

LEON FUAT BERHAD

Registration No. 200601036648 (756407-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.09.2019 RM'000	Preceding Year Quarter 30.09.2018 RM'000	Current Year- To-Date 30.09.2019 RM'000	Preceding Year- To-Date 30.09.2018 RM'000
Revenue	143,231	155,241	457,540	442,773
Cost of sales	(128,367)	(132,990)	(408,765)	(375,993)
Gross profit	14,864	22,251	48,775	66,780
Other income	606	736	2,110	2,063
Distribution costs	(2,145)	(2,073)	(6,561)	(7,110)
Administrative costs	(5,726)	(5,618)	(17,114)	(18,998)
Net addition of impairment losses of financial assets	(310)	(1)	(857)	(572)
Other costs	(459)	(555)	(876)	(1,300)
	(8,640)	(8,247)	(25,408)	(27,980)
Profit from operations	6,830	14,740	25,477	40,863
Finance costs	(4,183)	(3,352)	(11,973)	(9,127)
Profit before tax	2,647	11,388	13,504	31,736
Tax expense	(795)	(2,803)	(3,774)	(8,249)
Profit for the financial period	1,852	8,585	9,730	23,487
Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange difference on translation of foreign subsidiary	(11)	15	(2)	3
Total other comprehensive income, net of tax	(11)	15	(2)	3
Total comprehensive income for the financial period	1,841	8,600	9,728	23,490
Profit/(Loss) attributable to:				
- Owners of the Company	1,833	8,589	9,780	23,583
- Non-controlling interest	19	(4)	(50)	(96)
	1,852	8,585	9,730	23,487

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019 (CONT'D)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.09.2019 RM'000	Preceding Year Quarter 30.09.2018 RM'000	Current Year- To-Date 30.09.2019 RM'000	Preceding Year- To-Date 30.09.2018 RM'000
Total comprehensive income attributable to:				
- Owners of the Company	1,822	8,604	9,778	23,586
- Non-controlling interest	19	(4)	(50)	(96)
	<u>1,841</u>	<u>8,600</u>	<u>9,728</u>	<u>23,490</u>
Earnings per share (sen) attributable to owners of the Company:				
- Basic	0.59	2.77	3.15	7.61
- Diluted	0.59	2.77	3.15	7.61

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 2018 and the accompanying explanatory notes attached to this interim financial statement.

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Registration No. 200601036648 (756407-D)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019

	As at 30.09.2019 RM'000 (Unaudited)	As at 31.12.2018 RM'000 (Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	197,621	145,102
Capital work-in-progress	5,418	59,781
Prepaid land lease payment	813	920
Right-of-use assets	10,894	-
	<u>214,746</u>	<u>205,803</u>
Current assets		
Inventories	264,780	247,200
Trade receivables	165,201	157,772
Other receivables, deposits and prepayments	7,830	5,980
Tax assets	4,190	636
Deposits with licensed banks	33,985	36,415
Cash and bank balances	20,397	16,624
	<u>496,383</u>	<u>464,627</u>
TOTAL ASSETS	<u><u>711,129</u></u>	<u><u>670,430</u></u>
EQUITY AND LIABILITIES		
Equity		
Share capital	160,094	160,094
Merger deficit	(109,545)	(109,545)
Capital reserve	1	1
Retained earnings	304,504	301,149
Foreign currency translation reserve	(18)	(16)
	<u>355,036</u>	<u>351,683</u>
Non-controlling interest	615	665
Total Equity	<u>355,651</u>	<u>352,348</u>
Non-current liabilities		
Borrowings	54,820	50,737
Lease liabilities	11,225	-
Deferred tax liabilities	6,256	3,604
	<u>72,301</u>	<u>54,341</u>
Current liabilities		
Trade payables	22,541	18,451
Other payables and accruals	6,960	16,106
Deferred income	5,134	3,283
Amount due to ultimate holding company	6,118	5,000
Borrowings	240,836	217,548
Lease liabilities	1,583	-
Tax liabilities	5	3,353
	<u>283,177</u>	<u>263,741</u>
Total Liabilities	<u>355,478</u>	<u>318,082</u>
TOTAL EQUITY AND LIABILITIES	<u><u>711,129</u></u>	<u><u>670,430</u></u>
Net assets per share attributable to owners of the Company (RM)	1.15	1.13

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 2018 and the accompanying explanatory notes attached to this interim financial statement.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

-----Attributable to Owners of the Company -----

	Share Capital RM'000	Merger Deficit RM'000	Capital Reserve RM'000	Foreign Currency Translation Reserve RM'000	Retained Earnings RM'000	Non- Controlling interest RM'000	Total Equity RM'000
2019							
At 1 January 2019, as previously reported	160,094	(109,545)	1	(16)	301,149	665	352,348
Effect of adopting MFRS16	-	-	-	-	(1,775)	#	(1,775)
At 1 January 2019, as restated	160,094	(109,545)	1	(16)	299,374	665	350,573
Profit/(Loss) for the financial period	-	-	-	-	9,780	(50)	9,730
Other comprehensive income	-	-	-	(2)	-	-	(2)
Total comprehensive income	-	-	-	(2)	9,780	(50)	9,728
Transaction with owners							
Dividend	-	-	-	-	(4,650)	-	(4,650)
At 30 September 2019	160,094	(109,545)	1	(18)	304,504	615	355,651
2018							
At 1 January 2018	160,094	(109,545)	1	(20)	282,868	801	334,199
Profit/(Loss) for the financial period	-	-	-	-	23,583	(96)	23,487
Other comprehensive income	-	-	-	3	-	-	3
Total comprehensive income	-	-	-	3	23,583	(96)	23,490
Transaction with owners							
Dividend	-	-	-	-	(4,650)	-	(4,650)
At 30 September 2018	160,094	(109,545)	1	(17)	301,801	705	353,039

Notes:

Less than RM500.

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 2018 and the accompanying explanatory notes attached to this interim financial statement.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

	Current Year-To-Date 30.09.2019 RM'000	Preceding Year-To-Date 30.09.2018 RM'000
Cash Flows from Operating Activities		
Profit before tax	13,504	31,736
Adjustments for:		
Amortisation of prepaid land lease payment	106	106
Bad debt written off	-	16
Depreciation of property, plant and equipment	9,414	7,955
Depreciation of right-of-use assets	1,534	-
Deposits written off	-	21
Fair value loss on derivatives	-	9
Impairment loss on trade receivables	890	635
Interest income	(960)	(1,292)
Interest expense	11,235	8,582
Net loss on disposal of property, plant and equipment	-	35
Net unrealised (gain)/loss on foreign exchange	(83)	101
Reversal of impairment loss on trade receivables	(33)	(63)
Operating profit before working capital changes	35,607	47,841
Increase in inventories	(17,580)	(27,366)
Increase in receivables	(10,441)	(13,079)
Increase/(Decrease) in payables	957	(5,995)
Cash generated from operations	8,543	1,401
Interest received	985	1,163
Interest paid	(11,057)	(8,566)
Income tax paid	(8,024)	(10,689)
Net cash used in operating activities	(9,553)	(16,691)
Cash Flows from Investing Activities		
Addition to deposits pledged with licensed banks	(826)	(173)
Capital work-in-progress paid	(1,531)	(14,420)
Deposits paid for acquisition of plant and equipment	-	(929)
Purchase of property, plant and equipment	(2,171)	(4,431)
Proceeds from disposal of property, plant and equipment	-	64
Withdrawal of a fixed deposit pledged with a licensed bank	31	-
Net cash used in investing activities	(4,497)	(19,889)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019 (CONT'D)

	Current Year-To-Date 30.09.2019 RM'000	Preceding Year-To-Date 30.09.2018 RM'000
Cash Flows from Financing Activities		
Dividend paid	(4,650)	(4,650)
Drawdowns of term loans	-	13,382
Repayments of term loan	(1,350)	(1,350)
Repayments of lease liabilities	(1,395)	-
Net advance from ultimate holding company	1,000	-
Net repayments of islamic financing	(9,676)	(4,123)
Net drawdowns of bankers' acceptances	18,208	13,586
Payments to finance lease payables	(2,089)	(3,744)
Net cash from financing activities	<u>48</u>	<u>13,101</u>
Net decrease in cash and cash equivalents	(14,002)	(23,479)
Effect of exchange rate changes on cash and cash equivalents	21	200
Cash and cash equivalents at beginning of the financial period	15,472	40,006
Cash and cash equivalents at end of the financial period	<u>1,491</u>	<u>16,727</u>
Cash and cash equivalents at end of the financial period comprises:		
Cash and bank balances	20,397	14,108
Deposits with licensed banks	<u>33,985</u>	<u>38,880</u>
	54,382	52,988
Less: Bank overdrafts	(45,049)	(29,271)
Less: Deposits pledged with licensed banks	<u>(7,842)</u>	<u>(6,990)</u>
	<u>1,491</u>	<u>16,727</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 2018 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”) 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 2018.

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 2018.

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 2018, except for the adoption of the following:

New Malaysian Financial Reporting Standard (“MFRS”)

MFRS 16	Leases
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Amendments/Improvements to MFRSs

MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 11	Joint Arrangements
MFRS 112	Income Taxes
MFRS 119	Employee Benefits
MFRS 123	Borrowing Costs
MFRS 128	Investments in Associates and Joint Ventures

New IC Interpretation (“IC Int”)

IC Int 23	Uncertainty over Income Tax Treatments
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The Group has not applied in advance the following new MFRS, amendments/improvements to MFRSs and amendments to IC Int that have been issued by MASB but not yet effective for the current financial year:

		Effective for financial periods beginning on or after
<u>New MFRS</u>		
MFRS 17	Insurance Contracts	1 January 2021
<u>Amendments/Improvements to MFRSs</u>		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021#
MFRS 2	Share-based Payment	1 January 2020*
MFRS 3	Business Combinations	1 January 2020 / 1 January 2021#
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021#
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2020 / 1 January 2021#
MFRS 9	Financial Instruments	1 January 2020 / 1 January 2021#

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 (cont’d)</u>		
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 15	Revenue from Contracts with Customers	1 January 2021#
MFRS 101	Presentation of Financial Statements	1 January 2020 / 1 January 2021#
MFRS 107	Statement of Cash Flows	1 January 2021#
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
MFRS 116	Property, Plant and Equipment	1 January 2021#
MFRS 119	Employee Benefits	1 January 2021#
MFRS 128	Investments in Associates and Joint Ventures	1 January 2021#/ Deferred
MFRS 132	Financial instruments: Presentation	1 January 2021#
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 136	Impairment of Assets	1 January 2021#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*/ 1 January 2021#
MFRS 138	Intangible Assets	1 January 2020*/ 1 January 2021#
MFRS 139	Financial Instruments: Recognition and Measurement	1 January 2020
MFRS 140	Investment Property	1 January 2021#
<u>Amendments to IC Int</u>		
IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 132	Intangible Assets - Web Site Costs	1 January 2020*

* Amendments to References to the Conceptual Framework in MFRS Standards

Amendments as to the consequence of effective MFRS 17 Insurance Contracts

The Group is in the process of assessing the impact which may arise from adoption of the abovementioned new MFRS, amendments/improvements to MFRSs and amendments to IC Int.

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 2018 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.

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

The final single tier dividend of 1.5 sen per share in respect of the financial year ended 31 December 2018 which had been approved by the shareholders at the Annual General Meeting of the Company held on 12 June 2019 was paid on 25 July 2019.

A8. Segment Information

Segment information of the Group for the financial year-to-date ended 30 September 2019 is as follows:

	Trading of Processing				
	Steel	of Steel			
	Products	Products	Others ⁽¹⁾	Elimination	Total
	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	224,945	232,465	130	-	457,540
Cost of sales	(204,745)	(203,954)	(66)	-	(408,765)
Gross profit	<u>20,200</u>	<u>28,511</u>	<u>64</u>	<u>-</u>	<u>48,775</u>
Add/(Less):					
- Other income					2,110
- Operating expenses					(24,551)
- Net addition of impairment losses of financial assets					(857)
- Finance costs					<u>(11,973)</u>
Profit before tax					13,504
Tax expense					<u>(3,774)</u>
Profit for the financial period					<u><u>9,730</u></u>

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A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)**A8. Segment Information (Cont’d)**

Segment information of the Group for the financial year-to-date ended 30 September 2018 is as follows:

	Trading of Processing				
	Steel	of Steel	Others ⁽¹⁾	Elimination	Total
	Products	Products	RM’000	RM’000	RM’000
	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	201,728	240,535	510	-	442,773
Cost of sales	(169,175)	(206,359)	(459)	-	(375,993)
Gross profit	<u>32,553</u>	<u>34,176</u>	<u>51</u>	<u>-</u>	<u>66,780</u>
Add/(Less):					
- Other income					2,063
- Operating expenses					(27,408)
- Net addition of impairment losses of financial assets					(572)
- Finance costs					<u>(9,127)</u>
Profit before tax					31,736
Tax expense					<u>(8,249)</u>
Profit for the financial period					<u><u>23,487</u></u>

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.

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

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.

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A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)**A12. Capital Commitments**

	As at 30.09.2019 RM’000	Audited As at 31.12.2018 RM’000
Approved and contracted for:		
- purchase of office equipment	58	58
- purchase of machinery	-	748
- construction of factory and warehouse buildings	1,898	477
	<u>1,956</u>	<u>1,283</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 September 2019.

A14. Significant Related Party Transactions

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.09.2019 RM’000	Preceding Year- Quarter 30.09.2018 RM’000	Current Year- To-Date 30.09.2019 RM’000	Preceding Year- To-Date 30.09.2018 RM’000
Sales to related parties	1,414	1,263	3,553	3,522
Purchases from related parties	16	110	73	1,053
Rental expense paid to related parties	513	509	1,539	1,409
Interest charged by related party ⁽¹⁾	37	84	118	246

Note:

(1) In respect of interest arising from an unsecured loan from ultimate holding company to Leon Fuat Metal Sdn Bhd which is subject to interest at the rate of 3.25% per annum compounded on monthly rest. The interest bearing outstanding loan as at 30 September 2019 amounted to RM2.12 million (30.09.2018: RM10.25 million) is repayable on demand.

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**

	Current Year Quarter 30.09.2019 RM'000	Preceding Year Quarter 30.09.2018 RM'000	Variance	
			RM'000	%
Revenue	143,231	155,241	(12,010)	-7.7%
Gross profit	14,864	22,251	(7,387)	-33.2%
Profit before interest and tax	6,595	14,555	(7,960)	-54.7%
Profit before tax	2,647	11,388	(8,741)	-76.8%
Profit after tax	1,852	8,585	(6,733)	-78.4%
Profit attributable to owners of the Company	1,833	8,589	(6,756)	-78.7%

The revenue recorded for the current quarter and the preceding year corresponding quarter was RM143.23 million and RM155.24 million respectively, decreased by 7.7% or RM12.01 million.

The decrease in revenue was mainly due to decrease in revenue for trading of steel products by 21.3% or RM14.67 million, partially offset by improvement in revenue for processing of steel products by 3.6% or RM3.10 million.

The decrease in revenue for trading of steel products was mainly due to:

- lower revenue from trading of flat carbon steel products by 13.3% or RM4.13 million, mainly due to lower tonnage sales by 6.4%, coupled with lower average selling price by 7.4%; and
- lower revenue from trading of long carbon steel products by 45.5% or RM12.66 million, mainly due to lower tonnage sales by 37.3%, as well as lower average selling price by 13.0%; partially offset by
- higher revenue from trading of other flat steel products by 29.1% or approximately RM1.85 million, mainly attributable to increase in tonnage sales by 17.8%, as well as higher average selling price by 9.6%.

The increase in revenue for processing of steel products was mainly due:

- higher revenue from processing of long carbon steel products by 34.0% or RM1.69 million, mainly due to increase in tonnage sales by 48.5%, negated by a reduction in average selling price by 9.8%; and
- higher revenue from processing of other long steel products by 30.9% or RM0.82 million, mainly attributable to higher tonnage sales by 59.2%, despite lower average selling price by 17.7%.

Our main business segments continued to be trading and processing of steel products, which collectively contributed approximately 100.0% of our total revenue for the current quarter. The trading segment and the processing segment contributed revenue of approximately 37.9% and 62.1% respectively for the current quarter whereas the trading segment and the processing segment contributed revenue of approximately 44.4% and 55.3% respectively for the preceding year corresponding 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)**

Our gross profit decreased by 33.2% or RM7.39 million, from RM22.25 million to RM14.86 million. This was due to the decrease in revenue by 7.7% or RM12.01 million, from RM155.24 million to RM143.23 million, as well as lower overall gross profit margin, from 14.3% for the preceding year corresponding quarter to 10.4% for the current quarter, mainly resulted from lower gross profit margin recorded for both trading and processing of steel products by 5.6 percentage points and 2.8 percentage points respectively as compared to the preceding year corresponding quarter.

The lower gross profit margin for trading of steel products was mainly due to:

- lower gross profit margin for trading of flat carbon steel products by 4.7 percentage points, due to the decrease in average selling price by 7.4%, while the average cost for input materials had only decreased by 2.1%;
- lower gross profit margin for trading of long carbon steel products by 6.8 percentage points, due to the decrease in average selling price by 13.0%, while the average cost for input materials had only decreased by 6.0%;
- lower gross profit margin for trading of other flat steel products by 6.5 percentage points, due to the increased in average cost for input materials by 20.0%, while the average selling price had only increased by 9.6%; and
- lower gross profit margin for trading of other long steel products by 8.9 percentage points, due to the decrease in average selling price by 4.7%, while the average cost for input materials had increased by 8.1%.

The lower gross profit margin for processing of steel products was mainly due to:

- lower gross profit margin for processing of long carbon steel products by 10.4 percentage points, due to the decrease in average selling price by 9.8%, while the average cost for input materials had increased by 1.2%;
- lower gross profit margin for processing of other long steel products by 13.8 percentage points, due to the decrease in average selling price by 17.7%, while the average cost for input materials had increased by 2.6%; and
- unabsorbed overhead costs of RM1.60 million incurred in the current quarter.

The other income for the current quarter was RM0.61 million as compared to RM0.74 million for the preceding year corresponding quarter, lower by RM0.13 million, mainly due to:

- absence of realised gain on foreign exchange by RM0.27 million which had been credited to the preceding year corresponding quarter; and
- lower interest income from the deposits with licensed banks by RM0.16 million as compared to the preceding year corresponding quarter; offset by
- rental income of RM0.19 million in the current quarter which was derived from letting of a portion of warehouse space;
- higher storage charges by RM0.03 million; and
- absence of the reversal of unrealised gain on foreign exchange by RM0.05 million which had been charged to the preceding year corresponding 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)

Our operating costs increased by RM0.39 million from RM8.25 million for the preceding year corresponding quarter to RM8.64 million for the current quarter mainly due to net addition of impairment losses on financial assets (trade receivables) of RM0.31 million for the current quarter as compared to negligible net addition of impairment losses for the preceding year corresponding quarter.

Total finance costs for the current quarter was RM4.18 million, increased by approximately RM0.83 million as compared to RM3.35 million for the preceding year corresponding quarter. This was mainly due to higher utilisation of overdraft facilities and term loans where their interest expenses increased by RM0.20 million and RM0.39 million respectively, as well as the interest expense on lease liabilities amounting to RM0.19 million arising from the changes in accounting treatment for operating leases upon applying new MFRS 16.

Based on the foregoing factors, our Group registered a decrease in profit before tax by 76.8% or RM8.74 million to RM2.65 million as compared to RM11.39 million for the preceding year corresponding quarter.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)**B1. Review of Performance (Cont'd)****Current Financial Year-To-Date Compared To Preceding Financial Year-To-Date**

	Current Year- To-Date 30.09.2019 RM'000	Preceding Year- To-Date 30.09.2018 RM'000	Variance	
			RM'000	%
Revenue	457,540	442,773	14,767	3.3%
Gross profit	48,775	66,780	(18,005)	-27.0%
Profit before interest and tax	24,739	40,318	(15,579)	-38.6%
Profit before tax	13,504	31,736	(18,232)	-57.4%
Profit after tax	9,730	23,487	(13,757)	-58.6%
Profit attributable to owners of the Company	9,780	23,583	(13,803)	-58.5%

Our revenue increased by 3.3% or RM14.77 million from RM442.77 million for the preceding financial year-to-date to RM457.54 million for the current financial year-to-date. This was mainly resulted from the increase in revenue for our trading of steel products by 11.5% or approximately RM23.21 million, from RM201.73 million to RM224.94 million, reduced by the decrease in revenue for processing of steel products by 3.4% or RM8.07 million, from RM240.54 million to RM232.47 million.

The increase in revenue for trading of steel products was mainly due to:

- higher revenue from trading of flat carbon steel products by 26.0% or RM28.72 million, mainly due to increase in tonnage sales by 44.3%, negated by a reduction in average selling price by 12.7%; and
- higher revenue from trading of other flat steel products by 59.8% or RM9.54 million, mainly attributable to higher tonnage sales by 56.4%, as well as higher average selling price by 2.2%; partially offset by
- lower revenue from trading of long carbon steel products by 24.1% or RM15.36 million, mainly due to lower tonnage sales by 16.9%, coupled with lower average selling price by 8.7%.

On the other hand, the decrease in revenue for processing of steel products was mainly resulted from:

- lower revenue from processing of flat carbon steel products by 14.9% or RM24.37 million, which saw its demand decreased by 10.9%, as well as lower average selling price by 4.5%; largely mitigated by
- higher revenue from processing of long carbon steel products by 35.9% or RM5.12 million, which saw its demand increased by 53.4%, negated by a reduction in average selling price by 11.4%; and
- higher revenue from processing of other flat steel products by 18.6% or RM10.01 million, mainly due to increase in tonnage sales by 9.0%, as well as higher average selling price by 8.8%.

Despite higher revenue by 3.3% or RM14.77 million, from RM442.77 million to RM457.54 million, our gross profit decreased by 27.0% or approximately RM18.01 million, from RM66.78 million to RM48.77 million, due to lower overall gross profit margin, from 15.1% for the preceding financial year-to-date to 10.7% for the current financial year-to-date, mainly due to lower gross profit margin for both trading and processing of steel products by 7.2 percentage points and 1.9 percentage points respectively as compared to the preceding financial year-to-date.

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

B1. Review of Performance (Cont'd)

Current Financial Year-To-Date Compared To Preceding Financial Year-To-Date (Cont'd)

The lower gross profit margin for trading of steel products was mainly resulted from:

- lower gross profit margin for trading of flat carbon steel products by approximately 6.5 percentage points, due to the decrease in average selling price by 12.7%, while the average cost for input materials had only decreased by 5.4%;
- lower gross profit margin for trading of long carbon steel products by 7.4 percentage points, due to the decrease in average selling price by 8.7%, while the average cost for input materials remained fairly consistent with the average cost for input materials recorded for the preceding year corresponding quarter;
- lower gross profit margin for trading of other flat steel products by 6.4 percentage points, due to the increase in average cost for input materials by 12.9%, while the average selling price had only increased by 2.2%; and
- lower gross profit margin for trading of other long steel products by 7.8 percentage points, due to the decrease in average selling price by 4.2%, while the average cost for input materials had increased by 7.9%.

The lower gross profit margin for processing of steel products was mainly due to the unabsorbed overhead costs of RM3.28 million incurred in the current financial year-to-date.

The other income for the current financial year-to-date was RM2.11 million as compared to RM2.06 million for the preceding financial year-to-date, slightly higher by approximately RM0.05 million, mainly due to higher insurance claims by RM0.20 million and rental income of RM0.47 million in the current financial year-to-date, largely offset by lower interest income from the deposits with licensed banks by RM0.33 million and absence of realised gain of RM0.29 million which had been credited to the preceding financial year-to-date.

Our operating costs decreased by RM2.57 million from RM27.98 million for the preceding financial year-to-date to RM25.41 million for the current financial year-to-date, as the result of the followings:

1. Decrease in distribution costs and administrative costs by RM0.55 million and RM1.88 million respectively mainly due to absence of provision of bonuses for directors and staff. The management has decided to provide bonuses at the last quarter of current financial year where it can be better determined instead of providing it at the beginning of the current financial year.
2. Higher net addition of impairment losses on financial assets (trade receivables) for the current financial year-to-date as compared to the preceding financial year-to-date by RM0.29 million.
3. Decrease in other costs by RM0.42 million, mainly due to:
 - absence of unrealised loss on foreign exchange of RM0.10 million which had been charged to the preceding financial year-to-date;
 - absence of relocation expenses of approximately RM0.07 million incurred during the preceding financial year-to-date in relation to the compulsory acquisition of the two affected plots of land which house the steel processing plant, office and warehouse of a wholly owned subsidiary, Supreme Steelmakers Sdn Bhd;
 - lower penalty charges by RM0.15 million, mainly due to the absence of penalty in relation to income tax under estimated for the year of assessment 2017; and
 - lower quit rent and assessment expenses by RM0.14 million due to certain portion of these expenses were allocated to direct overhead costs.

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

B1. Review of Performance (Cont'd)

Current Financial Year-To-Date Compared To Preceding Financial Year-To-Date (Cont'd)

Total finance costs increased by RM2.85 million as compared to the preceding financial year-to-date. This was mainly due to higher interest expenses incurred for overdraft facilities and term loans by RM0.32 million and RM1.76 million respectively for the current financial year-to-date, as well as the interest expense on lease liabilities amounting to RM0.51 million arising from the changes in accounting treatment for operating leases upon applying new MFRS 16.

Based on the foregoing factors, our Group registered a decrease in profit before tax by 57.4% or approximately RM18.24 million from RM31.74 million for the preceding financial year-to-date to RM13.50 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**

	Current Quarter 30.09.2019 RM'000	Immediate Preceding Quarter 30.06.2019 RM'000	Variance	
			RM'000	%
Revenue	143,231	169,844	(26,613)	-15.7%
Gross profit	14,864	21,665	(6,801)	-31.4%
Profit before interest and tax	6,595	13,855	(7,260)	-52.4%
Profit before tax	2,647	10,104	(7,457)	-73.8%
Profit after tax	1,852	7,491	(5,639)	-75.3%
Profit attributable to owners of the Company	1,833	7,494	(5,661)	-75.5%

Our Group achieved revenue of RM143.23 million for the current quarter, which was lower than the immediate preceding quarter's revenue by 15.7% or RM26.61 million.

The decrease in revenue was mainly due to decrease in revenue for trading of steel products by 41.4% or RM38.44 million, mitigated by higher revenue for processing of steel products by 15.4% or RM11.84 million.

The decrease in revenue for trading of steel products was mainly due to:

- lower revenue from trading of flat carbon steel products by 55.1% or RM33.08 million, mainly due to lower tonnage sales by 58.8%, mitigated by an increase in average selling price by 9.0%; and
- lower revenue from trading of other flat steel products by 31.1% or RM3.69 million, mainly due to decrease in tonnage sales by 33.4%, mitigated by higher average selling price by 3.6%.

The increase in revenue for processing of steel products was mainly attributable to:

- higher revenue from processing of flat carbon steel products by 19.7% or RM9.24 million, mainly due to increase in tonnage sales by 23.6%, negated by a reduction in average selling price by 3.2%; and
- higher revenue from processing of other flat steel products by 12.7% or RM2.55 million, mainly due to increase in tonnage sales by 14.0%, negated by lower average selling price by 1.1%.

For the current quarter, our gross profit decreased by 31.4% or approximately RM6.81 million, from RM21.67 million for the immediate preceding quarter to RM14.86 million for the current quarter, which was due to the decrease in revenue by RM26.61 million, from RM169.84 million for the immediate preceding quarter to RM143.23 million for the current quarter, as well as lower overall gross profit margin from 12.8% for the immediate preceding quarter to 10.4% for the current quarter, mainly caused by lower gross profit margin recorded for processing of steel products by 3.8 percentage points, from 14.4% to 10.6%.

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 (Cont'd)**

The lower gross profit margin for processing of steel products was mainly due to:

- lower gross profit margin for processing of long carbon steel products by 3.5 percentage points, due to the decrease in average selling price by 1.4%, while the average cost for input materials had increased by 3.5%;
- lower gross profit margin for processing of other long steel products by 2.9 percentage points, due to the decrease in average selling price by 8.1%, while the average cost for input materials had only decreased by 4.3%;
- lower gross profit margin for processing of flat carbon steel products by 3.9 percentage points, due to the decrease in average selling price by 3.2%, while the average cost for input materials had increased by 0.7%; and
- lower gross profit margin for processing of other flat steel products by 2.6 percentage points, due to the decrease in average selling price by 1.1%, while the average cost for input materials had increased by 1.6%.

The other income of RM0.61 million for the current quarter as compared to RM0.84 million for the immediate preceding quarter, was lower by RM0.23 million, mainly due to lower unrealised gain on foreign exchange, rental income and compensation from insurance claims in the current quarter by RM0.08 million, RM0.09 million and RM0.07 million respectively as compared to the immediate preceding quarter.

Our operating costs increased by RM0.24 million, from RM8.40 million for the immediate preceding quarter to RM8.64 million for the current quarter, resulted from:

1. Decrease in distribution costs by RM0.17 million, mainly due to decrease in transportation, travelling and accommodation expenses by RM0.18 million.
2. Increase in administrative costs by RM0.30 million, mainly caused by:
 - increase in staff related costs by RM0.21 million; and
 - higher professional fees by RM0.13 million.
3. Lower net addition of impairment losses on financial assets (trade receivables) for the current quarter as compared to the immediate preceding quarter by RM0.25 million.
4. Increase in other costs by RM0.36 million, mainly due to:
 - higher quit rent and assessment expenses paid in the current quarter by RM0.12 million; and
 - higher stamp duty paid by approximately RM0.29 million; offset by
 - Net realised gain on foreign exchange of RM0.02 million in the current quarter as opposed to the realised loss on foreign exchange of RM0.07 million which had been charged to the immediate preceding quarter.

The finance costs for the current quarter was RM4.18 million, increased by approximately RM0.18 million as compared to RM4.00 million for the immediate preceding quarter mainly due to higher interest expenses incurred for overdraft facilities by RM0.19 million.

Based on the foregoing factors, our profit before tax decreased by 73.8% or approximately RM7.45 million, from RM10.10 million for the immediate preceding quarter to RM2.65 million for the current quarter.

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

B3. Commentary on Prospects

Our business operations mainly comprise trading and processing of a diverse range of flat and long steel products. Our processing facilities which include an extensive range of cutting, levelling, shearing, profiling, bending and finishing are cater for specific product requirements of our large customer base from diverse industries and to provide a one-stop solution to potential customers. The cutting and profiling facilities include a fiber laser cutting machine complete with automated loading and unloading facilities for inputs and outputs with overall processing speed of up to 5 times more than conventional machines and believed to be the first fiber laser machine with the highest power in South East Asia.

In addition, as an effort to build a more resilient business, our Group had also embarked on a downstream production of steel pipes which commenced commercial operations at end of the second quarter of 2019. However, as a new player in this market segment, we expect a modest revenue contribution from this operation for the current financial year and more significant contribution in ensuing years.

The profitability of our business is very much dependent on prices of our steel products besides demand from customers. In this respect, global factors such as volatility in commodities and crude oil prices as well as significant fluctuation in exchange rate of foreign currencies against Ringgit Malaysia will affect our suppliers pricing and hence the profitability of our steel products as more than half of our merchandise are sourced from overseas. The prolonged trade tension between the United States of America and several countries including China, and the global growth slowdown may also affect prices of steel.

In the local front, domestic demand should firm up on government consumption although there may be some headwinds on private investment, as business sentiments softened in the face of trade uncertainties. The uncertain impact of the more expansionary fiscal stance on government finances and financial market volatility may also threaten the outlook and thus demand from our customers.

To address the risks arising from global and local factors mentioned above, our Group has been and will continue to be vigilant on the movement of steel prices and related foreign currencies and will take proactive measures including negotiating forward contracts, where necessary, as well as prudent inventory management, to reduce any negative impact which may arise therefrom. Our Group will also continuously enhance the operating capabilities and efficiencies to meet customers' requirements and to ensure timely satisfaction of customer orders while keeping our operating costs at a manageable level.

Taking into consideration of the above and our performance for the past three quarters of the current financial year and barring any unforeseen circumstances, the Board is cautiously optimistic on the financial performance of the Group for the remaining quarter of the current financial year.

B4. Variance of Forecast Profit and Profit Guarantee

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

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B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)**B5. Profit Before Tax**

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.09.2019 RM'000	Preceding Year Quarter 30.09.2018 RM'000	Current Year- To-Date 30.09.2019 RM'000	Preceding Year- To-Date 30.09.2018 RM'000
Amortisation of prepaid land lease payment	35	36	106	106
Bad debt written off	-	-	-	16
Depreciation of property, plant and equipment	3,548	2,706	9,414	7,955
Depreciation of right-of-use assets	658	-	1,534	-
Deposits written off	-	-	-	21
Fair value (gain)/loss on derivatives	(2)	9	-	9
Impairment loss on trade receivables	301	17	890	635
Insurance claimed	(31)	-	(239)	(43)
Interest income	(291)	(453)	(960)	(1,292)
Interest expense	3,948	3,167	11,235	8,582
Net (gain)/loss on foreign exchange				
- realised	(25)	(275)	54	(291)
- unrealised	(1)	154	(83)	101
Net (gain)/loss on disposal of property, plant and equipment	-	(20)	-	35
Rental of premises	17	558	81	1,557
Rental of motor vehicle	-	6	-	19
Rental of equipment	9	16	19	50
Rental of land	-	131	-	391
Rental income	(191)	-	(471)	-
Relocation expenses ⁽¹⁾	-	43	-	66
Reversal of impairment loss on trade receivables	9	(16)	(33)	(63)

Note:

(1) Mainly relating to relocation of existing steel processing plant, office and warehouse of Supreme Steelmakers Sdn. Bhd. to temporary sites.

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.

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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 30.09.2019 RM'000	Preceding Year- Quarter 30.09.2018 RM'000	Current Year- To-Date 30.09.2019 RM'000	Preceding Year- To-Date 30.09.2018 RM'000
Current tax				
- for the financial period	259	2,588	1,550	8,242
- over provision in prior financial year	(428)	(267)	(428)	(267)
Deferred tax				
- origination of temporary differences	490	460	2,431	331
- effect of adopting MFRS 16	(184)	-	(426)	-
- under/(over) provision in prior financial year	658	22	647	(57)
Tax expense	795	2,803	3,774	8,249

The effective tax rate for the current quarter and current financial year-to-date are higher than the statutory tax rate of 24% mainly due to certain expenses which are not deductible for tax purposes and 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.

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B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)**B8. Group Borrowings**

	As at 30.09.2019 RM'000	As at 31.12.2018 RM'000
<u>Current</u>		
Secured:		
Bankers' acceptances	103,328	92,923
Finance lease payables	2,491	2,264
Term loan	1,800	1,800
Bank overdrafts	30,120	15,187
	<u>137,739</u>	<u>112,174</u>
Unsecured:		
Bankers' acceptances	56,316	48,513
Islamic financing	31,852	41,528
Bank overdrafts	14,929	15,333
	<u>103,097</u>	<u>105,374</u>
	<u>240,836</u>	<u>217,548</u>
<u>Non-current</u>		
Secured:		
Finance lease payables	5,754	5,076
Term loans	49,066	45,661
	<u>54,820</u>	<u>50,737</u>
	<u>295,656</u>	<u>268,285</u>
Total Borrowings	<u>295,656</u>	<u>268,285</u>

The above Group's 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

There were no dividend proposed or declared during the current quarter.

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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 30.09.2019 RM'000	Preceding Year- Quarter 30.09.2018 RM'000	Current Year- To-Date 30.09.2019 RM'000	Preceding Year- To-Date 30.09.2018 RM'000
Profit attributable to owners of the Company	1,833	8,589	9,780	23,583
Weighted average number of ordinary shares in issue ('000)	310,000	310,000	310,000	310,000
Basic Earnings Per Share (sen)	0.59	2.77	3.15	7.61

(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.

By order of the Board
Kuala Lumpur
26 November 2019