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 read in conjunction with the audited financial statements as at and for the year ended 31 December 2017 which were prepared in compliance with MFRS. These explanatory notes attached to the interim financial statement explain 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 2017.

1.1 Adoption of Standards, Amendments and IC interpretations

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 2017 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2018:

Description	***Effective for Periods beginning on or after***
Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRSs 2014 – 2016 Cycle)	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 128: Investment in Associates and Joint Ventures (Annual Improvements to MFRSs 2014 – 2016 Cycle)	1 January 2018
Amendments to MFRS 140: Transfers of Investment property	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 9: Financial Instruments (IFRS 9 as issued by IASB in July 2014)	1 January 2018

The adoption of the above standards does not have a significant impact except for the adoption of the following MFRSs below:

NOTES TO THE FINANCIAL STATEMENTS:-

1)MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognize revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e when "control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group has concluded that the initial application of MFRS 15 does not have any material financial impacts to the current period and prior period financial statements of the Group.

2)MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

To measure the consequences of this new standard, the Group has reviewed of the business model corresponding to the different portfolios of financial assets and the characteristics of these financial assets.

In respect of impairment of financial assets, MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at fair value through other comprehensive income, but not to investments in equity instruments.

On the date of initial application, MFRS 9 did not affect the classification and measurement assets and financial liabilities, except that have impaired by RM1.103 million as at 1 January 2018 as a result of applying the ECL model on trade receivables.

2 Auditors' Report on Preceding Annual Financial Statements

The audited financial statements of the Group for the year ended 31 December 2017 contained a paragraph on material uncertainty related to going concern.

As at 31 December 2017, the current liabilities of the Group exceeded it current assets by RM64,363,207 (2016: RM54,188,909). 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 profitability, continued support from the financial institutions as well as from a substantial shareholder, who is also a major supplier. The Auditors' opinion was not modified in respect of this matter.

The Group has implemented certain business turnaround plans which are currently in progress and are continuingly exploring various options to address the net current liabilities position, amongst which,

(i) Increase production efficiency to achieving better production yield and lower production cost, which include realignment of product mix, production scheduling and staff redeployment exercise;

(ii) Streamline non-profitable production line and to further develop and strengthen its profitable downstream business; and

(iii) An on-going programme of disposal of non-core assets to raise funding for working capital and other purposes for which completed transactions have raised approximately RM51 million to-date.

3 *Seasonality or Cyclicality of interim operations*

The Group's operations are not subject to seasonal or cyclical factors.

4 *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 an unrealized loss of RM5.169 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.

5 *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.

6 *Issuances, cancellations, repurchases, resale and repayments of debt and equity securities*

For the current quarter under review, the Company issued 1,886,600 and 70,000 new ordinary shares at an exercise price of RM0.23 and RM0.20 respectively under the Employee Share Option Scheme ("ESOS").

NOTES TO THE FINANCIAL STATEMENTS:-

Save as disclosed above, there were no issuances and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period-to-date under review.

7 ***Dividends***

There were no dividends paid during the financial quarter.

8 ***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
2nd Quarter 2018				
Revenue from external customers	30,345	35,622	-	65,967
Inter-segment	-	751	(751)	-
	30,345	36,373	(751)	65,967
2nd Quarter 2017				
Revenue from external customers	27,726	53,760	-	81,486
Inter-segment	-	6,593	(6,593)	-
	27,726	60,353	(6,593)	81,486

East Malaysia: Manufacture and sale of Pre-painted, Galvanised Iron, 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 Managing Director review the statements of financial position of the respective subsidiaries.

9 ***Valuation of property, plant and equipment***

The valuation of land and building was brought forward without amendment from the previous financial period.

10 ***Material events subsequent to the end of the interim period***

There were no material events subsequent to the end of the interim period.

NOTES TO THE FINANCIAL STATEMENTS:-

11 *Changes in the composition of the Group*

On 12 May 2018, the Company has incorporated Asteel Ajiya Sdn Bhd ("AASB"). AASB is a 60% owned subsidiary of Asteel Resources Sdn Bhd which is a wholly-owned subsidiary of the Company.

There were no changes in the composition of the Group during the quarter under review.

12 *Changes in contingent liabilities or contingent assets*

There are no contingent liabilities or assets for the current financial year to date.

13 *Review of performance*

Financial review for the 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 Jun	30 Jun			30 Jun	30 Jun		
	2018	2017			2018	2017		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	65,967	81,486	(15,519)	-19%	163,380	182,109	(18,729)	-10%
Operating (Loss)/Profit	(4,947)	(2,161)	(2,786)	-129%	1,636	439	1,197	273%
(Loss)/Profit Before Interest and Tax	(4,783)	(1,834)	(2,949)	-161%	2,111	1,161	950	82%
Loss Before Tax	(7,535)	(4,238)	(3,297)	-78%	(3,152)	(3,791)	639	17%
Loss After Tax	(7,853)	(4,662)	(3,191)	-68%	(3,709)	(4,581)	872	19%
Loss Attributable to Ordinary Owner of the Company	(7,856)	(4,662)	(3,194)	-68%	(3,712)	(4,581)	869	19%

The Group's total revenue for the current quarter decreased by 19.04% or RM15.52 million to RM65.97 million as compared to RM81.49 million in the corresponding quarter. The decrease in the revenue was due to low sales volume by about 29.85% caused by holidays and the general elections.

The Group reported a loss before tax of RM7.54 million compared to RM4.24 million in the corresponding quarter which was substantially due to unrealized loss on foreign exchange of RM5.16 million caused by depreciation of Ringgit Malaysia against US Dollar for the current quarter. The unrealized forex losses attributed to the difference between the adjusted book-in closing rate used in the previous quarter against the closing rate in this quarter.

NOTES TO THE FINANCIAL STATEMENTS:-

14 ***Variation of results against preceding quarter***

Financial review for the current quarter compared with the immediately preceding quarter

	Current Quarter	**Immediate Preceding Quarter**	**Changes (%)**
	30 Jun 2018	**31 Mar 2018**	
	RM'000	**RM'000**	**%**
Revenue	65,967	97,413	-32
Operating (Loss)/Profit	(4,947)	7,870	-163
(Loss)/Profit Before Interest and Tax	(4,783)	6,581	-173
(Loss)/Profit Before Tax	(7,535)	4,382	-272
(Loss)/Profit After Tax	(7,853)	4,143	-290
(Loss)/Profit Attributable to Ordinary Owner of the Company	(7,856)	4,143	-290

For the quarter under review, the Group recorded a pretax loss of RM7.54 million as compared to a pretax profit of RM4.38 million in the previous quarter. The decline in the current quarter was substantially due to unrealized loss on the foreign exchange. In addition, the low product margin and low sales revenue during the current quarter have also contributed to the losses.

15 ***Current Year Prospects***

(a) The current scenario for the flat steel market remains sluggish and challenging. The restructuring plan for the coil business is on-going, which will ultimately shift the business focus from midstream to downstream activities.

(b) There was no announcement or disclosure published in a public document on any revenue or financial estimate, forecast, projection or internal targets as at the date of this announcement.

16 ***Statement of the Board of Directors' opinion on the achievement of forecast***

The Group did not make any announcement or disclosure in any public document on any revenue or financial estimate, forecast, projection or profit guarantee as at the date of this announcement.

17 ***Profit forecast***

No profit forecast was published.

18 ***Income tax expense***

The income tax expense derived as below:	Current Quarter RM'000	Financial Year-To-Date RM'000
Current tax expense		
- current year	355	594
- (Over)/Under the provision	(37)	(37)

NOTES TO THE FINANCIAL STATEMENTS:-

Total	318	557

The tax income for the current quarter and the tax expense for the year to date were attributable to the taxable profit earned by the subsidiary companies.

19 Loss for the period

	Current quarter ended 30 Jun		Cumulative period ended 30 Jun	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Loss for the period is arrived at after charging:				
Depreciation of property, plant and equipment	1,349	4,470	2,638	8,876
Property, plant and equipment written off	-	-	-	558
Realised foreign exchange loss	-	-	-	222
Unrealised loss on foreign exchange	5,158	-	1,073	-
Derivative loss on forward foreign exchange contracts	-	2,000	-	4,852
And after crediting:				
Gain on disposal of property, plant and equipment	3	8	3	10
Finance income	164	327	475	722
Realised foreign exchange gain	801	230	859	230
Unrealised gain on foreign exchange	-	3,071	-	6,145
Derivative gain on forward foreign exchange contracts	-	-	-	-

20 *Status of the corporate proposal announced*

(A) On 30th April 2018 , the Company announced that ASTEEL Resources Sdn Bhd ("ARSB"), a wholly-owned subsidiary of YKGI has entered into a Subscription cum Shareholders Agreement with Ajiya Berhad ("AJIYA") for the purpose of forming a joint venture company to be named as ASTEEL Ajiya Sdn Bhd ("AASB") with the shareholding of 60% owned by ARSB whilst the balance 40% is owned by AJIYA. The purpose of the joint venture is to enable ARSB to expand its product range in East Malaysia and AJIYA to extend its market reach by leveraging on ARSB's extensive business network in East Malaysia. Such business arrangement augurs well with ARSB's aspiration "To Be the Largest Roofing and Building Materials Supplier in Borneo Island by 2020" and AJIYA's vision "To Provide Affordable, Sustainable Integrated Building Solutions for the Community"**.**

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

21 ***Borrowing and debt securities***

The Group's borrowings from a lending institution as at 30 June 2018, which are denominated entirely in Ringgit Malaysia, are as follows:-

Denominated in Ringgit Malaysia	As st 30 June 2018		
	Long Term	Short Term	Total Borrowings
	RM'000	RM'000	RM'000
Secured	17,364	43,436	60,800
Unsecured	234	84,383	84,617
Total	17,598	127,819	145,417

Based on the above, the Group's bank-gearing ratio is around 0.83 times.

22 ***Financial derivative instruments***

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

As at the end of the current quarter under review, no outstanding of forward foreign currency exchange contracts.

23 ***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 the original trial dates of 11 and 12 April 2018 have rescheduled to 13, 14, 27 and 28 August 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.

24 ***Proposed dividend***

The Board of Directors has not recommended any interim dividend for the financial quarter ended 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS:-

25 ***Earnings per share***

	Quarter ended 30 Jun		Period ended 30 Jun	
	2018 ('000)	2017 ('000)	2018 ('000)	2017 ('000)
Basic loss per ordinary share				
Loss attributable to owners of the Company (RM'000)	(7,856)	(4,662)	(3,712)	(4,581)
Number of ordinary shares in issue at the weighted average of period	350,684.2	348,337.6	350,684.2	348,337.6
Basic loss per ordinary share (sen)	(2.24)	(1.34)	(1.06)	(1.32)
Diluted loss per ordinary share				
Loss attributable to owners of the Company (RM'000)	(7,856)	(4,662)	(3,712)	(4,581)
Number of ordinary shares in issue at the weighted average of period	350,684.2	348,337.6	350,684.2	348,337.6
Adjustment for share options	3,540.4	-	3,890.7	-
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	354,224.6	348,337.6	354,574.9	348,337.6
Diluted loss per ordinary share (sen)	(2.22)	(1.34)	(1.05)	(1.32)

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.