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 RM3.06 million and RM3. 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
4th Quarter 2019				
Revenue from external customers	41,962	12,913	-	54,875
Inter-segment	784	425	(1,209)	-
	42,746	13,338	(1,209)	54,875
4th Quarter 2018				
Revenue from external customers	37,222	24,204	-	61,426
Inter-segment	-	-	-	-
	37,222	24,204	-	61,426

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 30 January 2020, the Company announced that the Company has entered into the Repayment Agreement with its major shareholder Marubeni Itochu Steel Inc for the proposed repayment of the amount owing by YKGI to MISI, the terms and conditions of which are as contained in the Repayment Agreement ("Proposed Repayment").

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

On 21 January 2020, the Company incorporated a new subsidiary ASTEEL Dynamic Sdn Bhd as a wholly owned subsidiary of ASTEEL Resources Sdn Bhd to carry on supply & consultancy of smart solution and high tech products. On 22 January 2020, the Company incorporated a new subsidiary ASTEEL Synergy Sdn Bhd as a wholly owned subsidiary of ASTEEL Resources Sdn Bhd to carry on manufacturing and sale of metal roofing and related products and trading of hardware and building materials in West Malaysia.

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		
	31 Dec	31 Dec			31 Dec	31 Dec		
	2019	2018			2019	2018		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	54,875	61,426	-6,551	-10.66	200,890	221,210	-20,320	-9.19
Operating profit	2,402	1,988	+413	+20.79	12,550	10,846	+1,704	+15.71
Profit Before Interest and Tax	989	1,084	-95	-8.75	7,498	7,247	+251	+3.47
(Loss)/Profit Before Tax	(26)	240	-266	-110.73	4,323	3,839	+484	+12.61
Profit After Tax	452	184	-268	-145.6	3,482	2,851	+631	+22.1
(Loss)/Profit Attributable to Ordinary Owner of the Company	(4,106)	(122,969)	+118,863	+96.66	(8,060)	(133,614)	+125,554	+93.97

The Group's total revenue for the current quarter decreased by 11% or RM6.55 million to RM54.87 million as compared to RM61.42 million in the corresponding quarter. The decrease in revenue compared to the previous year's corresponding quarter was due to the impact on the ceased trading of the 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. The sales volume decreased by 32.5%.

The Group reported a loss before tax of RM0.03 million on its continuing operations compared to a profit before tax of RM0.24 million in the corresponding quarter. The Group incurred higher administrative cost due to business expansion and acquisition of a new subsidiary.

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 (%)
	31 December 2019	30 September 2019	
	RM'000	RM'000	%
Revenue	54,875	48,456	+13.25
Operating profit	2,402	1,370	+75.32
Profit Before Interest and Tax	989	1,466	-32.52
Profit/(Loss) Before Tax	(26)	543	-104.75
Profit After Tax	452	281	+60.85
Loss Attributable to Ordinary Owner of the Company	(4,106)	(998)	+311.43

For the quarter under review, the Group recorded a pre-tax loss of RM0.03 million as compared to a pre-tax profit of RM0.54 million in the previous quarter. The Group incurred higher administrative cost due to business expansion and acquisition of a new subsidiary. However, for the profit after tax, it recorded a profit of RM0.45 million due to the reversal of over-provision of the previous year's tax.

15 *Prospects*

The world is grappling with the Covid-19 virus in early 2020 and it is still uncertain as to the full impact of the contagious virus on the economy of Malaysia and the world at large. Given such a scenario, it remains uncertain as to whether the economy will achieve its targeted GDP growth of 4.5% as projected by the Government. The steel sector which is closely connected to the construction industry will remain challenging for the rest of the year.

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	153	1,414
- Previous year	(669)	(669)
Deferred tax expense		
- Current year	153	211
- Previous years	(116)	(116)
Total	(479)	840

The tax income for the current quarter was attributable to the reversal of over provision in prior years.

19 **Loss for the period**

	Current quarter ended 31 December		The cumulative period ended 31 December	
	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	1,661	1,460	6,271	5,501
Impairment loss on:-				
Trade receivables	527	1,760	851	1,760
Property, plant & equipment	4,172	2,649	4,172	2,649
Asset held for sale	-	107,444	-	107,444
Property, plant & equipment written off	-	2	123	2
Inventory written down	200	2,975	200	2,975
Net foreign exchange loss/(gain)				
- Realised	203	460	776	4,340
- Unrealised	(214)	1,482	-	2,555
Derivative loss on forward foreign exchange contracts	-	-	-	-
And after crediting:				
Gain on disposal of property, plant and equipment	(3)	79	12	82
Finance income	(24)	744	1,077	1,291
Reversal of impairment:				
- trade receivables	1,103	-	1,103	-
Realised foreign exchange gain	-	-	-	-

Unrealised foreign exchange gain	672	3,804	672	1,249

20 ***Status of the corporate proposal announced***

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

21 ***Borrowing and debt securities***

The Group's borrowings from lending institutions as at 31 December 2019, which are denominated entirely in Ringgit Malaysia, are as follows:-

Denominated in Ringgit Malaysia	As at 31 December 2019		
	Long Term	Short Term	Total Borrowings
	RM'000	RM'000	RM'000
Secured	20,643	56,026	76,669
Unsecured	88	253	341
Total	20,731	56,729	77,010

Based on the above, the Group's bank-gearing ratio is around 2.09 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 31 December 2019.

25 ***Earnings per share***

	Quarter ended 31 December		Period ended 31 December	
	2019 ('000)	2018 ('000)	2019 ('000)	2018 ('000)
Basic loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(4,106)	(122,969)	(8,059)	(133,614)
Number of ordinary shares in issue at the weighted average of period	350,684.2	350,684.2	350,684.2	350,684.2
Basic loss per ordinary share (sen)	(1.17)	(35.07)	(2.30)	(38.10)
Diluted loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(4,106)	(122,969)	(8,059)	(133,614)
Number of ordinary shares in issue at the weighted average of period	350,684.2	350,684.2	350,684.2	350,684.2
Adjustment for share options	-	(5,036.2)	-	3,098.6

NOTES TO THE FINANCIAL STATEMENTS:-

Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	350,684.2	345,648.0	350,684.2	353,782.9
Diluted loss per ordinary share (sen)	(1.17)	(35.58)	(2.30)	(37.77)

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.