

(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 30 JUNE 2008**

	<b>2008 Current Quarter  30.06.2008 RM'000</b>	<b>2007 Comparative Quarter  30.06.2007 RM'000</b>	<b>2008 6 months Cumulative  30.06.2008 RM'000</b>	<b>2007 6 months Cumulative  30.06.2007 RM'000</b>
Revenue	<b>652,043</b>	484,349	<b>1,235,533</b>	947,821
Operating expenses	<b>(443,836)</b>	(425,900)	<b>(906,954)</b>	(823,804)
Other operating income	<b>1,129</b>	1,740	<b>8,515</b>	2,403
Finance cost	<b>(26,335)</b>	(16,903)	<b>(54,195)</b>	(35,163)
Profit before taxation	<b>183,001</b>	43,286	<b>282,899</b>	91,257
Taxation	<b>(120)</b>	3,014	<b>1,223</b>	(341)
Profit for the period	<b>182,881</b>	46,300	<b>284,122</b>	90,916
Attributable to:				
Equity holders of the parent	<b>103,324</b>	29,623	<b>164,944</b>	56,866
Minority Interests	<b>79,557</b>	16,677	<b>119,178</b>	34,050
Profit for the period	<b>182,881</b>	46,300	<b>284,122</b>	90,916
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	<b>11.23</b>	16.88	<b>17.93</b>	32.41
- Diluted (sen)	<b>9.95</b>	14.66	<b>15.90</b>	28.48

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.

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**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 30 JUNE 2008**

	<b>30.06.2008</b>	31.12.2007
	<b>RM'000</b>	RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	<b>2,323,804</b>	2,313,284
Prepaid lease payments	<b>40,546</b>	41,064
Other investment	<b>4,000</b>	4,000
Deferred tax assets	<b>110,000</b>	110,000
	<b><u>2,478,350</u></b>	<u>2,468,348</u>
<b>Current assets</b>		
Inventories	<b>926,584</b>	569,805
Receivables	<b>336,431</b>	238,555
Tax recoverable	<b>110</b>	124
Deposits with licensed banks	<b>97,912</b>	109,076
Cash and bank balances	<b>45,483</b>	76,127
	<b><u>1,406,520</u></b>	<u>993,687</u>
<b>TOTAL ASSETS</b>	<b><u>3,884,870</u></b>	<u>3,462,035</u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	<b>184,001</b>	180,320
Reserves	<b>763,896</b>	598,952
<b>Equity attributable to equity holders of the parent</b>	<b>947,897</b>	779,272
<b>Minority interest</b>	<b>818,672</b>	699,494
<b>Total equity</b>	<b><u>1,766,569</u></b>	<u>1,478,766</u>
<b>Non-current liabilities</b>		
Borrowings	<b>650,442</b>	672,596
Deferred taxation	<b>17,425</b>	19,024
	<b><u>667,867</u></b>	<u>691,620</u>
<b>Current liabilities</b>		
Trade and other payables	<b>598,798</b>	473,549
Overdrafts and short term borrowings	<b>850,119</b>	816,692
Provision for taxation	<b>1,517</b>	1,408
	<b><u>1,450,434</u></b>	<u>1,291,649</u>
<b>Total liabilities</b>	<b><u>2,118,301</u></b>	<u>1,983,269</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>3,884,870</u></b>	<u>3,462,035</u>
	-	
<b>Net assets per share attributable to ordinary equity holders of the parent (RM)</b>	<b>1.03</b>	0.86

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.

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 30 JUNE 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	3,681			3,681		3,681
Retained profit for the period	-	-	164,944	164,944	119,178	284,122
<b>Balance at 30.06.2008</b>	<b>184,001</b>	<b>30,493</b>	<b>733,403</b>	<b>947,897</b>	<b>818,672</b>	<b>1,766,569</b>
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
<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>

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.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE QUARTER ENDED 30 JUNE 2008**

	<b>Current Quarter ended 30.06.2008 RM'000</b>	<b>Year ended 31.12.2007 RM'000</b>
<b>Profit before tax</b>	<b>282,899</b>	221,033
<b>Adjustments for non -cash flow :</b>		
<b>Depreciation</b>	<b>53,426</b>	101,424
<b>Non-cash items</b>	<b>67,629</b>	(959)
<b>Operating profit before working capital changes</b>	<b>403,954</b>	321,498
<b>Changes in working capital</b>	<b>(355,179)</b>	(314,013)
	<b>48,775</b>	7,485
Interest paid	<b>(44,108)</b>	(76,126)
Interest received	<b>6,854</b>	3,136
Tax paid	<b>(252)</b>	(1,232)
<b>Net cash flows from operating activities</b>	<b>11,269</b>	(66,737)
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(49,881)</b>	(48,568)
Prepayment of land lease	-	(156)
Subscription of subordinated bonds	-	(4,000)
	<b>(49,881)</b>	(52,724)
<b>Financing activities</b>		
Proceeds from exercise of warrants	<b>3,681</b>	10,320
Term loan (repayment)/receipt	<b>(4,647)</b>	(5,055)
Short term borrowings	<b>31,547</b>	272,474
Repayment of government loan	<b>(14,000)</b>	-
Hire purchase/lease liabilities repayment	<b>(2,785)</b>	(9,568)
Dividends paid	-	(13,498)
	<b>13,796</b>	254,673
<b>Net change in cash and cash equivalents</b>	<b>(24,816)</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>135,057</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.

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**Selected Explanatory Notes in accordance with FRS 134 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 cyclical 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 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 was approved in the recent Annual General Meeting .

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

**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.

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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 30 June 2008, the Group recorded a turnover of RM652.0 million and a profit after tax of RM182.9 million.

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

The Group's revenue for the second quarter ended 30 June 2008 increased by RM68.6 million or 11.7% to RM652.0 million, as compared to RM583.5 million in the preceding quarter.

The Group achieved a profit after tax of RM182.9 million for the quarter under review which is 81% higher than the profit after tax of RM101.2 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 half year.

**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 30/06/08 RM '000	Current year- to-date 30/06/08 RM '000
Current taxation	(120)	(377)
Deferred taxation	-	1,600
	<u>(120)</u>	<u>1,223</u>

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**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**

Perwaja Holdings Berhad ("PHB") was incorporated as an investment holding company to facilitate the listing of our wholly-owned subsidiary Perwaja Steel Sdn Bhd ("PSSB") on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Flotation"). The Flotation comprises the following:

- Acquisition of the entire equity interest in PSSB by PHB for a purchase consideration of RM966,253,600 which was satisfied by the issuance of 499,999,998 new ordinary shares of RM1.00 each in PHB ("PHB Shares"). The acquisition was completed on 24 June 2008 ("Acquisition of PSSB").
- After the completion of the Acquisition of PSSB and as part of the Flotation, PHB shall place out 156,123,000 irredeemable convertible unsecured loan stocks of nominal value of RM1.00 ("ICULS") to Kinsteel Bhd ("Kinsteel");
- Public issue and offer for sale of 150,000,000 PHB Shares ("IPO Shares") comprising:
  - (I) Restricted offering of 101,476,000 PHB Shares by way of a renounceable restricted offer to the entitled shareholders of Kinsteel in direct proportion to their shareholdings therein as at the entitlement date of 18 July 2008 at an issue/offer price of RM2.23 per PHB Share;
  - (II) Offering of 26,124,000 PHB Shares to identified investors at an issue price of RM2.90 per PHB Shares;
  - (III) Offering of 11,200,000 PHB Shares to eligible Directors and employees of Kinsteel and its subsidiary companies and PHB and its subsidiary company ("Group") and persons who have contributed to our Group's success at an issue price of RM2.90 per PHB Share; and
  - (IV) Offering of 11,200,000 PHB Shares to the Malaysian public at an issue price of RM2.90 per PHB Share;
- Listing of and quotation for PHB's entire enlarged issued and paid-up share capital of RM560,000,000 comprising 560,000,000 PHB Shares on the Main Board of Bursa Securities.

Approvals have been obtained for the Flotation Scheme from the following parties :-

- (i) Securities Commission ("SC"), vide its letters dated 31 March 2008 and 25 June 2008 under Section 212(5) of the Capital Markets & Services Act 2007 ("CMSA");
- (ii) Equity Compliance Unit of the SC under the FIC's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests, of which approval was obtained on 31 March 2008;
- (iii) Private Debt Securities Unit of the SC under the Guidelines on the Offering of Private Debt Securities for the ICULS Placement of which approval was obtained on 31 March 2008;
- (iv) Ministry of International Trade and Industry ("MITI"), vide its letters dated 11 April 2008 and 27 May 2008;
- (v) Bursa Securities, for the admission to the Official List and listing of and quotation for the entire enlarged issued and paid-up share capital of PHB upon completion of the Flotation Scheme and the new PHB Shares to be issued pursuant to the conversion of the ICULS, on the Main Board of Bursa Securities, the approval-in-principle which was obtained on 29 July 2008;
- (vi) shareholders of Kinsteel at an extraordinary general meeting held on 11 June 2008; and
- (vii) shareholders of PSSB, namely Equal Concept Sdn Bhd ("ECSB") and Maju Holdings Sdn Bhd at their respective extraordinary general meetings held on 10 June 2008.

Our Prospectus was issued on 21 July 2008 whereby application for the IPO Shares will be accepted from 9.00 a.m. on 21 July 2008 and will be closed at 5.00 p.m. on 6 August 2008 or such other later date or dates as our Directors, the Offerors (Kinsteel and ECSB) and Managing Underwriter in their absolute discretion may mutually decide.

The tentative listing date of PHB is 20 August 2008.

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

Not applicable.

**B9 Group borrowings**

	30/06/08 RM'000
Secured	678,008
Unsecured	822,553
<b>Total borrowings</b>	<u><u>1,500,561</u></u>
<b>Short term borrowings</b>	
Bank overdrafts	8,338
Hire purchase/lease creditors	19,922
Bankers' acceptance and trust receipts	648,101
Trade loan	
Term loans	158,758
Murabahah Commercial Papers	15,000
<b>Sub-total</b>	<u><u>850,119</u></u>
<b>Long term borrowings</b>	
Term loans	49,166
Government loan	190,637
Hire purchase/lease creditors	639
Murabahah Medium Term Notes	410,000
<b>Sub-total</b>	<u><u>650,442</u></u>
<b>Total borrowings</b>	<u><u>1,500,561</u></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.

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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. 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.

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 9 September 2008. PSSB has filed an application to amend its defence to include a counterclaim(Enclosure 31) which application is now fixed for hearing on 9 September 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 together with damages, interest calculated at the rate of 8% from 15 July 1999 to date of judgment and interest calculated at 8% from the date of judgment to the date of full and final realisation and costs for construction works done under an agreement dated 20 October 1998 for the Multimedia University Campus Development in Cyberjaya.

Arus Zaman has filed a Counter-Claim against PSSB for the sum of RM69,014.13 for overpayment together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. On 18 January 2006, the court allowed Arus Zaman's application to amend their Defence and Counterclaim which the claim is amended to RM400,227.52 together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. This matter is fixed for case management on 17 September 2008.

The solicitors of PSSB are of the view that since a substantial part of the documents for PSSB's claim, at first sight are not certified, 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 28 August 2008. The matter is also fixed for case management on 28 August 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.

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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")  
PSSB vs Megasteel

Megasteel file the D2 Suit against PSSB on 22 November 2007 inter-alia for an injunction to restrain PSSB from acting upon the S218 Notice. Megasteel also filed an ex-parte application for an injunction ("Injunction Application") to restrain PSSB from acting upon the S218 Notice.

PSSB has then filed a Winding-Up Petition (D1 Suit) against Megasteel on 11 January 2008 pursuant to a Statutory Notice under Section 218 of the Companies Act 1965 for the outstanding sum of RM3,390,509.03 when the High Court decided in favour of PSSB on 11 January 2008 on the D2 Suit. However, PSSB filed an application for leave to appeal to the Federal Court when the Court of Appeal decided in favour of Megasteel on 17 January 2008 on the D2 Suit.

The Court has fixed 27 November 2008 for hearing of the D1 Suit pending the disposal of PSSB's application for leave to appeal to the Federal Court in respect of the D2 Suit, which was adjourned from 19 June 2008 to a date to be determined.

*The solicitors of PSSB are of the opinion that Megasteel has no viable defence to PSSB's claim in the D1 Suit. The*

**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 30/06/2008 RM'000	Current year to date 30/06/2008 RM'000
Net profit attributable to ordinary shareholders (RM'000)	103,324	164,944
Weighted average number of ordinary shares in issue ('000)	920,005	920,005
Basic earnings per share (sen)	11.23	17.93

**(b) Diluted earnings per share**

	Current year quarter 30/06/2008 RM'000	Current year to date 30/06/2008 RM'000
Adjusted net profit attributable to ordinary shareholders (RM'000)	103,820	165,935
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>1,043,919</u>	<u>1,043,919</u>
Diluted earnings per share (sen)	9.95	15.90