MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Consolidated Statement of Profit or Loss	2017 RM'000	2016 RM'000	Change
Revenue	**2,667,492**	2,514,921	6%
Profit/(Loss) from operations	**142,801**	(17,289)	>100%
Profit/(Loss) before tax	**107,442**	(852,536)	>100%
Profit/(Loss) after tax	**113,465**	(905,805)	>100%

Consolidated Statement of Financial Position			
Total assets	**2,912,489**	2,979,866	-2%
Deposits, cash and bank balances	**337,948**	318,071	6%
Total liabilities	**1,038,995**	1,228,166	-15%
Total borrowings	**236,090**	351,668	-33%
Net assets	**1,708,680**	1,596,051	7%

For the financial year under review, the Group posted a 6% higher revenue of RM2,667 million compared with RM2,515 million recorded in the same period last year. This was mainly due to the higher revenue registered by our steel division. The Group recorded an operating profit of RM142.8 million compared with a loss of RM17.3 million a year ago mainly due to the improved performance of our steel division.

The Group shared a lower loss of RM8.6 million from the associated companies and a joint venture compared with RM35.1 million in the previous year. Lower loss was mainly contributed by two associated companies, namely Lion Asiapac Limited and Angkasa Amsteel Pte Ltd with profit recorded for the financial year under review.

Overall, the Group posted a profit before tax of RM107.4 million against a loss of RM852.5 million a year ago which included impairment losses on receivables of RM607.0 million and property, plant and equipment of RM193.1 million.

As at 30 June 2017, the Group's total assets decreased by 2% to RM2,912 million from RM2,980 million a year ago whilst the Group's total liabilities were reduced by a greater quantum of 15% from RM1,228 million to RM1,039 million. As a result, the Group's net assets increased 7% to RM1,709 million and net assets per share increased by RM0.21 to RM2.51 from RM2.30 last year. The Group turned to a net cash position from a net debt position last year.

REVIEW OF OPERATIONS

Note: *"Profit or loss before interests, share of associates and taxation" is hereinafter referred to as "profit" or "loss".*

Steel

	2017 RM Million	2016 RM Million	Change
Revenue	**2,299**	1,836	25%
Profit/(Loss)	**124.2**	(142.5)	>100%

Product	Annual Rated Capacity (Metric Tonnes)
HBI	0.9 million
Billets/Molten Steel	3.1 million
Steel Bars and Wire Rods	2.4 million

Long Products (Billets, Steel Bars & Wire Rods)

Our long products business is spearheaded by Amsteel Mills Sdn Bhd and Antara Steel Mills Sdn Bhd. Amsteel Mills Sdn Bhd owns two steel plants located at Bukit Raja, Klang and Banting while Antara Steel Mills Sdn Bhd owns a long steel plant in Pasir Gudang, Johor.

Malaysia's apparent steel consumption increased by 2.5% from 10.0 million metric tons in 2015 to 10.3 million metric tons in 2016. The local production of steel bars and wire rods increased by 3.9% to 3.4 million metric tons. In contrast, imports of steel bars and wire rods decreased by 26.6% to 1.85 million metric tons. (Source: South East Asia Iron and Steel Institute Statistical Yearbook)

The Steel Division achieved a commendable result for financial year 2017 after suffering losses for years. Our Steel Division and the other local steel millers had benefited from the efforts of China in cutting back its excess steel production which led to lower export of steel products to Malaysia.

It was further relief for the local steel millers when the Government imposed the final determination of safeguard duties for both steel reinforcing bars and steel wire rods for a period of 3 years commencing from April 2017. The trade measures imposed by the Government had led to lower steel imports. This had helped the local steel millers to regain market share from imports and secure a reasonable profit margin.

With the improved market conditions, the long products business posted a higher revenue of RM1.6 billion compared with RM1.4 billion a year ago. Coupled with higher profit margin, the long products business posted a profit of RM76 million against a loss of RM111 million last year. The improved results were mainly contributed by our plant in Bukit Raja, Klang whilst the plant in Banting had temporarily ceased operation and the Johor plant was partially shut down.

Our Johor plant resumed operation in September 2017 quarter. We will also resume our operation in Banting plant should market conditions continue to improve. The local steel demand is expected to pick up in the next financial year as infrastructure and mega projects are in progressively upward trend.

We will stay vigilant and responsive to market changes and continue with efforts to further improve our operational efficiency.

Hot Briquetted Iron ("HBI")

HBI is a steel scrap supplement produced from iron ore pellet and is used in the production of high purity steel. The HBI produced by Antara Steel Mills Sdn Bhd at its plant located in the Federal Territory of Labuan is largely for the export market.

Our HBI operation saw its revenue increased by 57% to RM671 million this year from RM427 million a year ago due to higher sales tonnage and selling price. It recorded an operating profit of RM67 million against a loss of RM33 million last year.

Overall, the Steel Division registered a revenue of RM2.3 billion, which rose by 25% from RM1.8 billion a year ago. The Division posted a profit of RM124 million as against a loss of RM143 million last year after including the result of the inland waterway transportation system ("IWTS") project.

The IWTS project undertaken by the Division to transport raw materials to our steel complex in Banting via Sungai Langat river posted a revenue and an operating loss of RM2 million and RM19 million respectively (2016: Revenue of RM27 million and profit of RM1 million) due to the temporary shutdown of operations by its major customers in Banting.

Property Development

	2017 RM Million	2016 RM Million	Change
Revenue	**108.2**	161.6	-33%
Profit (included profit from joint venture)	**21.5**	18.1	19%

"The Promenade" project is the main contributor to the performance of the Division. The project at Bandar Bayan Baru, Penang, comprising 336 units of serviced suites with 37 units of lifestyle boutique shops and a street plaza was launched in the previous financial year. The entire development had been completed and handed over in March 2017.

The development project at Taman Malim Jaya, Melaka, comprising 32 units of 2 storey shop office, which was launched last year, had been sold out. The whole development was completed in June 2017.

Building Materials

	2017 RM Million	2016 RM Million	Change
Revenue	**251.4**	477.9	-47%
Profit	**5.7**	6.3	-9%

Our Building Materials 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.

This year 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

	2017 RM Million	2016 RM Million	Change
Revenue	**81.4**	75.0	9%
Profit	**11.5**	11.1	4%

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.