

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 2016 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 2016.

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 2016 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2017:

Amendments to MFRS 12, Disclosure of Interests in Other Entities (*Annual Improvements 2014-2016 Cycle*)

Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*

Amendments to MFRS 112, Income Taxes, Recognition on Deferred Tax Assets for unrealized losses

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

3 *Auditors' Report on Preceding Annual Financial Statements*

The annual financial statements of the Group for the year ended 31 December 2016 contained a material uncertainty related to going concern.

As at 31 December 2016, the current liabilities of the Group exceeded its current assets by RM54,188,909 (2015: RM40,036,776). These conditions as set forth in Note 1(b) of the Annual Financial Statements indicate that the appropriateness of reporting the financial statements on a going concern basis is dependent upon the successful execution of the action plans mentioned in Note 1(b) and the achievement of future profitable operations by the Group as well as the continued support of the shareholders and major suppliers. The Auditors' opinion was not modified in respect of this matter.

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In relation to the above, the Company has taken the following steps:-

- (i) YKGI has already started the process of addressing the net current liabilities through asset disposal which was completed in early February 2017. The net proceeds totaling RM23.263 million from the disposal has been received. Notwithstanding that, we are still pursuing the implementation of business turnaround plan. The Company is also exploring various financial strategies which will entail among others monetizing its fixed assets.
- (ii) YKGI Group is continuously improving its production efficiency with the view of achieving better production yield and lower production cost. To achieve that, the Group is doing realignment of product mix, production scheduling and staff redeployment exercise. The process is on-going.

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 loss of RM4.85 million arising from the fair valuation of forward foreign exchange contracts, and unrealized gain of RM6.14 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*

On 9 May 2017, the Company has offered a share option to its eligible directors and employees under the Employees Share Option Scheme which was approved by the shareholders on 30 June 2016 by granting 42,350,000 option shares at an exercise price of RM0.23 per share, out of which 36,350,000 options had been accepted and exercisable during the option period from 9 May 2017 to 8 November 2021. As at end of financial quarter, no option has been exercised.

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Save as disclosed above, 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:

	East Malaysia RM'000	West Malaysia RM'000	Inter- segment RM'000	Total RM'000
<u>2nd Quarter 2017</u>				
Revenue from external customers	27,726	53,760	-	81,486
Inter-segment	-	18,874	(18,874)	-
	<u>27,726</u>	<u>72,634</u>	<u>(18,874)</u>	<u>81,486</u>
<u>2nd Quarter 2016</u>				
Revenue from external customers	30,193	72,174	-	102,367
Inter-segment	-	15,251	(15,251)	-
	<u>30,193</u>	<u>87,425</u>	<u>(15,251)</u>	<u>102,367</u>

East Malaysia: Manufacture and sale of PPAZ, GI, roll-formed products and trading in hardware and building materials in East Malaysia.

West Malaysia: Manufacture and sale of galvanized and coated steel products, pickled and oiled hot rolled coils and cold rolled coils in West Malaysia.

For decision making and resources allocation, the Deputy Executive Chairman together with the Directors review 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*

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On 5 July 2017, the Company announced that the registration for the dissolution of YKGI (Thai) Co Ltd with the Ministry of Commerce of Thailand has been completed on 5 July 2017. YKGI (Thai) Co Ltd is therefore completely liquidated in accordance with Thai law.

Save as disclosed above, 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*

Year on year quarterly performance review

The Group's total revenue for the quarter under review decreased by 20.40% or RM20.88 million to RM81.49 million as compared to RM102.37 million in the corresponding period quarter. The decrease in the revenue is due to lower sales volume on the back of weaker demand prevailing in that quarter.

The Group reported a loss before tax of RM4.24 million compared to profit before tax of RM8.17 million in the corresponding quarter. For quarter under review, the demand for flat steel products is subdued which caused the selling prices to be soft and are not able to factor in fully the additional cost of raw material. As a result of the aforesaid factors, the Group suffered a compression of gross product margin.

15 *Variation of results against preceding quarter*

For the quarter under review, the Group recorded a pretax loss of RM4.24 million as compared to pretax profit of RM0.45 million as reported in the previous quarter. The negative performance in the current quarter was mainly due to low demand from market, higher raw material cost and low production quantity which affected the unit production cost.

16 *Prospects for the financial year ending 31 December 2017*

- (a) The local steel market remains weak due to low demand. The market is expected to remain soft and challenging for the remaining period of the 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.

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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	298	680
Real property gain tax		
- prior year	126	126
Deferred tax expense		
- prior year	-	(16)
Total	424	790

The tax expense for the current quarter and year to date was attributable to the taxable profit earned by a subsidiary.

20 Profit for the period

	Current quarter ended 30 June		Cumulative period ended 30 June	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	4,470	4,629	8,876	9,297
Property, plant and equipment written off	-	-	558	6
Net foreign exchange loss	-	135	222	82
Unrealized loss on foreign exchange	-	6,934	-	-
Derivative loss on forward foreign exchange contracts	2,000	-	4,852	826

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And after crediting:

Gain on disposal of property, plant and equipment	8	489	10	489
Finance income	327	264	722	439
Net foreign exchange gain	230	-	230	-
Unrealized gain on foreign exchange	3,071	-	6,145	1,058
Derivative gain on forward foreign exchange contracts	-	7,131	-	-

21 Status of corporate proposal announced

- (A) On 24 October 2016, the Company announced that the Company had on 21 October 2016 entered into a memorandum of Understanding (“MOU”) with Ajiya Berhad (“Ajiya”) with the intention of establishing a long-term strategic business partnership between YKGI and Ajiya in East Malaysia by synergising and optimising both parties' manufacturing resources and enhancement of revenue and profitability via joint venture, business combination or any other form of business arrangement to be mutually agreed upon.

On 23 January 2017, Public Investment Bank Berhad has been appointed as the Principal Adviser on the MOU. As at to-date, there is no new development on the MOU.

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

22 Borrowing and debt securities

As at 30 June 2017	Short Term Borrowing RM'000	Long Term Borrowing RM'000
Denominated in Ringgit Malaysia		
Secured	18,252	22,105
Unsecured	113,983	2,851
Total	132,235	24,956

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:

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Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
Foreign Exchange Contracts (in US Dollar)	61,961	60,492
- Less than 1 year		

The fair value changes have been recognised in the financial statements.

24 *Changes in material litigation*

A Writ of Summons dated 13 April 2017 was filed by Dataprenuer Sdn Bhd (“Plaintiff”) against YKGI for the claim of RM1,172,700 relating to the supply, installation and commissioning of ERP system pursuant to the License Agreement, YKGI denied categorically that the ERP system is fully functional as the Plaintiff failed to deliver a functional ERP system and the system acceptance had yet to be determined. YKGI’s position is that the Plaintiff’s termination of the License Agreement is unlawful and amounts to a repudiatory breach. YKGI through its solicitors will defend the suit and file a Counterclaim against the Plaintiff for unlawful termination of the License Agreement.

The legal suit has gone for case management and the trial date has not been fixed.

Our solicitor is of the opinion that YKGI has an arguable case and reasonable defence and counterclaim against the Plaintiff.

Save as disclosed above, 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 2017.

26 *Earnings per share*

	Quarter ended 30 Jun		Period ended 30 Jun	
	2017	2016	2017	2016
	(’000)	(’000)	(’000)	(’000)
<i>Basic earnings per ordinary share</i>				
(Loss)/Profit attributable to owners of the Company (RM’000)	(4,662)	5,942	(4,581)	6,042
Number of ordinary shares in issue at the beginning period and end of period	348,337.6	348,337.6	348,337.6	348,337.6
Basic (loss)/earnings per ordinary share (sen)	(1.34)	1.71	(1.32)	1.73

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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 Jun 2017 RM'000	As at 31 Dec 2016 RM'000
Total retained profit of the Group		
- Realised	(40,707)	(31,252)
- Unrealised	14,247	9,352
Add: Consolidated adjustments	756	777
Total retained earnings	<u>(25,704)</u>	<u>(21,123)</u>