MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Consolidated Statement of Profit or Loss	2017 RM'000	2016 RM'000	Change
Revenue	**339,658**	565,103	-40%
Profit from operations	**16,001**	24,953	-36%
Profit/(Loss) before tax	**16,716**	(379,870)	>100%
Profit/(Loss) after tax	**14,759**	(386,871)	>100%

Consolidated Statement of Financial Position	2017 RM'000	2016 RM'000	Change
Total assets	**657,055**	647,982	1%
Fixed deposits, cash and bank balances	**90,006**	103,930	-13%
Total liabilities	**120,001**	131,932	-9%
Total borrowings	**23,889**	22,815	5%
Net assets	**536,297**	515,306	4%

	Revenue			Segment Profit/(Loss)		
Segment Results	2017 RM'000	2016 RM'000	Change	2017 RM'000	2016 RM'000	Change
Building materials and steel products	**251,428**	477,879	-47%	**5,658**	8,690	-35%
Lubricant, petroleum and automotive products	**81,389**	75,032	8%	**11,516**	11,076	4%
Others	**6,841**	12,192	-44%	**(5,995)**	(1,060)	->100%
	339,658	565,103	-40%	**11,179**	18,706	-40%

("Segment profit/(loss)" refers to profit from operation before finance costs, share in results of associated companies, income tax expense and non-recurring items)

The Group is principally engaged in:
- Trading and distribution of building materials and steel products;
- Manufacturing and trading of lubricants, petroleum-based products and automotive components; and
- Other businesses which include mainly provision of transportation services, distribution and retailing of consumer products, investment holding and others.

Financial Year 2017 ("FY2017") was a year where the country saw a moderated growth in its economy and low market sentiment. This marked another challenging year for the Lion Forest Industries Berhad ("LFIB") Group businesses that reported a mixed performance for the financial year under review.

The Group revenue for FY2017 fell by 40% to RM339.7 million from RM565.1 million in the preceding year. This was largely due to the lower sales of building materials and steel related products.

Building Materials and Steel Products Division recorded a 47% lower revenue of RM251.4 million as compared with the preceding year due to the lower demand for steel related products from the local steel mills, and building materials from the construction and property development sector due to the soft market conditions and tighter lending restrictions from financial institutions.

The Group saw a growth of 8% in the revenue for the Lubricants, Petroleum and Automotive Products Division at RM81.4 million and the higher profit achieved at RM11.5 million was mainly attributed to the higher sales of lubricants.

Contribution from Others was mainly from the transportation business, investment holding and agriculture. These activities collectively contributed a lower revenue of RM6.8 million compared with RM12.2 million recorded a year ago largely due to the lower revenue from the transportation business. Coupled with lower interest income, this Division recorded a higher loss of RM6.0 million compared with RM1.1 million in the preceding year.

Associated companies contributed a profit of RM17.7 million largely from Lion Asiapac Limited ("LAP"), a 36.7% owned associated company. LAP recorded a significant profit from the disposal of its subsidiary company in China.

The Group also recognised an impairment loss on investment in quoted shares of RM11.0 million as a result of marking its carrying value to quoted price as at the end of the financial year and the provision of indemnity loss for damages arising from back pay labour claims from employees of Sabah Forest Industries Sdn Bhd, a former subsidiary company, of RM3.3 million.

Overall, the Group turned around to register a profit before tax of RM16.7 million against a loss before tax of RM379.9 million in the preceding year which included an impairment loss on receivables of RM397.2 million.

The Group's total assets increased to RM657.1 million from RM648.0 million a year ago. In contrast, the Group's total liabilities reduced from RM131.9 million to RM120.0 million. This has resulted in the Group's net assets increasing 4% to RM536.3 million. Net assets per share was RM2.35, which had increased RM0.10 from RM2.25 last year. The Group's debt to equity ratio remained low at 4% as at end of FY2017.

REVIEW OF OPERATIONS

Building Materials and Steel Products

Our Building Materials and Steel Products Division trades in and distributes a wide range of building materials and steel products in the domestic market. The Division sells and distributes building materials such as steel bars, cement, tiles and bricks to the construction sector.

FY2017 had been a very challenging year for the Division as the overall property market continued to be lethargic. Developers were more cautious in initiating new launches whilst prospective purchasers adopted a 'wait and see' stance. At the same time, the slowdown in property sales of the residential, commercial and industrial segments had also led to a huge overhang of unsold units due to a tightened bank lending policy. All these factors had contributed to a lower demand for building materials thus creating keen competition among the building material distributors.

The construction and property market is expected to remain soft in 2018. Nevertheless, the Division will continue to forge closer relationships with its suppliers and trading partners, embrace innovation and provide a wide range of quality products to meet the ever changing demands of customers. The Division will also stay vigilant and responsive to market changes to enable its profit to grow in the rapidly evolving business environment.

Lubricants, Petroleum and Automotive Products

The Lubricants, Petroleum and Automotive Products Division faced a tougher business environment compared to the year before as consumers remained cautious with their spending given the weak economic operating environment globally. In addition, the escalation of base oil prices emerged in end of 2016, and set a steep increase in the cost of production of our finished lubricants. Consumers were generally not ready to accept such a high price increase, and thus, instead of passing fully the input costs to them, our businesses had absorbed a portion of the feedstock price impact, and offered a viable solution sustainable to all parties. Consequently, the impact saw an erosion in profit margins in some product lines.

Despite these challenges, we had worked hard to protect our market share and recorded positive improvement. The Lubricant Division achieved sales and profit growth over the previous year, in all the sectors that we pursued. This was made possible through continuing the mutually beneficial collaboration with our valued customers, suppliers and associates. Our employees played a major role in ensuring that the initiatives and sales programs that we had planned for were diligently implemented to meet our business objectives.

There were also new business opportunities that we had embarked on in recent years, and are now contributing to positive growth. These are various ventures into broadening our product lines, untapped industry segments and emerging geographical areas, all of which we had expanded into progressively.

This year, we had teamed up with the SCK racing team and participated in the FIM Asia Road Racing Championship 2017, a regional motorcycle racing championship held throughout the year, in various circuits in five Asian countries. Since the commencement of the season, the team had won several victories in key circuits. Our duo riders, Fakhrusy Syakirin and Muhammad Muzakkir, triumphed and scored a ‘twin-credible’ win by taking the 1st and 2nd place in Suzuka Circuit, Japan in June. Prior to that, in the first race of the season, Fakhrusy also won 1st place in the Johor Circuit and celebrated a home-ground victory in April. Our brand, Hi-Rev is proud to be associated with these victories that had drawn positive response from both external and domestic motor sports followers.

We remain vigilant to the changing needs and trends of our customers, and will continue to embark on effective brand building initiatives to strengthen our businesses. Concurrently, we are also exploring new markets to penetrate, given that the Asia Pacific region has a comparatively higher growth potential than other regions. Barring unforeseen circumstances, the Division remains positive on its operations’ continuing growth in the near future.

Others

The Group is also involved in the provision of transportation services and the distribution of premium beauty care products.

Our transportation operations registered a contraction of 36% in revenue as compared with a year ago, and a loss of RM1.7 million due mainly to the decline in demand for transportation services by the local steel mills.

Our exclusive distributorship for ACCA KAPPA, an Italian brand established in 1869 which offers a wide range of premium hair brushes, body care products and fragrances, will continue to increase brand awareness and distribution channels to expand our sales force, in order to compete in the niche market.