

YKGI HOLDINGS BERHAD (Company No. 032939-U)
UNAUDITED REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL
QUARTER ENDED 31 MARCH 2020

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 2019 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 2019.

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 2019 except for the adoption of the following standards which are effective for annual periods beginning on and after 1 January 2020:

<i>Description</i>	<i>Effective for Periods beginning on or after</i>
Amendments to MFRS 3, <i>Business Combinations – Definition of a Business</i>	1 January 2020
Amendments to MFRS 101, <i>Presentation of Financial Statements</i> and MFRS 108, <i>Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material</i>	1 January 2020
Amendments to MFRS 9, <i>Financial Instruments</i> , MFRS 139, <i>Financial Instruments: Recognition and Measurement</i> and MFRS 7 <i>Financial Instruments: Disclosures – Interest Rate Benchmark Reform</i>	1 January 2020

The adoption of the above standards does not have a significant impacts to the current financial period.

2 Auditors’ Report on Preceding Annual Financial Statements

The audited financial statements of the Group for the year ended 31 December 2019 were reported without any qualification.

3 Seasonality or Cyclicity of interim operations

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

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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*

The Company's Warrant B issued on 29 May 2013 with exercise price of RM0.50 per share has expired on 28 May 2020. None of the said warrants have been exercised during the seven years validity period.

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
<u>1st Quarter 2020</u>				
Revenue from external customers	33,452	12,240	-	45,692
Inter-segment	1,643	402	(2,045)	-
	<u>35,095</u>	<u>12,642</u>	<u>(2,045)</u>	<u>45,692</u>
<u>1st Quarter 2019</u>				
Revenue from external customers	37,054	14,231	-	51,285
Inter-segment	-	1,370	(1,370)	-
	<u>37,054</u>	<u>15,601</u>	<u>(1,370)</u>	<u>51,285</u>

East Malaysia: Manufacture and sale of Pre-painted, Galvanised Iron, Roll-formed

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products and trading in hardware and building materials in East Malaysia.
West Malaysia: Manufacture and sale of roll-formed products, trading of non coated coils 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 (“MISI”) 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”).

On 3 June 2020, the Company announced that it had entered into a supplementary repayment agreement with MISI to vary certain terms of the Repayment Agreement which among others, the date for the charging of ASTEEL Resources Sdn Bhd shares from 30 April 2020 to 30 June 2020 or such other date as may be acceptable by MISI.

11 *Changes in the composition of the Group*

On 2 March 2020, the Company incorporated a new subsidiary ASTEEL (Sarawak) Sdn Bhd as a wholly-owned subsidiary of ASTEEL Resources Sdn Bhd and the principal activities shall be manufacturing and sale of metal roofing and related products and trading of hardware and building materials in East Malaysia.

On 13 March 2020, the Company incorporated a new subsidiary AS Tiles & Interior Design Sdn Bhd as a 60% owned subsidiary of ASTEEL (Sarawak) Sdn Bhd and the principal activities shall be trading of flooring products and renovation works.

Save as disclosed above, 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 period.

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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 Mar	31 Mar	31 Mar	31 Mar				
	2020	2019	2020	2019				
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	45,692	51,285	-5,593	-10.91	45,692	51,285	-5,593	-10.91
Operating profit	1,578	3,225	-1,647	-51.07	1,578	3,225	-1,647	-51.07
Profit Before Interest and Tax	157	2,054	-1,897	-92.36	157	2,054	-1,897	-92.36
(Loss)/Profit Before Tax	(740)	1,365	-2,105	-154.21	(740)	1,365	-2,105	-154.21
Profit After Tax	(756)	977	-1,733	-177.38	(756)	977	-1,733	-177.38
(Loss)/Profit Attributable to Ordinary Owner of the Company	(3,156)	(2,563)	-593	+23.14	(3,156)	(2,563)	-593	+23.14

The Group's total revenue for the current quarter decreased by 11% or RM5.59 million to RM45.69 million as compared to RM51.28 million in the corresponding quarter last year. The decrease in revenue was substantially due to the cessation of coated coil manufacturing business of which the disposal was completed in April 2019. The sales volume decreased by 45.2%. The Group is also impacted by the Movement Control Order imposed by the government due to Covid-19 pandemic.

The Group reported a loss before tax of RM0.74 million on its continuing operations compared to a profit before tax of RM1.36 million in the corresponding quarter. The Group incurred higher administrative costs due to business expansion and new subsidiaries.

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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 March 2020	31 December 2019	
	RM'000	RM'000	%
Revenue	45,692	54,875	-17.04
Operating profit	1,578	2,402	-34.30
Profit Before Interest and Tax	157	989	-84.13
Loss Before Tax	(740)	(26)	+2746.15
Loss After Tax	(756)	452	-267.26
Loss Attributable to Ordinary Owner of the Company	(3,156)	(4,106)	-23.14

For the quarter under review, the Group recorded a pre-tax loss of RM0.74 million as compared to a pre-tax loss of RM0.03 million in the previous quarter. The Group's gross profit margin reduced by about 0.7% in the current quarter under review which resulted in lower gross profit contribution to the operation by about 17%.

15 Prospects

The Covid-19 pandemic has severely impacted the world's economic outlook for the rest of 2020 with a potential negative GDP growth rate or even a global recession. The economy of Malaysia will be affected drastically and the outlook for the steel sector will remain challenging and uncertain 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.

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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	37	37
Deferred tax expense		
- Current year	(21)	(21)
Total	16	16

The tax expense for the current quarter was attributable to the profit making subsidiaries.

19 Loss for the period

	Current quarter ended 31 March		The cumulative period ended 31 March	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Loss for the period is arrived at after charging:				
Depreciation of property, plant and equipment	1,661	1,528	1,661	1,528
Impairment loss on:				
Trade receivables	-	-	-	-
Property, plant & equipment	-	-	-	-
Property, plant & equipment written off	83	-	83	-
Net foreign exchange loss				
- Realised	157	460	157	460
- Unrealised	1,495	-	1,495	-
And after crediting:				
Gain on disposal of property, plant and equipment	57	2	57	2
Finance income	138	323	138	323
Reversal of impairment				
- trade receivables	-	-	-	-
Unrealised foreign exchange gain	-	1,635	-	1,635

20 Status of the corporate proposal announced

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

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21 *Borrowing and debt securities*

The Group's borrowings from lending institutions as at 31 March 2020, which are denominated entirely in Ringgit Malaysia, are as follows:-

Denominated in Ringgit Malaysia	As at 31 March 2020		
	Long Term	Short Term	Total Borrowings
	RM'000	RM'000	RM'000
Secured	15,737	58,526	74,263
Unsecured	88	191	279
Total	15,825	58,717	74,542

Based on the above, the Group's bank-gearing ratio is around 2.22 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) Plaintiff 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;

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- (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. On 24 March 2020, The Plaintiff has written to the Court of Appeal to withdraw the appeal application.

24 Proposed dividend

The Board of Directors has not recommended any interim dividend for the financial quarter ended 31 March 2020.

25 Earnings per share

	Quarter ended 31 March		Period ended 31 March	
	2020 (RM'000)	2019 (RM'000)	2020 (RM'000)	2019 (RM'000)
Basic loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(3,156)	(2,563)	(3,156)	(2,563)
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)	(0.90)	(0.73)	(0.90)	(0.73)
Diluted loss per ordinary share				
(Loss)/Profit attributable to owners of the Company (RM'000)	(3,156)	(2,563)	(8,059)	(2,563)
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	-	-	-	-
Adjusted weighted average number of ordinary shares for calculating diluted earnings per ordinary share	350,684.2	350,684.2	350,684.2	350,684.2

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Diluted loss per ordinary share (sen)	(0.90)	(0.73)	(0.90)	(0.73)
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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.