

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

Quarterly report on consolidated results for the fourth quarter ended 31 December 2006.

The figures have not been audited.

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTER ENDED 31 DECEMBER 2006**

	2006	2005	2006	2005
	Current	Comparative	12 months	12 months
	Quarter	Quarter	Cumulative	Cumulative
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Revenue	372,368	169,606	1,154,197	551,481
Operating expenses	(318,135)	(163,559)	(1,010,762)	(521,625)
Other operating income	5,243	422	14,290	1,537
Negative goodwill	-	-	340,572	-
Finance cost	(16,450)	(3,222)	(31,415)	(10,878)
Profit before taxation	43,025	3,247	466,881	20,515
Taxation	(5,412)	206	(7,342)	(620)
Profit for the period	37,613	3,453	459,539	19,895
Attributable to:				
Equity holders of the parent	20,714	3,453	410,884	19,895
Minority Interests	16,898	-	48,654	-
Profit for the period	37,613	3,453	459,539	19,895
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	17.76	3.70	352.19	21.32
- Diluted (sen)	17.84	3.70	340.63	21.32

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 31 DECEMBER 2006**

	31.12.2006 RM'000	31.12.2005 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,402,221	151,502
Current assets		
Inventories	377,833	239,281
Receivables	494,588	163,366
Tax recoverable	174	22
Deposits with licensed banks	24,356	48,716
Cash and bank balances	10,719	5,830
	<u>907,670</u>	<u>457,215</u>
TOTAL ASSETS	<u>3,309,891</u>	<u>608,717</u>
EQUITY AND LIABILITIES		
Share capital	170,000	110,000
Reserves	579,246	95,889
Equity attributable to equity holders of the parent	749,246	205,889
Minority interest	644,022	-
Total equity	<u>1,393,268</u>	<u>205,889</u>
Non-current liabilities		
Borrowings	683,494	5,423
Deferred taxation	19,556	16,293
	<u>703,051</u>	<u>21,716</u>
Current liabilities		
Trade and other payables	694,383	29,753
Overdrafts and short term borrowings	518,174	351,066
Provision for taxation	1,016	293
	<u>1,213,573</u>	<u>381,112</u>
Total liabilities	<u>1,916,624</u>	<u>402,828</u>
TOTAL EQUITY AND LIABILITIES	<u>3,309,891</u>	<u>608,717</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	4.41	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 31 DECEMBER 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
Balance at 1.1.2006	110,000	61,391	23,213	194,604	-	194,604
<u>Movements</u>						
<u>during the period</u>						
Retained profit for the year	-	70,312	-	70,312	48,654	118,967
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	-	-	70,890	70,890	595,367	666,257
Dividends paid	-	(5,500)	-	(5,500)	-	(5,500)
Balance at 31.12.2006	170,000	466,775	112,471	749,246	644,021	1,393,268
Balance at 1.1.2005	60,000	58,518	6,202	124,720	-	-
<u>Movements</u>						
<u>during the year</u>						
Arising from Rights Issue	50,000	-	17,011	67,011	-	-
Rights issue expenses	-	-	-	-	-	-
Retained profit for the year	-	19,658	-	19,658	-	-
Dividends paid	-	(5,500)	-	(5,500)	-	-
Balance at 31.12.2005	110,000	72,676	23,213	205,889	-	-

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 QUARTER ENDED 31 DECEMBER 2006**

	31.12.2006 RM'000	31.12.2005 RM'000
Net profit	459,539	19,658
Adjustments for non -cash flow :		
Depreciation	37,089	6,865
Non-cash items	33,758	10,253
Operating profit before working capital changes	530,386	36,776
Changes in working capital	(587,428)	(145,322)
	(57,042)	(108,546)
Interest paid	(31,415)	(10,876)
Interest received	1,045	1,116
Tax paid	(3,387)	(778)
Net cash flows from operating activities	(90,800)	(119,084)
Investing activities		
Purchase of property, plant and equipment	(735,460)	(44,165)
	(735,460)	(44,165)
Financing activities		
Issuance of shares	-	67,011
Term loan (repayment)/receipt	16,638	(3,794)
Receipt from Murabahah Medium Term Notes ("MMTN") and Murabahah Commercial Papers and /or Medium Term Notes ("CP/MTN")	425,000	-
Short term borrowings	389,662	121,350
Hire purchase/lease financing	(6,500)	(796)
Dividends paid	(5,500)	(5,500)
	819,300	178,271
Net change in cash and cash equivalents	(6,960)	15,022
Cash and cash equivalents at beginning of the period	19,862	4,840
Cash and cash equivalents at end of the period	12,902	19,862

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 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 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.

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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 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

The following securities were issued during for the financial year 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.

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A8 Dividend Paid

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.

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

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

During the quarter under review, the Group registered a revenue of RM327.4 m as compared to the corresponding period preceding year of RM169.9 m, representing an increase of RM157.5 m. The increase was mainly due to the contribution from Perwaja Steel Sdn Bhd ("PSSB") after completion of its acquisition in September 2006. The profit before tax is RM43 m as compared to RM3.2 m last year. The significant increase of the operating results was due improved sales, selling prices and contribution from upstream activities of the enlarged Group.

For the financial year ended 31 Dec 2006, the Group recorded a revenue of RM1.2 b and profit before tax of RM466.9 m as compared to the previous year revenue of RM551.5 m and profit before tax of RM20.5 m. The commendable increase in the revenue and profit before tax was due to the maiden contribution by PSSB, and recognition of negative goodwill arising from the acquisition of subsidiaries of approximately RM341 m.

B2 Comparison with preceding quarter's results

The Group registered a revenue for the last quarter ended 31 December 2006 of RM372.4 m compared to RM231.4 m in the immediate preceding quarter. Despite the increase in the turnover, the profit before tax of the Group decrease about RM366.2 m, mainly due to absence of negative goodwill arising from the acquisition of subsidiaries, seasonal lower prices 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 steel products.

With the completion of the acquisitions of Perwaja Steel 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 year 2007 and expects better performance of the Group.

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 31/12/2006 RM '000	Current year- to-date 31/12/2006 RM '000
Current income taxation	2,119	4,087
Deferred taxation	3,293	3,255
	<u>5,412</u>	<u>7,342</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 year quarter 31/12/2006 RM '000	Current year- to-date 31/12/2006 RM '000
Group profit before tax	43,025	466,881
Less: Non-taxable income	-	(340,572)
	<u>43,025</u>	<u>126,309</u>
Tax calculated at a tax rate of 20%	1	115
Tax calculated at a tax rate of 28%	1,687	6,979
Tax effect of expenses that are not deductible in determining taxable profit	- (323)	 (169)
Utilisation of previously unrecognised reinvestment allowances to reduce current tax	4,310	-
Others	(263)	417
Tax charge	<u>5,412</u>	<u>7,342</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

There were no corporate proposals announced but not completed for the current financial year todate.

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(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

	31.12.2006 RM'000
Secured	755,716
Unsecured	445,953
Total borrowings	<u><u>1,201,668</u></u>
Short term borrowings	
Bank overdrafts	11,851
Hire purchase/lease creditors	155,816
Bankers' acceptance and trust receipts	328,787
Term loans	6,720
MMTN	15,000
Sub-total	<u><u>518,174</u></u>
Long term borrowings	
Term loans	17,540
Government loan	255,430
Hire purchase/lease creditors	525
CP/MTN	410,000
Sub-total	<u><u>683,494</u></u>
Total borrowings	<u><u>1,201,668</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 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.

- (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.

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B12 Dividend

The Directors propose the payment of tax exempt final dividend of 7.5 sen per share at a payment date to be determined later. The proposed dividend is subject to approval of the shareholders at the Annual General Meeting to be held on a date to be announced later.

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 31/12/2006 RM'000	Current year to date 31/12/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	20,714	410,884
Weighted average number of ordinary shares in issue ('000)	116,667	116,667
Basic earnings per share (sen)	17.76	352.19

(b) Diluted earnings per share

	Current year quarter 31/12/2006 RM'000	Current year to date 31/12/2006 RM'000
Net profit attributable to ordinary shareholders (RM'000)	20,714	410,884
Weighted average number of ordinary shares in issue ('000)	116,667	116,667
Adjustment for dilutive effect of warrants ('000)	(580)	3,960
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>116,087</u>	<u>120,626</u>
Diluted earnings per share (sen)	17.84	340.63