

LEON FUAT BERHAD

Registration No. 200601036648 (756407-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.12.2019 RM'000	Preceding Year Quarter 31.12.2018 RM'000	Current Year- To-Date 31.12.2019 RM'000	Preceding Year- To-Date 31.12.2018 RM'000
Revenue	149,582	155,152	607,122	597,925
Cost of sales	(137,087)	(139,469)	(545,852)	(515,462)
Gross profit	12,495	15,683	61,270	82,463
Other income	752	540	2,862	2,603
Distribution costs	(3,368)	(2,103)	(9,929)	(9,213)
Administrative costs	(7,716)	(6,283)	(24,830)	(25,281)
Net addition of impairment losses of financial assets	(102)	(276)	(959)	(848)
Other costs	(553)	(309)	(1,429)	(1,609)
	(11,739)	(8,971)	(37,147)	(36,951)
Profit from operations	1,508	7,252	26,985	48,115
Finance costs	(4,035)	(3,456)	(16,008)	(12,583)
(Loss)/Profit before tax	(2,527)	3,796	10,977	35,532
Tax expense	(1,670)	(1,318)	(5,444)	(9,567)
(Loss)/Profit for the financial period/year	(4,197)	2,478	5,533	25,965
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange difference on translation of foreign subsidiary	4	1	2	4
Total other comprehensive income, net of tax	4	1	2	4
Total comprehensive (loss)/ income for the financial period/year	(4,193)	2,479	5,535	25,969
(Loss)/Profit attributable to:				
- Owners of the Company	(4,182)	2,517	5,598	26,100
- Non-controlling interest	(15)	(39)	(65)	(135)
	(4,197)	2,478	5,533	25,965

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019 (CONT'D)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current	Preceding	Current	Preceding
	Year	Year	Year-	Year-
	Quarter	Quarter	To-Date	To-Date
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	RM'000	RM'000	RM'000	RM'000
Total comprehensive income attributable to:				
- Owners of the Company	(4,178)	2,518	5,600	26,104
- Non-controlling interest	(15)	(39)	(65)	(135)
	<u>(4,193)</u>	<u>2,479</u>	<u>5,535</u>	<u>25,969</u>
 (Loss)/Earnings per share (sen) attributable to owners of the Company:				
- Basic	(1.35)	0.81	1.81	8.42
- Diluted	(1.35)	0.81	1.81	8.42

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 31 DECEMBER 2019

	As at 31.12.2019 RM'000 (Unaudited)	As at 31.12.2018 RM'000 (Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	209,275	145,102
Capital work-in-progress	5,972	59,781
Prepaid land lease payment	-	920
	<u>215,247</u>	<u>205,803</u>
Current assets		
Inventories	261,543	247,200
Trade receivables	161,376	157,772
Other receivables, deposits and prepayments	4,614	5,980
Tax assets	4,870	636
Deposits with licensed banks	33,817	36,415
Cash and bank balances	8,979	16,624
	<u>475,199</u>	<u>464,627</u>
TOTAL ASSETS	<u><u>690,446</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	300,292	301,149
Foreign currency translation reserve	(14)	(16)
	<u>350,828</u>	<u>351,683</u>
Non-controlling interest	600	665
Total Equity	<u>351,428</u>	<u>352,348</u>
Non-current liabilities		
Borrowings	64,885	50,737
Deferred tax liabilities	5,518	3,604
	<u>70,403</u>	<u>54,341</u>
Current liabilities		
Trade payables	35,132	18,451
Other payables and accruals	11,319	16,106
Deferred income	2,641	3,283
Amount due to ultimate holding company	137	5,000
Borrowings	217,486	217,548
Tax liabilities	1,900	3,353
	<u>268,615</u>	<u>263,741</u>
Total Liabilities	<u>339,018</u>	<u>318,082</u>
TOTAL EQUITY AND LIABILITIES	<u><u>690,446</u></u>	<u><u>670,430</u></u>
Net assets per share attributable to owners of the Company (RM)	1.13	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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Registration No. 200601036648 (756407-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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	-	-	-	-	(1,805)	#	(1,805)
At 1 January 2019, as restated	160,094	(109,545)	1	(16)	299,344	665	350,543
Profit/(Loss) for the financial year	-	-	-	-	5,598	(65)	5,533
Other comprehensive income	-	-	-	2	-	-	2
Total comprehensive income/(loss)	-	-	-	2	5,598	(65)	5,535
Transaction with owners							
Dividend	-	-	-	-	(4,650)	-	(4,650)
At 31 December 2019	160,094	(109,545)	1	(14)	300,292	600	351,428
2018							
At 1 January 2018, as restated	160,094	(109,545)	1	(20)	279,699	800	331,029
Profit/(Loss) for the financial year	-	-	-	-	26,100	(135)	25,965
Other comprehensive income	-	-	-	4	-	-	4
Total comprehensive income/(loss)	-	-	-	4	26,100	(135)	25,969
Transaction with owners							
Dividend	-	-	-	-	(4,650)	-	(4,650)
At 31 December 2018	160,094	(109,545)	1	(16)	301,149	665	352,348

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 FOURTH QUARTER ENDED 31 DECEMBER 2019

	Current Year-To-Date 31.12.2019 RM'000	Preceding Year-To-Date 31.12.2018 RM'000
Cash Flows from Operating Activities		
Profit before tax	10,977	35,532
Adjustments for:		
Amortisation of prepaid land lease payment	-	141
Bad debts written off	117	22
Capital work-in-progress written off	368	-
Depreciation of property, plant and equipment	11,062	10,612
Depreciation of right-of-use assets	3,929	-
Deposits written off	-	21
Impairment losses on trade receivables	1,018	926
Interest income	(1,269)	(1,657)
Interest expense	15,093	11,839
Inventories written down	-	646
Net (gain)/loss on disposal of property, plant and equipment	(14)	53
Net unrealised (gain)/loss on foreign exchange	(65)	114
Reversal of impairment losses on trade receivables	(59)	(78)
Operating profit before working capital changes	41,157	58,171
Increase in inventories	(14,342)	(4,668)
Increase in receivables	(3,447)	(2,538)
Increase/(Decrease) in payables	15,214	(10,457)
Cash generated from operations	38,582	40,508
Interest received	1,110	1,622
Interest paid	(14,538)	(11,741)
Income tax paid	(9,217)	(12,914)
Net cash from operating activities	15,937	17,475
Cash Flows from Investing Activities		
Net addition to deposits pledged with licensed banks	(846)	(230)
Capital work-in-progress paid	(3,222)	(16,682)
Deposits paid for acquisition of plant and equipment	(58)	(196)
Purchase of property, plant and equipment	(1,751)	(5,791)
Purchase of right-of-use assets	(3,586)	-
Proceeds from disposal of property, plant and equipment	14	64
Net cash used in investing activities	(9,449)	(22,835)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019 (CONT'D)

	Current Year-To-Date 31.12.2019 RM'000	Preceding Year-To-Date 31.12.2018 RM'000
Cash Flows from Financing Activities		
Dividend paid	(4,650)	(4,650)
Drawdowns of term loans	-	14,607
Repayments of term loan	(1,800)	(1,800)
Repayments of lease liabilities	(4,602)	-
Net repayments to ultimate holding company	(5,000)	(5,000)
Net repayments of islamic financing	(8,316)	(1,405)
Net repayments of bankers' acceptances	(3,664)	(16,219)
Payments to finance lease payables	-	(4,848)
Net cash used in financing activities	<u>(28,032)</u>	<u>(19,315)</u>
Net decrease in cash and cash equivalents	(21,544)	(24,675)
Effect of exchange rate changes on cash and cash equivalents	(7)	141
Cash and cash equivalents at beginning of the financial year	15,472	40,006
Cash and cash equivalents at end of the financial year	<u>(6,079)</u>	<u>15,472</u>
Cash and cash equivalents at end of the financial year comprises:		
Cash and bank balances	8,979	16,624
Deposits with licensed banks	<u>33,817</u>	<u>36,415</u>
	42,796	53,039
Less: Bank overdrafts	(40,982)	(30,520)
Less: Deposits pledged with licensed banks	<u>(7,893)</u>	<u>(7,047)</u>
	<u>(6,079)</u>	<u>15,472</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 3	Business Combinations	1 January 2020 / 1 January 2021#
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021#
MFRS 7	Financial Instruments: Disclosures	1 January 2020 / 1 January 2021#
MFRS 9	Financial Instruments	1 January 2020 / 1 January 2021#

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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 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 136	Impairment of Assets	1 January 2021#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2021#
MFRS 138	Intangible Assets	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

No dividend was paid during the current quarter.

The total dividend paid during the current financial year-to-date amounted to 1.5 sen per share (2018 : 1.5 sen per share).

A8. Segment Information

Segment information of the Group for the financial year-to-date ended 31 December 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	281,936	325,008	178	-	607,122
Cost of sales	(257,219)	(288,544)	(89)	-	(545,852)
Gross profit	<u>24,717</u>	<u>36,464</u>	<u>89</u>	<u>-</u>	<u>61,270</u>
Add/(Less):					
- Other income					2,862
- Operating expenses					(36,188)
- Net addition of impairment losses of financial assets					(959)
- Finance costs					<u>(16,008)</u>
Profit before tax					10,977
Tax expense					<u>(5,444)</u>
Profit for the financial year					<u><u>5,533</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 31 December 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	266,622	330,780	523	-	597,925
Cost of sales	(227,732)	(287,264)	(466)	-	(515,462)
Gross profit	<u>38,890</u>	<u>43,516</u>	<u>57</u>	<u>-</u>	<u>82,463</u>
Add/(Less):					
- Other income					2,603
- Operating expenses					(36,103)
- Net addition of impairment losses of financial assets					(848)
- Finance costs					<u>(12,583)</u>
Profit before tax					35,532
Tax expense					<u>(9,567)</u>
Profit for the financial year					<u><u>25,965</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 31.12.2019 RM'000	Audited As at 31.12.2018 RM'000
Approved and contracted for:		
- purchase of office equipment	58	58
- purchase of machinery	133	748
- construction of factory and warehouse buildings	811	477
	1,002	1,283

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 31 December 2019.

A14. Significant Related Party Transactions

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.12.2019 RM'000	Preceding Year- Quarter 31.12.2018 RM'000	Current Year- To-Date 31.12.2019 RM'000	Preceding Year- To-Date 31.12.2018 RM'000
Sales to related parties	964	1,418	4,517	4,940
Purchases from related parties	51	43	124	1,096
Rental expense paid to related parties	513	513	2,052	1,922
Interest charged by related party ⁽¹⁾	16	76	134	322

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. There was no interest bearing outstanding loan as at 31 December 2019 (31.12.2018: RM5 million, 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 31.12.2019 RM'000	Preceding Year Quarter 31.12.2018 RM'000	Variance	
			RM'000	%
Revenue	149,582	155,152	(5,570)	-3.6%
Gross profit	12,495	15,683	(3,188)	-20.3%
Profit before interest and tax	1,331	7,053	(5,722)	-81.1%
(Loss)/Profit before tax	(2,527)	3,796	(6,323)	-166.6%
(Loss)/Profit after tax	(4,197)	2,478	(6,675)	-269.4%
(Loss)/Profit attributable to owners of the Company	(4,182)	2,517	(6,699)	-266.2%

The revenue recorded for the current quarter and the preceding year corresponding quarter was RM149.58 million and RM155.15 million respectively, decreased by 3.6% or RM5.57 million.

The decrease in revenue was mainly due to decrease in revenue for trading of steel products by 12.2% or RM7.90 million, partially offset by improvement in revenue for processing of steel products by 2.5% or RM2.30 million.

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

- lower revenue from trading of flat carbon steel products by 31.1% or RM11.73 million, from RM37.71 million to RM25.98 million, mainly due to lower tonnage sales by 25.0%, coupled with lower average selling price by 8.2%; and
- lower revenue from trading of long carbon steel products by 15.1% or RM2.78 million, from RM18.42 million to RM15.64 million, mainly due to lower average selling price by 14.6%; partially offset by
- higher revenue from trading of other flat steel products by 137.7% or RM6.44 million, from RM4.67 million to RM11.11 million, mainly attributable to increase in tonnage sales by 76.6%, as well as higher average selling price by 34.6%.

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

- higher revenue from processing of flat carbon steel products by 2.5% or approximately RM1.50 million, from RM59.98 million to RM61.48 million, mainly attributable to higher tonnage sales by 14.4%, despite lower average selling price by 10.4%; and
- higher revenue from processing of long carbon steel products by 24.5% or RM1.24 million, from RM5.06 million to RM6.30 million, mainly due to increase in tonnage sales by 46.2%, but partly negated by a reduction in average selling price by 14.9%.

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 38.1% and approximately 61.9% respectively for the current quarter whereas the trading segment and the processing segment contributed revenue of 41.8% and approximately 58.1% 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 20.3% or RM3.19 million, from RM15.68 million to RM12.49 million. This was due to the decrease in revenue by 3.6% or RM5.57 million, from RM155.15 million to RM149.58 million, as well as lower overall gross profit margin, from 10.1% for the preceding year corresponding quarter to 8.4% for the current quarter, mainly resulted from lower gross profit margin recorded for trading of steel products by approximately 1.9 percentage points as compared to the preceding year corresponding quarter and unabsorbed overhead costs incurred by the processing segment of RM1.30 million for the current quarter.

The lower gross profit margin for trading of steel products was mainly due to the increase in average cost for input materials by 4.4%, while the average selling price had only increased by 2.6%.

The other income for the current quarter was RM0.75 million as compared to RM0.54 million for the preceding financial year-corresponding quarter, higher by RM0.21 million, mainly due to rental income of RM0.22 million in the current quarter which was derived from letting of a portion of warehouse space.

Our operating costs increased by RM2.77 million from RM8.97 million for the preceding year corresponding quarter to RM11.74 million for the current quarter, as the result of the followings:

1. Increase in distribution costs by RM1.26 million mainly due to increase in staff related costs by RM1.12 million, resulted from provision of bonuses for 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. Increase in administrative costs by RM1.43 million mainly due to:
 - Higher directors' remuneration and staff related costs by RM1.98 million, mainly resulted from provision of bonuses for directors and staff; partly offset by
 - lower depreciation of property, plant and equipment as well as rental expenses incurred for premises by RM0.54 million and RM0.45 million respectively, offset by the depreciation charges for the right-of-use assets of RM0.79 million arising from the changes in accounting treatment for finance and operating leases upon applying new MFRS 16;
 - lower entertainment expenses by RM0.14 million; and
 - lower professional fees by RM0.19 million.

Total finance costs for the current quarter was RM4.04 million, increased by RM0.58 million or 16.8% as compared to RM3.46 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 RM0.27 million and RM0.34 million respectively, as well as the net increase of interest expense on lease liabilities amounting to RM0.23 million mainly arising from the changes in accounting treatment for finance and operating leases upon applying new MFRS 16, partially offset by lower interest expenses incurred for trade and Islamic financing facilities by RM0.23 million.

Based on the foregoing factors, we incurred loss before tax of RM2.53 million for the current quarter, as opposed to profit before tax for the preceding year corresponding quarter of RM3.80 million.

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	Preceding	Variance	
	Year- To-Date 31.12.2019 RM'000	Year- To-Date 31.12.2018 RM'000	RM'000	%
Revenue	607,122	597,925	9,197	1.5%
Gross profit	61,270	82,463	(21,193)	-25.7%
Profit before interest and tax	26,070	47,371	(21,301)	-45.0%
Profit before tax	10,977	35,532	(24,555)	-69.1%
Profit after tax	5,533	25,965	(20,432)	-78.7%
Profit attributable to owners of the Company	5,598	26,100	(20,502)	-78.6%

Our revenue increased by 1.5% or approximately RM9.19 million from RM597.93 million for the preceding financial year-to-date to RM607.12 million for the current financial year-to-date. This was mainly resulted from the increase in revenue for our trading of steel products by 5.7% or approximately RM15.32 million, from RM266.62 million to RM281.94 million, reduced by the decrease in revenue for processing of steel products by 1.7% or RM5.77 million, from RM330.78 million to RM325.01 million.

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

- higher revenue from trading of flat carbon steel products by 11.5% or approximately RM16.99 million, from RM148.07 million to RM165.06 million, mainly due to increase in tonnage sales by 26.1%, although average selling price reduced by 11.6%; and
- higher revenue from trading of other flat steel products by 77.5% or RM15.98 million, from RM20.62 million to RM36.60 million, mainly attributable to higher tonnage sales by 61.4%, as well as higher average selling price by 10.0%; partially offset by
- lower revenue from trading of long carbon steel products by 22.1% or RM18.14 million, from RM82.08 million to RM63.94 million, mainly due to lower tonnage sales by 13.1%, coupled with lower average selling price by 10.3%.

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 10.3% or approximately RM22.87 million, from RM223.02 million to RM200.15 million, which saw its demand decreased by 4.0%, coupled with lower average selling price by 6.6%; largely mitigated by
- higher revenue from processing of other flat steel products by 12.0% or approximately RM9.13 million, from RM76.02 million to RM85.15 million, mainly due to increase in tonnage sales by 6.0%, as well as higher average selling price by 5.7%;
- higher revenue from processing of long carbon steel products by 32.9% or RM6.36 million, from RM19.33 million to RM25.69 million, which saw its demand increased by 51.5%, but partly negated by a reduction in average selling price by 12.2%; and
- higher revenue from processing of other long steel products by 12.9% or approximately RM1.60 million, from RM12.41 million to RM14.01 million, which saw its demand increased by 30.5%, negated by a reduction in average selling price by 13.4%.

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)**

Despite higher revenue by 1.5% or approximately RM9.19 million, from RM597.93 million to RM607.12 million, our gross profit decreased by 25.7% or RM21.19 million, from RM82.46 million to RM61.27 million, mainly due to lower overall gross profit margin, from 13.8% for the preceding financial year-to date to 10.1% for the current financial year-to-date, resulted from the unabsorbed overhead costs of RM4.57 million incurred by the processing segment in the current financial year-to-date and lower gross profit margin for trading of steel products by 5.8 percentage points, from 14.6% to 8.8%, mainly caused by the decrease in overall average selling price by 8.0%, while the overall average cost for input materials had only decrease by 1.0%.

The other income for the current financial year-to-date was RM2.86 million as compared to RM2.60 million for the preceding financial year-to-date, higher by RM0.26 million, mainly due to higher insurance claims by RM0.27 million and rental income of RM0.69 million in the current financial year-to-date, largely offset by lower realised gain on foreign exchange and lower interest income from the deposits with licensed banks by RM0.30 million and RM0.39 million respectively.

Our operating costs increased slightly by RM0.20 million from RM36.95 million for the preceding financial year-to-date to RM37.15 million for the current financial year-to-date, as the result of the followings:

1. Increase in distribution costs by RM0.72 million, mainly due to increase in staff related costs by RM0.63 million.
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 RM0.11 million.
3. Decrease in administrative costs by RM0.45 million, mainly caused by lower depreciation of property, plant and equipment as well as rental expenses incurred for premises by RM0.51 million and RM1.72 million respectively, offset by the depreciation charges for the right-of-use assets of RM1.86 million arising from the changes in accounting treatment for finance and operating leases upon applying new MFRS 16.
4. Decrease in other costs by approximately RM0.18 million, mainly caused by:
 - absence of unrealised loss on foreign exchange of RM0.11 million which had been charged to the preceding financial year-to-date;
 - lower penalty charges by RM0.14 million, mainly due to the absence of penalty in relation to income tax under estimated for the year of assessment 2017;
 - lower quit rent and assessment expenses by RM0.14 million due to certain portion of these expenses were allocated to direct overhead costs; and
 - lower stamp duty paid by RM0.13 million; largely offset by
 - capital work-in-progress written off of RM0.37 million.

Total finance costs increased by RM3.43 million or 27.2% as compared to the preceding financial year-to-date. This was mainly due to higher utilisation of overdraft and term loan facilities where their interest expenses increased by RM0.59 million and RM2.10 million respectively, as well as the net increase of interest expense on lease liabilities amounting to RM0.83 million mainly arising from the changes in accounting treatment for finance and operating leases upon applying new MFRS 16.

Based on the foregoing factors, our Group registered a decrease in profit before tax by 69.1% or approximately RM24.55 million from RM35.53 million for the preceding financial year-to-date to RM10.98 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 31.12.2019 RM'000	Immediate Preceding Quarter 30.09.2019 RM'000	Variance	
			RM'000	%
Revenue	149,582	143,231	6,351	4.4%
Gross profit	12,495	14,864	(2,369)	-15.9%
Profit before interest and tax	1,331	6,595	(5,264)	-79.8%
(Loss)/Profit before tax	(2,527)	2,647	(5,174)	-195.5%
(Loss)/Profit after tax	(4,197)	1,852	(6,049)	-326.6%
(Loss)/Profit attributable to owners of the Company	(4,182)	1,833	(6,015)	-328.2%

Our Group achieved revenue of RM149.58 million for the current quarter, which was higher than the immediate preceding quarter's revenue by 4.4% or RM6.35 million.

The increase in revenue was mainly due to increase in revenue for trading and processing of steel products by 5.0% or RM2.69 million and 4.1% or RM3.65 million respectively.

The increase in revenue for trading of steel products was mainly due to higher revenue from trading of other flat steel products by 35.7% or RM2.92 million, from RM8.19 million to RM11.11 million, mainly due to higher tonnage sales by 17.0%, as well as higher average selling price by 16.0%.

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

- higher revenue from processing of flat carbon steel products by 9.4% or approximately RM5.30 million, from RM56.18 million to RM61.48 million, mainly due to its demand increased by 17.4%, despite lower average selling price by 6.8%; partly offset by
- lower revenue from processing of other flat steel products by 6.2% or RM1.39 million, from RM22.58 million to RM21.19 million, mainly due to lower average selling price by 7.3%.

For the current quarter, our gross profit decreased by 15.9% or RM2.37 million, from RM14.86 million for the immediate preceding quarter to RM12.49 million for the current quarter, which was mainly due to lower overall gross profit margin from 10.4% for the immediate preceding quarter to 8.4% for the current quarter, resulted from:

- lower gross profit margin for trading of steel products by 2.0 percentage points, from 9.9% to 7.9%, mainly due to the increase in average cost for input materials by 2.0%, while the average selling price remained fairly consistent; and
- lower gross profit margin for processing of steel products by approximately 2.4 percentage points, from 12.4% to 10.0%, mainly due to the decrease in average selling price by 8.8% while the average cost for input materials had only decreased by 5.8%.

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 other income of RM0.75 million for the current quarter is higher by approximately RM0.14 million as compared to RM0.61 million for the immediate preceding quarter mainly due to recognition of realised gain on foreign exchange of RM0.04 million in the current quarter and higher insurance claims by RM0.09 million.

Our operating costs increased by RM3.10 million, from RM8.64 million for the immediate preceding quarter to RM11.74 million for the current quarter, mainly due to increase in distribution costs and administrative costs by RM1.22 million and RM1.99 million respectively, mainly resulted from 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.

The finance costs for the current quarter was RM4.04 million, remained fairly consistent as compared to RM4.18 million for the immediate preceding quarter.

Based on the foregoing factors, we incurred loss before tax of RM2.53 million for the current quarter, as opposed to profit before tax for the immediate preceding quarter of RM2.65 million.

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. 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.

Although the production of steel pipes had only contributed modest revenue for 2019, we are recording an increasing trend of demand for these products and hence, we can expect a more significant revenue contribution for 2020.

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 some of our merchandise are sourced from overseas.

On the global front, the prolonged US-China trade war is hurting exporting countries globally. The latest development of the trade dispute saw the two economic powerhouses announcing a “phase one” deal. Among other things, the deal scrapped the second tranche of the tariffs imposed by both countries, while some portion of the first tranche of the tariffs imposed were reduced. However, the effects of the de-escalation of the trade war are still uncertain. The current outbreak of coronavirus in China, of which the World Health Organisation has declared a global emergency, has also posed further uncertainties in the global economies.

Locally, our economy, as measured by gross domestic product (GDP), grew by 4.3% for 2019, down from 4.7% recorded for 2018, mainly due to a dramatic drop in GDP in the fourth quarter of 2019 as a result of supply disruptions in the commodities sector.

For 2020, economic growth, particularly in the first quarter, will be affected by the outbreak of the novel coronavirus. However, the overall impact of the outbreak on the Malaysian economy will depend on the duration and spread of the outbreak as well as policy responses by authorities. The overall growth for 2020 will be supported by household spending, the realisation of approved private investment projects in recent periods, and higher public sector capital spending. The downside risks to growth will include uncertainties in external conditions arising from the ongoing coronavirus outbreak, the various trade negotiations and geopolitical risks, as well as domestic factors, including weakness in the commodities sector, delays in project implementation and the recent political uncertainty. The political uncertainty, if prolonged, may weight on private investment and may add downside risk to the country’s credit profile, particularly if, there are changes to the government policy emphasis away from fiscal consolidation and institutional reform. Thus, two-way capital flows and exchange rate volatility should be expected.

Mindful of the risks arising from global and local factors mentioned above, our Group will constantly kept 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.

In view of the above, our Board is cautiously optimistic on the financial performance of our Group for 2020.

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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.

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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 31.12.2019 RM'000	Preceding Year Quarter 31.12.2018 RM'000	Current Year- To-Date 31.12.2019 RM'000	Preceding Year- To-Date 31.12.2018 RM'000
Auditors' remuneration	232	219	232	219
Amortisation of prepaid land lease payment	-	35	-	141
Bad debt written off	117	6	117	22
Capital work-in-progress written off	368	-	368	-
Depreciation of property, plant and equipment	1,648	2,657	11,062	10,612
Depreciation of right-of-use assets	2,395	-	3,929	-
Deposits written off	-	-	-	21
Reversal of fair value loss on derivatives	-	(9)	-	-
Impairment losses on trade receivables	128	291	1,018	926
Inventories written down	-	646	-	646
Insurance claimed	(123)	(50)	(362)	(93)
Interest income	(309)	(365)	(1,269)	(1,657)
Interest expense	3,858	3,257	15,093	11,839
Net (gain)/loss on foreign exchange				
- realised	(96)	(56)	(42)	(347)
- unrealised	18	13	(65)	114
Net (gain)/loss on disposal of property, plant and equipment	(14)	18	(14)	53
Rental of premises	27	559	108	2,116
Rental of motor vehicle	-	7	-	26
Rental of equipment	9	9	28	59
Rental of land	-	130	-	521
Rental income	(218)	-	(689)	-
Relocation expenses ⁽¹⁾	-	1	-	67
Reversal of impairment losses on trade receivables	(26)	(15)	(59)	(78)

Note:

(1) Mainly relating to relocation of existing steel processing plant, office and warehouse to temporary sites in connection with a compulsory acquisition of the real estate properties of Supreme Steelmakers Sdn. Bhd..

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 31.12.2019 RM'000	Preceding Year- Quarter 31.12.2018 RM'000	Current Year- To-Date 31.12.2019 RM'000	Preceding Year- To-Date 31.12.2018 RM'000
Current tax				
- for the financial period/year	468	2,213	2,018	10,456
- over provision in prior financial years	1,940	-	1,512	(267)
Deferred tax				
- (reversal)/origination of temporary differences	(731)	(996)	1,700	(666)
- effect of adopting MFRS 16	(7)	-	(433)	-
- under provision in prior financial year	-	101	647	44
Tax expense	1,670	1,318	5,444	9,567

The tax expense for the current quarter and the higher effective tax rate for the current financial year-to-date comparing to the statutory tax rate of 24% is mainly due to provision for additional taxation relating to prior years estimated by the Inland Revenue Board. The additional taxation is in respect of certain compensations received in relation to the compulsory acquisition of the Group's real estate properties which were treated as non-taxable items previously. This additional taxation is provided on prudent ground although it has been disputed and outcome of an appeal against it is still pending.

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 31.12.2019 RM'000	As at 31.12.2018 RM'000
<u>Current</u>		
Secured:		
Bankers' acceptances	80,600	92,923
Finance lease payables	-	2,264
Lease liabilities	2,490	-
Term loan	1,800	1,800
Bank overdrafts	25,843	15,187
	<u>110,733</u>	<u>112,174</u>
Unsecured:		
Lease liabilities	1,230	-
Bankers' acceptances	57,172	48,513
Islamic financing	33,212	41,528
Bank overdrafts	15,139	15,333
	<u>106,753</u>	<u>105,374</u>
	<u>217,486</u>	<u>217,548</u>
<u>Non-current</u>		
Secured:		
Finance lease payables	-	5,076
Lease liabilities	5,124	-
Term loans	48,615	45,661
	<u>53,739</u>	<u>50,737</u>
Unsecured:		
Lease liabilities	11,146	-
	<u>11,146</u>	<u>-</u>
	<u>64,885</u>	<u>50,737</u>
Total Borrowings	<u><u>282,371</u></u>	<u><u>268,285</u></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. (Loss)/Earnings Per Share**

(a) Basic (Loss)/Earnings Per Share

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.12.2019 RM'000	Preceding Year- Quarter 31.12.2018 RM'000	Current Year- To-Date 31.12.2019 RM'000	Preceding Year- To-Date 31.12.2018 RM'000
(Loss)/Profit attributable to owners of the Company	(4,182)	2,517	5,598	26,100
Weighted average number of ordinary shares in issue ('000)	310,000	310,000	310,000	310,000
Basic (Loss)/Earnings Per Share (sen)	(1.35)	0.81	1.81	8.42

(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
27 February 2020