

YKGI HOLDINGS BERHAD (Company No. 032939-U)
UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL
QUARTER ENDED 30 SEPTEMBER 2018

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:

| <i>Description</i> | <i>Effective for Periods beginning on or after</i> |
|--|--|
| 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:

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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 its current assets by RM64,363,207 (2016: RM54,188,909). These conditions as set forth in Note 1(b) of the

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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.

3 *Seasonality or Cyclicity 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 RM1.482 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*

On 7 August 2018, the Company has offered a share option to its eligible directors and employees under the Employee Share Option Scheme ("ESOS") which was approved by the shareholders on 30 June 2016 by granting 6,150,000 option shares at an exercise price of RM0.22 per share, out of which 4,750,000 options had been accepted and exercisable during the option period from 7 August 2018 to 8 November 2021. As at end of financial quarter, no option has been exercised.

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.

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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 |
|---|----------------------------|----------------------------|-----------------------------|-----------------|
| <u>3rd Quarter 2018</u> | | | | |
| Revenue from external customers | 41,095 | 45,713 | - | 86,808 |
| Inter-segment | - | 17 | (17) | - |
| | <u>41,095</u> | <u>45,730</u> | <u>(17)</u> | <u>86,808</u> |
| <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> |

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.

11 *Changes in the composition of the Group*

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.

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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 Sept | 30 Sept | 30 Sept | 30 Sept | | | | |
| | 2018 | 2017 | 2018 | 2017 | | | | |
| | RM'000 | RM'000 | RM'000 | % | RM'000 | RM'000 | RM'000 | % |
| Revenue | 86,808 | 101,716 | (14,908) | -15% | 250,188 | 283,825 | (33,637) | -12% |
| Operating Loss | (4,262) | (1,003) | (3,259) | -325% | (2,626) | (563) | (2,063) | -366% |
| (Loss)/Profit Before Interest and Tax | (4,191) | (833) | (3,358) | -403% | (2,080) | 329 | (2,409) | -732% |
| Loss Before Tax | (6,518) | (3,224) | (3,294) | -102% | (9,670) | (7,014) | (2,656) | -38% |
| Loss After Tax | (6,892) | (3,532) | (3,360) | -95% | (10,601) | (8,112) | (2,489) | -31% |
| Loss Attributable to Ordinary Owner of the Company | (6,933) | (3,532) | (3,401) | -96% | (10,645) | (8,112) | (2,533) | -31% |

The Group's total revenue for the current quarter decreased by 14.66% or RM14.91 million to RM86.81 million as compared to RM101.72 million in the corresponding quarter. The decrease in revenue compared to previous year corresponding quarter was caused by low sales volume by about 19.09% due to the overall soft market conditions.

The Group reported a loss before tax of RM6.52 million compared to RM3.22 million in the corresponding quarter which was substantially due to realized and unrealized loss on foreign exchange of RM2.80 million caused by depreciation of Ringgit Malaysia against US Dollar for the current quarter.

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 September 2018 | 30 June 2018 | |
| | RM'000 | RM'000 | % |
| Revenue | 86,808 | 65,967 | 32 |
| Operating Loss | (4,262) | (4,947) | 14 |
| Loss Before Interest and Tax | (4,191) | (4,783) | 12 |
| Loss Before Tax | (6,518) | (7,535) | 13 |
| Loss After Tax | (6,892) | (7,853) | 12 |
| Loss Attributable to Ordinary Owner of the Company | (6,933) | (7,856) | 12 |

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For the quarter under review, the Group recorded a pretax loss of RM6.52 million as compared to RM7.53 million in the previous quarter. The lower losses incurred in the current quarter was substantially due to higher turnover and marginally higher selling price, coupled with lower unrealized losses on the foreign exchange.

15 Current Year Prospects

- (a) The Group is currently embarking on a restructuring exercise via a merger and acquisition to shift the business focus from midstream to downstream business 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 | 362 | 956 |
| - (Over)/Under the provision | 12 | (25) |
| Total | 374 | 931 |

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 Sept | | Cumulative period ended 30 Sept | |
|--|----------------------------------|----------------|------------------------------------|----------------|
| | 2018 RM'000 | 2017 RM'000 | 2018 RM'000 | 2017 RM'000 |
| Loss for the period is arrived at after charging: | | | | |
| Depreciation of property, plant and equipment | 1,403 | 4,523 | 4,041 | 13,399 |
| Property, plant and equipment | | | | |

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| | | | | |
|---|-------|-----|-------|-------|
| Written off | - | - | - | 558 |
| Impairment loss | - | 200 | - | 200 |
| Net foreign exchange loss | 1,319 | - | 460 | 222 |
| Unrealised loss on foreign exchange | 1,482 | - | 2,555 | - |
| Derivative loss on forward foreign exchange contracts | - | 699 | - | 5,551 |

And after crediting:

| | | | | |
|---|----|-------|-----|-------|
| Gain on disposal of property, plant and equipment | - | 16 | 3 | 24 |
| Finance income | 71 | 170 | 546 | 892 |
| Realised foreign exchange gain | - | 1,121 | - | 1,351 |
| Unrealised gain on foreign exchange | - | 928 | - | 7,073 |
| Derivative gain on forward foreign exchange contracts | - | - | - | - |

20 Status of the corporate proposal announced

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 September 2018, which are denominated entirely in Ringgit Malaysia, are as follows:-

| Denominated in Ringgit Malaysia | As at 30 September 2018 | | |
|---------------------------------|-------------------------|------------|------------------|
| | Long Term | Short Term | Total Borrowings |
| | RM'000 | RM'000 | RM'000 |
| Secured | 17,497 | 47,246 | 64,743 |
| Unsecured | 234 | 77,893 | 78,127 |
| Total | 17,731 | 125,139 | 142,870 |

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

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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 the trial in the court on August 2018 and October 2018 and the judgement is expected to be delivered in the first quarter of 2019.

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 September 2018.

25 Earnings per share

| | Quarter ended 30 Sept | | Period ended 30 Sept | |
|---|-----------------------|-----------|----------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (’000) | (’000) | (’000) | (’000) |
| <i>Basic loss per ordinary share</i> | | | | |
| Loss attributable to owners of the Company (RM’000) | (6,933) | (3,532) | (10,645) | (8,112) |
| 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) | (1.98) | (1.01) | (3.04) | (2.33) |
| <i>Diluted loss per ordinary share</i> | | | | |
| Loss attributable to owners of the Company (RM’000) | (6,933) | (3,532) | (10,645) | (8,112) |
| 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 | (188.3) | - | 3,707.1 | - |
| Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share | 350,495.9 | 348,337.6 | 354,391.3 | 348,337.6 |

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| | | | | |
|--|--------|--------|--------|--------|
| Diluted loss per ordinary share (sen) | (1.98) | (1.01) | (3.00) | (2.33) |
|--|--------|--------|--------|--------|

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.