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***

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.

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:

<u>NOTES TO THE FINANCIAL STATEMENTS</u>:-

	Coils & Sheets RM'000	Processed products RM'000	Trading products RM'000	Total RM'000
Revenue from external customers				
2012 4Q	350,965	69,297	41,482	461,744
2011 4Q	322,553	63,779	36,559	422,891
Increase/(decrease)	28,412	5,518	4,923	38,853
	+6.7%	+1.3%	+1.2%	+9.2%

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.

In preparation for this financial statements, the Group has reclassified the Integrated Coil Coatings Industries Sdn Bhd ("ICCI") and its subsidiary to assets held for sale. The performance of ICCI for the year has been classified under discontinued operation. The comparative figures were restated to reflect the reclassification.

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 20% or RM20.9 million to RM124.2 million as compared to RM104.0 million in the corresponding period of the preceding year. Total revenue for the financial year was RM462 million, 9% increase over the previous year of RM423 million (restated). The Group reported a pretax loss of RM11.0 million as compared to pretax loss of RM15.3 million (restated) reported in the corresponding period of the previous year. The increase in revenue was due to better demand of the Group's products, whereas the losses reported for the quarter under review

NOTES TO THE FINANCIAL STATEMENTS:-

was resulted by depressed selling prices of the products in competition with the rampant imported materials.

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

For the quarter under review, the Group recorded a pretax loss of RM11.02 million as compared to pretax loss of RM5.92 million reported in the previous quarter. The higher losses were due to erosion of profit margin as a result of competition from imported materials which is always cheaper.

16 ***Prospects for the financial year ending 31 December 2013***

(a) The Group managed to increase the selling price of its products since January this year as a result of the trade measures implemented by the government. The demand of the Group's products also shown improvement as customers take position in anticipation of upward trend in the steel market.

The Board is of the view that there will be meaningful improvement in our financial performance this 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.

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	(33)	243
- previous year	(20)	(20)
Deferred tax expense		
- current year	(1,557)	(3,623)
- previous year	(120)	(120)
Total	(1,730)	(3,520)

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 and non-recognition of deferred tax assets in loss making subsidiaries.

20 Profit for the period

	Current quarter ended 31 December		Cumulative period ended 31 December	
	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	4,408	5,271	18,754	20,178
Impairment loss:				
- Trade receivables	802	518	914	518
Loss on disposal of property, plant and equipment	-	-	-	6
Net foreign exchange loss	6	283	142	-
And after crediting:				
Gain on disposal of property, plant and equipment	201	37	1,761	229
Reversal of impairment loss on trade receiveables	-	-	25	-
Finance income	333	88	726	452
Net foreign exchange gain	461	-	461	127

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.

NOTES TO THE FINANCIAL STATEMENTS:-

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

(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.

On 19 December 2012 the Company further announced that a Supplementary Agreement had been signed on even date to further extend the completion date of the Sale of Share Agreement to 30 June 2013.

(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

NOTES TO THE FINANCIAL STATEMENTS:-

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

(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. The Circular to Shareholders has been submitted to Bursa Securities for approval on 9 January 2013. The Company has obtained Bank Negara Malaysia's approval on 30 January 2013.

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

22 ***Borrowing and debt securities***

As at 31 December 2012	Short Term Borrowing RM'000	Long Term Borrowing RM'000
Denominated in Ringgit Malaysia		
Secured	49,702	27,747
Unsecured	173,812	38,008
Total	223,514	65,755

23 ***Financial derivative instruments***

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

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	11,933	11,937

The fair value changes have not been recognized in the financial statements as the management deemed that it is immaterial.

24 ***Changes in material litigation***

There are no material litigations during the period under review.

NOTES TO THE FINANCIAL STATEMENTS:-

25 ***Proposed dividend***

The Board of Directors has not recommended any interim dividend for the financial quarter ended 31 December 2012.

26 ***Earnings per share***

	Quarter ended 31 Dec		Period ended 31 Dec	
	2012	2011	2012	2011
	('000)	('000)	('000)	('000)
Basic earnings per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(7,425)	(10,872)	(15,173)	(17,969)
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)				
From continuing operation	(3.79)	(5.24)	(7.09)	(8.35)
From discontinued operation	(0.01)	(0.32)	(0.67)	(0.84)
	(3.80)	(5.56)	(7.76)	(9.19)
Diluted earnings per ordinary share				
Profit/(Loss) attributable to owners of the Company (RM'000)	(7,425)	(10,872)	(15,173)	(17,969)
Weighted average number of ordinary shares in issue	195,534.9	195,534.9	195,534.9	195,534.9
Effect of outstanding warrants	-	-	-	6,680.4
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	195,534.9	195,534.9	195,534.9	202,215.3
Diluted earnings/(loss) per ordinary share (sen)	-	-	-	(8.89)

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 31 Dec 2012 RM'000	As at 31 Dec 2011 RM'000
Total retained profit of the Group		
- Realised	21,091	41,548
- Unrealised	6,659	2,900
Add: Consolidated adjustments	2,208	683
Total retained earnings	29,958	45,131

28 Results of discontinued operation

	Quarter ended 31 Dec		Period ended 31 Dec	
	2012 (RM'000)	2011 (RM'000)	2012 (RM'000)	2011 (RM'000)
Revenue	8,324	17,278	26,331	101,814
Expenses	(8,323)	(18,053)	(27,655)	(103,696)
Results from operating activities	1	(775)	(1,324)	(1,882)
Tax expense/(benefit)	(23)	153	17	233
Loss for the period	(22)	(622)	(1,307)	(1,649)