MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Consolidated Statement of Profit or Loss	2018 RM'000	2017 RM'000	Change
Revenue	**380,474**	339,658	12%
Profit from operations	**12,794**	14,299	-11%
Profit before tax	**22,840**	16,716	37%
Profit after tax	**19,229**	14,759	30%

Consolidated Statement of Financial Position	2018 RM'000	2017 RM'000	Change
Total assets	**637,336**	657,055	-3%
Fixed deposits, cash and bank balances	**109,092**	90,006	21%
Total liabilities	**89,520**	120,001	-25%
Bank borrowings	**405**	23,889	-98%
Net assets	**547,816**	536,297	2%

	Revenue			Segment Profit/(Loss)		
Segment Results	**2018 RM'000**	**2017 RM'000**	**Change**	**2018 RM'000**	**2017 RM'000**	**Change**
Building materials and steel products	**292,640**	251,428	16%	**1,314**	2,390	-45%
Lubricant, petroleum and automotive products	**84,541**	81,389	4%	**9,719**	11,348	-14%
Others	**3,293**	6,841	-52%	**(2,869)**	(4,261)	-33%
	380,474	339,658	12%	**8,164**	9,477	-14%

("Segment profit/(loss)" refers to profit from operations 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 distribution and retailing of consumer products, investment holding and others.

For the financial year 2018, revenue of the Group's revenue rose by 12% to RM380.5 million compared with that registered in the preceding year's corresponding period, largely due to the higher sales of building materials and lubricants.

On 14 September 2017, the Group completed the disposal of its entire 20% equity interest in Suzuki Motorcycle Malaysia Sdn Bhd, an associated company, with a gain of RM10.2 million.

The Group registered a higher profit before tax of RM22.8 million compared with RM16.7 million in the same period last year. The Group's net assets per share as at 30 June 2018 increased by 5 sen to RM2.40.

Building Materials and Steel Products Division recorded a 16% higher revenue of RM292.6 million arising mainly from the higher sales of steel bars to the local construction and property development sectors. The Division, however, posted a lower profit as compared to a year ago mainly due to the different sales mix.

Lubricants, Petroleum and Automotive Products Division posted a 4% growth in revenue to RM84.5 million mainly driven by higher sales of lubricants equipped with comprehensive marketing programs. However, the Division recorded a lower profit of RM9.7 million mainly due to different sales mix.

Other businesses included primarily the transportation business and investment holding. These activities collectively contributed a lower revenue of RM3.3 million following the cessation of the transportation business during the financial year, compared with RM6.8 million recorded in the same period a year ago. These businesses recorded a lower loss of RM2.9 million mainly due to the gain on disposal of trucks by the transportation business.

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 and property development sectors.

The Division registered a 16% growth in revenue at RM292.6 million mainly attributable to higher sales of steel bars to the local construction and property development sectors. Despite the higher revenue, the Division continued to face challenges for the financial year under review in light of no obvious signs of improvement in the property market. The overall property market continued to be lethargic. Property developers were cautious in initiating new launches as consumer sentiments remained soft due to a tightened bank lending policy. Competition among the building material distributors remained intense. This situation is expected to remain unchanged in the near term.

Operating in a rapidly evolving business environment, the Division will always stay vigilant and responsive to market changes. The Division stresses on innovation, offering high quality products to meet the ever changing demands of customers, and forging closer relationships with suppliers and trading partners. Barring unforeseen circumstances, the Division remains positive on its operating performance in the long run.

Lubricants, Petroleum and Automotive Products

The Division witnessed an active financial year in 2018 of escalating prices in feed stock supplies coupled with a soft market for lubricants in the segments that we operate. Nevertheless, the Division recorded improved revenue over the previous year.

The domestic market for automotive lubricants remained a buyer's market. Vehicle owners continued to be cautious in their spending behaviour, opting for delay in oil change and seeking price-friendly products to meet their needs. Our workshops operators and business partners faced numerous challenges in their business operations and had to rigorously compete by offering value-for-money products and good service to their customers.

In this regard, we are focussed on maintaining close rapport with our workshops operators and ensuring that our products are relevant to their businesses, and are preferred over our competitors'. Many on-ground and off-site programs, including social media activities were actively implemented to attract customers to our workshops' premises.

This year we participated actively in motorsports activities both in motorcycle and car racing in 7 different championships in the Asia Pacific region. We started the race season with several wins in the *Asia Road Racing Championship* – two first placing wins in the Underbone series, in Thailand's Chang International Circuit and Japan's Suzuka International Circuit. We also bagged several podium wins in the Malaysia Superbike Championship in Sepang. As the season gets busier in the second half of 2018, we anticipate more victories from our race teams.

The uptrend base oil prices in the fourth quarter of the previous year continued its upward momentum in the financial year under review, and had adversely increased the cost of new buy-in of raw materials. We mitigated part of the impact of this cost escalation by locking-in higher volumes of base oil purchase in anticipation of rising prices. This was made possible by close support from key suppliers and the availability of storage facilities within our vicinity. Consequently, our margins erosion was reduced to a manageable level given that we were unable to pass on such impact to our customers.

Moving forward, we continue to identify key growth segments in the business and expect further progress in our existing business operations.

Others

The transportation business ceased operation in November 2017. The disposal of its trucks contributed a gain of RM1.9 million to the Group's results.

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 this niche market.