

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

Quarterly report on consolidated results for the third quarter ended 30 September 2006.

The figures have not been audited.

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

	2006	2005	2006	2005
	Current	Comparative	9 months	9 months
	Quarter	Quarter	Cumulative	Cumulative
	30.09.2006	30.09.2005	30.09.2006	30.09.2005
	RM'000	RM'000	RM'000	RM'000
Revenue	231,436	139,322	781,829	381,875
Operating expenses	(161,198)	(130,847)	(692,627)	(358,066)
Other operating income	5,295	393	9,047	1,115
Negative goodwill	340,572	-	340,572	-
Finance cost	(6,851)	(2,249)	(14,965)	(7,656)
Profit before taxation	409,254	6,619	423,856	17,268
Taxation	(753)	(643)	(1,930)	(826)
Profit for the period	408,501	5,976	421,926	16,442
Attributable to:				
Equity holders of the parent	376,745	5,976	390,170	16,442
Minority Interests	31,756	-	31,756	-
Profit for the period	408,501	5,976	421,926	16,442
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	322.92	7.39	334.43	20.34
- Diluted (sen)	306.63	7.39	307.69	20.34

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2006**

	30.09.2006 RM'000	31.12.2005 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	<u>2,381,579</u>	<u>151,502</u>
Current assets		
Inventories	320,732	239,281
Receivables	365,599	163,366
Tax recoverable	706	22
Deposits with licensed banks	34,952	48,716
Cash and bank balances	<u>28,534</u>	<u>5,830</u>
	<u>750,523</u>	<u>457,215</u>
TOTAL ASSETS	<u><u>3,132,102</u></u>	<u><u>608,717</u></u>
EQUITY AND LIABILITIES		
Share capital	<u>170,000</u>	<u>110,000</u>
Reserves	<u>562,420</u>	<u>95,889</u>
Equity attributable to equity holders of the parent	<u>732,420</u>	<u>205,889</u>
Minority interest	<u>627,123</u>	<u>-</u>
Total equity	<u>1,359,543</u>	<u>205,889</u>
Non-current liabilities		
Borrowings	684,052	5,423
Deferred taxation	<u>16,139</u>	<u>16,293</u>
	<u>700,191</u>	<u>21,716</u>
Current liabilities		
Trade and other payables	677,800	29,753
Overdrafts and short term borrowings	393,895	351,066
Provision for taxation	673	293
	<u>1,072,368</u>	<u>381,112</u>
Total liabilities	<u>1,772,559</u>	<u>402,828</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,132,102</u></u>	<u><u>608,717</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	4.31	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.

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 2006**

←..... Attributable to Equity Holders of the Company→

	Share Capital RM'000	Retained Profits RM'000	Reserves RM'000	Total RM'000	Minority Interest RM'000	Total Equity RM'000
<u>6 months quarter ended</u>						
<u>30 September 2006</u>						
Balance at beginning of period	110,000	72,676	23,213	205,889	-	205,889
<u>Movements</u>						
<u>during the period</u>						
Retained profit for the period	-	55,098	-	55,098	31,756	86,854
Negative goodwill	-	340,572	-	340,572	-	340,572
Arising from additional shares issued by parent	60,000	-	21,600	81,600	-	81,600
Listing expenses	-	-	(3,232)	(3,232)	-	(3,232)
Arising from acquisition of equity interest in subsidiaries	-	-	57,993	57,993	595,367	653,360
Dividends paid	-	(5,500)	-	(5,500)	-	(5,500)
Balance at end of period	170,000	462,846	99,574	732,420	627,123	1,359,543
<u>9 months quarter ended</u>						
<u>30 September 2005</u>						
Balance at beginning of period	60,000	58,517	6,202	124,719	-	-
<u>Movements</u>						
<u>during the period</u>						
Arising from Rights Issue	50,000	-	18,000	68,000	-	-
Rights issue expenses	-	-	(980)	(980)	-	-
Retained profit for the period	-	16,442	-	16,442	-	-
Dividends paid	-	(5,500)	-	(5,500)	-	-
Balance at end of period	110,000	69,459	23,222	202,681	-	-

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.

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2006**

	2006	2005
	9 months ended	9 months ended
	30.09.2006	30.09.2005
	RM'000	RM'000
Net profit for the period	421,926	16,442
Adjustments for non -cash flow :		
Non-cash items	(313,250)	13,392
Operating profit before working capital changes	108,676	29,834
Changes in working capital		
Net change in current assets	79,919	(39,575)
Net change in current liabilities	(141,149)	1,820
	47,446	(7,921)
Interest paid	(15,843)	(7,655)
Interest received	836	5
Tax paid	(2,266)	(744)
Net cash flows from operating activities	30,173	(16,315)
Investing activities		
Purchase of property, plant and equipment	(699,494)	(27,466)
Investment in subsidiaries	(297,600)	-
	(997,094)	(27,466)
Financing activities		
Issuance of shares	767,172	-
Rights issue	-	67,020
Term loan (repayment)/receipt	17,068	(1,647)
Receipt from Murabahah Medium Term Notes ("MMTN") and Murabahah Commercial Papers and /or Medium Term Notes ("CP/MTN")	425,000	-
Short term borrowings	(217,875)	25,539
Hire purchase/lease financing	(6,262)	(584)
Dividends paid	(5,500)	(5,500)
	979,603	84,828
Net change in cash and cash equivalents	12,682	41,047
Cash and cash equivalents at beginning of the period	11,538	4,840
Cash and cash equivalents at end of the period	24,220	45,887

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2005.

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 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. The principal effects of the changes in accounting policies resulting from adoption of the other new/revised FRS are presented below:

(a) FRS 101: Presentations of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

KINSTEEL BHD.

(Incorporated in Malaysia)

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

The following securities were issued during for the financial period under review :-

Kinsteel Berhad

a. Murabahah Commercial Papers (CP)

Date of issue : 28 August 2006

Size of issue : RM15 million

Tenure : 184 days

Details of utilisation : Finance fees and expenses relating to the Murabahah Notes Programme and general working capital purposes

b. Murabahah Medium Term Notes (MTN)

Date of issue : 7 September 2006

Size of issue : RM100 million

Details of issue : 8 tranches of RM10million and RM20 million each

Tenure : 3 to 10 years

Profit rate : 7.5 to 9.8% per annum

Details of utilisation : Finance acquisition of plant and land at Gurun (as detailed in Note B8) and pre-fund the minimum balances per the expenses relating to the MTN Programme in respect of profits.

Perwaja Steel sdn Bhd

Murabahah Medium Term Notes (MTN)

Date of issue : 25 September 2006

Size of issue : RM310 million

Details of issue : tranches of RM20million, RM40 million and RM50 million each

Tenure : 3 to 9 years

Profit rate : 7.6 to 9.7% per annum

Details of utilisation : refinancing of the Issuer's existing bank borrowings, for part payment of amounts owing to Tenaga Nasional Berhad ("TNB") by PSSB, to fund the Finance Service Reserve Account in respect of the Proposed MTN Programme, and for working capital and general funding requirements of the Issuer that comply with Syariah principles.

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

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 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

Other than the acquisition of equity in Perwaja Steel Sdn Bhd and Perfect Channel Sdn Bhd as stated in Note B8, there was no other 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.

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 nine months period ended 30 September 2006, the Group recorded a turnover of RM781.8 million and a profit before taxation of RM423.9 million. This is attributable to the contribution from sales of direct reduced iron ("DRI"), billets, beams, wire rods, steel bars and related products.

B2 Comparison with preceding quarter's results

The Group's revenue for the third quarter ended 30 September 2006 decreased by RM6.6 million or 2.8 % to RM231.4 million, as compared to RM238.0 million in the preceding quarter. This is mainly due to lower sales of related steel products.

The Group achieved a profit before tax of RM409.3 million for the quarter under review which is significantly higher by RM402.6 million than the profit before tax of RM6.7 million in the preceding quarter. This is attributable to the recognition of negative goodwill arising from the acquisition of subsidiaries stated in Note B8 and the profit contribution from these subsidiaries during the period.

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 steel products.

With the completion of the acquisitions of Perwaja Stel Sdn Bhd and Perfect Channel Sdn Bhd, the product range of the Group will be expanded to cover upstream, midstream and downstream products. This will strengthen the Group's position to meet the demands from both local and international markets.

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 improved.

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 30/09/2006 RM '000	Current year- to-date 30/09/2006 RM '000
Current income taxation	791	2,084
Deferred taxation	(38)	(154)
	<u>753</u>	<u>1,930</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 of 28% as follows:-

	Current quarter 30/09/2006 RM '000	Current year- to-date 30/09/2006 RM '000
Group profit before tax	504,868	519,470
Less: Non-taxable income	(436,186)	(436,186)
	<u>68,682</u>	<u>83,284</u>
Tax calculated at a tax rate of 20%	5	114
Tax calculated at a tax rate of 28%	1,357	5,292
Tax effect of expenses that are not deductible in determining taxable profit	(455)	154
Utilisation of previously unrecognised reinvestment allowances to reduce current tax	(152)	(4,310)
Others	(2)	680
Tax charge	<u>753</u>	<u>1,930</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) Strategic Alliance with of Maju Holdings Sdn Bhd ("Maju") and a few of its subsidiaries ("Perwaja Vendors"):

The conditional strategic alliance agreement dated 7 October 2005 between Kinsteel Berhad ("Kinsteel") and the Perwaja Vendors was completed on 7 September 2006. Arising from this, the following proposals were completed :-

(i) Acquisition by 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") which was satisfied by :

(a) an issue of 60,000,000 new ordinary shares of RM1.00 each in Kinsteel ("Kinsteel Shares") at a 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 date of Strategic Alliance;

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

KINSTEEL BHD.

(Incorporated in Malaysia)

(ii) 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:

- (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.

(2) 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.

(b) Status of utilisation of proceeds raised from rights issue

The proceeds of the rights issue amounted to RM68 million had been fully utilised to defray the capital expenditure on the new wire rods plant of Kinsteel Bhd and the expenses related to the rights issue which amounted to about RM1 million.

B9 Group borrowings

	30/9/2006 RM'000
Secured	602,865
Unsecured	475,082
Total borrowings	<u>1,077,947</u>
Short term borrowings	
Bank overdrafts	9,179
Hire purchase/lease creditors	9,937
Bankers' acceptance and trust receipts	353,060
Term loans	6,720
MMTN	15,000
Sub-total	<u>393,896</u>

KINSTEEL BHD.

(Incorporated in Malaysia)

Long term borrowings

Term loans	17,970
Government loan	255,430
Hire purchase/lease creditors	651
CP/MTN	410,000
Sub-total	<u>684,051</u>
Total borrowings	<u><u>1,077,947</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.

B11 Material litigation

Material litigations pending since the last annual balance sheet date arise from those of the subsidiary of Kinsteel Berhad, i.e. Perwaja Steel Sdn Bhd ("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 have informed their solicitors that they are still in the process of negotiating an out of court settlement with MPK. The case is now pending a new date for mention.

KINSTEEL BHD.

(Incorporated in Malaysia)

(iv) Kuala Lumpur High Court Civil Suit No.: S1-22-971-2005
Tenaga Nasional Berhad (“TNB”) vs PSSB

TNB is claiming against PSSB for unpaid electricity charges for the principal and late charges of about RM273.4 million.

PSSB has signed a settlement agreement at an agreed quantum with TNB and pending the finalisation of the terms of Consent Judgement; and make payment of RM75 million to TNB so far.

The Directors of PSSB are of the opinion that the above cases will not give rise to any material adverse to the Group.

B12 Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2005 other than that stated in Note A8.

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 30/09/2006 RM'000	Current year to date 30/09/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	376,745	390,170
Weighted average number of ordinary shares in issue ('000)	116,667	116,667
Basic earnings per share (sen)	322.92	334.43

(b) Diluted earnings per share

	Current year quarter 30/09/2006 RM'000	Current year to date 30/09/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	376,745	390,170
Weighted average number of ordinary shares in issue ('000)	116,667	116,667
Adjustment for dilutive effect of warrants ('000)	6,200	10,138
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>122,867</u>	<u>126,805</u>
Diluted earnings per share (sen)	306.63	307.69