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 2012 which were prepared in compliance with MFRS. 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 2012.

2 *Changes in Accounting Framework*

The significant accounting policies adopted in the interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2012 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2013:

MFRS 10, *Consolidated Financial Statements*
MFRS 13, *Fair Value Measurement*
MFRS 119, *Employee Benefits* (2011)
MFRS 127, *Separate Financial Statements* (2011)
Amendments to MFRS 7, *Financial Instruments:Disclosures - Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*

(a) MFRS 116, Property, Plant and Equipment (Annual Improvements 2009 – 2011 Cycle)
The amendments to MFRS 116 clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

Upon adoption of MFRS 116, the Group has reclassified those spare parts that meet the definition of property, plant and equipment amounted to RM6,420,237 from inventory to property, plant and equipment. The Standard has been applied retrospectively and the

NOTES TO THE FINANCIAL STATEMENTS:-

inventory as at 31 December 2012 has been reduced by RM6,420,237 and property, plant and equipments has been increased by the same amount.

(b) MFRS 119, Employee Benefits (2011)
The amendments to MFRS 119 require the recognition of changes in defined benefit obligation and in fair value of plan assets when they occur, and hence eliminate the 'corridor method' permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The Standard is applied retrospectively and the unrecognized net actuarial loss of RM1,466,612 has been recognized in the closing balance of the financial year 2012 and opening balance of financial year 2013 respectively.

3 *Declaration of audit qualification*

The annual financial statements of the Group for the year ended 31 December 2012 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*

During the quarter under review, the Company has issued the following share capital:
- 33,223,158 ordinary shares of RM0.50 on 17 April 2013 as purchase consideration for the acquisition of remaining interest in subsidiary;
- 87,906,978 ordinary shares of RM0.50 each during 3 to 13 May 2013 under private placement and restricted issue at an issue price of RM0.50 per share;
- 31,666,346 ordinary shares of RM0.50 each on 29 May 2013 as bonus shares to the shareholders whose names appeared in the record of depositor on 29 May 2013;
- 4,000 and 2,198 ordinary shares of RM0.50 on 21 May 2013 and 19 June 2013

NOTES TO THE FINANCIAL STATEMENTS:-

respectively pursuant to the exercise of Warrant 2008/2013.

During the quarter, the Company has also issued the following warrants:

- 6,517,370 additional Warrant 2008/2013 on 30 May 2013 as bonus warrants to the warrant holders whose name appeared in the record of depositors on 29 May 2013;
- 95,000,428 Warrant 2013/2020 on 29 May 2013 as bonus warrants to the shareholders whose name appeared in the record of depositors on 29 May 2013.

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:

	SBU 1	SBU 2	SBU 3	Inter-segment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2013 2Q					
Revenue from external customers	28,938	4,602	102,968	-	136,508
Inter-segment	-	99,224	216	(99,440)	-
	28,938	103,826	103,184	(99,440)	136,508
2013 Year to date					
Revenue from external customers	58,218	8,860	208,542	-	275,620
Inter-segment	-	191,410	964	(192,374)	-
	58,218	200,270	209,506	(192,374)	275,620
2012 2Q					
Revenue from external customers	31,391	7,454	86,305	-	125,150
Inter-segment	-	82,639	1,304	(83,943)	-
	31,391	90,093	87,609	(83,943)	125,150
2012 Year to date					
Revenue from external customers	61,468	13,859	146,356	-	221,683
Inter-segment	-	131,439	1,625	(133,064)	-
	61,468	145,298	147,981	(133,064)	221,683

SBU 1: Manufacture and sale of galvanized and coated steel products in East Malaysia.

SBU 2: Manufacture galvanized, coated and uncoated steel products in West Malaysia.

SBU 3: Trading of galvanized, coated and uncoated steel products in West Malaysia and Overseas, and manufacture and sale of steel tubes, pipes, flat and long steel products as well as trading of other building and construction materials in West Malaysia.

NOTES TO THE FINANCIAL STATEMENTS:-

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 financial period.

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***

On 17 April 2013, the Company has issued 33,223,158 new ordinary shares of RM0.50 each to acquire the remaining 45.51% equity interest in Starshine Holdings Sdn Bhd ("SSH") not already owned by YKGI to make SSH a 100% subsidiary.

The Group has on 26 June 2013 disposed off the entire share capital of its subsidiary Integrated Coil Coating Industries Sdn Bhd ("ICCI") to Tecstun (M) Sdn Bhd. ICCI ceased to be a subsidiary of YKGI with effect from the same date. The performance of ICCI for the period up to 26 June 2013 has been classified under discontinued operation.

Save as disclosed above, there were no other changes in 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 9% or RM11.3 million to RM136.5 million as compared to RM125.2 million (restated) in the corresponding period of the preceding year. The Group reported a pretax profit of RM4.5 million as compared to pretax loss of RM0.9 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 with better profit margin, resulted in the profit reported for the quarter under review.

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

For the quarter under review, the Group recorded a pretax profit of RM4.5 million as compared to pretax profit of RM2.6 million reported in the previous quarter. The better profitability was mainly due to more reflective selling prices of the Group's products in the quarter under review.

NOTES TO THE FINANCIAL STATEMENTS:-

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

(a) The performance of the steel sector for the remaining of the year is expected to be stable as both the infrastructure and construction projects under both public and private initiatives are gaining momentum. The stronger domestic demand will be a catalyst for growth. Nevertheless, careful steps and action plans are to be adopted to manage the volatility in the currency market with the US dollar getting stronger verses the weaker Ringgit Malaysia which will have a negative impact on the production cost and affects competitiveness.

The Board is of the view that with the proactiveness in carrying out its various business and productivity action plans, the prospects of the Group is encouraging.

(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	206	266
Deferred tax expense		
- current year	917	1,569
Total	1,123	1,835

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-deductible expenses.

NOTES TO THE FINANCIAL STATEMENTS:-

20 Profit for the period

	Current quarter ended 30 June		Cumulative period ended 30 June	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	4,573	4,815	9,199	9,666
Impairment loss:				
- Trade receivables	-	-	-	112
Loss on disposal of property, plant and equipment	-	-	-	-
Net foreign exchange loss	121	22	478	21
And after crediting:				
Gain on disposal of property, plant and equipment	120	1,370	415	1,464
Reversal of impairment loss on trade receiveables	6	-	6	-
Finance income	303	47	664	211
Net foreign exchange gain	-	-	-	-

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 deemed completed following the completion of the Sale of Share Agreement as stated in 21 (a) (ii) below.

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.

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.

The The Sale of Share Agreement has been completed on 26 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 Shareholders of YKGI and up to 6,747,236 Warrants to the RCPS Holder of YKGI

NOTES TO THE FINANCIAL STATEMENTS:-

("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")

On 19 December 2012, the Company further announced to undertake a Proposed Restricted issue of up to 48,799,998 new ordinary shares of RM0.50 to Marubeni-Itochu Steel Inc.

On 12 March 2013, the Company announced that it has revised the Proposals to exclude the allotment of Bonus Issue of Shares and Bonus Issue of Warrants to RCPS holder (revised Proposals)

The Proposal (V) has been completed on 17 May 2013 whereas the rest of the Proposals have been completed on 5 June 2013.

(b) The proceeds raised from the private placement and restricted issues amounting to RM43.953 million had been partially used as follows:

	Amount (RM'000)
Purchase of raw materials	23,518
Defray of expenses	1,183
	24,701
Balance of proceeds yet to be utilized	19,252
Total proceeds raised	43,953

22 ***Borrowing and debt securities***

As at 30 June 2013	Short Term Borrowing RM'000	Long Term Borrowing RM'000
Denominated in Ringgit Malaysia		
Secured	53,918	24,719
Unsecured	151,580	38,008
Denominated in US Dollar		
Unsecured	13,008	-
Total	218,506	62,727

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:

NOTES TO THE FINANCIAL STATEMENTS:-

Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
Foreign Exchange Contracts (in US Dollar)		
- Less than 1 year	23,715	24,834

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

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 2013.

26 ***Earnings per share***

	Quarter ended 30 June		Period ended 30 June	
	2013 ('000)	2012 ('000)	2013 ('000)	2012 ('000)
Basic earnings per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	4,350	(1,556)	6,389	(3,717)
Number of ordinary shares in issue at the beginning period	195,534.9	195,534.9	195,534.9	195,534.9
Effect of Bonus Issue	31,666.3	31,666.3	31,666.3	31,666.3
Effect of shares issued during the quarter	81,275.8	-	24,804.7	-
Weighted average number of ordinary shares issued as at end of period	308,477.0	227,201.2	252,005.9	227,201.2
Basic earnings/(loss) per ordinary share (sen)				
From continuing operation	1.09	(0.48)	2.01	(1.17)
From discontinued operation	0.32	(0.20)	0.53	(0.47)
	1.41	(0.68)	2.54	(1.64)

NOTES TO THE FINANCIAL STATEMENTS:-

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

The exercise price of the outstanding Warrant 2008/2013 issued on 9 July 2008 and Warrant 2013/2020 issued on 29 May 2013 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.

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 2013 RM'000	As at 31 Dec 2012 RM'000
Total retained profit of the Group		
- Realised	11,000	21,068
- Unrealised	4,360	6,153
Add: Consolidated adjustments	243	2,887
Total retained earnings	15,603	30,108

28 Results of discontinued operation

	Quarter ended 30 June		Period ended 30 June	
	2013	2012	2013	2012
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	6,037	6,665	14,083	11,951
Expenses	(6,406)	(7,116)	(14,092)	(13,060)
Results from operating activities	(369)	(451)	(9)	(1,109)
Tax expense/(benefit)	-	-	-	40
Loss for the period	(369)	(451)	(9)	(1,069)