

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2016

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.6.2016 RM'000	Preceding Year Quarter 30.6.2015 RM'000	Current Year-To-Date 30.6.2016 RM'000	Preceding Year-To-Date 30.6.2015 RM'000
Continuing Operations				
Revenue	122,284	116,940	249,728	257,273
Direct operating costs	(97,878)	(102,694)	(211,491)	(223,187)
Gross profit	24,406	14,246	38,237	34,086
Other operating income	367	335	714	649
Distribution costs	(1,302)	(1,198)	(3,024)	(2,944)
Administrative costs	(6,172)	(5,712)	(13,531)	(12,414)
Other operating costs	118	(347)	(1,531)	(806)
	(7,356)	(7,257)	(18,086)	(16,164)
Profit from operations	17,417	7,324	20,865	18,571
Finance costs	(1,853)	(2,158)	(3,960)	(4,215)
Profit before tax	15,564	5,166	16,905	14,356
Tax expense	(3,969)	(1,373)	(4,690)	(3,926)
Profit for the financial period	11,595	3,793	12,215	10,430
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translation of foreign operations	27	(9)	(24)	(7)
Total other comprehensive income/(loss), net of tax	27	(9)	(24)	(7)
Total comprehensive income for the financial period	11,622	3,784	12,191	10,423
Profit attributable to:				
- Owners of the Company	11,595	3,793	12,215	10,430
Total comprehensive income attributable to:				
- Owners of the Company	11,622	3,784	12,191	10,423
Earnings per share (sen) attributable to owners of the Company:				
- Basic	3.74	1.22	3.94	3.36
- Diluted	3.74	1.22	3.94	3.36

LEON FUAT BERHAD
(Company No.756407-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2016 (CONT'D)

Note:

The Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Unaudited As at 30.6.2016 RM'000	Audited As at 31.12.2015 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	135,792	93,676
Capital work-in-progress	6,055	11,492
	<u>141,847</u>	<u>105,168</u>
Current assets		
Inventories	177,931	186,209
Trade receivables	122,062	126,502
Other receivables, deposits and prepayments	6,259	18,082
Tax recoverable	876	937
Derivative financial assets	39	-
Fixed deposits with licensed banks	431	417
Cash and bank balances	11,815	3,806
	<u>319,413</u>	<u>335,953</u>
TOTAL ASSETS	<u><u>461,260</u></u>	<u><u>441,121</u></u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	155,000	155,000
Share premium	5,094	5,094
Merger deficit	(109,545)	(109,545)
Capital reserve	1	1
Retained earnings	191,635	184,070
Foreign currency translation reserve	(38)	(14)
Total Equity	<u>242,147</u>	<u>234,606</u>
Non-current liabilities		
Deferred tax liabilities	3,760	3,686
Amount owing to ultimate holding company	10,160	-
Borrowings	19,559	5,344
	<u>33,479</u>	<u>9,030</u>
Current liabilities		
Trade payables	24,632	29,497
Other payables and accruals	5,414	5,083
Dividend payable	4,650	-
Borrowings	148,913	161,845
Tax liabilities	2,025	1,060
	<u>185,634</u>	<u>197,485</u>
Total Liabilities	<u>219,113</u>	<u>206,515</u>
TOTAL EQUITY AND LIABILITIES	<u><u>461,260</u></u>	<u><u>441,121</u></u>
Net assets per share attributable to owners of the Company (RM)	0.78	0.76

Note:

The Unaudited Condensed Consolidated Statement of Financial position should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statement.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SECOND QUARTER ENDED 30 JUNE 2016

	< -----Attributable to owners of the Company ----- >						
	< ----- Non-distributable ----- >					Distributable	
	Share Capital RM'000	Share Premium RM'000	Merger Deficit RM'000	Capital Reserve RM'000	Foreign Currency Translation Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
2016							
At 1 January 2016	155,000	5,094	(109,545)	1	(14)	184,070	234,606
Total comprehensive income	-	-	-	-	(24)	12,215	12,191
Transaction with owners							
Dividend	-	-	-	-	-	(4,650)	(4,650)
At 30 June 2016	<u>155,000</u>	<u>5,094</u>	<u>(109,545)</u>	<u>1</u>	<u>(38)</u>	<u>191,635</u>	<u>242,147</u>
2015							
At 1 January 2015	155,000	5,094	(109,545)	1	3	171,791	222,344
Total comprehensive income	-	-	-	-	(7)	10,430	10,423
Transaction with owners							
Dividend	-	-	-	-	-	(6,200)	(6,200)
At 30 June 2015	<u>155,000</u>	<u>5,094</u>	<u>(109,545)</u>	<u>1</u>	<u>(4)</u>	<u>176,021</u>	<u>226,567</u>

Note:

The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statement.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

	Current Year-To-Date 30.6.2016 RM'000	Preceding Year-To-Date 30.6.2015 RM'000
Cash Flows from Operating Activities		
Profit before tax	16,905	14,356
Adjustments for:-		
Impairment loss on trade receivables	982	360
Reversal of impairment loss on trade receivables	(222)	(90)
Bad debts written off	-	6
Depreciation of property, plant and equipment	4,277	3,544
Interest expense	3,669	3,927
Property, plant and equipment written off	78	16
Gain on disposal of property, plant and equipment	(188)	(10)
Gain on foreign exchange - unrealised	(1)	(3)
Inventories written off	65	-
Net fair value gain on derivatives	(39)	-
Interest income	(58)	(243)
Operating profit before working capital changes	<u>25,468</u>	<u>21,863</u>
Decrease/(Increase) in inventories	8,213	(15,303)
Decrease/(Increase) in trade and other receivables	2,831	(6,431)
Decrease in trade and other payables	(4,537)	(13,877)
Cash generated from/(used in) operations	<u>31,975</u>	<u>(13,748)</u>
Interest received	58	243
Interest paid	(3,669)	(3,927)
Income tax paid	(3,591)	(3,618)
Net cash from/(used in) operating activities	<u>24,773</u>	<u>(21,050)</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(3,606)	(4,184)
Placement of fixed deposits	(14)	(12)
Proceeds from disposal of property, plant and equipment	210	10
Capital work-in-progress paid	(6,778)	(3,600)
Net cash used in investing activities	<u>(10,188)</u>	<u>(7,786)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SECOND QUARTER ENDED 30 JUNE 2016 (CONT'D)

	Current Year-To-Date 30.6.2016 RM'000	Preceding Year-To-Date 30.6.2015 RM'000
Cash Flows from Financing Activities		
Payments to finance lease payables	(1,578)	(1,359)
Repayments of term loans	(600)	(100)
Net (repayment)/drawdown of bankers' acceptances	(6,869)	20,564
Advances from ultimate holding company	10,160	3,000
Net cash from financing activities	<u>1,113</u>	<u>22,105</u>
Net increase/(decrease) in cash and cash equivalents	15,698	(6,731)
Effect of exchange rate changes on cash and cash equivalents	(20)	(15)
Cash and cash equivalents at beginning of the financial period	<u>(20,024)</u>	<u>5,053</u>
Cash and cash equivalents at end of the financial period	<u><u>(4,346)</u></u>	<u><u>(1,693)</u></u>
Cash and cash equivalents at end of financial period comprises:		
Fixed deposits with licensed banks	431	13,213
Cash and bank balances	11,815	3,233
Bank overdrafts	<u>(16,161)</u>	<u>(17,722)</u>
	(3,915)	(1,276)
Less: Fixed deposit under lien	<u>(431)</u>	<u>(417)</u>
	<u><u>(4,346)</u></u>	<u><u>(1,693)</u></u>

Note:

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statement.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING

A1. Accounting Policies and Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”), International Accounting Standard (“IAS”) 34: Interim Financial Reporting issued by the International Accounting Standard Board (“IASB”) and paragraph 9.22 (Appendix 9B Part A) of the Main Market Listing Requirement (“Listing Requirements”) of the Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2015.

The interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company and its subsidiaries (“the Group”) since the financial year ended 31 December 2015.

The significant accounting policies adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements as disclosed in the audited financial statements of the Group for the financial year ended 31 December 2015, except for the adoption of the following:

Amendments/Improvements to MFRSs

MFRS 5	Non-current Asset Held for Sale and Discontinued Operations
MFRS 7	Financial Instruments: Disclosures
MFRS 10	Consolidated Financial statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosures of Interests in Other Entities
MFRS 101	Presentation of Financial Statements
MFRS 116	Property, Plant and Equipment
MFRS 119	Employee Benefits
MFRS 127	Separate financial statements
MFRS 128	Investments in Associates and Joint Ventures
MFRS 138	Intangible Assets
MFRS 141	Agriculture

The adoption of the above amendments/improvement to MFRSs did not have any material impact on the financial position and performance of the Group.

The Group has not applied in advance the following new MFRSs and amendments/improvements to MFRSs that have been issued by MASB but not yet effective for the current financial year:

<u>New MFRS</u>		Effective for financial periods beginning on or after
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	1 January 2019

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A1. Accounting Policies and Basis of Preparation (*Cont’d*)

		Effective for financial periods beginning on or after
<u>Amendments/Improvements to MFRSs</u>		
MFRS 10	Consolidated Financial statements	Deferred
MFRS 107	Statement of Cash Flows	1 January 2017
MFRS 112	Income Taxes	1 January 2017
MFRS 128	Investments in Associates and Joint Ventures	Deferred

The Group is in the process of assessing the impact which may arise from adoption of the above new MFRSs and amendments/improvement to MFRSs.

A2. Auditors’ Report on Preceding Annual Financial Statements

The Auditors’ Report for the immediate preceding annual financial statements of the Group and the Company for the financial year ended 31 December 2015 were not subject to any qualification.

A3. Seasonality or Cyclicity of Operations

The Group’s operations were not significantly affected by any seasonal or cyclical factors during the current quarter and current financial year-to-date.

A4. Unusual Items

There were no significant items affecting assets, liabilities, equity, net income, or cash flows of the Group that are unusual because of their nature, size and incidence during the current quarter and current financial year-to-date.

A5. Changes in Estimates

There were no changes in the estimates of amounts reported in the prior period of the current financial year or changes in the estimates of the amounts reported in the prior financial years that have a material effect on the results for the current quarter and current financial year-to-date.

A6. Debt and Equity Securities

There was no issuance, cancellation, repurchase, resale or repayment of debt and equity securities nor any movement in the share capital for the current quarter and current financial year-to-date.

A7. Dividend Paid

No dividend was paid during the current quarter.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A8. Segment Information

Segment information of the Group for the financial year-to-date ended 30 June 2016 is as follows:

	Trading of Processing				
	Steel	of Steel			
	Products	Products	Others ⁽¹⁾	Elimination	Consolidated
	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	117,597	131,954	177	-	249,728
Direct operating costs	(106,602)	(104,734)	(155)	-	(211,491)
Gross Profit	10,995	27,220	22	-	38,237
Add/(Less):					
- Other income					714
- Operating expenses					(18,086)
- Finance costs					(3,960)
Profit before tax					16,905
Tax expense					(4,690)
Profit for the financial period					12,215

Segment information of the Group for the financial year-to-date ended 30 June 2015 is as follows:

	Trading of Processing				
	Steel	of Steel			
	Products	Products	Others ⁽¹⁾	Elimination	Consolidated
	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	93,925	163,135	213	-	257,273
Direct operating costs	(83,793)	(139,207)	(187)	-	(223,187)
Gross Profit	10,132	23,928	26	-	34,086
Add/(Less):					
- Other income					649
- Operating expenses					(16,164)
- Finance costs					(4,215)
Profit before tax					14,356
Tax expense					(3,926)
Profit for the financial period					10,430

Note:

(1) Mainly consists of trading of specialised steel materials including tool steel and non-ferrous metal products including bronze, brass, aluminium and copper products.

A9. Valuations of Property, Plant and Equipment

There were no amendments to the valuation of property, plant and equipment that have been brought forward from the preceding annual financial statements.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A10. Material Events Subsequent to the End of the Interim Period

On 28 July 2016, the Company announced that its wholly-owned subsidiaries, Leon Fuat Hardware Sdn Bhd and Supreme Steelmakers Sdn Bhd had on the even date received the letters pursuant to Land Acquisition Act, 1960 on the Kuala Lumpur Land Administrator’s intention to hold land inquiry pertaining to the compulsory acquisition for the purpose of “projek Mass Rapid Transit (MRT) Lembah Klang-Jajaran Sungai Buloh-Serdang-Putrajaya (SSP)”.

The two (2) affected plots of land are located at:-

- (i) Lot No. 443, Seksyen 92, Bandar Kuala Lumpur, Daerah Kuala Lumpur bearing postal address No. 6A, Jalan Tiga, Off Jalan Sungai Besi, Kawasan Perusahaan Sungai Besi, Kuala Lumpur measuring approximately 2,842 sq. meters (estimated land area to be acquired: 430.5316 sq. meters); and
- (ii) Lot No. 507, Seksyen 92, Bandar Kuala Lumpur, Daerah Kuala Lumpur bearing postal address No. 8, Jalan Tiga, Off Jalan Sungai Besi, Kawasan Perusahaan Sungai Besi, Kuala Lumpur measuring approximately 3,726 sq. meters (estimated land area to be acquired: 2,915.2627 sq. meters).

The affected plots of land house the steel processing plant, office and warehouse of Supreme Steelmakers Sdn Bhd.

Save as above, there were no material events subsequent to the end of the current quarter up to the date of issue of this report that have not been reflected in the financial statements for the current quarter and current financial year-to-date.

A11. Effects of Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter and current financial year-to-date.

A12. Capital Commitments

	As at	Audited
	30.6.2016	As at
	RM’000	31.12.2015
		RM’000
Approved and contracted for:		
- Purchase of motor vehicles	66	1,664
- Purchase of plant and machinery	1,876	2,109
- Construction of factory and warehouse buildings	2,951	9,553
- Purchase of vacant leasehold industrial land	-	18,326
	<u>4,893</u>	<u>31,652</u>

A13. Changes in Contingent Liabilities and Contingent Assets

There were no contingent assets and liabilities since the end of the previous financial year up to 30 June 2016.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A14. Significant Related Party Transactions

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.6.2016 RM’000	Preceding Year- Quarter 30.6.2015 RM’000	Current Year- To-Date 30.6.2016 RM’000	Preceding Year- To-Date 30.6.2015 RM’000
Sales to related parties	852	794	1,925	2,195
Purchases from related parties	273	145	434	238
Rental expense paid to related parties	390	390	780	780
Interest charged by related party ⁽¹⁾	82	-	160	-
	<u>1,597</u>	<u>1,329</u>	<u>3,299</u>	<u>3,213</u>

Note:

(1) In respect of interest arising from an unsecured loan from ultimate holding company which is subject to interest at the rate of 3.25% per annum compounded on monthly rest. Outstanding loan as at 30 June 2016 amounted to RM10.16 million (30.6.2015: Nil) is repayable after twelve months.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of Performance

Current Quarter Compared To Preceding Year Corresponding Quarter

Our Group achieved higher revenue for the current quarter as compared to the preceding year corresponding quarter. The revenue recorded for the current quarter and the preceding year corresponding quarter was RM122.28 million and RM116.94 million respectively, increased by 4.6% or RM5.34 million.

The increase in revenue was resulted from the increase in revenue for our trading of flat carbon steel products by approximately 65.0% or RM15.07 million, due to higher tonnage sales by 68.3%, slightly reduced by the marginal decrease in average selling price by 2.0%.

However, the increase in revenue contributed from trading of flat carbon steel products was largely offset by the decrease in revenue for our processing of steel products by approximately 15.0% or RM10.96 million, mainly due to the decrease in tonnage sales by 18.1%, although average selling price increased by 3.7%.

Our main business segments continued to be trading and processing of steel products, which collectively contributed approximately 99.9% of our total revenue for the current quarter. The trading segment and the processing segment contributed revenue of approximately 49.2% and 50.7% respectively for the current quarter whereas the trading segment and the processing segment contributed revenue of approximately 37.5% and 62.4% respectively for the preceding year corresponding quarter.

For the current quarter, our gross profit increased by approximately 71.3% or approximately RM10.16 million, from RM14.25 million for the preceding year corresponding quarter to RM24.41 million for the current quarter, which was mainly due to the improvement in overall gross profit margin.

The increase in overall gross profit margin from 12.2% for the preceding year correspondence quarter to approximately 20.0% for the current quarter was due to increase in gross profit margin for both trading and processing of steel products by approximately 6.1 percentage points and 10.7 percentage points respectively, as the result of the followings:

- increase in gross profit margin for trading of steel products was mainly due to the average cost for input material decreased by 11.8%, whereas the average selling price had only decreased by 6.1%; and
- increase in gross profit margin for processing of steel products was mainly due to the average selling price increased by 3.7%, further improved by the decrease in average cost for input material by approximately 9.0%.

Operating costs rose by approximately RM0.10 million from RM7.26 million for the preceding year corresponding quarter to RM7.36 million for the current quarter as the result of the followings:

- increase in distribution costs by approximately RM0.10 million, mainly caused by the increase in staff costs;
- increase in administrative costs by approximately RM0.46 million, mainly caused by the higher sales commission incurred and depreciation charged for the current quarter as compared to the preceding year corresponding quarter; and
- decrease in other operation costs by approximately RM0.46 million mainly due to fair value gain on derivatives, arising from settlement of foreign exchange contracts denominated in United States Dollar ("USD"), attributable to favorable foreign exchange movement for USD against Ringgit Malaysia during the current quarter as compared to the foreign exchange rate at end of immediate preceding quarter.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B1. Review of Performance (Cont'd)

Current Quarter Compared To Preceding Year Corresponding Quarter (Cont'd)

On the contrary, finance costs had decreased by approximately RM0.31 million as compared to the preceding year corresponding quarter. This was mainly due to lower interest expenses incurred for trade financing and overdraft facilities, partly offset by the increase in interest for loan from ultimate holding company for the current quarter.

Based on the foregoing factors, our Group registered a significant increase in profit before tax by RM10.40 million to RM15.57 million as compared to RM5.17 million for the preceding year corresponding quarter.

Current Financial Year-To-Date Compared To Preceding Financial Year-To-Date

Our revenue decreased by 2.9% or RM7.54 million from RM257.27 million for the preceding financial year-to-date to RM249.73 million for the current financial year-to-date. This was mainly due to:

- decrease in revenue for our processing of steel products by 19.1% or RM31.18 million, from RM163.13 million to RM131.95 million, caused by the decrease in demand for our processing of steel products, with total tonnage sales decreased by 17.5%; and
- decrease in revenue for our trading of long carbon steel products by 11.1% or RM3.28 million, caused by lower tonnage sales and lower average selling price by 5.1% and 6.3% respectively.

However, the lower revenue for processing of steel products and trading of long carbon steel products was largely compensated by the increase in revenue for trading of flat carbon steel products by 54.7% or RM26.99 million, mainly due to the increase in tonnage sales by 80.5%, slightly reduced by the lower average selling price by approximately 14.2%.

Despite the decrease in revenue by 2.9% or RM7.54 million, our gross profit improved by 12.2% or approximately RM4.15 million, from RM34.09 million to RM38.24 million. This was contributed by the improvement in overall gross profit margin, from 13.2% for the preceding financial year-to-date to 15.3% for the current financial year-to-date, attributable to the better gross profit margin for processing of steel products by approximately 5.9 percentage points, from 14.7% to 20.6%, as the result of the decrease in average cost for input material by 8.1%.

Operating costs increased by approximately RM1.93 million from RM16.16 million for the preceding financial year-to-date to RM18.09 million for the current financial year-to-date, mainly due to:

- increase in administrative costs by approximately RM1.12 million, as the result of the increase in sales commission, depreciation, electricity and water expenses, insurance, road tax, petrol, parking and toll expenses, professional fees and security charges which however, partially reduced by the decrease in directors' remuneration and staff costs, and
- increase in other operation costs by approximately RM0.73 million mainly caused by the increase in allowance for impairment loss on trade receivables and fair value loss on derivatives.

Conversely, finance costs had decreased slightly by approximately RM0.26 million as compared to the preceding financial year-to-date. This was mainly due to lower interest expenses incurred for trade financing and overdraft facilities, partly offset by the increase in interest for loan from ultimate holding company for the current financial year-to-date.

Based on the foregoing factors, our Group registered an increase in profit before tax by approximately 17.8% or RM2.55 million from RM14.36 million for the preceding financial year-to-date to RM16.91 million for the current financial year-to-date.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B2. Material Variation of Profit Before Tax Against Immediate Preceding Quarter

For the current quarter, our group recorded significant increase in gross profit by approximately 76.5% or RM10.58 million, from RM13.83 million for the immediate preceding quarter to RM24.41 million for the current quarter mainly caused by the increase in gross profit margin by approximately 9.1 percentage points from the immediate preceding quarter.

The higher gross profit margin by 9.1 percentage point, from 10.9% for immediate preceding quarter to approximately 20.0% for the current quarter was mainly due to the followings:

- increase in gross profit margin for trading of steel products by 10.9 percentage points, from 3.8% for the immediate preceding quarter to 14.7% for the current quarter, mainly due to the increase in average selling by approximately 13.0%; and
- increase in gross profit margin for processing of steel products by approximately 8.4 percentage points, from 16.7% for the immediate preceding quarter to 25.1% for the current quarter, mainly due to the increase in average selling by 10.3%.

Our operating costs decreased by approximately RM3.37 million, from RM10.73 million for the immediate preceding quarter to RM7.36 million for the current quarter, mainly due to:

- decrease in distribution costs by approximately RM0.42 million, mainly caused by the decrease in staff related costs due to the absence of staff bonuses which were fully paid and recognised in the immediate preceding quarter.
- decrease in administrative costs by approximately RM1.19 million mainly as the result of decrease in directors' remuneration and staff costs, due to the absence of bonuses for staff and directors which were fully paid and recognised in the immediate preceding quarter. This was, however, partially offset by the increase in the following expenses:
 - o sales commission;
 - o depreciation;
 - o insurance and road tax ;
 - o professional fees; and
 - o upkeep of office.
- decrease in other operation costs by approximately RM1.77 million, mainly as the result of decrease in impairment loss on trade receivables, the effect of fair value gain on derivatives at settlement dates and the absence of fair value loss on derivatives which were recognised in the immediate preceding quarter.

Finance costs for the current quarter had also decreased by RM0.25 million as compared to the immediate preceding quarter, mainly due to lower interest expenses incurred for trade financing and overdraft facilities for the current quarter.

Based on the foregoing factors, our profit before tax increased significantly by approximately 1,061.0% or RM14.23 million, from RM1.34 million for the immediate preceding quarter to RM15.57 million for the current quarter.

B3. Commentary on Prospects

Malaysia's economy has seen a steady Gross Domestic Product growth of approximately 4% in each of the first two quarters of the current financial year despite global economic uncertainties and geopolitical tension. Steel prices have strengthened in the second quarter of the current financial year due to reduction in supply from China arising from closure of a significant numbers of loss-making and out-dated steel plants.

For the remaining quarters of the current financial year, steel prices are expected to be volatile which necessitate more stringent and prudent measures to be applied on the Group's operations in order to maintain the Group's competitiveness. In the light of these factors, the Board is cautiously optimistic that the Group's performance and results for the remaining quarters of the current financial year will remain positive.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B4. Variance of Forecast Profit and Profit Guarantee

No profit forecast has been issued by the Group previously in any public document.

B5. Profit Before Tax

Profit before tax is derived after taking into consideration the followings:-

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.6.2016 RM'000	Preceding Year Quarter 30.6.2015 RM'000	Current Year- To-Date 30.6.2016 RM'000	Preceding Year- To-Date 30.6.2015 RM'000
Impairment loss on trade receivables	144	240	982	360
Bad debt recovered	-	-	-	(3)
Reversal of impairment loss on trade receivables	(201)	(62)	(222)	(90)
Bad debts written off	-	6	-	6
Depreciation of property, plant and equipment	2,214	1,836	4,277	3,544
Gain on disposal of property, plant and equipment	(131)	-	(188)	(10)
Property, plant and equipment written off	68	-	78	16
Insurance claims	-	(70)	(67)	(120)
Interest expense	1,685	2,053	3,669	3,927
Interest income	(29)	(119)	(58)	(243)
Rental income	-	(78)	-	(157)
Rental of premises	463	457	925	913
Rental of equipment	16	17	32	33
(Gain)/Loss on foreign exchange - realised	(55)	45	(118)	160
- unrealised	56	(22)	(1)	(3)
Net fair value (gain)/loss on derivatives	(505)	-	92	-
Inventories written off	65	-	65	-

Save as disclosed above, the other items as required under Appendix 9B Part A (16) of the Main Market Listing Requirements of Bursa Securities are not applicable.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B6. Tax Expense

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.6.2016 RM'000	Preceding Year- Quarter 30.6.2015 RM'000	Current Year- To-Date 30.6.2016 RM'000	Preceding Year- To-Date 30.6.2015 RM'000
Current tax				
- for the financial period	3,730	1,362	4,616	3,941
Deferred tax				
- origination and reversal of temporary differences	239	65	74	43
- over provision in previous year	-	(52)	-	(52)
- relating to change in income tax rate	-	(2)	-	(6)
Tax expense	<u>3,969</u>	<u>1,373</u>	<u>4,690</u>	<u>3,926</u>

The effective tax rate for the current quarter and current financial year-to-date is higher than the statutory tax rate of 24% mainly due to certain expenses which are not deductible for tax purposes and the absence of group relief for losses incurred by certain companies within the Group.

B7. Status of Corporate Proposals

There was no corporate proposal announced but not completed as at the date of this report.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B8. Group Borrowings

Total Group borrowings as at 30 June 2016 were as follows:-

	As at 30.6.2016 RM'000	Audited As at 31.12.2015 RM'000
<u>Current</u>		
Secured:		
Bankers' acceptances	72,557	77,069
Finance lease payables	2,968	3,161
Term loan	1,800	-
Bank overdrafts	12,421	17,625
	<u>89,746</u>	<u>97,855</u>
Unsecured:		
Bankers' acceptances	55,427	57,784
Bank overdrafts	3,740	6,206
	<u>59,167</u>	<u>63,990</u>
	<u>148,913</u>	<u>161,845</u>
<u>Non-current</u>		
Secured:		
Finance lease payables	3,959	5,344
Term loan	15,600	-
	<u>19,559</u>	<u>5,344</u>
Total Borrowings	<u><u>168,472</u></u>	<u><u>167,189</u></u>

The above Group borrowings are denominated in Ringgit Malaysia.

B9. Material Litigation

Since the last annual financial statements up to the date of issue of this report, the Group is not engaged in any material litigation or arbitration, either as plaintiff or defendant, which have a material effect on the financial position of our Group, and the Board does not know of any proceedings pending or threatened or of any fact likely to give rise to any proceeding which may materially and adversely affect the financial position or business of the Group.

B10. Dividend

A final single tier dividend of 1.5 sen per share in respect of the financial year ended 31 December 2015 has been approved by the shareholders at the last Annual General Meeting on 2 June 2016. The final dividend was paid on 22 July 2016.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B11. Earnings Per Share

(a) Basic Earnings Per Share

The basic earnings per share for the current quarter and financial year-to-date are computed as follows:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.6.2016 RM'000	Preceding Year-Quarter 30.6.2015 RM'000	Current Year-To-Date 30.6.2016 RM'000	Preceding Year-To-Date 30.6.2015 RM'000
Profit attributable to owners of the Company	11,595	3,793	12,215	10,430
Weighted average number of ordinary shares of RM0.50 each in issue ('000)	310,000	310,000	310,000	310,000
Basic Earnings Per Share (sen)	3.74	1.22	3.94	3.36

(b) Diluted Earnings Per Share

Diluted earnings per share is equivalent to basic earnings per share as the Company does not have any dilutive potential ordinary shares in issue for the current quarter and current financial year-to-date.

B12. Realised and Unrealised Profits/Losses Disclosure

The breakdown of the retained profits of the Group as at the end of the current quarter and previous financial year, into realised and unrealised profits, is as follows:-

	As at 30.6.2016 RM'000	As at 31.12.2015 RM'000
Total retained earnings of the Group		
(a) Realised	198,185	191,319
(b) Unrealised	(4,533)	(4,406)
	193,652	186,913
Less: consolidated adjustments	(2,017)	(2,843)
Total retained earnings	191,635	184,070

By order of the Board
Kuala Lumpur
23 August 2016