

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2019

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2019 RM'000	Preceding Year Quarter 31.03.2018 RM'000	Current Year- To-Date 31.03.2019 RM'000	Preceding Year- To-Date 31.03.2018 RM'000
Revenue	144,465	143,047	144,465	143,047
Cost of sales	(132,219)	(120,179)	(132,219)	(120,179)
Gross profit	12,246	22,868	12,246	22,868
Other income	664	547	664	547
Distribution costs	(2,103)	(2,883)	(2,103)	(2,883)
Administrative costs	(5,959)	(7,282)	(5,959)	(7,282)
Net reversal/(addition) of impairment losses of financial assets	11	(544)	11	(544)
Other costs	(319)	(735)	(319)	(735)
	(8,370)	(11,444)	(8,370)	(11,444)
Profit from operations	4,540	11,971	4,540	11,971
Finance costs	(3,787)	(2,800)	(3,787)	(2,800)
Profit before tax	753	9,171	753	9,171
Tax expense	(366)	(2,701)	(366)	(2,701)
Profit for the financial period	387	6,470	387	6,470
Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange difference on translation of foreign subsidiary	(5)	(14)	(5)	(14)
Total other comprehensive income, net of tax	(5)	(14)	(5)	(14)
Total comprehensive income for the financial period	382	6,456	382	6,456
Profit/(Loss) attributable to:				
- Owners of the Company	453	6,533	453	6,533
- Non-controlling interest	(66)	(63)	(66)	(63)
	387	6,470	387	6,470

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2019 (CONT'D)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current	Preceding	Current	Preceding
	Year	Year	Year-	Year-
	Quarter	Quarter	To-Date	To-Date
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Total comprehensive income attributable to:				
- Owners of the Company	448	6,519	448	6,519
- Non-controlling interest	(66)	(63)	(66)	(63)
	<u>382</u>	<u>6,456</u>	<u>382</u>	<u>6,456</u>
 Earnings per share (sen) attributable to owners of the Company:				
- Basic	0.15	2.11	0.15	2.11
- Diluted	0.15	2.11	0.15	2.11

Note:

The Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial statement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	As at 31.03.2019 RM'000 (Unaudited)	As at 31.12.2018 RM'000 (Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	153,267	145,102
Capital work-in-progress	50,039	59,781
Prepaid land lease payment	884	920
Right-of-use assets	11,751	-
	<u>215,941</u>	<u>205,803</u>
Current assets		
Inventories	256,589	247,200
Trade receivables	151,220	157,772
Other receivables, deposits and prepayments	4,912	5,980
Tax assets	890	636
Deposits with licensed banks	10,096	36,415
Cash and bank balances	44,162	16,624
	<u>467,869</u>	<u>464,627</u>
TOTAL ASSETS	<u>683,810</u>	<u>670,430</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	160,094	160,094
Merger deficit	(109,545)	(109,545)
Capital reserve	1	1
Retained earnings	300,592	301,149
Foreign currency translation reserve	(21)	(16)
	<u>351,121</u>	<u>351,683</u>
Non-controlling interest	599	665
Total Equity	<u>351,720</u>	<u>352,348</u>
Non-current liabilities		
Borrowings	52,846	50,737
Lease liabilities	11,066	-
Deferred tax liabilities	3,784	3,604
	<u>67,696</u>	<u>54,341</u>
Current liabilities		
Trade payables	32,445	18,451
Other payables and accruals	9,175	16,106
Deferred income	974	3,283
Amount due to ultimate holding company	10,177	5,000
Borrowings	208,256	217,548
Lease liabilities	1,666	-
Tax liabilities	1,701	3,353
	<u>264,394</u>	<u>263,741</u>
Total Liabilities	<u>332,090</u>	<u>318,082</u>
TOTAL EQUITY AND LIABILITIES	<u>683,810</u>	<u>670,430</u>
Net assets per share attributable to owners of the Company (RM)	1.13	1.13

Note:

The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial statement.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST QUARTER ENDED 31 MARCH 2019

< -----Attributable to Owners of the Company ----- >

	Share Capital RM'000	Merger Deficit RM'000	Capital Reserve RM'000	Foreign Currency Translation Reserve RM'000	Retained Earnings RM'000	Non- Controlling interest RM'000	Total Equity RM'000
2019							
At 1 January 2019, as previously reported	160,094	(109,545)	1	(16)	301,149	665	352,348
Effect of adopting MFRS16	-	-	-	-	(1,010)	-	(1,010)
At 1 January 2019, as restated	160,094	(109,545)	1	(16)	300,139	665	351,338
Profit/(Loss) for the financial period	-	-	-	-	453	(66)	387
Other comprehensive income	-	-	-	(5)	-	-	(5)
Total comprehensive income	-	-	-	(5)	453	(66)	382
At 31 March 2019	160,094	(109,545)	1	(21)	300,592	599	351,720
2018							
At 1 January 2018	160,094	(109,545)	1	(20)	282,868	801	334,199
Profit/(Loss) for the financial period	-	-	-	-	6,533	(63)	6,470
Other comprehensive income	-	-	-	(14)	-	-	(14)
Total comprehensive income	-	-	-	(14)	6,533	(63)	6,456
At 31 March 2018	160,094	(109,545)	1	(34)	289,401	738	340,655

Note:

The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial statement.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

	Current Year-To-Date 31.03.2019 RM'000	Preceding Year-To-Date 31.03.2018 RM'000
Cash Flows from Operating Activities		
Profit before tax	753	9,171
Adjustments for:		
Amortisation of prepaid land lease payment	35	35
Depreciation of property, plant and equipment	2,850	2,591
Depreciation of right-of-use assets	439	-
Impairment loss on trade receivables	34	578
Interest income	(343)	(318)
Interest expense	3,536	2,627
Net loss on disposal of property, plant and equipment	-	67
Net unrealised loss on foreign exchange	30	129
Reversal of impairment loss on trade receivables	(45)	(34)
Operating profit before working capital changes	7,289	14,846
(Increase)/Decrease in inventories	(9,388)	8,536
Decrease/(Increase) in receivables	8,170	(6,140)
Increase/(Decrease) in payables	7,441	(6,374)
Cash generated from operations	13,512	10,868
Interest received	369	318
Interest paid	(3,689)	(2,547)
Income tax paid	(2,092)	(2,209)
Net cash from operating activities	8,100	6,430
Cash Flows from Investing Activities		
Addition to deposits pledged with licensed banks	(719)	(65)
Capital work-in-progress paid	(368)	(3,390)
Deposits paid for acquisition of plant and equipment	(578)	(1,477)
Purchase of property, plant and equipment	(333)	(4,690)
Proceeds from disposal of property, plant and equipment	-	22
Net cash used in investing activities	(1,998)	(9,600)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FIRST QUARTER ENDED 31 MARCH 2019 (CONT'D)

	Current Year-To-Date 31.03.2019 RM'000	Preceding Year-To-Date 31.03.2018 RM'000
Cash Flows from Financing Activities		
Advance from ultimate holding company	5,000	-
Repayments of term loans	(450)	(450)
Repayments of lease liabilities	(468)	-
Net repayments of islamic financing	(7,869)	(4,237)
Net drawdowns/(repayments) of bankers' acceptances	5,166	(7,848)
Payments to finance lease payables	(909)	(1,285)
Net cash from/(used in) financing activities	<u>470</u>	<u>(13,820)</u>
Net increase/(decrease) in cash and cash equivalents	6,572	(16,990)
Effect of exchange rate changes on cash and cash equivalents	(19)	139
Cash and cash equivalents at beginning of the financial period	<u>15,472</u>	<u>40,006</u>
Cash and cash equivalents at end of the financial period	<u><u>22,025</u></u>	<u><u>23,155</u></u>
Cash and cash equivalents at end of the financial period comprises:		
Cash and bank balances	44,162	10,334
Deposits with licensed banks	<u>10,096</u>	<u>42,733</u>
	54,258	53,067
Less: Bank overdrafts	(24,467)	(23,030)
Less: Deposits pledged with licensed banks	<u>(7,766)</u>	<u>(6,882)</u>
	<u><u>22,025</u></u>	<u><u>23,155</u></u>

Note:

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial statement.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING

A1. Accounting Policies and Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 (Appendix 9B Part A) of the Main Market Listing Requirement (“Listing Requirements”) of the Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2018.

The interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company and its subsidiaries (“the Group”) since the financial year ended 31 December 2018.

The significant accounting policies adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements as disclosed in the audited financial statements of the Group for the financial year ended 31 December 2018, except for the adoption of the following:

New Malaysian Financial Reporting Standard (“MFRS”)

MFRS 16 Leases

Amendments/Improvements to MFRSs

MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 11	Joint Arrangements
MFRS 112	Income Taxes
MFRS 119	Employee Benefits
MFRS 123	Borrowing Costs
MFRS 128	Investments in Associates and Joint Ventures

New IC Interpretation (“IC Int”)

IC Int 23 Uncertainty over Income Tax Treatments

The Group has not applied in advance the following new MFRS, amendments/improvements to MFRSs and amendments to IC Int that have been issued by MASB but not yet effective for the current financial year:

		Effective for financial periods beginning on or after
<u>New MFRS</u>		
MFRS 17	Insurance Contracts	1 January 2021
<u>Amendments/Improvements to MFRSs</u>		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021#
MFRS 2	Share-based Payment	1 January 2020*
MFRS 3	Business Combinations	1 January 2020*
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021#
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2021#
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 15	Revenue from Contracts with Customers	1 January 2021#

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A1. Accounting Policies and Basis of Preparation (Cont’d)

		Effective for financial periods beginning on or after
<u>Amendments/Improvements to MFRSs (cont’d)</u>		
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 107	Statement of Cash Flows	1 January 2021#
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020*
MFRS 116	Property, Plant and Equipment	1 January 2021#
MFRS 128	Investments in Associates and Joint Ventures	Deferred
MFRS 132	Financial instruments: Presentation	1 January 2021#
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 136	Impairment of Assets	1 January 2021#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*
MFRS 138	Intangible Assets	1 January 2020*
MFRS 140	Investment Property	1 January 2021#
<u>Amendments to IC Int</u>		
IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 132	Intangible Assets - Web Site Costs	1 January 2020*

* Amendments to References to the Conceptual Framework in MFRS Standards

Amendments as to the consequence of effective MFRS 17 Insurance Contracts

The Group is in the process of assessing the impact which may arise from adoption of the abovementioned new MFRS, amendments/improvements to MFRSs and amendments to IC Int.

A2. Auditors’ Report on Preceding Annual Financial Statements

The Auditors’ Report for the immediate preceding annual financial statements of the Group and the Company for the financial year ended 31 December 2018 were not subject to any qualification.

A3. Seasonality or Cyclicity of Operations

The Group’s operations were not significantly affected by any seasonal or cyclical factors during the current quarter and current financial year-to-date.

A4. Unusual Items

There were no significant items affecting assets, liabilities, equity, net income, or cash flows of the Group that are unusual because of their nature, size and incidence during the current quarter and current financial year-to-date.

A5. Changes in Estimates

There were no changes in the estimates of amounts reported in the prior financial years that have a material effect on the results for the current quarter and current financial year-to-date.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A6. Debt and Equity Securities

There was no issuance, cancellation, repurchase, resale or repayment of debt and equity securities nor any movement in the share capital for the current quarter and current financial year-to-date.

A7. Dividend Paid

No dividend was paid during the current quarter.

A8. Segment Information

Segment information of the Group for the financial year-to-date ended 31 March 2019 is as follows:

	Trading of Steel		Processing of Steel	Others ⁽¹⁾	Elimination	Total
	Products	Products	Products	RM’000	RM’000	RM’000
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	77,912	66,526	27	-	-	144,465
Cost of sales	(73,643)	(58,559)	(17)	-	-	(132,219)
Gross profit	4,269	7,967	10	-	-	12,246
Add/(Less):						
- Other income						664
- Operating expenses						(8,381)
- Net reversal of impairment lossess of financial assets						11
- Finance costs						(3,787)
Profit before tax						753
Tax expense						(366)
Profit for the financial period						387

Segment information of the Group for the financial year-to-date ended 31 March 2018 is as follows:

	Trading of Steel		Processing of Steel	Others ⁽¹⁾	Elimination	Total
	Products	Products	Products	RM’000	RM’000	RM’000
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	69,214	73,831	2	-	-	143,047
Cost of sales	(58,025)	(62,153)	(1)	-	-	(120,179)
Gross profit	11,189	11,678	1	-	-	22,868
Add/(Less):						
- Other income						547
- Operating expenses						(10,900)
- Net addition of impairment lossess of financial assets						(544)
- Finance costs						(2,800)
Profit before tax						9,171
Tax expense						(2,701)
Profit for the financial period						6,470

Note:

(1) Mainly consists of trading of specialised steel materials including tool steel and non-ferrous metal products including bronze, brass, aluminium and copper products.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A9. Valuations of Property, Plant and Equipment

There were no amendments to the valuation of property, plant and equipment that have been brought forward from the preceding annual financial statements.

A10. Material Events Subsequent to the End of the Interim Period

There were no material events subsequent to the end of the current quarter up to the date of issue of this report that have not been reflected in the financial statements for the current quarter and current financial year-to-date.

A11. Effects of Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter and current financial year-to-date.

A12. Capital Commitments

	As at	Audited
	31.03.2019	As at
	RM'000	31.12.2018
	RM'000	RM'000
Approved and contracted for:		
- purchase of motor vehicles	358	-
- purchase of office equipment	58	58
- purchase of machinery	3,494	748
- construction of factory and warehouse buildings	286	477
	<u>4,196</u>	<u>1,283</u>

A13. Changes in Contingent Liabilities and Contingent Assets

There were no contingent assets and liabilities since the end of the previous financial year up to 31 March 2019.

A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)

A14. Significant Related Party Transactions

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2019 RM’000	Preceding Year- Quarter 31.03.2018 RM’000	Current Year- To-Date 31.03.2019 RM’000	Preceding Year- To-Date 31.03.2018 RM’000
Sales to related parties	934	1,052	934	1,052
Purchases from related parties	38	28	38	28
Rental expense paid to related parties	513	417	513	417
Interest charged by related party ⁽¹⁾	40	80	40	80

Note:

- (1) *In respect of interest arising from an unsecured loan from ultimate holding company to Leon Fuat Metal Sdn Bhd which is subject to interest at the rate of 3.25% per annum compounded on monthly rest. The interest bearing outstanding loan as at 31 March 2019 amounted to RM5.04 million (31.03.2018: RM10.08 million) is repayable on demand.*

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of Performance

Current Quarter Compared To Preceding Year Corresponding Quarter

	Current Year Quarter 31.03.2019 RM'000	Preceding Year Quarter 31.03.2018 RM'000	Variance	
			RM'000	%
Revenue	144,465	143,047	1,418	1.0%
Gross profit	12,246	22,868	(10,622)	-46.4%
Profit before interest and tax	4,289	11,798	(7,509)	-63.6%
Profit before tax	753	9,171	(8,418)	-91.8%
Profit after tax	387	6,470	(6,083)	-94.0%
Profit attributable to owners of the Company	453	6,533	(6,080)	-93.1%

The revenue recorded for the current quarter and the preceding year corresponding quarter was RM144.46 million and RM143.05 million respectively, increased marginally by 1.0% or approximately RM1.41 million, as the result of:

- increase in revenue for trading of flat carbon steel products by 19.4% or RM8.47 million, mainly due to increase in tonnage sales by 36.0%, partially offset by a reduction in average selling price by 12.2%;
- increase in revenue for processing of long carbon steel products by 25.2% or RM1.19 million, attributable to higher tonnage sales by 44.9%, partially offset by a reduction in average selling price by 13.6%; and
- increase in revenue for processing of other flat steel products by 52.5% or RM7.35 million, attributable to higher tonnage sales by 33.6%, as well as higher average selling price by 14.2%; largely offset by
- decrease in revenue for processing of flat carbon steel products by 30.8% or RM15.84 million, mainly due to lower tonnage sales by 29.3%.

Our main business segments continued to be trading and processing of steel products, which collectively contributed approximately 100.0% of our total revenue for the current quarter. The trading segment and the processing segment contributed revenue of approximately 53.9% and 46.1% respectively for the current quarter whereas the trading segment and the processing segment contributed revenue of approximately 48.4% and 51.6% respectively for the preceding year corresponding quarter.

Despite slight increase in revenue by 1.0% or approximately RM1.41 million, from RM143.05 million to RM144.46 million, our gross profit decreased by 46.4% or RM10.62 million, from RM22.87 million to RM12.25 million, mainly due to lower overall gross profit margin, from 16.0% for the preceding year corresponding quarter to 8.5% for the current quarter, resulted from lower gross profit margin for both trading and processing of steel products by 10.7 percentage points, from 16.2% to 5.5%, and 3.0 percentage points, from 15.8% to 12.8% respectively.

The lower gross profit margin for trading of steel products was mainly due to the decrease in overall average selling price by 11.7%, while the overall average cost for input materials remained fairly consistent.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B1. Review of Performance (Cont'd)

Current Quarter Compared To Preceding Year Corresponding Quarter (Cont'd)

The decline in gross profit margin for processing of steel products was mainly resulted from the followings:

- lower gross profit margin for processing of long carbon steel products by 20.4 percentage points, mainly due to decrease in average selling price by 13.6%, while the average cost for input materials had increased by 9.7%;
- lower gross profit margin recorded for processing of other long steel products by 10.1 percentage points, mainly due to increase in average cost for input materials by 14.1%, while the average selling price remained fairly consistent; and
- lower gross profit margin for processing of other flat steel products by 9.4 percentage, mainly due to increase in average cost for input materials by 34.6%, while the average selling price had only increased by 14.2%; negated by
- decrease in revenue and revenue contribution from processing of carbon steel coils, which generally provides a lower margin. Revenue from processing of carbon steel coils decreased by 48.2%, which caused the revenue contribution from these products decreased by 11.3 percentage points.

The other income for the current quarter was RM0.66 million as compared to RM0.55 million for the preceding year corresponding quarter, increased by approximately RM0.11 million, mainly due to higher insurance claims by RM0.10 million.

Our operating costs decreased by RM3.07 million from RM11.44 million for the preceding year corresponding quarter to RM8.37 million for the current quarter, as the result of the followings:

1. Decrease in distribution costs by RM0.78 million, mainly due to decrease in staff related costs by RM0.76 million, resulted from the absence of staff bonuses which were paid and recognised in the preceding year corresponding quarter.
2. Decrease in administrative costs by RM1.32 million, mainly caused by:
 - decrease in directors' remuneration and staff related costs by RM1.55 million, mainly due to the absence of bonuses for directors and staff which were paid and recognised in the preceding year corresponding quarter; offset by
 - increase in advertising expenses by RM0.15 million.
3. Net reversal of impairment losses on financial assets/trade receivables of RM0.01 million for the current quarter as oppose to net addition of impairment losses of RM0.54 million for the preceding year corresponding quarter.
4. Decrease in other costs by RM0.42 million, mainly due to:
 - absence of loss on disposal of property, plant and equipment of RM0.07 million which had been charged to the preceding year corresponding quarter;
 - lower unrealised loss on foreign exchange by RM0.10 million;
 - lower quit rent and assessment expenses by RM0.10 million due to certain portion of these expenses were allocated to direct overhead costs; and
 - lower stamp duties paid by RM0.13 million.

Total finance costs for the current quarter was RM3.79 million, increased by RM0.99 million as compared to RM2.80 million for the preceding year corresponding quarter. This was mainly due to higher utilisation of overdraft facilities and term loans where their interest expenses increased by RM0.18 million and RM0.60 million respectively, as well as the interest expense on lease liabilities amounting to RM0.16 million arising from the changes in accounting treatment for operating leases upon applying new MFRS 16.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B1. Review of Performance (Cont'd)

Current Quarter Compared To Preceding Year Corresponding Quarter (Cont'd)

Based on the foregoing factors, our Group registered a decrease in profit before tax by RM8.42 million to RM0.75 million as compared to RM9.17 million for the preceding year corresponding quarter.

B2. Material Variation of Profit Before Tax Against Immediate Preceding Quarter

	Current Quarter 31.03.2019 RM'000	Immediate Preceding Quarter 31.12.2018 RM'000	Variance RM'000 %	
Revenue	144,465	155,152	(10,687)	-6.9%
Gross profit	12,246	15,683	(3,437)	-21.9%
Profit before interest and tax	4,289	7,053	(2,764)	-39.2%
Profit before tax	753	3,796	(3,043)	-80.2%
Profit after tax	387	2,478	(2,091)	-84.4%
Profit attributable to owners of the Company	453	2,517	(2,064)	-82.0%

Our Group achieved revenue of RM144.46 million for the current quarter, which was lower than the immediate preceding quarter's revenue by 6.9% or RM10.69 million.

The decrease in revenue was mainly resulted from the followings:

- decrease in revenue for our processing of flat carbon steel products, which recorded lower revenue by 40.7% or RM24.43 million, due to lower tonnage sales by 41.8%; partially offset by
- increase in revenue for our trading of flat carbon steel products, which recorded higher revenue by 38.0% or RM14.34 million, due to higher tonnage sales by 51.7%, despite lower average selling price by 9.0%.

For the current quarter, our gross profit decreased by 21.9% or approximately RM3.43 million, from RM15.68 million for the immediate preceding quarter to RM12.25 million for the current quarter, which was resulted from the decrease in revenue by RM10.69 million, from RM155.15 million for the immediate preceding quarter to RM144.46 million for the current quarter, and by the decline in overall gross profit margin from 10.1% for the immediate preceding quarter to 8.5% for the current quarter.

The decrease in overall gross profit margin was mainly resulted from the followings:

- lower gross profit margin recorded for trading of flat carbon steel products by 4.4 percentage points, mainly due to decrease in average selling price by 9.0%, while the average cost for input materials had only decreased by 4.6%;
- lower gross profit margin recorded for trading of other long steel products by 6.9 percentage points, mainly due to increase in average cost for input materials by 13.6%, while the average selling price had only increased by 3.4%;
- lower gross profit margin for processing of long carbon steel products by 15.9 percentage points, mainly due to decrease in average selling price by 9.2%, while the average cost for input materials had increased by 4.8%, coupled with the increase in some factory overheads attributable to these products; and
- lower gross profit margin recorded for processing of other long steel products by 7.5 percentage points, mainly due to decrease in average selling price by 12.0%, while the average cost for input materials had only decreased by 2.6%; mitigated by

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B2. Material Variation of Profit Before Tax Against Immediate Preceding Quarter (Cont'd)

The decrease in overall gross profit margin was mainly resulted from the followings: (Cont'd)

- better gross profit margin for processing of carbon steel coils by 5.8 percentage points, mainly due to the average cost for input materials decreased by 8.8%, while the average selling price had only decreased by 2.6%; and
- decrease in revenue and revenue contribution from processing of carbon steel coils, which generally provides a lower margin. Revenue from processing of carbon steel coils decreased by 56.5%, which caused the revenue contribution from these products decreased by 13.5 percentage points.

The other income of RM0.66 million for the current quarter as compared to RM0.54 million for the immediate preceding quarter, increased by RM0.12 million, mainly due to higher insurance claims and higher late payment charges imposed on customers by RM0.06 million and RM0.07 million respectively.

Our operating costs decreased by RM0.60 million, from RM8.97 million for the immediate preceding quarter to RM8.37 million for the current quarter, as the result of the followings:

1. Decrease in administrative costs by RM0.32 million, mainly due to:
 - lower professional fees including absence of audit fees in the current quarter by RM0.47 million;
 - lower rental expenses incurred for premises by RM0.45 million, offset by the depreciation charges for the right-of-use assets of RM0.34 million arising from the changes in accounting treatment for operating leases upon applying new MFRS 16; and
 - lower security charges by RM0.08 million; largely offset by
 - increase in directors' remuneration and staff related costs by RM0.19 million; and
 - increase in advertising expenses by RM0.16 million.
2. Net reversal of impairment losses on financial assets/trade receivables of RM0.01 million for the current quarter as oppose to net addition of impairment losses of RM0.28 million for the immediate preceding quarter.

The finance costs for the current quarter was RM3.79 million, increased by RM0.33 million as compared to RM3.46 million for the immediate preceding quarter. This was mainly due to higher bank charges incurred in the current quarter by RM0.05 million, higher utilisation of overdraft facilities and term loans where their interest expenses increased by RM0.13 million and RM0.31 million respectively, as well as the interest expense on lease liabilities amounting to RM0.16 million arising from the changes in accounting treatment for operating leases upon applying new MFRS 16, largely negated by the decrease in interest expense on trade financing facilities by RM0.36 million.

Based on the foregoing factors, our profit before tax decreased by approximately 80.2% or approximately RM3.04 million, from RM3.80 million for the immediate preceding quarter to RM0.75 million for the current quarter.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B3. Commentary on Prospects

Malaysian GDP for 2019 is expected to continue growing amidst, at a lower rate of sub 5% with growth likely to remain supported by firm domestic demand and favourable export sectors.

Our business operations mainly comprise trading and processing of a diverse range of flat and long steel products. Our processing facilities which include an extensive range of cutting, levelling, shearing, profiling, bending and finishing are cater for specific product requirements of our large customer base from diverse industries and to provide a one-stop solution to potential customers. The cutting and profiling facilities include a fiber laser cutting machine complete with automated loading and unloading facilities for inputs and outputs with overall processing speed of up to 5 times more than conventional machines and believed to be the first fiber laser machine with the highest power in South East Asia. As our customers are mostly locals and operate in local environment, the expected growth of GDP from domestic demand could contribute to our performance for 2019.

The profitability of our business is very much dependent on prices of our steel products besides demand from customers. In this respect, global factors such as volatility in commodities and crude oil prices as well as significant fluctuation in exchange rate of foreign currencies against Ringgit Malaysia will affect our suppliers pricing and hence the profitability of our steel products as more than half of our merchandise are sourced from overseas. The continuing trade tension between the United States of America and China and outflows of capital from emerging markets may also affect prices of steel products and pose risks to economic growth.

In the local front, domestic demand should firm up on government consumption and stronger growth in fixed investment. However, household consumption growth will likely ease after a strong 2018 with abolishment of Goods and Services Tax and a short tax holidays. Meanwhile, the uncertain impact of the more expansionary fiscal stance on government finances and financial market volatility may threaten the outlook and thus demand from our customers.

In order to address the risks arising from global and local factors mentioned above, our Group will continue to be vigilant on the movement of steel prices and related foreign currencies and will take proactive measures, including negotiating forward contracts where necessary, as well as prudent inventory management, to reduce any negative impact which may arise therefrom. Our Group will also continuously enhance the operating capabilities and efficiencies to meet customers' requirements and to ensure timely satisfaction of customer orders.

In our effort to build a more resilient business, our Group has embarked on a downstream production of steel pipes which is expected to commence commercial operation by end of the second quarter of 2019. However, as a new player in this market segment, we expect a modest revenue contribution from this operation for the current financial year and more significant contribution in ensuing years.

In view of the above, the Board believes that our Group, having the one-stop solution, pro-active in addressing risks arising from global and local factors and continuously enhancing operational capabilities and efficiencies, would be able to generate positive results for the remaining quarters of 2019.

B4. Variance of Forecast Profit and Profit Guarantee

No profit forecast has been issued by the Group previously in any public document.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B5. Profit Before Tax

Profit before tax is derived after taking into consideration the followings:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2019 RM'000	Preceding Year Quarter 31.03.2018 RM'000	Current Year- To-Date 31.03.2019 RM'000	Preceding Year- To-Date 31.03.2018 RM'000
Amortisation of prepaid land lease payment	35	35	35	35
Depreciation of property, plant and equipment	2,850	2,591	2,850	2,591
Depreciation of right-of-use assets	439	-	439	-
Impairment loss on trade receivables	34	578	34	578
Insurance claimed	(111)	(9)	(111)	(9)
Interest income	(343)	(318)	(343)	(318)
Interest expense	3,536	2,627	3,536	2,627
Net loss on foreign exchange				
- realised	11	1	11	1
- unrealised	30	129	30	129
Net loss on disposal of property, plant and equipment	-	67	-	67
Rental of premises	32	467	32	467
Rental of motor vehicle	-	7	-	7
Rental of equipment	3	16	3	16
Rental of land	-	130	-	130
Reversal of impairment loss on trade receivables	(45)	(34)	(45)	(34)
Relocation and rectification expenses ⁽¹⁾	-	20	-	20

Note:

(1) Mainly relating to relocation of existing steel processing plant, office and warehouse of Supreme Steelmakers Sdn. Bhd. to temporary sites.

Save as disclosed above, the other items as required under Appendix 9B Part A (16) of the Main Market Listing Requirements of Bursa Securities are not applicable.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B6. Tax Expense

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2019 RM'000	Preceding Year- Quarter 31.03.2018 RM'000	Current Year- To-Date 31.03.2019 RM'000	Preceding Year- To-Date 31.03.2018 RM'000
Current tax				
- for the financial period	186	3,344	186	3,344
Deferred tax				
- origination /(reversal) of temporary differences	431	(643)	431	(643)
- effect of adopting MFRS 16	(242)	-	(242)	-
- over provision in prior year	(9)	-	(9)	-
Tax expense	<u>366</u>	<u>2,701</u>	<u>366</u>	<u>2,701</u>

The effective tax rate for the current quarter and current financial year-to-date are higher than the statutory tax rate of 24% mainly due to certain expenses which are not deductible for tax purposes and absence of group relief for losses incurred by certain companies within the Group.

B7. Status of Corporate Proposals

There was no corporate proposal announced but not completed as at the date of this report.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B8. Group Borrowings

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
<u>Current</u>		
Secured:		
Bankers' acceptances	92,814	92,923
Finance lease payables	1,728	2,264
Term loan	1,800	1,800
Bank overdrafts	13,746	15,187
	<u>110,088</u>	<u>112,174</u>
Unsecured:		
Bankers' acceptances	53,788	48,513
Islamic financing	33,659	41,528
Bank overdrafts	10,721	15,333
	<u>98,168</u>	<u>105,374</u>
	<u>208,256</u>	<u>217,548</u>
<u>Non-current</u>		
Secured:		
Finance lease payables	4,704	5,076
Term loans	48,142	45,661
	<u>52,846</u>	<u>50,737</u>
Total Borrowings	<u>261,102</u>	<u>268,285</u>

The above Group's borrowings are denominated in Ringgit Malaysia.

B9. Material Litigation

Since the last annual financial statements up to the date of issue of this report, the Group is not engaged in any material litigation or arbitration, either as plaintiff or defendant, which have a material effect on the financial position of our Group, and the Board does not know of any proceedings pending or threatened or of any fact likely to give rise to any proceeding which may materially and adversely affect the financial position or business of the Group.

B10. Dividend

There were no dividend proposed or declared during the current quarter.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)

B11. Earnings Per Share

(a) Basic Earnings Per Share

The basic earnings per share for the current quarter and financial year-to-date are computed as follows:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current	Preceding	Current	Preceding
	Year	Year-	Year-	Year-
	Quarter	Quarter	To-Date	To-Date
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Profit attributable to owners of the Company	453	6,533	453	6,533
Weighted average number of ordinary shares in issue ('000)	310,000	310,000	310,000	310,000
Basic Earnings Per Share (sen)	0.15	2.11	0.15	2.11

(b) Diluted Earnings Per Share

Diluted earnings per share is equivalent to basic earnings per share as the Company does not have any dilutive potential ordinary shares in issue for the current quarter and current financial year-to-date.

By order of the Board
Kuala Lumpur
30 May 2019