

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

Quarterly report on consolidated results for the third quarter ended 30 September 2007.

The figures have not been audited.

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

	2007	2006	2007	2006
	Current	Comparative	9 months	9 months
	Quarter	Quarter	Cumulative	Cumulative
	30.09.2007	30.09.2006	30.09.2007	30.09.2006
	RM'000	RM'000	RM'000	RM'000
Revenue	582,360	231,436	1,530,181	781,829
Operating expenses	(509,404)	(161,198)	(1,333,208)	(692,627)
Other operating income	12,652	5,295	15,055	9,047
Negative goodwill	-	317,172	-	317,172
Finance cost	(15,138)	(6,851)	(50,301)	(14,965)
Profit before taxation	70,470	385,854	161,727	400,456
Taxation	(386)	(753)	(727)	(1,930)
Profit for the period	70,084	385,101	161,000	398,526
Attributable to:				
Equity holders of the parent	40,474	353,346	97,340	366,771
Minority Interests	29,610	31,755	63,660	31,755
Profit for the period	70,084	385,101	161,000	398,526
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	4.50	60.57	10.81	62.88
- Diluted (sen)	3.94	49.54	9.47	50.40

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.

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

	30.09.2007	31.12.2006
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,340,498	2,357,773
Prepaid lease payments	41,127	41,786
Deferred tax assets	110,000	110,000
	<u>2,491,625</u>	<u>2,509,559</u>
Current assets		
Inventories	602,789	432,564
Receivables	308,838	347,015
Tax recoverable	123	153
Deposits with licensed banks	77,286	23,803
Cash and bank balances	82,015	23,680
	<u>1,071,051</u>	<u>827,215</u>
TOTAL ASSETS	<u><u>3,562,676</u></u>	<u><u>3,336,774</u></u>
EQUITY AND LIABILITIES		
Share capital	180,025	170,000
Reserves	565,843	481,997
Equity attributable to equity holders of the parent	745,868	651,997
Minority interest	674,701	611,041
Total equity	<u>1,420,569</u>	<u>1,263,038</u>
Non-current liabilities		
Borrowings	719,782	685,307
Deferred taxation	17,926	18,626
	<u>737,708</u>	<u>703,933</u>
Current liabilities		
Trade and other payables	590,267	833,629
Overdrafts and short term borrowings	812,926	535,235
Provision for taxation	1,206	939
	<u>1,404,399</u>	<u>1,369,803</u>
Total liabilities	<u>2,142,107</u>	<u>2,073,736</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,562,676</u></u>	<u><u>3,336,774</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	4.14	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.

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 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	451,508	652,001	611,041	1,263,042
<u>Movements</u>						
<u>during the period</u>						
Exercise of warrants	10,025	-	-	10,025	-	10,025
Retained profit for the period	-	-	97,340	97,340	63,660	161,000
Dividends paid	-	-	(13,497)	(13,497)	-	(13,497)
Balance at 30.09.2007	180,025	30,493	535,351	745,869	674,701	1,420,570
Balance at 1.1.2006	110,000	23,213	72,676	205,889	-	205,889
<u>Movements</u>						
<u>during the period</u>						
Retained profit for the period	-	-	49,599	49,599	31,756	81,355
Negative goodwill	-	-	317,172	317,172	-	317,172
Arising from additional share issued by parent	60,000	14,400	-	74,400	-	74,400
Listing expenses	-	(3,232)	-	(3,232)	-	(3,232)
Arising from acquisition of equity interest in subsidiaries	-	-	-	-	565,967	565,967
Dividends paid	-	-	(5,500)	(5,500)	-	(5,500)
Balance at 30.09.2006	170,000	34,381	433,947	638,328	597,723	1,236,051

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.

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

	30.09.2007 RM'000	31.12.2006 RM'000
Profit before tax	161,727	435,736
Adjustments for non -cash flow :		
Depreciation	76,288	37,780
Non-cash items	48,068	(362,232)
Operating profit before working capital changes	286,083	111,284
Changes in working capital	(374,989)	(271,108)
	(88,906)	(159,824)
Interest paid	(54,729)	(31,243)
Interest received	6,240	1,058
Tax paid	(1,130)	(3,385)
Net cash flows from operating activities	(138,525)	(193,394)
Investing activities		
Purchase of property, plant and equipment	(50,113)	(83,235)
Acquisition of subsidiary	-	(105,148)
	(50,113)	(188,383)
Financing activities		
Conversion of warrants	10,025	-
Pursuant to the Strategic Alliance		(7,120)
Term loan (repayment)/receipt	36,627	(40,209)
Receipt from Murabahah Medium Term Notes ("MMTN") and Murabahah Commercial Papers and /or Medium Term Notes ("CP/MTN")	-	425,000
Short term borrowings	281,947	27,748
Hire purchase/lease financing	(3,143)	(9,515)
Dividends paid	(13,497)	(5,500)
	311,959	390,404
Net change in cash and cash equivalents	123,321	8,627
Cash and cash equivalents at beginning of the period	28,489	19,862
Cash and cash equivalents at end of the period	151,810	28,489

The Condensed Consolidated Cash Flow 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.

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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 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 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

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.

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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

The Group's revenue of RM582.4 million for the quarter under review was 151.7% higher than the preceding year's corresponding quarter of RM231.4 million mainly due to the turnover from Perwaja Steel Sdn Bhd and Perfect Channel Sdn Bhd. However, profit after taxation for the quarter under review dropped by RM315.0 million or 81.8% to RM70.1 million as compared to the preceding year's corresponding quarter of RM408.5 million due to the recognition of negative goodwill arising from the acquisition of subsidiaries during the preceding year.

B2 Comparison with preceding quarter's results

The Group's revenue for the third quarter ended 30 September 2007 increased by RM98.1 million or 20.3 % to RM582.4 million, as compared to RM484.3 million in the preceding quarter. This is mainly due to increased sales of the Group's products which were boosted by higher selling prices.

The Group achieved a profit before tax of RM70.5 million for the quarter under review which is 62.8% higher than the profit before tax of RM43.3 million in the preceding quarter. This is attributable to higher contribution from sales of upstream and downstream products which provided higher profitability margins.

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. International steel prices remain strong coupled with 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. Following these, the Board is optimistic on the performance of the Group for the last quarter.

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.

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B5 Taxation

(a) Taxation comprises the following :-

	Current year quarter 30/09/2007 RM '000	Current year- to-date 30/09/2007 RM '000
Current income taxation	386	1,427
Deferred taxation	-	(700)
	<u>386</u>	<u>727</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 as follows:-

	Current year quarter 30/09/2007 RM '000	Current year- to-date 30/09/2007 RM '000
Group profit before tax	<u>70,470</u>	<u>161,727</u>
Tax calculated at a tax rate of 20%	949	3,076
Tax calculated at a tax rate of 27%	17,745	39,514
Tax effect of expenses that are not deductible in determining taxable profit	302	544
Utilisation of capital allowances	(2,626)	(9,380)
Utilisation of unabsorbed tax losses	(15,984)	(34,041)
Unutilised reinvestment allowance	-	1,014
Tax charge	<u>386</u>	<u>727</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.

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B8 (a) Status of corporate proposals

The Share Split was completed on the following dates:

(i) On 01 October 2007, the Company announced that 900,127,500 Subdivided Shares pursuant to the Share Split have been issued and credited to the shareholders of Kinsteel whose names appear in the Record of Depositors for ordinary shares as at the close of business at 5.00 p.m. on 01 October 2007 ("Entitlement Date"). The Subdivided Shares were listed and quoted on the Main Board of Bursa Malaysia Securities Berhad on 02 October 2007.

(ii) On the same date, the Company announced that 119,898,000 new additional Warrants ("Additional Warrants") pursuant to the Adjustment have been issued and credited to the Warrant holders of Kinsteel whose names appear in the Record of Depositors for Warrants as at the Entitlement Date. The Additional Warrants were listed and quoted on the Main Board of Bursa Malaysia Securities Berhad on 02 October 2007. In accordance with the Deed Poll, the exercise price of the Warrants was adjusted from RM1.00 per share to RM0.20 per share pursuant to the Share Split.

(b) Status of utilisation of proceeds

Not applicable.

B9 Group borrowings

	30.09.2007 RM'000
Secured	633,134
Unsecured	884,470
Total borrowings	<u><u>1,517,604</u></u>
Short term borrowings	
Bank overdrafts	7,491
Hire purchase/lease creditors	11,429
Bankers' acceptance and trust receipts	743,999
Trade loan	13,183
Term loans	6,720
Murabahah Commercial Papers	15,000
Sub-total	<u><u>797,822</u></u>
Long term borrowings	
Term loans	54,166
Government loan	255,430
Hire purchase/lease creditors	186
Murabahah Medium Term Notes	410,000
Sub-total	<u><u>719,782</u></u>
Total borrowings	<u><u>1,517,604</u></u>

The above Group borrowings are denominated in Ringgit Malaysia.

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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 a subsidiary of the Company 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 matter is now fixed for hearing of Plaintiff's Application to amend their Defence and for mention of Application under O.27 on 9 January 2008. The matter is also fixed for case management on 28 February 2008 pending disposal of the two Applications.

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. The matter is fixed for Mention on 04 March 2008.

PSSB's solicitors are of the opinion that PSSB has a good chance of success.

- (iii) PSSB has issued and served a statutory notice pursuant to Section 218 of the Companies Act 1965 on Megasteel Sdn Bhd (“Megasteel”), a subsidiary of Lion Corporation Berhad, in respect of non payment of a long outstanding sum. The notice will expire on 30 November 2007.

- (iv) Kuala Lumpur High Court Civil Suit No. D8-22-1464-2007
Megasteel vs. PSSB

In the Statement of Claim, Megasteel has alleged that PSSB has breached two purchase orders. Megasteel is claiming for a sum of RM36,079,860.33 being the differential sum between the contracted price and market price over the remaining quantity, of which the purchase orders have been terminated by PSSB.

PSSB has entered an Appearance on 21 November 2007 and instructed its solicitors to defend the claim. PSSB's solicitors are of the view that the claim is mischievous as Megasteel itself is in breach of the purchase orders inter alia failing to pay PSSB. Hence, PSSB has a strong defence to Megasteel's claim.

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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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 30/09/2007 RM'000	Current year to date 30/09/2007 RM'000
Net profit attributable to ordinary shareholders (RM'000)	40,474	97,340
Weighted average number of ordinary shares in issue ('000)	900,125	900,125
Basic earnings per share (sen)	4.50	10.81

(b) Diluted earnings per share

	Current year quarter 30/09/2007 RM'000	Current year to date 30/09/2007 RM'000
Net profit attributable to ordinary shareholders (RM'000)	40,474	97,340
Weighted average number of ordinary shares in issue ('000)	900,125	900,125
Adjustment for dilutive effect of warrants ('000)	127,835	127,835
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>1,027,960</u>	<u>1,027,960</u>
Diluted earnings per share (sen)	3.94	9.47