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 2018 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 2018.

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 2018 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2019:

Description	***Effective for Periods beginning on or after***
MFRS 16, *Leases*	1 January 2019
IC Interpretation 23, *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*	1 January 2019
Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*	1 January 2019
Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*	1 January 2019
Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*	1 January 2019
Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*	1 January 2019
Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long Term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to MFRS 3, *Business Combinations – Definition of a Business*	1 January 2019

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:-

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases,* IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognised a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and lease of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group has adopted MFRS 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of MFRS 16, the Group will measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply MFRS 16 to all contracts that were previously identified as leases;
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019; and
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

On the adoption of MFRS 16, the Group has recognised additional right-of-use assets and lease liabilities for its leases previously classified as operating leases by RM2.13 million and RM2.2 million respectively.

2 ***Auditors' Report on Preceding Annual Financial Statements***

The audited financial statements of the Group for the year ended 31 December 2018 were reported without any qualification.

3 ***Seasonality or Cyclicality of interim operations***

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

NOTES TO THE FINANCIAL STATEMENTS:-

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***

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size and incidence during the quarter under review.

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***

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:

Continuing operation	East Malaysia RM'000	West Malaysia RM'000	Inter-segment RM'000	Total RM'000
2nd Quarter 2019				
Revenue from external customers	41,843	4,431	-	46,274
Inter-segment	1	1,384	(1,385)	-
	41,844	5,815	(1,385)	46,274
2nd Quarter 2018				
Revenue from external customers	30,508	16,074	-	46,582
Inter-segment	-	52	(52)	-
	30,508	16,126	(52)	46,582

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: The disposal of coated coil business was completed in April 2019. For the quarter under review, the financial result is derived from the sale of roll-formed products and trading and sale of remaining inventory of the coated coils.

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 financial period***

On 17 July 2019, the Company announced that its subsidiary Star Shine Marketing Sdn Bhd ("**SSM**"") have agreed with Acesteel Industries Sdn Bhd ("Acesteel") to enter into a debt settlement arrangement for the debt owing by Acesteel to SSM totalling RM3,500,000 via the issuance of 1,428,571 new ordinary shares representing 51.41% of the enlarged share capital of Acesteel ("Proposed Debt Settlement").

The Proposed Debt Settlement is expected to be completed by the third quarter 2019.

11 ***Changes in the composition of the Group***

On 14 June 2019, the Company has incorporated a new subdiary ASTEEL Works Sdn Bhd as a wholly owned subsidiary of ASTEEL Resources Sdn Bhd to carry on façade and metal fabrication business. There were no other 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.

NOTES TO THE FINANCIAL STATEMENTS:-

13 *Review of performance*

Financial review for the current quarter and financial year to date

Continuing operations	Individual Period		Changes		Cumulative Period		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter			Current Year To-date	Preceding Year Corresponding Period		
	30 June	30 June			30 June	30 June		
	2019	2018			2019	2018		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	46,274	46,583	(309)	-0.7%	97,559	102,024	(4,465)	-4%
Operating profit	3,085	2,182	903	+41%	5,139	3,742	1,397	+37%
Profit Before Interest and Tax	3,372	2,326	1,046	+45%	5,696	4,112	1,584	+39%
Profit Before Tax	2,441	1,315	1,126	+86%	3,806	2,125	1,681	+79%
Profit After Tax and total comprehensive expense	(350)	(7,852)	7,502	+95%	(2,905)	(3,709)	804	+22%
Profit Attributable to Ordinary Owner of the Company	(393)	(7,855)	7,462	+95%	(2,956)	(3,712)	756	+20%

The Group's total revenue for the current quarter decreased by 0.7% or RM0.30 million to RM46.27 million as compared to RM46.58 million in the corresponding quarter. The decrease in revenue compared to previous year corresponding quarter was due to cessation of coated coil business which was disposed in the quarter under review except for the sale of remaining inventories.

The Group reported a profit before tax of RM2.44 million for its continuing operations compared to RM1.31 million in the corresponding quarter. The higher profit was contributed by the continued better performance of its downstream business in East Malaysia. The gross margin for the quarter under review improved by about 26% compared to the corresponding 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

Continuing operations	Current Quarter	Immediate Preceding Quarter	Changes (%)
	30 June 2019	31 March 2019	
	RM'000	RM'000	%
Revenue	46,274	51,285	+10
Operating profit	3,085	2,054	+50
Profit Before Interest and Tax	3,372	2,324	+45
Profit Before Tax	2,441	1,365	+79
Loss After Tax and total comprehensive expense	(350)	(2,555)	+86
Loss Attributable to Ordinary Owner of the Company	(393)	(2,563)	+85

For the quarter under review, the Group recorded a pretax profit of RM2.44 million as compared to RM1.36 million in the previous quarter. The higher profit generated in the current quarter was mainly due to higher GP margin and write back of impairment loss of a trade receivable for the quarter.

15 *Prospects*

With the completed disposal of its coated coil business in West Malaysia, the Company is focusing on the development and expansion of its downstream business in the East & West Malaysian market. The Company has initiated plans to expand into the downstream business in West Malaysia and has announced the acquisition of a 51.41% equity interest in a roofing specialist company based in Johor on 17 July 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS:-

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	611	999
Deferred tax expense		
- Current year	58	58
Total	669	1,057

The tax expense for the current quarter were attributable to the taxable profit earned by the subsidiaries.

19 Loss for the period

	Current quarter ended 30 June		Cumulative period ended 30 June	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Loss for the period is arrived at after charging:				
Depreciation of property, plant and equipment	1,504	1,349	3,032	2,638
Impairment loss on:-				
Trade receivables	209	-	209	-
Fixed Asset written off	121	-	121	-
Net foreign exchange loss/(gain)				
- Realised	(187)		273	
- Unrealised	1,901	5,158	266	1,073
Derivative loss on forward foreign exchange contracts	-	-	-	-
And after crediting:				
Gain on disposal of property, plant and equipment	13	3	15	3
Finance income	487	164	810	475
Realised foreign exchange gain	-	801	-	859
Unrealised gain on foreign exchange	-	-	-	-

20 *Status of the corporate proposal announced*

On 20 February 2019, the Company obtained approval from shareholders at the extraordinary general meeting to dispose of the Coated Coil Business and assets. The disposal was completed on 16 April 2019 following the receipt of the balance disposal consideration from the buyer.

Save as disclosed above, there were no other corporate proposals during the quarter under review.

21 *Status on the Utilisation of the Proceeds from the Disposal of the Coated Coil Business*

Description	Proposed Utilisation (RM'000)	Actual Utilisation (RM'000)	Remark
Repayment of loans and borrowings	65,980	59,591	Full settlement of loans and borrowings from financial institutions. Unutilised amount from the allocated repayment has been used to pay a trade creditor as below.
Payment to a trade creditor	54,020	62,872	Allocated payment has been utilised.
Defraying expenses	5,000	2,537	The expenses has been paid.
Total	125,000	125,000	

22 *Borrowing and debt securities*

The Group's borrowings from lending institutions as at 30 June 2019, which are denominated entirely in Ringgit Malaysia, are as follows:-

Denominated in Ringgit Malaysia	As at 30 June 2019		
	Long Term	Short Term	Total Borrowings
	RM'000	RM'000	RM'000
Secured	13,888	42,349	56,237
Unsecured	361	100	461
Total	14,249	42,449	56,698

Based on the above, the Group's bank-gearing ratio is around 1.37 times.

NOTES TO THE FINANCIAL STATEMENTS:-

23 *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, there was no outstanding forward foreign currency exchange contracts.

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.

On 12 April 2019, The Selangor High Court ("High Court") delivered the following decisions:

(a) The plaintiff claim against the Company is dismissed and therefore the Company is not liable to pay the sum claimed by the plaintiff; and

(b) The claim filed by the Company is allowed and the High Court has granted the following :
  - (i) declaration that Dataprenuer has breached the License Agreement dated 2 November 2014;
  - (ii) The plaintiff to refund total sum of RM887,125 which had already been paid by the Company;
  - (iii) Additional cost in the sum of RM45,580 for data migration charges incurred by the Company;
  - (iv) Interest at the rate of 5% from the date of judgment till realisation; and
  - (v) Total cost of RM30,000 subject to allocator fee.

25 *Proposed dividend*

The Board of Directors has not recommended any interim dividend for the financial quarter ended 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS:-

26 ***Earnings per share***

	Quarter ended 30 June		Period ended 30 June	
	2019 ('000)	2018 ('000)	2019 ('000)	2018 ('000)
Basic loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(393)	(7,855)	(2,956)	(3,712)
Number of ordinary shares in issue at the weighted average of period	350,684.2	350,675.8	350,684.2	349,571.7
Basic loss per ordinary share (sen)	(0.11)	(2.24)	(0.84)	(1.06)
Diluted loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(393)	(7,855)	(2,956)	(3,712)
Number of ordinary shares in issue at the weighted average of period	350,684.2	350,675.8	350,684.2	349,571.7
Adjustment for share options	-	3,540.5	-	3,890.7
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	350,684.2	354,216.3	350,684.2	353,462.4
Diluted loss per ordinary share (sen)	(0.11)	(2.21)	(0.84)	(1.05)

The exercise price of the outstanding Warrant 2013/2020 issued on 29 May 2013 and the ESOS 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.