</b>	(193,394)
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(22,760)</b>	(83,235)
Acquisition of subsidiary	<b>-</b>	(105,148)
	<b>(22,760)</b>	(188,383)
<b>Financing activities</b>		
Conversion of warrants	<b>5,458</b>	-
Pursuant to the Strategic Alliance		(7,120)
Term loan (repayment)/receipt	<b>38,306</b>	(40,209)
Receipt from Murabahah Medium Term Notes ("MMTN") and Murabahah Commercial Papers and /or Medium Term Notes ("CP/MTN")	<b>-</b>	425,000
Short term borrowings	<b>122,988</b>	27,748
Hire purchase/lease financing	<b>(3,224)</b>	(9,515)
Dividends paid		(5,500)
	<b>163,528</b>	390,404
<b>Net change in cash and cash equivalents</b>	<b>102,383</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>130,872</b>	28,489

**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 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**

A final tax-exempt dividend of 7.5 sen per Kinsteel Berhad share for the year ended 31 December 2006 based on the entire issued and paid up share capital of 179,968,800 shares as at 25 July 2007 has been paid on 20 August 2007.

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.

*(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**

The Group's revenue of RM484.3 million for the quarter under review was 103.5% higher than the preceding year's corresponding quarter of RM238.0 million mainly due to the turnover from Perwaja Steel Sdn Bhd and Perfect Channel Sdn Bhd. Profit after taxation for the quarter under review had also improved by RM40.4 million or 684.7% to RM46.3 million as compared to the preceding year's corresponding quarter of RM5.9 million due to better margins on upstream and midstream products.

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

The Group's revenue for the second quarter ended 30 June 2007 increased by RM20.8 million or 4.5 % to RM484.3 million, as compared to RM463.5 million in the preceding quarter. This is mainly due the Group's upstream and further downstream activities. During the quarter under review, the midstream activities were affected by the relatively soft market of construction steel. However, despite the lower sales volume of midstream products, the revenue remains quite constant due to the increase in selling prices.

The Group achieved a profit before tax of RM43.3 million for the quarter under review which is 9.8% lower than the profit before tax of RM48.0 million in the preceding quarter. This is attributable to higher raw material prices and freight charges.

**B3 Current year prospects**

The present slow construction market is expected to pick up in the next few quarters when the 9th Malaysian Plan ("9MP") comes on stream. Based on the increased level of activity in the pile and concrete sectors, the 9MP is expected to roll out in due course. The recent imposition of export duties by China on its steel products is expected to stabilise the international steel prices and the strong demand in the upstream and midstream products. In addition, the Group is poised to expand its export allocation to 40% by venturing into the South East Asia, Europe and Middle East markets.

The Group will be able to cater to the strong demand with its greater ability to produce various ranges of steel products. Barring unforeseen circumstances and/or any external factors negatively affecting the economy and/or the steel industry, the Board believes the Group is on course to achieving its target revenue for year 2008.

It should be noted that the target revenue mentioned above represents internal management's aim for growth. The target by internal management was derived based on expected increase in contribution from its subsidiaries and the Group's capability to fully utilize its enlarged production capacity. It is not an estimate, forecast or projection and the internal targets have not been reviewed by the external auditors.

**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 30/06/2007 RM '000	Current year- to-date 30/06/2007 RM '000
Current income taxation	(243)	(1,041)
Deferred taxation	3,257	700
	<u>3,014</u>	<u>(341)</u>

**KINSTEEL BHD.**

( Incorporated in Malaysia)

(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 30/06/2007 RM '000	Current year- to-date 30/06/2007 RM '000
Group profit before tax	<u>43,286</u>	<u>91,257</u>
Tax calculated at a tax rate of 20%	(1,071)	(2,127)
Tax calculated at a tax rate of 27%	(10,310)	(21,769)
Tax effect of expenses that are not deductible in determining taxable profit	(229)	(242)
Utilisation of capital allowances	6,754	6,754
Utilisation of unabsorbed tax losses	8,884	18,057
Unutilised reinvestment allowance	<u>(1,014)</u>	<u>(1,014)</u>
Tax charge	<u>3,014</u>	<u>(341)</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**

On 13 July 2007, the Group has announced the following proposals:

- (i) A share split involving the subdivision of every 1 existing share of RM1.00 each in the Company held on an entitlement date to be determined into 5 new ordinary shares of RM0.20 each in the Company ("Proposed Share Split"); and
- (ii) amendment to the Memorandum of Association of the Company..

On 9 August 2007, the Company has obtained the following approvals:

- (i) Bank Negara Malaysia for the issuance of up to 129,877,200 additional warrants pursuant to the adjustment to be made arising from the Proposed Share Split ("Adjustment"); and
- (ii) Bursa Malaysia Securities Berhad for the Proposed Share Split and the listing of up to 129,877,200 additional warrants arising from the Adjustment.

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

Not applicable.

**KINSTEEL BHD.**

( Incorporated in Malaysia)

**B9 Group borrowings**

30.06.2007  
RM'000

Secured	609,896
Unsecured	756,489
<b>Total borrowings</b>	<u>1,366,385</u>

**Short term borrowings**

Bank overdrafts	6,077
Hire purchase/lease creditors	4,814
Bankers' acceptance and trust receipts	598,864
Trade loan	13,183
Term loans	6,720
Murabahah Commercial Papers	15,000
<b>Sub-total</b>	<u>644,658</u>

**Long term borrowings**

Term loans	55,846
Government loan	255,430
Hire purchase/lease creditors	451
Murabahah Medium Term Notes	410,000
<b>Sub-total</b>	<u>721,727</u>

<b>Total borrowings</b>	<u>1,366,385</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.

**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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( Incorporated in Malaysia)

**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 30/06/2007	Current year to date 30/06/2007
	RM'000	RM'000
Net profit attributable to ordinary shareholders (RM'000)	29,623	56,866
Weighted average number of ordinary shares in issue ('000)	175,458	175,458
Basic earnings per share (sen)	16.88	32.41

**(b) Diluted earnings per share**

	Current year quarter 30/06/2007	Current year to date 30/06/2007
	RM'000	RM'000
Net profit attributable to ordinary shareholders (RM'000)	29,623	56,866
Weighted average number of ordinary shares in issue ('000)	175,458	175,458
Adjustment for dilutive effect of warrants ('000)	26,668	24,206
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>202,126</u>	<u>199,664</u>
Diluted earnings per share (sen)	14.66	28.48