

**YUNG KONG GALVANISING INDUSTRIES BERHAD (Company No. 032939-U)**  
**UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL**  
**QUARTER ENDED 31 DECEMBER 2011**

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**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.

**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**

There was no dividend paid during the quarter under review.

**9 Segmental reporting**

Segmental information for the Group's business segments is as follows:

	Company	SHSB Sub Group	Others	Total
	RM'000	RM'000	RM'000	RM'000
Revenue	299,901	265,114	239,078	804,093
Less: Intercompany Sales	(279,371)	( 694)	( 94,631)	(374,696)
Revenue from external customers	20,530	264,420	144,447	429,397
Gross profit	3,581	15,189	3,445	22,215
Add: Conso adjustment				794
Consolidated Gross profit				23,009

For decision making and resources allocation, the Chief Executive Officer reviews the statements of financial position of respective subsidiaries.

**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**

The Company had on 5 January 2012 entered into a Shareholders' Agreement with Tecstun (M) Sdn. Bhd. ("TMSB") ("Shareholders' Agreement") to participate together and to use its subsidiary, Integrated Coil Coating Industries Sdn. Bhd. ("ICCI" or "JV Company") as joint venture vehicle to carry on the business activities relating to the manufacture, sale and installation of metal roofing and related products, PVC pipes, wire mesh and trading in paints and hardware and any other business activities that are allowed by its Memorandum and Articles of Association and agreed to between the Company and TMSB.

On the even date, ICCI had entered into 10 Sale of Business Agreements ("Agreements") with the following entities to sell with full title guarantee and ICCI shall purchase free from all charges liens equities and encumbrances with effect from 31 December 2011 as a going concern comprising the assets of the following entities used in the conduct of the business carried on by them as at 31 December 2011 ("Business"):

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**NOTES TO THE FINANCIAL STATEMENTS:-**

- (a) Wajamesh (M) Sdn Bhd (Company No. 295329-X), a company of limited liability incorporated under the laws of Malaysia and having its business address at Lot 121 & 122, Kampung Chekok, Pasir Mas, 17060 Kelantan;
- (b) Wajamesh Colour Roofing Industries (M) Sdn Bhd (Company No. 453895-W), a company of limited liability incorporated under the laws of Malaysia and having its business address at Lot 121 & 122, Kampung Chekok, Pasir Mas, 17060 Kelantan;
- (c) Wajamesh Metal Industry Sdn Bhd (Company No. 654320-P), a company of limited liability incorporated under the laws of Malaysia and having its business address at Lot 1972, Kampung Lundang, Jalan Yaacobiah, Kota Bahru, 15150 Kelantan;
- (d) Wajamesh Building Products Sdn Bhd (Company No. 654321-M), a company of limited liability incorporated under the laws of Malaysia and having its business address at KRM 1240, Lot 234, Mukim Paloh, 20050 Kuala Terengganu, Terengganu;
- (e) Wajamesh Rooftruss System (M) Sdn Bhd (Company No. 687513-P), a company of limited liability incorporated under the laws of Malaysia and having its business address at Lot 577 Section 19, Taman Limau Manis, Jalan Hamzah, Kota Bharu, 15050 Kelantan;
- (f) Wajaheight Development (M) Sdn Bhd (Company No. 546870-W), a company of limited liability incorporated under the laws of Malaysia and having its registered address at PT 121 & 122, Kedai Lima Tingkat, Kampung Chekok, Pasir Mas, 17060 Kelantan;
- (g) Tecstun (M) Sdn Bhd (Company No. 822596-V) (TMSB), a company of limited liability incorporated under the laws of Malaysia and having its business address at Lot 121 & 122, Kampung Chekok, Pasir Mas, 17060 Kelantan;
- (h) Tecstun (KL) Sdn Bhd (Company No. 824010-U), a company of limited liability incorporated under the laws of Malaysia and having its business address at No. 1, Block A, Lot 756, Prime Subang Light Industrial Park, Jalan Subang 3, 47610 Subang Jaya, Selangor;
- (i) Wajamesh Steel Sdn Bhd (Company No 620125-X), a company of limited liability incorporated under the laws of Malaysia and having its business address at Lot 3615 & 3616, Kawasan perindustrian APAM, Lubok Jong Peti Surat 613, Pasir Mas, Kelantan; and
- (j) Khor Tack Lee (Nric No. 720501-03-5275) T/A Waja Mega Enterprise (Business Registration N0. KT0205361-H), a sole-proprietorship and has an address at Lot 1709, Kampung Chekok, 17060 Pasir Mas, Kelantan.

ICCI had also on 5 January 2012 entered into a Sale of Shares Agreement with Khor Teck Tun, Yap Heng Or, Wajaplas Industry Sdn Bhd and Wajamesh (M) Sdn Bhd

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(collectively known as “the Vendors”) to acquire from the Vendors the entire issued shares in the capital of Wajaplas Manufacturing (M) Sdn Bhd.

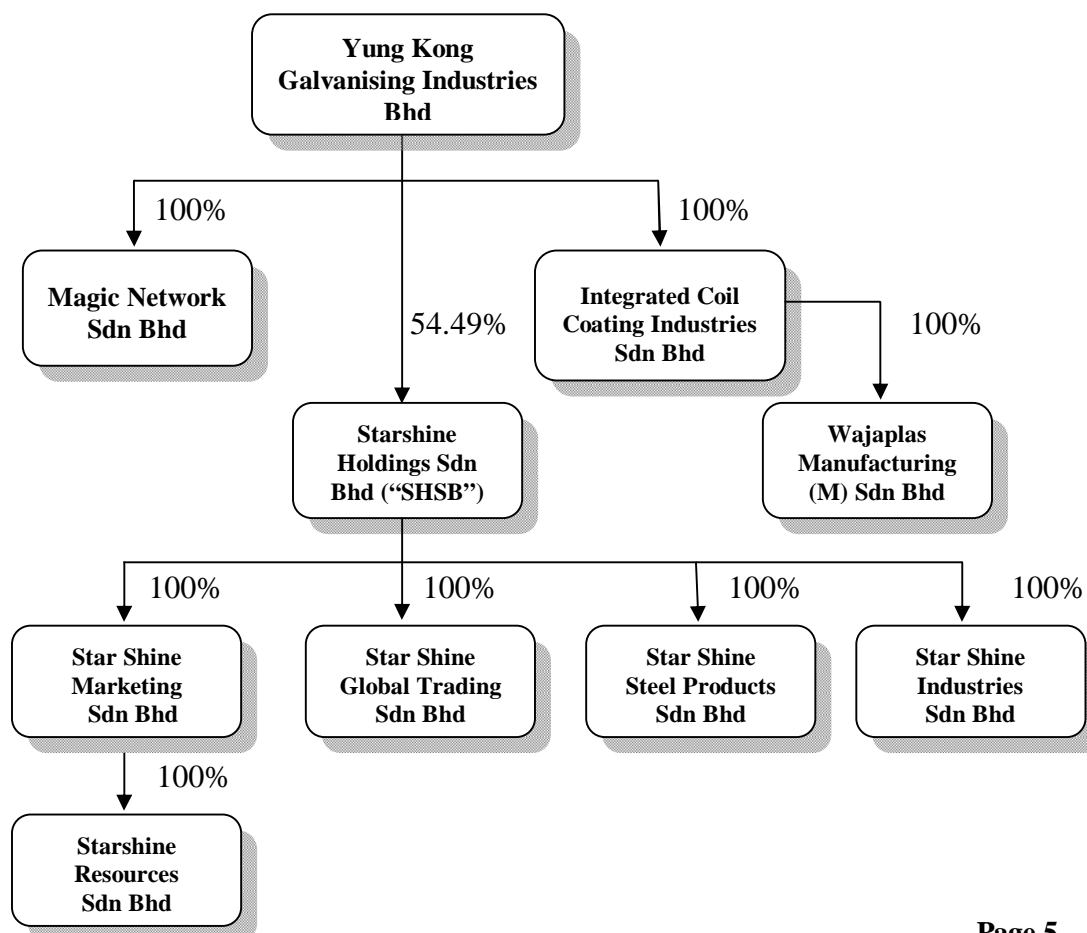
The Agreements and Sale of Shares Agreement are to facilitate the implementation of Shareholders Agreement between YKGI and TMSB. The total purchase consideration of the eleven agreements of RM12.399 million is to be satisfied by:

- (a) Issuance and allotment of 2,500,000 new ordinary shares of ICCI to TMSB at a price of Ringgit Malaysia One (RM1.00) each per; and
- (b) transfer of 1,500,000 ordinary shares of ICCI from YKGI to TMSB at a price of RM1.00 per share; and
- (c) the balance of RM8.399 million after net off against the debt due from Wajamesh Metal Industry Sdn Bhd will be paid in cash.

The acquisition of Wajaplas Manufacturing (M) Sdn Bhd (“Wajaplas”) has been completed on 15 February 2012 whereas the rest of the agreements are pending completion.

**12 Changes in composition of the Group**

Upon the completion of acquisition of the Wajaplas on 15 February 2012, Wajaplas is now the 100% owned subsidiary of ICCI. The current corporate structure appears to be as follows:



**NOTES TO THE FINANCIAL STATEMENTS:-**

**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 13% or RM15.1 million to RM104.0 million as compared to RM119.1 million in the corresponding period of the preceding year. The Group reported a pretax loss of RM15.99 million as compared to pretax loss of RM1.04 million reported in the corresponding period of the previous year. The decrease in revenue was due to weaker demand coupled with insufficient materials to sell, whereas the losses reported for the quarter under review was resulted from depressed selling prices on the high priced stock, expensed of the under-absorption of fixed production cost and goodwill written off.

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

For the quarter under review, the Group recorded a pretax loss of RM15.99 million as compared to a pretax loss of RM7.31 million reported in the previous quarter. The deteriorated profitability was the continuous impact from the interrupted supply of raw materials during the investigation period following the filing of Petition of Safeguards by Megasteel Sdn Bhd experienced in previous quarter, coupled with depressed selling prices currently experiencing in the market.

**16 *Prospects for the financial year ending 31 December 2012***

- (a) The current instability of steel prices and government steel policies have resulted bearish outlook in steel industry. However, the expected implementation of Economic Transformation Programs by the government will spur the demands on our products.

The Group has also moved into more value added products such as downstream processing activities in order to generate more businesses with higher profit margin.

Barring unforeseen circumstances, the Board of Directors is cautiously optimistic in managing towards achieving profitability for the financial year ending 31 December 2012.

- (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.

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**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	( 302)	401
- prior year	165	165
	( 137)	566
Deferred tax expense		
- current year	(2,604)	(5,167)
- prior year	( 174)	( 174)
	(2,778)	(5,341)
<b>Total</b>	<b>(2,915)</b>	<b>(4,775)</b>

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-deductible expenses under loss-making situation.

**20 Profit for the period**

	Current quarter ended 31 December		Cumulative period ended 31 Dec	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Profit for the period is arrived at after charging:</b>				
Depreciation of property, plant and equipment	5,199	4,942	20,106	18,838
Impairment loss:				
- Trade receivables	372	-	372	76
Net foreign exchange loss	-	15	-	30
Write-down of inventories	1,410	-	1,410	-
<b>And after crediting:</b>				
Gain on disposal of property, plant and equipment	37	67	223	328
Net foreign exchange gain	( 288)	1,495	130	2,243
Bad debts recovered	-	-	-	103
Reversal of impairment loss on trade receivables	-	286	-	286

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**NOTES TO THE FINANCIAL STATEMENTS:-**

**21**     *Status of corporate proposal announced*

(a) On 5 January 2012 the Company announced that the following agreements have been signed:

1. Shareholders Agreement between YKGI and TMSB to participate together and to use its subsidiary ICCI as joint venture vehicle to carry on the business activities relating to the manufacture, sale and installation of metal roofing and related products, PVC pipes, wire mesh and trading in paints and hardware and any other business activities that are allowed by its Memorandum and Articles of Association and agreed to between the Company and TMSB.
2. Ten Sale of Business Agreements between ICCI and the Vendors for ICCI to purchase from the Vendors free from all charges liens equities and encumbrances with effect from 31 December 2011 as a going concern comprising the assets of the Vendors used in the conduct of the business carried on by them as at 31 December 2011.
3. Sale of Share Agreement between ICCI and certain Vendors to acquire from the Vendors the entire issued shares in the capital of Wajaplas Manufacturing (M) Sdn Bhd.

The acquisition of Wajaplas Manufacturing (M) Sdn Bhd has been completed on 15 February 2012 whereas the rest of the agreements are pending completion.

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.

**22**     *Borrowing and debt securities*

As at 31 December 2011	Short Term Borrowing RM'000	Long Term Borrowing RM'000
<b>Denominated in Ringgit Malaysia</b>		
Secured	53,689	41,242
Unsecured	161,468	49,837
<b>Total</b>	<b>215,157</b>	<b>91,079</b>

**23**     *Financial derivative instruments*

There was no outstanding forward foreign currency exchange contract as at end of the current quarter under review.

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



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**NOTES TO THE FINANCIAL STATEMENTS:-**

**24 Changes in material litigation**

There are no material litigations during the period under review.

**25 Proposed dividend**

The Board of Directors has not recommended any interim dividend for the financial quarter and financial year ended 31 December 2011.

**26 Earnings per share**

	Quarter ended 31 Dec		Period ended 31 Dec	
	2011	2010	2011	2010
	('000)	('000)	('000)	('000)
<b>Basic earnings per ordinary share</b>				
(Loss)/Profit attributable to owners of the Company (RM'000)	(10,762)	(2,332)	(17,859)	9,557
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)	(5.50)	(1.19)	(9.13)	4.89
<b>Diluted earnings per ordinary share</b>				
Profit/(Loss) attributable to owners of the Company (RM'000)	(10,762)	(2,332)	(17,859)	9,557
Weighted average number of ordinary shares in issue	195,534.9	195,534.9	195,534.9	195,534.9
Effect of outstanding warrants	-	5,849.8	6,680.4	3,020.8
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	195,534.9	201,384.7	202,215.3	198,555.7
Diluted earnings/(loss) per ordinary share (sen)	-	(1.16)	(8.83)	4.81

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**27 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 31 Dec 2011	As at 31 Dec 2010
	RM'000	RM'000
Total retained profit of the Group		
- Realised	41,596	75,185
- Unrealised	(11,556)	( 16,889)
Less: Consolidated adjustments	( 5,099)	( 4,838)
Total retained earnings	<u>24,941</u>	<u>53,458</u>