

**NOTES TO THE FINANCIAL STATEMENTS:-**

**1 *Basis of Preparation***

The interim financial report has been prepared in accordance with Financial Reporting Standard (FRS) 134, *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 as at and for the year ended 31 December 2009. 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 2009.

**2 *Changes in Accounting Policies***

The significant accounting policies adopted in the interim financial report are consistent with those adopted in the most recent available annual audited financial statements for the year ended 31 December 2009 and in the previous quarter except for the adoption of the following standards, amendments and interpretations which are effective for annual periods beginning on and after 1 January 2010:

- FRS 7, *Financial Instruments: Disclosures*
- FRS 8, *Operating Segments*
- FRS 101, *Presentation of Financial Statements* (revised)
- FRS 123, *Borrowing Costs* (revised)
- FRS 139, *Financial Instruments: Recognition and Measurement*
- Amendments to FRS 7, *Financial Instruments: Disclosures*
- Amendments to FRS 127, *Consolidated and Separate Financial Statements, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement, Reclassification of Financial Assets*
- Improvements to FRSs (2009)
- IC Interpretation 10, *Interim Financial Reporting and Impairment*

The adoption of FRS 139 has resulted in changes to accounting policies relating to recognition and measurement of financial instruments and the new accounting policies are as follows:

- ***Investments in equity securities***

Prior to the adoption of FRS 139, investments in non-current equity securities, other than investments in subsidiaries, were stated at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, quoted investments in non-current equity securities, other than investments in subsidiaries, are now categorised and measured as fair value through profit or loss, or as available-for sale investments.

**NOTES TO THE FINANCIAL STATEMENTS:-**

• ***Derivatives***

Prior to the adoption of FRS 139, derivative contracts were recognized in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now categorized as fair value through profit or loss and measured at their fair values with the gain or loss recognised in the profit or loss.

• ***Impairment of trade and other receivables***

Prior to the adoption of FRS 139, an allowance for doubtful debts was made when a receivable is considered irrecoverable by the management. With the adoption of FRS 139, an impairment loss is recognized for trade and other receivables and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The Board of Directors has assessed the impact of the adoption of FRS 139 and concluded that the fair value adjustments arising from remeasurement of financial instruments are immaterial to the financial statements. Thus no adjustment has been made to the opening balances of reserves.

FRS 7, FRS 8 and FRS 101 only impact presentation and disclosure aspects of the financial statements.

FRS 123 (revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset and removes the option of immediately recognising the borrowing costs as an expense. The adoption of FRS 123 (revised) does not have a material impact on the Group.

IC Interpretation 10 prohibits the reversal of an impairment loss recognised in an interim period during the financial year in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IC Interpretation 10 applies prospectively from the date the measurement criteria of FRS 136, *Impairment of Assets* and FRS 139 respectively were first applied. The adoption of IC Interpretation 10 does not have any impact to the financial statements of the Group as no reversal of such impairment loss has been made in the current or previous periods.

Improvements to FRSs (2009) contain various amendments that result in changes for presentation, recognition, measurement and/or disclosure. These amendments do not have a material impact to the Group.

**3** ***Declaration of audit qualification***

The annual financial statements of the Group for the year ended 31 December 2009 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.

**YUNG KONG GALVANISING INDUSTRIES BERHAD (Company No. 032939-U)**  
**UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL**  
**QUARTER ENDED 30 SEPTEMBER 2010**

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**NOTES TO THE FINANCIAL STATEMENTS:-**

**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*

On 5 August 2010, the Company has issued and allotted 21,726,100 Redeemable Convertible Preference Shares ("RCPS") of RM0.50 each to Nippon Steel Corporation at an issue price of RM0.60 per RCPS.

Save as disclosed above, there were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size and incidence.

**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.

**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 other than that disclosed in Note 5 above.

**8** *Dividends*

There was no dividend paid in the quarter 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.

**NOTES TO THE FINANCIAL STATEMENTS:-**

**14**     ***Review of performance***

The Group's total revenue for the quarter under review improved by 13% or RM12.5 million to RM105.0 million as compared to RM92.5 million in the corresponding period of the preceding year. The Group reported RM2.60 million profit before tax as compared to RM10.16 million reported in the corresponding period of the previous year. The increase in revenue was due to better demand of the steel products, whereas the higher cost of raw materials has resulted the lower profit being reported for the quarter under review.

**15**     ***Variation of results against preceding quarter***

For the quarter under review, the Group recorded a profit before tax of RM2.60 million as compared to RM7.75 million reported in the previous quarter. The lower profit was mainly due to lower revenue with higher input costs incurred in the current quarter under review.

**16**     ***Current year prospects***

- (a) The sentiment of slower demand in the 3<sup>rd</sup> Quarter is likely to continue for the rest of the year. We shall see difficult market situation of lower prices of our products against higher raw material costs which may impact our earnings. It is unlikely we can achieve the profitability as recorded in the first half of the year.
- (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.

**YUNG KONG GALVANISING INDUSTRIES BERHAD (Company No. 032939-U)**  
**UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL**  
**QUARTER ENDED 30 SEPTEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS:-**

**19 Income tax expense**

| The taxation is derived as below: | Current Quarter<br>RM'000 | Financial<br>Year-To-Date<br>RM'000 |
|-----------------------------------|---------------------------|-------------------------------------|
| Current tax expense               |                           |                                     |
| - current                         | 55                        | 1,651                               |
| Deferred tax expense              |                           |                                     |
| - current                         | 702                       | 3,041                               |
| <b>Total</b>                      | <b>757</b>                | <b>4,692</b>                        |

The Group's effective tax rate in the current year to date was higher than the statutory tax rate applicable for the current financial year due to non-allowable expenses offset by over provision of deferred tax in prior year.

**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 30 September 2010:

|   | RM     |
|---|--------|
| Total investments at cost   | 42,200 |
| Total investments measured at fair value at end of reporting period | 23,515 |

**22 Status of corporate proposal announced**

- (a) The proposals as announced on 4 March 2010 for the issuance of 21,726,100 Redeemable Convertible Preference Shares ("RCPS") of RM0.50 each at RM0.60 per RCPS to Nippon Steel Corporation have been approved by Shareholders in an Extraordinary General Meeting convened on 31 July 2010. The RCPS have been issued and allotted on 5 August 2010 and the proposals were deemed completed.

**YUNG KONG GALVANISING INDUSTRIES BERHAD (Company No. 032939-U)**  
**UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL**  
**QUARTER ENDED 30 SEPTEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS:-**

- (b) The proceeds raised from the issuance of RCPS amounting to RM13.036 million had been used to defray the expenses relating to the exercise and to repay the bank borrowings of the company as follows:

| Purpose                              | Proposed Utilisation RM'000 | Actual Utilisation RM'000 | Intended Timeframe for Utilisation | Deviation (RM'000)/ [Explanation]                         |
|--------------------------------------|-----------------------------|---------------------------|------------------------------------|---|
| Repayment of Bank Borrowings         | 12,856                      | 12,832                    | 12 months                          | (24)<br>[Proceed used to defray higher expenses incurred] |
| Estimated expenses for the Proposals | 180                         | 204                       | 1 month                            | 24<br>[Higher expenses incurred]                          |
| <b>Total</b>                         | <b>13,036</b>               | <b>13,036</b>             |                                    | <b>0</b>  |

**23 *Borrowing and debt securities***

As at 30 September 2010

|  | Short Term Borrowing RM'000 | Long Term Borrowing RM'000 |
|--|-----------------------------|----------------------------|
| <b>Denominated in Ringgit Malaysia</b> |                             |                            |
| Secured                                | 37,232                      | 43,939                     |
| Unsecured                              | 160,063                     | 61,675                     |
| <b>Denominated in US Dollar</b>        |                             |                            |
| Unsecured                              | 32,970                      | -                          |
| <b>Total</b>                           | <b>230,265</b>              | <b>105,614</b>             |

**24 *Financial derivative instruments***

As at end of the current quarter under review, the outstanding forward foreign currency exchange contracts are as follows:

| Type of Derivatives                       | Contract/Notional Value (RM'000) | Fair Value (RM'000) |
|---|----------------------------------|---------------------|
| Foreign Exchange Contracts (in US Dollar) |                                  |                     |
| - Less than 1 year                        | 10,675                           | 10,599              |

Forward foreign exchange contracts are used to hedge foreign exchange risks associated with certain purchase transactions. The gain arising from the fair value changes amounted to RM76,000 has been recognized in the financial statement of the quarter under review.

