

**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 2015 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 2015.

**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 2015 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2016:

Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*

Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*

Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*

Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*

Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*

Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*

Amendments to MFRS 124, *Related Parties Disclosures (Annual Improvements 2010-2012 Cycle)*

Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*

Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

The adoption of the above standards does not have major impact to the financial statement of the Group.

**3 *Declaration of audit qualification***

The annual financial statements of the Group for the year ended 31 December 2015 were reported on without any qualification.

**NOTES TO THE FINANCIAL STATEMENTS:-**

**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**

During the financial period, the Group recognized derivative gain of RM 7.13 million arising from the fair valuation of forward foreign exchange contracts, and unrealized loss of RM6.93 million on foreign currency payables.

Save as disclosed above, 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 were no dividends paid during the financial quarter.

**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         |
| 2016 2Q                         |               |               |               |                 |                |
| Revenue from external customers | 30,193        | 55,212        | 16,962        | -               | 102,367        |
| Inter-segment                   | -             | 15,216        | 35            | (15,251)        | -              |
|                                 | <u>30,193</u> | <u>70,428</u> | <u>16,997</u> | <u>(15,251)</u> | <u>102,367</u> |
| 2015 2Q                         |               |               |               |                 |                |
| Revenue from external customers | 24,396        | 42,700        | 42,337        | -               | 109,433        |
| Inter-segment                   | -             | 29,125        | 390           | (29,515)        | -              |
|                                 | <u>24,396</u> | <u>71,825</u> | <u>42,727</u> | <u>(29,515)</u> | <u>109,433</u> |

**NOTES TO THE FINANCIAL STATEMENTS:-**

- 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 and overseas.  
SBU 3: Trading of galvanized, coated and uncoated steel products and trading of other building and construction materials in West Malaysia.

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***

There were no 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 decreased by 6.5% or RM7.0 million to RM102.4 million as compared to RM109.4 million in the corresponding period of the preceding year. The Group reported a pretax profit of RM8.17 million as compared to pretax loss of RM2.43 million reported in the corresponding period of the previous year. The much improved result is mainly attributed to higher selling price and the on-going cost control measures implemented.

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

For the quarter under review, the Group recorded a pretax profit of RM8.17 million as compared to pretax profit of RM0.34 million as reported in the previous quarter.

**NOTES TO THE FINANCIAL STATEMENTS:-**

**16 Prospects for the financial year ending 31 December 2016**

- (a) The steel market conditions remain challenging and competitive against an uncertain global economy. Going forward, the Company is cautious as the global steel market is showing sign of softening as the supply situation from China is not reducing fast enough.
- (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<br>RM'000 | Financial<br>Year-To-Date<br>RM'000 |
|----------------------|---------------------------|-------------------------------------|
| Current tax expense  |                           |                                     |
| - current year       | 631                       | 864                                 |
| Deferred tax expense |                           |                                     |
| - current year       | 1,600                     | 1,604                               |
| <b>Total</b>         | <b>2,231</b>              | <b>2,468</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 and non-recognition of deferred tax assets in the loss-making subsidiaries.

**20 Profit for the period**

|  | Current quarter ended<br>30 June |                | Cumulative period<br>ended 30 June |                |
|--|----------------------------------|----------------|------------------------------------|----------------|
|  | 2016<br>RM'000                   | 2015<br>RM'000 | 2016<br>RM'000                     | 2015<br>RM'000 |
| <b>Profit for the period is arrived at after charging:</b> |                                  |                |                                    |                |
| Depreciation of property, plant and equipment              | 4,629                            | 5,028          | 9,297                              | 9,929          |
| Net foreign exchange loss                                  | 135                              | 682            | 82                                 | 1,081          |
| Derivative loss on forward foreign exchange contracts      | -                                | -              | 826                                | -              |

**YKGI HOLDINGS BERHAD (Company No. 032939-U)**  
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**NOTES TO THE FINANCIAL STATEMENTS:-**

|   |       |     |       |     |
|---|-------|-----|-------|-----|
| Unrealized loss on foreign exchange                   | 6,934 | -   | -     | -   |
| <b>And after crediting:</b>                           |       |     |       |     |
| Gain on disposal of property, plant and equipment     | 489   | 55  | 489   | 55  |
| Finance income  | 264   | 183 | 439   | 410 |
| Net foreign exchange gain                             | -     | -   | -     | -   |
| Derivative gain on forward foreign exchange contracts | 7,131 | -   | -     | -   |
| Unrealized gain on foreign exchange                   | -     | -   | 1,058 | -   |

**21 Status of corporate proposal announced**

- (a) (1) On 10 May 2016, the Company announced that the Company is proposing to undertake the followings:-
- (i) Proposed reduction of the issued and paid-up share capital of the Company pursuant to Section 64 of the Companies Act, 1965, involving the cancellation of RM0.40 from the par value of every existing ordinary share of RM0.50 each in YKGI (“Proposed Par Value Reduction”), and
  - (ii) Proposed amendments to the Memorandum and Articles of Association of the Company to facilitate the Proposed Par Value Reduction (“Proposed M&A Amendments”).
- (2) On 20 May 2016, the Company announced to establish an Employee Share Option Scheme (“ESOS”) of up to fifteen percent (15%) of the prevailing issued and paid-up share capital of the Company (excluding treasury shares) for the Eligible Employees (including Directors) of the Group.

(Hereinafter referred to as “ Proposals”)

On 30 June 2016, the shareholders of the Company in the Extraordinary General Meeting approved the Proposals. The Proposal is still in the midst of implementation.

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

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**22 Borrowing and debt securities**

| As at 30 June 2016                     | Short Term Borrowing<br>RM'000 | Long Term Borrowing<br>RM'000 |
|--|--------------------------------|-------------------------------|
| <b>Denominated in Ringgit Malaysia</b> |                                |                               |
| Secured                                | 32,931                         | 35,221                        |
| Unsecured                              | 120,542                        | 6,701                         |
| <b>Total</b>                           | <b>153,473</b>                 | <b>41,922</b>                 |

**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<br>Value (RM'000) | Fair Value<br>(RM'000) |
|--|-------------------------------------|------------------------|
| Foreign Exchange Contracts<br>(in US Dollar) | 99,862                              | 99,486                 |
| - Less than 1 year                           |                                     |                        |

The fair value changes have been recognized in 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 ended 31 December 2015.

**26 Earnings per share**

|  | Quarter ended 30 June |                  | Period ended 30 June |                  |
|--|-----------------------|------------------|----------------------|------------------|
|  | 2016<br>(RM'000)      | 2015<br>(RM'000) | 2016<br>(RM'000)     | 2015<br>(RM'000) |
| <b>Basic earnings per ordinary share</b>   |                       |                  |                      |                  |
| Profit/(Loss) attributable to<br>owners of the Company<br>(RM'000)                 | 5,942                 | (1,993)          | 6,042                | (8,024)          |
| Number of ordinary shares in issue<br>at the beginning period and end<br>of period | 348,337.6             | 348,337.6        | 348,337.6            | 348,337.6        |

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|   |      |        |      |        |
|---|------|--------|------|--------|
| Basic earnings profit/(loss) per ordinary share (sen) | 1.71 | (0.57) | 1.73 | (2.30) |
|---|------|--------|------|--------|

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 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 Requirements, as issued by the Malaysian Institute of Accountants.

|                                    | As at 30 June 2016<br>RM'000 | As at 31 Dec 2015<br>RM'000 |
|------------------------------------|------------------------------|-----------------------------|
| Total retained profit of the Group |                              |                             |
| - Realised                         | ( 45,436)                    | ( 51,668)                   |
| - Unrealised                       | 13,960                       | 14,150                      |
| Add: Consolidated adjustments      | 449                          | 449                         |
| Total retained earnings            | ( 31,027)                    | ( 37,069)                   |