

(Company No : 210470-M)

KINSTEEL BHD.

(Incorporated in Malaysia)

Quarterly report on consolidated results for the fourth quarter ended 31 December 2007.

The figures have not been audited.

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007	2006	2007	2006
	Current	Comparative	12 months	12 months
	Quarter	Quarter	Cumulative	Cumulative
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Revenue	587,984	431,635	2,118,165	1,213,464
Operating expenses	(533,203)	(396,499)	(1,866,410)	(1,089,126)
Other operating income	27,741	30,553	42,795	39,600
Negative goodwill	-	-	-	317,172
Finance cost	(14,227)	(30,409)	(64,528)	(45,374)
Profit before taxation	68,295	35,280	230,022	435,736
Taxation	(2,039)	(4,405)	(2,767)	(6,335)
Profit for the period	66,256	30,875	227,255	429,401
Attributable to:				
Equity holders of the parent	37,882	17,003	135,121	384,328
Minority Interests	28,474	13,872	92,134	45,073
Profit for the period	66,356	30,875	227,255	429,401
Earning per share attributable to equity holders of the parent:				
- Basic (sen)	4.20	13.08	14.98	295.60
- Diluted (sen)	3.68	12.06	13.12	279.20

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 31 DECEMBER 2007**

	31.12.2007 RM'000	31.12.2006 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	2,329,077	2,357,773
Prepaid lease payments	40,985	41,786
Deferred tax assets	110,000	110,000
	<u>2,480,062</u>	<u>2,509,559</u>
Current assets		
Inventories	573,080	432,564
Receivables	261,214	347,015
Tax recoverable	124	153
Deposits with licensed banks	102,132	23,803
Cash and bank balances	86,838	23,680
	<u>1,023,388</u>	<u>827,215</u>
TOTAL ASSETS	<u><u>3,503,450</u></u>	<u><u>3,336,774</u></u>
EQUITY AND LIABILITIES		
Share capital	180,320	170,000
Reserves	603,624	481,997
Equity attributable to equity holders of the parent	783,944	651,997
Minority interest	703,166	611,041
Total equity	<u>1,487,110</u>	<u>1,263,038</u>
Non-current liabilities		
Borrowings	668,006	685,307
Deferred taxation	19,665	18,626
	<u>687,671</u>	<u>703,933</u>
Current liabilities		
Trade and other payables	500,355	833,629
Overdrafts and short term borrowings	826,908	535,235
Provision for taxation	1,406	939
	<u>1,328,669</u>	<u>1,369,803</u>
Total liabilities	<u>2,016,340</u>	<u>2,073,736</u>
TOTAL EQUITY AND LIABILITIES	<u><u>3,503,450</u></u>	<u><u>3,336,774</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	0.87	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 YEAR ENDED 31 DECEMBER 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 year</u>						
Exercise of warrants	10,320	-	-	10,320	-	10,320
Retained profit for the year	-	-	135,121	135,121	92,134	227,255
Dividends paid	-	-	(13,498)	(13,498)	-	(13,498)
Arising from acquisition of equity interest in subsidiaries					(9)	(9)
Balance at 31.12.2007	<u>180,320</u>	<u>30,493</u>	<u>573,131</u>	<u>783,944</u>	<u>703,166</u>	<u>1,487,110</u>
Balance at 1.1.2006	110,000	23,213	72,676	205,889	-	205,889
<u>Movements</u> <u>during the year</u>						
Retained profit for the year	-	-	67,156	67,156	45,073	112,229
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	-	(7,120)	-	(7,120)	-	(7,120)
Arising from acquisition of equity interest in subsidiaries	-	-	-	-	565,968	565,968
Dividends paid	-	-	(5,500)	(5,500)	-	(5,500)
Balance at 31.12.2006	<u>170,000</u>	<u>30,493</u>	<u>451,504</u>	<u>651,997</u>	<u>611,041</u>	<u>1,263,038</u>

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 YEAR ENDED 31 DECEMBER 2007**

	31.12.2007 RM'000	31.12.2006 RM'000
Profit before tax	230,022	435,736
Adjustments for non -cash flow :		
Depreciation	102,241	37,780
Non-cash items	(10,943)	(362,232)
Operating profit before working capital changes	321,320	111,284
Changes in working capital	(278,559)	(271,108)
	42,761	(159,824)
Interest paid	(67,769)	(31,243)
Interest received	3,753	1,058
Tax paid	(1,231)	(3,385)
Net cash flows from operating activities	(22,486)	(193,394)
Investing activities		
Purchase of property, plant and equipment	(68,613)	(83,235)
Acquisition of subsidiary	-	(105,148)
	(68,613)	(188,383)
Financing activities		
Conversion of warrants	10,320	-
Pursuant to the Strategic Alliance		(7,120)
Term loan (repayment)/receipt	(5,054)	(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	262,101	27,748
Hire purchase/lease financing	(7,070)	(9,515)
Dividends paid	(13,498)	(5,500)
	246,799	390,404
Net change in cash and cash equivalents	155,700	8,627
Cash and cash equivalents at beginning of the year	28,489	19,862
Cash and cash equivalents at end of the year	184,189	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.

The Board of Directors recommended a first and final dividend of 1.7 sen per share (tax exempt) in respect of the financial year ended 31 December 2007 for the shareholders' approval in the forthcoming AGM.

No other dividend has been proposed or paid for the financial year 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 was no new material contingent liability or contingent asset since the last annual balance sheet date other than as disclosed in Note B11 Material Litigation of this report..

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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 RM588 million for the quarter under review was 36% higher than the preceding year's corresponding quarter of RM432 million mainly due to the increase in turnover from the subsidiaries and higher selling prices. Profit after taxation for the quarter under review increased by RM33 million or 93% to RM68 million as compared to the preceding year's corresponding quarter of RM35 million.

B2 Comparison with preceding quarter's results

The Group's revenue for the fourth quarter ended 31 December 2007 increased by RM6 million or 1 % to RM588 million, as compared to RM582 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 managed to attain a profit before tax of RM67 million for the quarter under review which is consistent with the profit before tax of RM69 million in the preceding quarter. This is attributable to additional 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 are expected to 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 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

Taxation comprises the following :-

	Current year quarter 31/12/2007 RM '000	Current year- to-date 31/12/2007 RM '000
Current income taxation	299	1,726
Deferred taxation	1,740	1,040
	<u>2,039</u>	<u>2,766</u>

The effective tax rate for the financial year was lower than that of the statutory tax rate as a result of the utilisation of reinvestment allowances.

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

The Company has on 31 Jan 2008 announced that Perwaja Steel Sdn Bhd ("PSSB"), a 51% owned subsidiary of the Company, is proposing to seek a listing on the Main Board of Bursa Securities. Perwaja Holdings Berhad ("PHB"), a newly incorporated company, will be the holding company of PSSB to facilitate the Proposed Flotation.

The related applications have been submitted to the Securities Commission, the Ministry of International Trade and Industry and Foreign Investment Committee in February 2008.

(b) Status of utilisation of proceeds

Not applicable.

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B9 Group borrowings

31.12.2007

RM'000

Secured	565,958
Unsecured	928,956
Total borrowings	1,494,914

Short term borrowings

Bank overdrafts	4,781
Hire purchase/lease creditors	10,703
Bankers' acceptance and trust receipts	653,119
Trade loan	-
Term loans	93,305
Murabahah Commercial Papers/Murabahah Medium Term Notes	65,000
Sub-total	826,908

Long term borrowings

Term loans	52,486
Government loan	255,430
Hire purchase/lease creditors	90
Murabahah Medium Term Notes	360,000
Sub-total	668,006

Total borrowings	1,494,914
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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.

Nesaga’s application for judgment for admission and PSSB’s application to amend its Defence to include a counter-claim are respectively fixed for mention on 6 March 2008. The matter is also fixed for case management on 28 February 2008 pending disposal of the two applications.

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 for construction works done in Cyberjaya. The matter is fixed for Mention on 04 March 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 Civil Suit No. D8-22-1464-2007

Megasteel vs. PSSB

On 29 October 2007, Megasteel filed the Writ of Summons and Statement of Claim alleging 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.

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 and there were variations to the purchase orders, causing time to be at large hence time is no longer of the essence. PSSB filed a Counter-Claim against Megasteel on the same day for inter-alia, the outstanding sum of RM3,390,509.03 (“Outstanding Sum”) as at 6 November 2007 for DRI supplied to Megasteel.

PSSB has then issued a statutory notice under Section 218 of the Companies Act 1965 (s218 Notice) to wind up

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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).

The solicitors of PSSB are of the opinion that PSSB stands a good chance 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

Megasteel v PSSB

As mentioned in item (iii) above, PSSB has issued a s218 Notice to wind up Megasteel for the outstanding sum of RM3,390,509.03 as at 6 November 2007 for DRI supplied to Megasteel.

As a consequence, Megasteel filed this Writ of Summons and Statement of Claim at the High Court of Malaya at Kuala Lumpur against PSSB and an ex-parte application for an injunction ("Injunction Application") on

22 November 2007, to restrain PSSB from acting upon the s218 Notice.

The Injunction Application was dismissed with costs on 11 January 2008 and PSSB filed its winding up petition on the same day. An appeal against the dismissal of the Injunction Application filed at the Court of Appeal by Megasteel was allowed with costs on 17 January 2008. The Court of Appeal also ordered that this matter be consolidated with the suit by Megasteel claiming for RM36,079,860.33 forthwith ("D8 Suit"). The appointment before the learned Judge of D8 Suit fixed on 18 January 2008 was adjourned to 29 February 2008.

PSSB has filed on 15 February 2008 the application for leave to the Federal Court against the decision of the Court of Appeal given on 17 January 2008.

B12 Dividend

No dividend has been proposed, paid or declared by the Company since 31 December 2006 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 31/12/2007 RM'000	Current year to date 31/12/2007 RM'000
Net profit attributable to ordinary shareholders (RM'000)	37,882	135,121
Weighted average number of ordinary shares in issue ('000)	901,790	901,790
Basic earnings per share (sen)	4.20	14.98

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(b) Diluted earnings per share

	Current year quarter 31/12/2007 RM'000	Current year to date 31/12/2007 RM'000
Net profit attributable to ordinary shareholders (RM'000)	37,882	135,121
Weighted average number of ordinary shares in issue ('000)	901,790	901,790
Adjustment for dilutive effect of warrants ('000)	<u>127,835</u>	<u>127,835</u>
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>1,029,625</u>	<u>1,029,625</u>
Diluted earnings per share (sen)	3.68	13.12