

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Consolidated Statement of Profit or Loss	2017 RM Million	2016 RM Million	Change %
Revenue	423	694	-39%
Profit/(Loss) from operations	30	(39)	>100%
Loss before tax	(39)	(910)	96%
Loss, net of tax	(66)	(840)	92%

Consolidated Statement of Financial Position

Total assets	1,041	1,180	-12%
Cash and bank balances	342	345	-1%
Total liabilities	1,479	1,582	-7%
Loans and borrowings	266	396	-33%
Net liabilities	(438)	(402)	-9%

The contributors to the Group's revenue for the financial year under review were Property Division which contributed 61% (2016: 34%) and Contract Manufacturing Services ("CMS") Division which contributed 39% (2016: 26%), following the temporary shutdown of the DRI plant by the Steel Division in the last financial year. There was no contribution from the Steel Division this year (2016: 40%).

The Group turned around from a loss of RM39 million last year to record an operating profit of RM30 million mainly attributed to higher profit contributed by the Property Division and the lower loss from the Steel Division.

After taking into account the profit from the joint venture and lower impairment losses, the Group posted a substantially lower loss before tax of RM39 million compared with a loss of RM910 million a year ago which included impairment losses on property, plant and equipment and receivables totalling RM757 million that arose from the steel operations which were severely affected by the cheap imports of steel for the past several years.

As at 30 June 2017, the Group's total assets decreased by 12% to RM1,041 million from RM1,180 million a year ago and the Group's total liabilities reduced 7% from RM1,582 million to RM1,479 million.

SEGMENT RESULTS

The Group is principally engaged in the following activities:

- Property development and management ("Property");
- Electronic and mechanical contract manufacturing services ("CMS");
- Manufacturing and sale of steel related products ("Steel"); and
- Investment holding, trading and others ("Others").

(Financial Year Ended 30 June)	Revenue			Segment Profit/(Loss)		
	2017 RM Million	2016 RM Million	Change %	2017 RM Million	2016 RM Million	Change %
Property	259	238	9%	55	20	>100%
CMS	164	178	-8%	15	21	-29%
Steel	-	278	-100%	(33)	(98)	66%
Others	-	-	-	9	16	-44%
	423	694	-39%	46	(41)	>100%

Property Division

“D’ Venice Residence” is our main mixed development project on four pieces of contiguous land totalling 20.1 hectares at Changshu City in Jiangsu Province in China. The relaxation of financial and taxation policies by the Chinese Government in early 2016 to stimulate market demand had pushed up the sales of our project. Riding on the positive conditions, we managed to sell all the 512 units high-rise residential apartments launched during the year, and together with stock in hand, we sold a total of 636 residential units during the financial year under review. We will continue to aggressively promote our commercial shop lots and condominiums launched towards the end of the financial year.

With such encouraging sales, the Division achieved a revenue of RM259 million (2016: RM238 million) and increased its segment profit to RM55 million, which was more than doubled last year’s RM20 million. The higher profit was mainly attributed to better profit margin.

Towards the end of the financial year, the Chinese Government had implemented various measures to control the selling price of properties. This may affect the profit margin of the Division moving forward. The Division will closely monitor and respond to changes in the Chinese Government’s policies, and actions by the surrounding competing projects in order to continue to achieve profitability in the coming years.

CMS Division

Our CMS Division operates as an integrated one-stop original equipment manufacturer which provides electronic and mechanical contract manufacturing services specialising in sheet metal stamping, plastic injection moulding, printed circuit board assembly (“PCBA”) and turnkey box built manufacturing. The areas of focus are IT and electronic related components, enclosures for disk and tape data storage system, liquid crystal display tray console for data centers, musical instruments and PCBA boards used in tester handler equipment for semi-conductor industry, household related products and appliances including TV stand, microwave oven, home security alarm enclosure and components for washlet system. Our production facilities are located in Melaka, Malaysia and in Juarez, Mexico supported by an office in the USA to provide customer support services.

For the financial year under review, the CMS Division reported a decrease in revenue to RM164 million (2016: RM178 million), representing a drop of 8% and correspondingly a decrease in segment profit to RM15 million (2016: RM21 million) was recorded. The lower revenue registered for the current financial year was mainly due to the lower sales orders from key customers.

Moving forward, the global macro-economic environment for electronic manufacturing services will continue to be challenging. Global economic growth is expected to remain modest amidst the prevailing uncertainties, leading to lower industrial and consumer spending. Competition in the industry has become keener amongst manufacturers. Nevertheless, our CMS Division will stay vigilant and responsive to market changes. The Division will focus on cost containment and at the same time, explore new markets and technologies.

Steel Division

The Group’s steel operation which is located in Banting, Malaysia is undertaken by Lion DRI Sdn Bhd (“Lion DRI”) which is involved in the manufacturing of direct reduced iron (“DRI”), a high quality ferrous charge material which is a substitute for scrap used in the steelmaking process. The DRI plant has temporarily ceased operation since 2016. The resumption of the operation will very much depend on the underlying market demand, prices of natural gas and DRI, and the availability of raw materials.

The loss for the current financial year of RM33 million comprised mainly overhead costs (including depreciation), foreign exchange loss and administrative costs incurred during the shutdown period.