

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 a major impact on 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 statement on 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 is continuously addressing its net current liabilities. In early February 2017, the Company completed the disposal of an asset which brought in net proceeds of RM23.263 million. The Company will continue to pursue the implementation of business turnaround plan.
- (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.
- (iii) As a broad based business strategy, YKGI is exploring options to streamline its non-profitable production lines and to further develop and strengthen its profitable downstream business.

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 the derivative loss of RM5.55 million arising from the fair valuation of forward foreign exchange contracts and an unrealized gain of RM7.07 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 a material effect on 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 ("ESOS") 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.

On 8 August 2017, the Company has offered another a share option to it eligible director under

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the ESOS which was approved by the shareholders on 30 June 2016 by granting 800,000 option shares at an exercise price of RM0.20 per share. The exercise option period is from 8 August 2017 to 8 November 2017. As at end of financial quarter, no option has been exercised.

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>3rd Quarter 2017</u>				
Revenue from external customers	32,801	68,915	-	101,716
Inter-segment	-	2,617	(2,617)	-
	<u>32,801</u>	<u>71,532</u>	<u>(2,617)</u>	<u>101,716</u>
<u>3rd Quarter 2016</u>				
Revenue from external customers	28,437	60,894	-	89,331
Inter-segment	-	1,945	(1,945)	-
	<u>28,437</u>	<u>62,839</u>	<u>(1,945)</u>	<u>89,331</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.

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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*

Financial review for current quarter and financial year to date

	Individual Period		Changes		Cumulative Period		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter			Current Year To-date	Preceding Year Corresponding Period		
	30 Sept	30 Sept	30 Sept	30 Sept				
	2017	2016	2017	2016				
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	101,716	89,331	12,385	14%	283,825	293,754	(9,929)	-3%
Operating Profit/(Loss)	(1,003)	3,192	(4,195)	-131%	(563)	17,228	(17,791)	-103%
Profit/(Loss) Before Interest and Tax	(833)	3,354	(4,187)	-125%	329	17,829	(17,500)	-98%
Profit/(Loss) Before Tax	(3,224)	572	(3,796)	-664%	(7,014)	9,082	(16,096)	-177%
Profit/(Loss) After Tax	(3,532)	242	(3,774)	-1,560%	(8,112)	6,284	(14,396)	-230%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(3,532)	242	(3,774)	-1,560%	(8,112)	6,284	(14,396)	-230%

The Group's total revenue for the quarter under review increased by 13.86% or RM12.39 million to RM101.72 million as compared to RM89.33 million in the corresponding quarter. The increase in the revenue is achieved mainly due to higher selling price despite lower sales volume compared to the corresponding quarter.

The Group reported a loss before tax of RM3.22 million compared to profit before tax of RM0.57 million in the corresponding quarter. The Group's financial performance during the current quarter continue to be impacted by soft demand and low gross margin. Due to the

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prevailing market condition of the flat steel products, the Group had to lower the selling price in order to maximize sales order.

15 Variation of results against preceding quarter

Financial review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes (%)
	30 Sept 2017	30 June 2017	
	RM'000	RM'000	%
Revenue	101,716	81,486	25%
Operating Profit/(Loss)	(1,003)	(2,161)	54%
Profit/(Loss) Before Interest and Tax	(833)	(1,834)	55%
Profit/(Loss) Before Tax	(3,224)	(4,238)	24%
Profit/(Loss) After Tax	(3,532)	(4,662)	24%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent holders of the parent	(3,532)	(4,662)	24%

For the quarter under review, the Group recorded a pretax loss of RM3.22 million as compared to RM4.24 million in the previous quarter. The negative performance in the current quarter was mainly due to low demand from the 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 environment remains very challenging. The stiff competition from local production and imports will continue to impact the product margin of the flat steel products for the rest of the year. It is estimated that the steel consumption for the rest of the year will remain soft. Without a major upswing in the demand, the product margin will remain weak.

In view of the above, the Group will evaluate its business segments, streamline its production lines and to further strengthen its downstream business.

- (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.

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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	303	983
- under/(over) provision in prior year	5	5
Real property gain tax		
- prior year	-	126
Deferred tax expense		
- prior year	-	(16)
Total	308	1,098

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

20 Profit for the period

	Current quarter ended 30 Sept		Cumulative period ended 30 Sept	
	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	4,523	4,608	13,399	13,905
Property, plant and equipment written off	-	-	558	6
Impairment loss	200	-	200	-
Net foreign exchange loss	-	436	-	891
Unrealized loss on foreign exchange	-	2,341	-	1,283
Derivative loss on forward foreign exchange contracts	699	-	5,551	-
And after crediting:				
Gain on disposal of property, plant and equipment	16	(1)	24	488
Finance income	170	162	892	601
Net foreign exchange gain	1,121	-	1,351	-
Unrealized gain on foreign exchange	928	-	7,073	-
Derivative gain on forward foreign exchange contracts	-	2,940	-	2,114

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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.

On 19 October 2017, the Company has entered into a letter of extension with Ajiya Berhad to mutually agree to extend the validity period of the MOU by 12 months, commencing from 21 October 2017 to 20 October 2018.

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

22 *Borrowing and debt securities*

The Group’s borrowings from lending institution as at 30 September 2017, which are denominated entirely in Ringgit Malaysia, are as follows:-

Denominated in Ringgit Malaysia	As at 30 September 2017		
	Long Term	Short Term	Total borrowings
	RM'000	RM'000	RM'000
Secured	23,788	18,474	42,262
Unsecured	2,851	109,212	112,063
Total	26,639	127,686	154,325

Based on the above, the Group’s bank-gearing ratio is around 0.85 times.

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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)	40,068	38,906
- 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 had through its solicitors filed a Counterclaim against the Plaintiff for unlawful termination of the License Agreement.

The legal case had gone through case management with the court and barring any changes, the trial for the case shall begin on 11 April 2018.

Our solicitor is of the opinion that YKGI has an arguable case and reasonable defense 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 September 2017.

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26 Earnings per share

	Quarter ended 30 Sept		Period ended 30 Sept	
	2017 (‘000)	2016 (‘000)	2017 (‘000)	2016 (‘000)
Basic earnings per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM’000)	(3,532)	242	(8,112)	6,284
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)	(1.01)	0.07	(2.33)	1.80

There were no diluted earnings per share as there were no potentially 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 Sept 2017 RM’000	As at 31 Dec 2016 RM’000
Total retained profit of the Group		
- Realised	(43,719)	(31,252)
- Unrealised	14,247	9,352
Add: Consolidated adjustments	237	777
Total accumulated losses	(29,235)	(21,123)