

YUNG KONG GALVANISING INDUSTRIES BERHAD (Company No. 032939-U)
AUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL
QUARTER ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS:-

1 *Basis of Preparation*

The interim financial report has been prepared in accordance with Financial Reporting Standard (FRS) 134₂₀₀₄, *Interim Financial Reporting*, issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa”).

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007. These explanatory notes attached to the interim financial statement provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2007.

2 *Changes in Accounting Policies*

The significant accounting policies adopted in the interim financial report are consistent with those of adopted in the most recent available annual audited financial statements for the year ended 31 December 2007 and in the previous quarter, except for the Group has adopted FRS 107, *Cash Flow Statements*; FRS 112, *Income Taxes*; FRS 118, *Revenue* and FRS 137, *Provisions, Contingent Liabilities and Contingent Assets* during the current financial year, which did not have any material impact on the financial statements of the Group.

3 *Declaration of audit qualification*

The annual financial statements of the Group for the year ended 31 December 2008 were reported on without any qualification.

4 *Seasonality or Cyclicity of interim operations*

The Group’s operations are not subject to seasonal or cyclical factors.

5 *Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence*

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size and incidence except for the write down of certain inventories to net realizable value amounted to RM10.7 million.

6 *Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year, which give a material effect in the current interim period*

There were no changes in estimates that have had material effect in the current quarter’s results.

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7 *Issuances, cancellations, repurchases, resale and repayments of debt and equity securities*

There was no issuance, cancellation, repurchase, resale and repayments of debt and equity securities during the interim period under review.

8 *Dividends*

There was no dividend paid during the interim period under review.

9 *Segmental reporting*

Segmental reporting is not necessary as the Group is principally involved in manufacturing and sale of steel related products in Malaysia.

10 *Valuation of property, plant and equipment*

The valuation of land and buildings was brought forward without amendment from the previous annual report.

11 *Material events subsequent to the end of the interim period*

There were no material events subsequent to the end of the interim period.

12 *Changes in composition of the Group*

There was no change in the composition of the Group for the current quarter under review.

13 *Changes in contingent liabilities or contingent assets*

There are no contingent liabilities or assets for the current financial year to date.

14 *Review of performance*

The Group's total revenue for the quarter under review decreased by 36% to RM82.7 million as compared to RM129.8 million (restated) in the corresponding period of the preceding year. The reduction in revenue was mainly due to economic downturn and sharp decline of steel price resulted significant shrinkage of the market for our steel products. The Group reported a pre-tax loss of RM19.58 million as compared to the RM6.37 million pre-tax profits reported in the corresponding period of the previous year, mainly due to lower sales in volume and selling price, impairment of inventories amounted to RM10.7 million and foreign exchange loss of RM5.8 million.

Despite the set back in the financial performance in 4th Quarter, the Group still achieved profit before tax of RM4.8 million for the financial year ended 31 December 2008.

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15 Variation of results against preceding quarter

For the quarter under review, the Group recorded a loss before tax of RM19.58 million as compared to RM0.72 million pre-tax profit achieved in the previous quarter. The drastic drop in profit was resulted from lower revenue, impairment of stock and foreign exchange loss.

16 Current Year Prospects

- (a) With the current global financial crisis taking impact in the region and locally, the domestic demand for steel products is unlikely to recover in near term. Unless the general economy recovers with the stimulus packages being implemented with multiplier effect, the gloomy situation may be prolonged for the next few months.

We would be more optimistic that the second half of the year 2009 may show better results.

- (b) There were no announcements or disclosures published in a public document of any revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

17 Statement of the Board of Directors' opinion on achievement of forecast

Not applicable to the Group as no announcements or disclosures were published in a public document of any revenue or profit estimate, forecast, projection or internal targets as at the date of this announcement.

18 Profit forecast

Not applicable as no profit forecast was published.

19 Tax expense

The taxation is derived as below:

| | Current Quarter RM'000 | Financial Year-To-Date RM'000 |
|-----------------------------------|---------------------------|-------------------------------------|
| Current tax expense | | |
| - current | (1,725) | 1,185 |
| - prior years | (155) | (155) |
| | (1,880) | 1,030 |
| Deferred tax expense | | |
| - current | (1,962) | 1,300 |
| - prior years | (189) | (213) |
| | (2,151) | 1,087 |
| Total | (4,031) | 2,117 |
| Effective tax rate (current year) | 20.5% | 44.1% |

The Group's effective tax rate for the current period was higher than the statutory tax rate of 26% due to non-deductible expenses such as foreign exchange losses on foreign currency loans.

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20 *Unquoted investments and properties*

There were no sales of unquoted investments and properties during the period under review.

21 *Quoted investments*

There were no purchases or sales of quoted investments during the quarter under review.

Investment in quoted securities as at 31 December 2008:

| | RM |
|--|--------|
| Total investments at cost | 42,200 |
| Total investments at carrying value/book value (after provision for diminution in value) | 23,515 |
| Total investments at market value at end of reporting period | 20,020 |

22 *Status of corporate proposal announced*

- (a) There were no corporate proposal announced and pending completion.
- (b) There were no proceeds raised from any corporate proposal during the quarter under review.

23 *Borrowing and debt securities*

| As at 31 December 2008 | Short Term Borrowing RM'000 | Long Term Borrowing RM'000 |
|--|--------------------------------|----------------------------------|
| Denominated in Ringgit Malaysia | | |
| Secured | 24,789 | 35,043 |
| Unsecured | 107,837 | 67,914 |
| Denominated in US Dollar | | |
| Unsecured | 46,170 | - |
| Total | 178,796 | 102,957 |

24 *Off balance sheet financial instruments*

The Group uses financial derivative instruments to hedge foreign exchange risks associated with certain purchase transactions. However, there were no outstanding forward foreign exchange contract and any other contracts involving off balance sheet financial instruments as at 31 December 2008.

25 *Changes in material litigation*

There are no material litigations during the period under review.

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26 Proposed Dividend

The Board of Directors recommended a first and final dividend of 2% (1 sen) per ordinary share of RM0.50 each less tax at 25% in respect of the year ended 31 December 2008, if approved by the shareholders at the forthcoming Annual General Meeting, to be payable on 29 May 2009 to depositors whose names appear in the Record of Depositors on 15 May 2009.

27 Earnings per share

| | Quarter ended 31 Dec | | Year ended 31 Dec | |
|--|----------------------|-----------|-------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Basic earnings per ordinary share | | | | |
| Net profit/(loss) attributable to the equity holders of the company (RM'000) | (14,750) | 4,960 | 1,230 | 14,427 |
| Number of ordinary shares in issue as at beginning of period | 65,178.3 | 65,178.3 | 65,178.3 | 65,178.3 |
| Share split | 65,178.3 | 65,178.3 | 65,178.3 | 65,178.3 |
| Non-cash portion of rights issue | 19,553.5 | 19,553.5 | 19,553.5 | 19,553.5 |
| Cash portion of rights issue | 22,812.4 | - | 22,812.4 | - |
| Weighted average number of ordinary shares in issue | 172,722.5 | 149,910.1 | 172,722.5 | 149,910.1 |
| Basic earnings/(loss) per ordinary share (sen) | (8.54) | 3.31 | 0.71 | 9.62 |
| Diluted earnings per share | | | | |
| Net profit/(loss) attributable to ordinary shareholders (RM'000) | (14,750) | 4,960 | 1,230 | 14,427 |
| Weighted average number of ordinary shares in issue | 172,722.5 | 149,910.1 | 172,722.5 | 149,910.1 |
| Effect of warrants | 65,178.3 | - | 65,178.3 | - |
| Weighted average number of ordinary shares | 237,900.8 | 149,910.1 | 237,900.8 | 149,910.1 |
| Diluted earnings/(loss) per ordinary share (sen) | (6.20) | 3.31 | 0.52 | 9.62 |