MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Consolidated Statement of Profit or Loss	2018 RM'000	2017 RM'000	Change
Revenue	**3,294,795**	2,667,492	24%
Profit from operations	**181,113**	116,080	56%
Profit before tax	**174,474**	107,442	62%
Profit after tax	**181,269**	113,465	60%
Consolidated Statement of Financial Position			
Total assets	**3,071,331**	2,912,489	5%
Cash and bank balances	**319,395**	337,948	-5%
Total liabilities	**1,051,013**	1,038,995	1%
Borrowings	**171,679**	236,090	-27%
Net assets	**1,849,741**	1,708,680	8%

For the financial year under review, the Group posted a 24% higher revenue of RM3,295 million compared with RM2,667 million recorded in the same period last year. This was mainly due to the higher revenue registered by our Steel and Building Materials Divisions. The Group recorded a higher operating profit of RM181.1 million compared with RM116.1 million a year ago, also due mainly to the improved performance of our Steel Division.

The Group shared a higher loss of RM16.9 million from the associated companies and a joint venture compared with RM8.6 million in the previous year. This was largely attributable to the loss from the retail business of an associated company.

Overall, the Group posted a higher profit before tax of RM174.5 million as compared to RM107.4 million a year ago.

As at 30 June 2018, the Group's total assets increased by 5% to RM3,071 million from RM2,912 million a year ago and the Group's total liabilities increased slightly by 1% from RM1,039 million to RM1,051 million. As a result, the Group's net assets increased by 8% to RM1,850 million and net assets per share increased by 21 sen to RM2.72 from RM2.51 last year. The Group has reduced its borrowings by 27% to RM171.7 million mainly due to the final settlement of the Islamic securities (Sukuk). The Group is in a net cash position for the financial year 2018.

REVIEW OF OPERATIONS

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

Steel

	2018 RM Million	2017 RM Million	Change
Revenue	**3,037**	2,299	32%
Profit	**194.3**	105.7	84%

Product	Annual Rated Capacity (Metric Tons)
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 owns 2 steel plants located at Bukit Raja, Klang and Banting while Antara Steel Mills owns a steel plant in Pasir Gudang, Johor.

Malaysia's apparent steel consumption decreased by 7.9% from 10.3 million metric tons in 2016 to 9.4 million metric tons in 2017, of which local consumption for steel bars and wire rods reduced by 12.9% from 5.1 million metric tons to 4.5 million metric tons. Imports of steel bars and wire rods decreased by 40.2% to 1.1 million metric tons. However, local production of steel bars and wire rods increased by 2.4% to 3.5 million metric tons despite lower consumption (Source: South East Asia Iron and Steel Institute Statistical Yearbook).

The long products business of the Group posted a higher revenue of RM2.2 billion compared with RM1.6 billion a year ago mainly due to higher average selling price of steel products and sales tonnage. With the improved profit margin, the long products business recorded a higher profit of RM101 million for the financial year under review. The improved results were mainly contributed by our plant in Bukit Raja, Klang whilst the plant in Banting was in a temporary shutdown mode and the Johor plant was partially shut down.

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.

The HBI operation's revenue increased by 24% to RM833 million this year from RM671 million a year ago due to higher average selling price. By managing its working capital closely and efficiently, particularly in inventory control for both its raw materials and finished goods, the HBI operations continued to achieve an improved performance in the financial year under review. As such, our HBI operations posted a higher operating profit of RM107 million as compared to RM67 million last year.

Property Development

	2018 RM Million	**2017 RM Million**	**Change**
Revenue	**7.8**	108.2	-93%
Profit/(Loss)	**(2.9)**	20.9	- >100%

Following the completion and handover of "The Promenade" project at Bandar Bayan Baru, Penang, which was the main contributor to the performance of the Division in the previous financial year, the Division recorded a lower revenue of RM7.8 million and a loss of RM2.9 million for the financial year under review.

During the financial year, there is no major property project for the Division.

Building Materials

	2018 RM Million	**2017 RM Million**	**Change**
Revenue	**292.6**	251.4	16%
Profit	**1.3**	2.4	- 46%

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 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 sentiment 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			
	2018 RM Million	**2017 RM Million**	**Change**
Revenue	**84.5**	81.4	4%
Profit	**9.7**	11.3	-14%

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.