NOTES TO THE FINANCIAL STATEMENTS:-

1 *Basis of Preparation*

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Malaysian Financial Reporting Standard (MFRS) 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 2011 which were prepared in compliance with Financial Reporting Standards (FRSs). 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 2011.

2 *Changes in Accounting Framework*

These are the Group's condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS-compliant annual financial statements. In preparing these interim financial statements, the Group has applied MFRS1, *First-time Adoption of Malaysian Financial Reporting Standards*.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011, the Group has effected the following amendments and policy changes when migrating from the FRS to the MFRS framework.

(a) Property, plant and equipment

In the past, the Group revalued its freehold land every 5 years and at shorter internals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation of freehold land are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognized to profit or loss.

Upon transition to MFRSs, the Group elected to apply the optional exemption to use the fair value of the freehold land at the date of transition (ie 1 January 2011) as deemed cost under MFRSs. The revaluation surplus of RM7,410,000 was recognized in the retained earnings. The revaluation reserve derived from the revaluation in 2007 amounted to RM6.058 million was also recognized in the retained earnings.

Certain buildings and prepaid lease payments were revalued in 1997 for the sole purpose of the listing of the Company on Bursa Securities. The Group has used the revalued amount as deemed cost. All other property, plant and equipment were stated at cost.

NOTES TO THE FINANCIAL STATEMENTS:-

The impact arising from the change is summarised as follows:

	1 January 2011 RM'000	31 December 2011 RM'000
Reclassification of revaluation reserve to retained earnings	6,058	5,879
Revaluation surplus arising from fair valuation at date of transition, recognized in retained earnings	6,504	6,504
Adjustment to retained earnings	12,562	12,383

3 ***Declaration of audit qualification***

The annual financial statements of the Group for the year ended 31 December 2011 were reported on without any qualification.

4 ***Seasonality or Cyclicality 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***

During the quarter under review, the Group has disposed off one lot of vacant land for a total cash consideration of RM12.2 million. Gain from disposal of the land amounted to RM1.26 million was recognized in the current quarter.

There were no other 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.

8 ***Dividends***

There was no dividend paid during the quarter under review.

NOTES TO THE FINANCIAL STATEMENTS:-

9 ***Segmental reporting***

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

	Coils & Sheets RM'000	Processed products RM'000	Trading products RM'000	Total RM'000
Revenue from external customers				
2012 1H	178,573	33,178	21,884	233,635
2011 1H	182,272	32,694	12,750	227,716
Increase/(decrease)	(3,699)	484	9,134	5,919
	-1.6%	+0.2%	+4.0%	+2.6%

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 Group has taken the fair value of its freehold land at date of transition as its deemed cost. RM7,410,000 has been added to its carrying amount. The valuation of other leasehold 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 are no changes to the composition of the Group during the 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 increased by 14% or RM15.8 million to RM131.8 million as compared to RM116.0 million in the corresponding period of the preceding year. The Group reported a pretax loss of RM1.37 million as compared to pretax profit of RM1.66 million reported in the corresponding period of the previous year. The increase in revenue was due to better sales volume, whereas the losses reported for the quarter under review was resulted by higher cost of production brought forward from previous quarter that transformed into thin profit margin.

NOTES TO THE FINANCIAL STATEMENTS:-

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

For the quarter under review, the Group recorded a pretax loss of RM1.37 million as compared to pretax loss of RM3.73 million reported in the previous quarter. The loss has narrowed as the Group was able to benefit from economy of scale when the sales volume increased.

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

(a) The current steel market is rather soft in view of the steel price is moving down turn. This, coupled with the rampant competition from imported materials, resulting the outlook of the industry not so promising and warrant the Government's decision in the steel policy.

The Strategic Transformation Plan of the Group has shown some improvement to the revenue as well as the financial position of the Group even though it is yet to recover from the loss making position. The Government's initiative to tighten the importation process would further enhance more local consumption of made in Malaysia steel products.

The Group will continue its efforts to increase the production yield and bring in more revenue in order to produce positive result 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.

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	166	221
Deferred tax expense		
- current year	(546)	(1,339)
Total	(380)	(1,118)

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-

NOTES TO THE FINANCIAL STATEMENTS:-

making situation.

20 Profit for the period

	Current quarter ended 30 June		Cumulative period ended 30 June	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	4,815	4,957	9,666	9,901
Impairment loss:				
- Trade receivables	-	-	112	-
Loss on disposal of property, plant and equipment	-	-	-	6
Net foreign exchange loss	22	-	21	-
And after crediting:				
Gain on disposal of property, plant and equipment	1,370	-	1,464	-
Finance income	47	115	211	191
Net foreign exchange gain	-	140	-	149

21 *Status of corporate proposal announced*

(a)(i) 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.

NOTES TO THE FINANCIAL STATEMENTS:-

(ii) On 16 May 2012, the Company announced that the following agreements have been signed on 15 May 2012:

4. Termination Agreement between YKGI and TMSB to terminate the Shareholders Agreement signed on 5 January 2012 as stated in (1) above ("Termination Agreement 1")

5. Termination Agreement between ICCI and 10 Vendors to terminate the 10 Sale of Business Agreements signed on 5 January 2012 as stated in (2) above ("Termination Agreement 2")

6. Sale of Share Agreement between YKGI and TMSB to dispose of the entire issued and paid up capital of ICCI to TMSB at purchase consideration of RM7,421,500.

The Termination Agreement 1 shall take immediate effect and deemed completed on its execution. The Termination Agreement 2 shall be effective upon ICCI issue written notice to the Vendors in the event the Sale of Share Agreement is not completed or terminated for any reasons or whatsoever, whereas the Sale of Share Agreement is expected to complete by October 2012.

(iii) On 18 July 2012, the Company announced that the Company is proposing to undertake the followings:

(I) Proposed Acquisition by YKGI of the remaining 45.51% equity interest in Starshine Holdings Sdn Bhd ("SSH") not already owned by YKGI, for a purchase consideration of RM16,611,579 to be satisfied via the issuance of 33,223,158 new ordinary shares of RM0.50 each in YKGI ("YKGI Shares" or "shares") at an issue price of RM0.50 per YKGI Share ("Proposed Acquisition");

(II) Proposed Private Placement of up to 39,106,980 new shares in YKGI, representing up to twenty percent (20%) of the existing issued and paid-up share capital of YKGI ("Proposed Private Placement");

(III) Proposed Bonus Issue of up to 33,304,333 new shares in YKGI Shares to the Ordinary Shareholders of YKGI and up to 2,249,078 new Ordinary Shares to the Redeemable Convertible Preference Shares ("RCPS") Holder of YKGI ("Bonus Share(s)") to be credited as fully paid-up on the basis of one (1) Bonus Share for every Ten (10) existing YKGI Shares held on an entitlement date to be determined later ("Proposed Bonus Issue of Shares");

(IV) Proposed Bonus Issue of up to 99,913,001 Warrants in YKGI to the Ordinary Shareholders of YKGI and up to 6,747,236 Warrants to the RCPS Holder of YKGI ("Warrant(s)") on the basis of Three (3) free Warrants for every Ten (10) existing YKGI Shares held on an entitlement date to be determined later ("Proposed Bonus Issue of Warrants"); and

NOTES TO THE FINANCIAL STATEMENTS:-

(V) Proposed Change of Company Name from YUNG KONG GALVANISING INDUSTRIES BERHAD to YKGI HOLDINGS BERHAD ("Proposed Change of Name")

The above Proposals are subject to YKGI Shareholders and relevant authorities' approval and are expected to complete by 4th Quarter of year 2012.

(b) There were no proceeds raised from any corporate proposal during the quarter under review.

22 ***Borrowing and debt securities***

As at 30 June 2012	Short Term Borrowing RM'000	Long Term Borrowing RM'000
Denominated in Ringgit Malaysia		
Secured	47,288	37,541
Unsecured	190,248	51,089
Total	237,536	88,630

23 ***Financial derivative instruments***

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

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

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 ended 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS:-

26 *Earnings per share*

	Quarter ended 30 June		Period ended 30 June	
	2012	2011	2012	2011
	('000)	('000)	('000)	('000)
Basic earnings per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(1,556)	876	(3,717)	(2,388)
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)	(0.80)	0.45	(1.90)	(1.22)

	Quarter ended 30 June		Period ended 30 June	
	2012	2011	2012	2011
	('000)	('000)	('000)	('000)
Diluted earnings per ordinary share				
Profit/(Loss) attributable to owners of the Company (RM'000)	(1,556)	876	(3,717)	(2,388)
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	-	9,735.7
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	195,534.9	198,780.2	195,534.9	205,270.6
Diluted earnings/(loss) per ordinary share (sen)	-	0.44	-	(1.16)

There were no diluted earnings per share as there were no potential dilutive ordinary shares outstanding as at the end of the reporting period.

The exercise price of the outstanding warrants issued on 9 July 2008 is higher than the average market price of the ordinary shares of the Company for the period under review. As the warrants are anti-dilutive in nature, they have been ignored for the purposes of the computation of the diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS:-

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 Reguirements, as issued by the Malaysian Institute of Accountants.

	As at 30 June 2012 RM'000	As at 31 Dec 2011 RM'000
Total retained profit of the Group		
- Realised	36,309	41,548
- Unrealised	4,106	2,900
Add: Consolidated adjustments	999	683
Total retained earnings	41,414	45,131