

YUNG KONG GALVANISING INDUSTRIES BERHAD (Company No. 032939-U)
UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL
QUARTER ENDED 30 JUNE 2011

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 Securities”).

The interim financial statements should be read in conjunction with the audited financial statements as at and for the year ended 31 December 2010. 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 2010.

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 2010 except for the adoption of the following standards, amendments and interpretations which are effective for annual periods beginning on and after 1 January 2011:

- FRS 3, *Business Combination* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 7, *Financial Instruments: Disclosures – improving Disclosures about Financial instruments*
- IC Interpretation 4, *Determining Whether an Arrangement Contains a Lease*
- Improvements to FRSs (2010)

FRS 3 (revised), which is to be applied prospectively, incorporates the following changes to the existing FRS 3:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debts issue cost, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling interest (previously known as minority interest) will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The amendments to FRS 127 require changes in group composition to be accounted for as equity transactions between the group and its non-controlling interest holders. Prior to the adoption of FRS 127, changes in group composition are accounted for in accordance with acquisition method of accounting.

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The amendments to FRS 127 further require all losses attributable to minority interest to be absorbed by minority interest i.e. the excess and any further losses exceeding the minority interest in the equity of a subsidiary are no longer charged against the Group's interest.

The above changes in FRS 127 are not expected to have material impacts to the Group.

Amendments to FRS 7 only impact presentation and disclosure aspects of the financial statements.

IC Interpretation 4 provides guidance on determining whether certain arrangements are, or contain, leases that are required to be accounted for accordance with FRS 117 *Leases*. Where an arrangement is within the scope of FRS 117, the Group applies FRS 117 in determining whether the arrangement is a finance or an operating lease. The adoption of ICI 4 is not expected to have a material impact to the Group.

Improvements to FRSs (2010) contain amendments to ten FRSs and one Interpretation to clarify guidance and wordings or to correct for relatively unintended consequence, conflicts or oversights. 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 2010 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 save as disclosed in Note No.12.

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.

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8 *Dividends*

The proposed final dividend of 1.25 sen per ordinary share of RM0.50 each tax exempt in respect of the year ended 31 December 2010 and 1.375 sen per Redeemable Convertible Preference Share of RM0.50 each tax exempt were approved by shareholders on 13 May 2011 and was paid to the shareholders on 31 May 2011.

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*

During the quarter under review, one of the subsidiaries of the Company, Star Shine Marketing Sdn Bhd (“SSM”) has acquired the remaining shares not already owned by SSM in Star Shine Global Trading Sdn Bhd (“SSGT”), Star Shine Steel Products Sdn Bhd (“SSP”) and Star Shine Industries Sdn Bhd (“SSI”), by issuing 3,472,296 new ordinary shares of RM1.00 each at an issue price of RM1.60 per share. After the acquisition, YKGI’s shareholding in SSM has been diluted from 65% to 54.49%.

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 declined by 7% or RM8.9 million to RM116.0 million as compared to RM124.9 million in the corresponding period of the preceding year. The Group reported a pretax profit of RM1.7 million as compared to pretax profit of RM7.8 million reported in the corresponding period of the previous year. The decrease in revenue was due to lower demand, whereas the lower profit reported for the quarter under review was resulted from higher input costs which were not been able to pass on to the customers in proportion.

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

For the quarter under review, the Group recorded a pretax profit of RM1.7 million as compared to a pretax loss of RM2.9 million reported in the previous quarter. The improved profitability was mainly contributed by slightly better selling prices in the current quarter under review.

16 ***Current year prospects***

- (a) The situation remains almost unchanged as disclosed in the first quarter even though the slide of the Hot Rolled Coils (“HRC”) price is not so steep; however the finished products prices remained fairly stable during the period.

The Petition by Megasteel Sdn Bhd for safeguard on HRC is pending for a decision by MITI latest by August 2011 and this is causing uncertainties in the steel industry.

However, the Management remains optimistic and pro-active to take all the necessary precautionary actions to react to the changing environments in the steel industry.

- (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 ***Income tax expense***

The taxation is derived as below:

	Current Quarter RM’000	Financial Year-To-Date RM’000
Current tax expense		
- current year	292	505
Deferred tax expense		
- current year	54	(519)
Total	346	(14)

The Group’s effective tax rate in the current year to date was lower than the statutory tax rate applicable for the current financial year due to non recognition of certain deferred tax assets in the loss making companies.

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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 30 June 2011:

	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) On 9 March 2011, the Company announced that YKGI, through its 65% owned subsidiary, Star Shine Marketing Sdn Bhd (“SSM”) had on even date entered into several share sale agreements for:
- (i) The acquisition of 1,078,000 ordinary shares of Star Shine Steel Products Sdn Bhd (“SSP”), representing the remaining 24.5% equity interest in SSP not already owned by SSM from Dato’ Dr. Hii Wi Sing, Dato’ Soh Thian Lai, Michael Hii Ee Sing, Cheah Kok Teong, Dato’ Hii Ngo Sing, Arthur Hii Lu Choon, Christopher Hii Lu Ming, Alexander Hii Lu Kwong and Victor Hii Lu Thian, for total purchase consideration of RM1,874,276.80 to be satisfied by the issuance of 1,171,423 new SSM Shares at an issue price of RM1.60 per share;
 - (ii) The acquisition of 980,000 ordinary shares of Star Shine Global Trading Sdn Bhd (“SSGT”), representing the remaining 49.0% equity interest in SSGT not already owned by SSM from Wong Kim Sing, Dato’ Soh Thian Lai, Michael Hii Ee Sing, Wee Kay Sing, Dato’ Hii Ngo Sing, Anna Hee Ik Nang @ Anna Hii, Dato’ Dr. Hii Wi Sing, Arthur Hii Lu Choon, Christopher Hii Lu Ming, Alexander Hii Lu Kwong and Victor Hii Lu Thian, for total purchase consideration of RM1,748,379.20 to be satisfied by the issuance of 1,092,737 new SSM Shares at an issue price of RM1.60 per share;
 - (iii) The acquisition of 1,620,000 ordinary shares of Star Shine Industries Sdn Bhd (“SSI”), representing the remaining 27.0% equity interest in SSI not already owned by SSM from Dato’ Soh Thian Lai, Lu Kang Eing, Chin Hin Fatt, Choong Chee Sham, Michael Hii Ee Sing, Dato’ Dr. Hii Wi Sing, Christopher Hii Lu Ming, Arthur Hii Lu Choon, Alexander Hii Lu Kwong and Victor Hii Lu Thian, for total purchase consideration of RM1,933,017.60 to be satisfied by the issuance of 1,208,136 new SSM Shares at an issue price of RM1.60 per share;

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(Collectively to be referred to as the “Acquisition”)

The Company also on even date entered into a Share Swap Reorganisation Agreement with Starshine Holdings Berhad (“SHB”), SSM, Dato’ Dr Hii Wi Sing, Arthur Hii Lu Choon, Michael Hii Ee Sing, Alexander Hii Lu Kwong, Victor Hii Lu Thian, Dato’ Hii Ngo Sing, Mt Sungai Sdn Bhd, Dato’ Soh Thian Lai, Christopher Hii Lu Ming, Cheah Kok Teong, Wong Kim Sing, Chin Hin Fatt, Choong Chee Sam, Wee Kay Sing and Anna Hee Ik Nang @ Anna Hii (collectively to be referred to as the “Swap Vendors”), whereby SHB agreed to:

- acquire from the Swap Vendors all the 21,472,296 SSM Shares (“Swap Shares”) held by the Swap Vendors whereby the Swap Shares represent the entire equity interest of SSM after the Acquisition, and
- accept the transfer of all the shares in SSP, SSGT and SSI held by SSM, for total consideration of RM36,499,998, to be wholly satisfied by the issuance of 364,999,980 ordinary shares of RM0.10 each in SHB at an issue price of RM0.10 per SHB Share (“Reorganisation”).

On 8 April 2011, the Company announced that the Company is proposing to list SHB Group on the ACE Market of Bursa Securities (“Proposed Listing”).

The Acquisition, Reorganisation and Proposed Listing were approved by shareholders in an Extraordinary General Meeting convened on 13 May 2011.

On 13 June 2011, the Company announced that the Acquisition has been completed. The Reorganisation is pending completion; and the Proposed Listing is pending for the approval by the relevant authorities.

Save as disclosed above, there was 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 30 June 2011

	Short Term Borrowing RM’000	Long Term Borrowing RM’000
Denominated in Ringgit Malaysia		
Secured	46,602	45,503
Unsecured	181,641	53,499
Denominated in US Dollar		
Unsecured	29,655	-
Total	257,898	99,002

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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	12,520	12,568

Forward foreign exchange contracts are used to hedge foreign exchange risks associated with certain purchase transactions.

25 Changes in material litigation

There are no material litigations during the period under review.

26 Proposed dividend

The Board of Directors has not recommended any interim dividend for the financial quarter ended 30 June 2011.

27 Earnings per share

	Quarter ended 30 June		Period ended 30 June	
	2011 (‘000)	2010 (‘000)	2011 (‘000)	2010 (‘000)
Basic earnings per ordinary share				
Profit/(Loss) attributable to owners of the Company (RM'000)	876	4,943	(2,388)	10,104
Weighted average number of ordinary shares issued as at beginning and end of period	195,534.9	195,534.9	195,534.9	195,534.9
Basic earnings/(loss) per ordinary share (sen)	0.45	2.53	(1.22)	5.17

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	Quarter ended 30 June		Period ended 30 June	
	2011 (‘000)	2010 (‘000)	2011 (‘000)	2010 (‘000)
<i>Diluted earnings per ordinary share</i>				
Profit/(Loss) attributable to owners of the Company (RM’000)	876	4,943	(2,388)	10,104
Weighted average number of ordinary shares in issue	195,534.9	195,534.9	195,534.9	195,534.9
Effect of outstanding warrants	3,245.3	3,608.0	9,735.7	1,527.6
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	198,780.2	199,142.9	205,270.6	197,062.5
Diluted earnings/(loss) per ordinary share (sen)	0.44	2.48	(1.16)	5.13

28 Breakdown of realised and unrealised profit or losses

The breakdown of the retained profits of the Group into realized and unrealized profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	As at 30 June 2011 RM	As at 31 Dec 2010 RM
Total retained profit of the Group		
- Realised	70,400,734	75,184,788
- Unrealised	(16,500,300)	(16,888,760)
Less: Consolidated adjustments	(6,541,794)	(4,838,347)
Total retained earnings	47,358,640	53,457,681