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 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 RM2.4 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
3rd Quarter 2019				
Revenue from external customers	39,997	8,459	-	48,456
Inter-segment	306	1,163	(1,469)	-
	40,303	9,622	(1,469)	48,456
3rd Quarter 2018				
Revenue from external customers	41,079	16,700	-	57,779
Inter-segment	17	26	(43)	-
	41,096	16,726	(43)	57,779

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 18 July 2019, the Company announced that its subsidiary company 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 was completed on 1 August 2019.

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

Following the completion of the Proposed Debt Settlement as outlined in Note 10 above, Acesteel become a 51.41% owned subsidiary of YKGI Group with effect from 1 August 2019.

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.

<u>NOTES TO THE FINANCIAL STATEMENTS</u>:-

13 *Review of performance*

<u>Financial review for the current quarter and financial year to date</u>

Continuing operations	**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**		
	2019	**2018**			**2019**	**2018**		
	RM'000	**RM'000**	**RM'000**	**%**	**RM'000**	**RM'000**	**RM'000**	**%**
Revenue	48,456	57,779	(9,323)	-16.1	146,015	159,784	(13,769)	-8.6
Operating profit	1,370	2,419	(1,049)	-43.4	6,509	6,163	346	+5.6
Profit Before Interest and Tax	1,466	2,475	(1,009)	-40.8	7,162	6,588	574	+8.7
Profit Before Tax	543	1,474	(931)	-63.2	4,349	3,599	750	+20.8
(Loss)/Profit After Tax and total comprehensive expense	(870)	(6,891)	6,021	+87.4	(3,775)	(10,601)	6,826	+64.4
(Loss)/Profit Attributable to Ordinary Owner of the Company	(998)	(6,933)	5,935	+85.6	(3,954)	(10,645)	6,691	+62.9

The Group's total revenue for the current quarter decreased by 16% or RM9.32 million to RM48.46 million as compared to RM57.78 million in the corresponding quarter. The decrease in revenue compared to previous year corresponding quarter was due to continuing impact on the ceased trading of coated coil by a subsidiary company except for the remaining coated coil inventory arising from the disposal of the manufacturing business which was completed in April 2019. However, for the quarter under review, the Group's turnover has included additional 2 months revenue from its recently acquired subsidiary company.

The Group reported a profit before tax of RM0.54 million on its continuing operations compared to a profit before tax of RM1.47 million in the corresponding quarter. The lower profit was due to lower sales volume by about 30% despite an improved gross profit margin of about 21%. In addition, the Group incurred higher operating expenses for the quarter under review by about 33% compared to previous year corresponding quarter substantially due to higher staff cost incurred for the business expansion in East Malaysia and the consolidation of 2 months result of a recently acquired subsidiary company.

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 September 2019	30 June 2019	
	RM'000	RM'000	%
Revenue	48,455	46,274	+4.72
Operating profit	1,370	3,085	-55.59
Profit Before Interest and Tax	1,466	3,372	-56.52
Profit Before Tax	543	2,441	-77.76
Loss After Tax and total comprehensive expense	(870)	(350)	-148.57
Loss Attributable to Ordinary Owner of the Company	(998)	(393)	-153.94

For the quarter under review, the Group recorded a pretax profit of RM0.54 million as compared to RM2.44 million in the previous quarter. The lower profit was mainly due to lower gross profit by about 16% and higher operating expenses substantially due to higher staff cost incurred for the business expansion in East Malaysia and the consolidation of 2 months result of a recently acquired subsidiary company.

15 *Prospects*

The steel market condition is expected to remain weak for the remaining quarter of the year due to lack of progress in the settlement of the on-going trade war between USA and China. The sentiment in the property and construction sectors remain cautious. The recent Budget 2020 announcement by Government of Malaysia is expected to alleviate the overhang property in the country and subsequently will improve the outlook of the aforesaid sectors.

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	262	1,261
Deferred tax expense		
- Current year	-	58
Total	262	1,319

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 September		Cumulative period ended 30 September	
	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	1,578	1,403	4,610	4,041
Impairment loss on:-				
Trade receivables	115	-	324	-
Fixed Asset written off	2	-	123	-
Net foreign exchange loss/(gain)				
- Realised	300	1,319	573	460
- Unrealised	(52)	1,482	214	2,555
Derivative loss on forward foreign exchange contracts	-	-	-	-
And after crediting:				
Gain on disposal of property, plant and equipment	(3)	-	12	3
Finance income	291	71	1,101	546
Realised foreign exchange gain	-	-	-	-
Unrealised gain on foreign exchange	-	-	-	-

20 *Status of the corporate proposal announced*

There was no corporate proposals announced or pending completion in the quarter under review.

NOTES TO THE FINANCIAL STATEMENTS:-

21 *Borrowing and debt securities*

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

Denominated in Ringgit Malaysia	As at 30 September 2019		
	Long Term	Short Term	Total Borrowings
	RM'000	RM'000	RM'000
Secured	18,922	49,957	68,879
Unsecured	361	40	401
Total	19,283	49,997	69,280

Based on the above, the Group's bank-gearing ratio is around 1.71 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, there was no outstanding forward foreign currency exchange contracts.

23 *Changes in material litigation*

A Writ of Summons dated 12 April 2017 was filed by Dataprenuer Sdn Bhd ("Plaintiff") against YKGI for the primary claim of RM1,172,770 relating to the supply, installation and commissioning of ERP system pursuant to the License Agreement. YKGI denied categorically that a fully functional ERP system was delivered. As the Plaintiff failed to deliver a fully functional ERP system, 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's 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 3 November 2014;
  (ii) Plantiff to refund sum of RM887,125 which had already been paid by the Company;
  (iii) Additional cost in the sum of RM45,580 for migrating the data from certain module under the program to the Company's existing system due to the unlawful

termination of the License Agreement;
(iv) Interest at the rate of 5% per annum from the date of judgment till realization; and
(v) Cost of RM30,000 to be paid by Plaintiff to the Company.

The Plaintiff has filed in an appeal to the Court of Appeal and the case is pending hearing. In the meantime, YKGI has applied for a winding-up proceeding against Plaintiff due to its failure to comply with the High Court's judgment. The court has granted the winding up order against the Plaintiff on 20th November 2019 .

24 *Proposed dividend*

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

25 *Earnings per share*

	Quarter ended 30 September		Period ended 30 September	
	2019 ('000)	2018 ('000)	2019 ('000)	2018 ('000)
Basic loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(998)	(6,933)	(3,954)	(10,645)
Number of ordinary shares in issue at the weighted average of period	350,684.2	350,684.2	350,684.2	349,942.5
Basic loss per ordinary share (sen)	(0.28)	(1.98)	(1.13)	(3.04)
Diluted loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(998)	(6,933)	(3,954)	(10,645)
Number of ordinary shares in issue at the weighted average of period	350,684.2	350,684.2	350,684.2	349,942.5
Adjustment for share options	-	(188.3)	-	3,707.1
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	350,684.2	350,495.9	350,684.2	354,391.3

NOTES TO THE FINANCIAL STATEMENTS:-

Diluted loss per ordinary share (sen)	(0.28)	(1.98)	(1.13)	(3.00)

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.