MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Consolidated Statement of Profit or Loss	31.12.2021 (18 months) RM'000	30.6.2020 (12 months) RM'000
Revenue	**3,937,446**	2,318,470
Loss from operations	**(12,426)**	(261,886)
Profit/(Loss) before tax	**570,284**	(377,024)
Profit/(Loss) after tax	**539,241**	(383,170)
Consolidated Statement of Financial Position		
Total assets	**3,512,778**	2,515,969
Deposits, cash and bank balances	**726,062**	333,517
Total liabilities	**1,474,073**	1,089,149
Loans and borrowings	**182,211**	163,605
Net assets	**1,813,558**	1,251,585

The Company had changed its financial year end from 30 June to 31 December, and hence the financial period under review is for an 18-month period from 1 July 2020 to 31 December 2021. The preceding financial year that ended on 30 June 2020 comprised 12 months from 1 July 2019 to 30 June 2020. As such, the results for these two periods are not comparable.

For the financial period under review, the Group registered a revenue of RM3,937 million with the steel and building materials businesses being the main contributors to the Group's revenue. The major economic activities in Malaysia are picking up momentum with the roll-out of COVID-19 vaccines with high vaccination rate and the lifting of various restrictions of the Movement Control Orders.

The Group shared a lower loss of RM50.9 million from the associated companies and a joint venture, compared with RM115.1 million loss in the previous financial year. This was largely attributed to the retail business in China of an associated company which has rebounded from the COVID-19 pandemic, and the gain from deconsolidation of its operations in Indonesia.

For the financial period under review, the Group posted a profit before tax of RM570.3 million against a loss of RM377.0 million in the last financial year. This was mainly contributed by the significant gain of RM440.5 million arising from the disposal of a subsidiary company, Antara Steel Mills Sdn Bhd and RM193.1 million being the net amount recovered from the secured debts settlement arrangement entered into with Lion Diversified Holdings Berhad (In Liquidation) Group via a transfer of 100% equity interest in Well Morning Limited.

REVIEW OF OPERATIONS

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

Steel

	31.12.2021 (18 months) RM Million	30.6.2020 (12 months) RM Million
Revenue	**3,421**	2,048
Profit/(Loss)	**55.5**	(260.5)

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

* Disposal completed on 10 December 2021

Long Products (Billets, Steel Bars & Wire Rods)

Our long steel products business is spearheaded by Amsteel Mills Sdn Bhd which owns two steel plants located at Bukit Raja, Klang and Banting. Another steel plant located at Pasir Gudang, Johor is owned by Eden Flame Sdn Bhd. The Company had on 14 January 2022, announced the proposed disposal of Eden Flame Sdn Bhd. The proposed disposal is pending completion.

The long steel products business posted a revenue of RM2.3 billion for the 18-month period with contribution mainly from the steel plant at Bukit Raja, Klang. Higher selling prices of steel products have contributed to the high revenue and better profit margin. Accordingly, the long steel products business recorded a profit of RM42.0 million for the 18-month period against a loss of RM217.3 million in the last financial year.

Hot-Briquetted Iron ("HBI")

On 10 December 2021, the disposal of the entire 100% equity interest in Antara Steel Mills Sdn Bhd which owned the hot-briquetted iron plant and business in Labuan to Esteel Enterprise Ptd Ltd was completed.

The HBI operation recorded a revenue of RM1.1 billion and an operating profit of RM39.9 million for the financial period under review. The improved operating environment led to a turnaround in results from an operating loss of RM33.8 million in the last financial year.

Building Materials

	31.12.2021 (18 months) RM Million	30.6.2020 (12 months) RM Million
Revenue	**739.9**	331.7
Profit	**9.0**	22.2

The construction sector registered a strong growth of 8.3% in the first half of 2021 driven by investments in transport infrastructure, renewable energy, residential, telecommunications and water infrastructure projects. However, the recovery is more a reflection of the severity by which construction activities fell in 2020 amid the COVID-19 lockdown, rather than a sign of resurgence. The sector continued to post positive growth in 2021 due to strengthening of capacities and low base effects from the COVID-19 pandemic as vaccination rates increased and restrictions were lifted.

Overall, 2021 was another very challenging year for the Division with the implementation of the Full Movement Control Order taking effect on 1 June 2021 following a rise in COVID-19 cases. However, due to the pickup in construction activities, the Division recorded a revenue of RM740 million for the financial period through continuous monitoring of new developments in the construction sector in line with the evolving situation. Included in the last financial year's profit was a recovery of RM22.0 million from debtors.

The construction industry may remain challenging in 2022 due to the lack of new mega infrastructure projects to spur the revival of the construction sector. However, small scale projects are in the pipeline to enhance the infrastructure for public use. Positive growth is also seen in the continuation and acceleration of existing major infrastructure projects which would help to sustain the prevailing market sentiments in the construction industry.

Operating in an intensely challenging and competitive business environment, the Division will always stay vigilant and responsive to market changes. The Division will continue to fortify its operating performance by forging strategic relationships with principal suppliers and trading partners, developing partnerships with key customers and developers, and expanding its market coverage into East Malaysia on the distribution of our in-house brands of finishing products such as sanitary wares, tap fittings, tiles and ironmongery to grow revenue and enhance margins. The Division has also taken all necessary precautions to prevent any disruption to its business operations in the event of a new wave of COVID-19 infections.

Lubricants, and Petroleum and Automotive Products		
	31.12.2021 (18 months) RM Million	**30.6.2020 (12 months) RM Million**
Revenue	**119.8**	78.9
Profit	**17.6**	13.9

Year 2021 was by far the most challenging period the Division had ever faced in its history.

The 1st quarter from January to March began with an unprecedented steep uptrend in raw material prices. Shortage in global base oil supplies, unexpected delivery delays in global logistics and transport capacities compounded the escalation in production costs. The situation forced engine lubricants producers like ourselves to review our offerings, and to delicately balance between absorbing the rising costs, and passing on the added burden to our loyal customers. To date, prices of raw materials have not fully returned to their previous levels, but instead, continue their uptrend, though at a lower pace, for the rest of the period under review.

In order to curb the fast spreading COVID-19 infections, the State of Selangor was imposed a strict total lockdown on most business activities in June and August 2021. As our principal operations and production activities are located in Selangor, our revenues were adversely impacted during these 3 months. Fortunately, the subsequent 3 months of September to November recorded a healthy recovery of our revenues, and minimised the impact of lost sales from missed business opportunities in the preceding months.

The closing month of December 2021 however, had brought the biggest impact to our operations. Our production and operations facilities were hit by the severe floods that struck major parts of Selangor and Kuala Lumpur on 18 December 2021. Due to the disruption in our active production lines, we relied on limited remaining stocks to fulfil incoming orders, and had to defer sales to a later date whenever we were forced by constraints to do so. The production lines are expected to be fully restored within the first half of 2022.

In view of the effect of the floods, an impairment on assets and stocks of approximately RM1.9 million was provided in the financial statements for the financial period under review. These items are fully insured and will be reimbursed in 2022.

Despite the extremely tough challenges encountered, excellent service to our customers remained a key component to the success of our business. We were able to do so due to a team of committed employees and business associates who worked tirelessly to protect and sustain our businesses in this demanding period.

For the 18 months' performance under review, the lubricant division continued to record favourable operating profits to contribute to the Group's earnings.