

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2019

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.06.2019 RM'000	Preceding Year Quarter 30.06.2018 RM'000	Current Year- To-Date 30.06.2019 RM'000	Preceding Year- To-Date 30.06.2018 RM'000
Revenue	169,844	144,485	314,309	287,532
Cost of sales	(148,179)	(122,824)	(280,398)	(243,003)
Gross profit	21,665	21,661	33,911	44,529
Other income	840	780	1,504	1,327
Distribution costs	(2,313)	(2,154)	(4,416)	(5,037)
Administrative costs	(5,429)	(6,098)	(11,388)	(13,380)
Net addition of impairment losses of financial assets	(558)	(27)	(547)	(571)
Other costs	(98)	(10)	(417)	(745)
	(8,398)	(8,289)	(16,768)	(19,733)
Profit from operations	14,107	14,152	18,647	26,123
Finance costs	(4,003)	(2,975)	(7,790)	(5,775)
Profit before tax	10,104	11,177	10,857	20,348
Tax expense	(2,613)	(2,745)	(2,979)	(5,446)
Profit for the financial period	7,491	8,432	7,878	14,902
Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange difference on translation of foreign subsidiary	14	2	9	(12)
Total other comprehensive income, net of tax	14	2	9	(12)
Total comprehensive income for the financial period	7,505	8,434	7,887	14,890
Profit/(Loss) attributable to:				
- Owners of the Company	7,494	8,461	7,947	14,994
- Non-controlling interest	(3)	(29)	(69)	(92)
	7,491	8,432	7,878	14,902

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2019 (CONT'D)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.06.2019 RM'000	Preceding Year Quarter 30.06.2018 RM'000	Current Year- To-Date 30.06.2019 RM'000	Preceding Year- To-Date 30.06.2018 RM'000
Total comprehensive income attributable to:				
- Owners of the Company	7,508	8,463	7,956	14,982
- Non-controlling interest	(3)	(29)	(69)	(92)
	<u>7,505</u>	<u>8,434</u>	<u>7,887</u>	<u>14,890</u>
 Earnings per share (sen) attributable to owners of the Company:				
- Basic	2.42	2.73	2.56	4.84
- Diluted	2.42	2.73	2.56	4.84

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 30 JUNE 2019

	As at 30.06.2019 RM'000 (Unaudited)	As at 31.12.2018 RM'000 (Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	196,317	145,102
Capital work-in-progress	4,525	59,781
Prepaid land lease payment	849	920
Right-of-use assets	11,404	-
	<u>213,095</u>	<u>205,803</u>
Current assets		
Inventories	261,307	247,200
Trade receivables	175,804	157,772
Other receivables, deposits and prepayments	8,753	5,980
Tax assets	1,323	636
Deposits with licensed banks	33,261	36,415
Cash and bank balances	13,255	16,624
	<u>493,703</u>	<u>464,627</u>
TOTAL ASSETS	<u><u>706,798</u></u>	<u><u>670,430</u></u>
EQUITY AND LIABILITIES		
Equity		
Share capital	160,094	160,094
Merger deficit	(109,545)	(109,545)
Capital reserve	1	1
Retained earnings	303,436	301,149
Foreign currency translation reserve	(7)	(16)
	<u>353,979</u>	<u>351,683</u>
Non-controlling interest	596	665
Total Equity	<u>354,575</u>	<u>352,348</u>
Non-current liabilities		
Borrowings	55,704	50,737
Lease liabilities	10,858	-
Deferred tax liabilities	5,292	3,604
	<u>71,854</u>	<u>54,341</u>
Current liabilities		
Trade payables	31,447	18,451
Other payables and accruals	6,316	16,106
Deferred income	2,277	3,283
Dividend payable	4,650	-
Derivative financial liability	2	-
Amount due to ultimate holding company	9,355	5,000
Borrowings	223,612	217,548
Lease liabilities	1,500	-
Tax liabilities	1,210	3,353
	<u>280,369</u>	<u>263,741</u>
Total Liabilities	<u>352,223</u>	<u>318,082</u>
TOTAL EQUITY AND LIABILITIES	<u><u>706,798</u></u>	<u><u>670,430</u></u>
Net assets per share attributable to owners of the Company (RM)	1.14	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 SECOND QUARTER ENDED 30 JUNE 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	-	-	-	-	7,947	(69)	7,878
Other comprehensive income	-	-	-	9	-	-	9
Total comprehensive income	-	-	-	9	7,947	(69)	7,887
Transaction with owners							
Dividend	-	-	-	-	(4,650)	-	(4,650)
At 30 June 2019	160,094	(109,545)	1	(7)	303,436	596	354,575
2018							
At 1 January 2018	160,094	(109,545)	1	(20)	282,868	801	334,199
Profit/(Loss) for the financial period	-	-	-	-	14,994	(92)	14,902
Other comprehensive income	-	-	-	(12)	-	-	(12)
Total comprehensive income	-	-	-	(12)	14,994	(92)	14,890
Transaction with owners							
Dividend	-	-	-	-	(4,650)	-	(4,650)
At 30 June 2018	160,094	(109,545)	1	(32)	293,212	709	344,439

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 SECOND QUARTER ENDED 30 JUNE 2019

	Current Year-To-Date 30.06.2019 RM'000	Preceding Year-To-Date 30.06.2018 RM'000
Cash Flows from Operating Activities		
Profit before tax	10,857	20,348
Adjustments for:		
Amortisation of prepaid land lease payment	71	70
Bad debt written off	-	16
Depreciation of property, plant and equipment	5,866	5,249
Depreciation of right-of-use assets	876	-
Deposits written off	-	21
Fair value loss on derivative	2	-
Impairment loss on trade receivables	589	618
Interest income	(669)	(839)
Interest expense	7,287	5,415
Net loss on disposal of property, plant and equipment	-	55
Net unrealised gain on foreign exchange	(82)	(53)
Reversal of impairment loss on trade receivables	(42)	(47)
Operating profit before working capital changes	24,755	30,853
(Increase)/Decrease in inventories	(14,107)	16,751
Increase in receivables	(17,580)	(6,886)
Increase/(Decrease) in payables	4,948	(11,217)
Cash (used in)/generated from operations	(1,984)	29,501
Interest received	640	839
Interest paid	(5,762)	(5,253)
Income tax paid	(4,121)	(3,718)
Net cash (used in)/from operating activities	(11,227)	21,369
Cash Flows from Investing Activities		
Addition to deposits pledged with licensed banks	(775)	(119)
Capital work-in-progress paid	(656)	(9,437)
Deposits paid for acquisition of plant and equipment	(918)	(2,377)
Purchase of property, plant and equipment	(519)	(6,029)
Proceeds from disposal of property, plant and equipment	-	34
Withdrawal of a fixed deposit pledged with a licensed bank	31	-
Net cash used in investing activities	(2,837)	(17,928)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SECOND QUARTER ENDED 30 JUNE 2019 (CONT'D)

	Current Year-To-Date 30.06.2019 RM'000	Preceding Year-To-Date 30.06.2018 RM'000
Cash Flows from Financing Activities		
Advance from ultimate holding company	4,137	-
Drawdowns of term loan	-	9,370
Repayments of term loan	(900)	(900)
Repayments of lease liabilities	(933)	-
Net repayments of islamic financing	(18,211)	(5,039)
Net drawdowns/(repayments) of bankers' acceptances	31,164	(17,144)
Payments to finance lease payables	(1,455)	(2,516)
Net cash from/(used in) financing activities	<u>13,802</u>	<u>(16,229)</u>
Net decrease in cash and cash equivalents	(262)	(12,788)
Effect of exchange rate changes on cash and cash equivalents	16	273
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>15,226</u></u>	<u><u>27,491</u></u>
Cash and cash equivalents at end of the financial period comprises:		
Cash and bank balances	13,255	17,849
Deposits with licensed banks	33,261	42,722
	<u>46,516</u>	<u>60,571</u>
Less: Bank overdrafts	(23,498)	(26,144)
Less: Deposits pledged with licensed banks	(7,792)	(6,936)
	<u><u>15,226</u></u>	<u><u>27,491</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 interim period of current financial year or changes in the estimates of the 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 30 June 2019 is as follows:

	Trading of Processing				Total
	Steel Products	of Steel Products	Others ⁽¹⁾	Elimination	
	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	170,648	143,574	87	-	314,309
Cost of sales	(155,847)	(124,506)	(45)	-	(280,398)
Gross profit	14,801	19,068	42	-	33,911
Add/(Less):					
- Other income					1,504
- Operating expenses					(16,221)
- Net addition of impairment lossess of financial assets					(547)
- Finance costs					(7,790)
Profit before tax					10,857
Tax expense					(2,979)
Profit for the financial period					7,878

Segment information of the Group for the financial year-to-date ended 30 June 2018 is as follows:

	Trading of Processing				Total
	Steel Products	of Steel Products	Others ⁽¹⁾	Elimination	
	RM’000	RM’000	RM’000	RM’000	RM’000
External revenue	132,763	154,741	28	-	287,532
Cost of sales	(110,944)	(132,043)	(16)	-	(243,003)
Gross profit	21,819	22,698	12	-	44,529
Add/(Less):					
- Other income					1,327
- Operating expenses					(19,162)
- Net addition of impairment lossess of financial assets					(571)
- Finance costs					(5,775)
Profit before tax					20,348
Tax expense					(5,446)
Profit for the financial period					14,902

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.

LEON FUAT BERHAD

(Company No.756407-D)

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 30.06.2019 RM'000	Audited As at 31.12.2018 RM'000
Approved and contracted for:		
- purchase of motor vehicles	435	-
- purchase of office equipment	58	58
- purchase of machinery	500	748
- construction of factory and warehouse buildings	2,170	477
	<u>3,163</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 30 June 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 30.06.2019 RM’000	Preceding Year- Quarter 30.06.2018 RM’000	Current Year- To-Date 30.06.2019 RM’000	Preceding Year- To-Date 30.06.2018 RM’000
Sales to related parties	1,205	1,207	2,139	2,259
Purchases from related parties	19	915	57	943
Rental expense paid to related parties	513	483	1,026	900
Interest charged by related party ⁽¹⁾	41	82	81	162

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 30 June 2019 amounted to RM5.08 million (30.06.2018: RM10.16 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 30.06.2019 RM'000	Preceding Year Quarter 30.06.2018 RM'000	Variance	
			RM'000	%
Revenue	169,844	144,485	25,359	17.6%
Gross profit	21,665	21,661	4	0.0%
Profit before interest and tax	13,855	13,965	(110)	-0.8%
Profit before tax	10,104	11,177	(1,073)	-9.6%
Profit after tax	7,491	8,432	(941)	-11.2%
Profit attributable to owners of the Company	7,494	8,461	(967)	-11.4%

The revenue recorded for the current quarter and the preceding year corresponding quarter was RM169.84 million and RM144.49 million respectively, increased by 17.6% or approximately RM25.35 million, as the result of:

- higher revenue from trading of flat carbon steel products by 68.4% or RM24.38 million, from RM35.67 million to RM60.05 million, mainly due to increase in tonnage sales by 99.0%, negated by a reduction in average selling price by 15.4%;
- higher revenue from trading of other flat steel products by 183.4% or RM7.69 million, from RM4.19 million to RM11.88 million, mainly attributable to increase in tonnage sales by 176.2%, as well as higher average selling price by 2.6%; and
- higher revenue from processing of long carbon steel products by 49.0% or RM2.25 million, from RM4.58 million to RM6.83 million, mainly due to increase in tonnage sales by 67.2%, negated by a reduction in average selling price by 10.9%; partly offset by
- decrease in revenue for trading of long carbon steel products by 16.6% or RM3.21 million, from RM19.35 million to RM16.14 million, mainly due to lower tonnage sales by 8.6%, coupled with lower average selling price by 8.7%; and
- decrease in revenue for processing of flat carbon steel products by 12.9% or RM6.98 million, from RM53.92 million to RM46.94 million, mainly due to lower tonnage sales by 9.2%, coupled with lower average selling price by 4.2%.

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 54.6% and 45.4% respectively for the current quarter whereas the trading segment and the processing segment contributed revenue of approximately 44.0% and 56.0% respectively for the preceding year corresponding quarter.

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)

Despite higher revenue by approximately 17.6% or approximately RM25.35 million, from RM144.49 million to RM169.84 million, our gross profit remained at approximately RM21.66 million, mainly due to lower overall gross profit margin, from 15.0% for the preceding year corresponding quarter to 12.8% for the current quarter, resulted from lower gross profit margin recorded for trading of steel products by approximately 5.3 percentage points, from 16.7% to 11.4%.

The lower gross profit margin for trading of steel products was mainly due to the decrease in overall average selling price by 12.7%, while the overall average cost for input materials had only decreased by 5.9%.

The other income for the current quarter was RM0.84 million as compared to RM0.78 million for the preceding year corresponding quarter, higher by RM0.06 million, mainly due to rental income of RM0.28 million in the current quarter, largely offset by lower interest income from the deposits with licensed banks by RM0.19 million as compared to the preceding year corresponding quarter. The rental income of RM0.28 million was derived from letting of a portion of warehouse space.

Our operating costs increased slightly by RM0.11 million from RM8.29 million for the preceding year corresponding quarter to RM8.40 million for the current quarter, as the result of the followings:

1. Increase in distribution costs by RM0.16 million, mainly due to increase in staff related costs by RM0.15 million.
2. Decrease in administrative costs by RM0.67 million, mainly caused by decrease in directors' remuneration by RM0.54 million.
3. Net addition of impairment losses on financial assets/trade receivables of RM0.56 million for the current quarter as compared to net addition of impairment losses of only RM0.03 million for the preceding year corresponding quarter.
4. Increase in other costs by RM0.09 million, mainly due to:
 - higher realised loss on foreign exchange by RM0.07 million; and
 - lower impact from reversal of unrealised loss on foreign exchange by RM0.10 million; partly offset by
 - lower quit rent and assessment expenses by RM0.07 million due to certain portion of these expenses were allocated to direct overhead costs.

Total finance costs for the current quarter was RM4.00 million, increased by approximately RM1.02 million as compared to RM2.98 million for the preceding year corresponding quarter. This was mainly due to higher utilisation of trade financing facilities and term loans where their interest expenses increased by RM0.14 million and RM0.76 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.

Based on the foregoing factors, our Group registered a decrease in profit before tax by 9.6% or approximately RM1.08 million to RM10.10 million as compared to RM11.18 million for the preceding year corresponding quarter.

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

B1. Review of Performance (Cont'd)

Current Financial Year-To-Date Compared To Preceding Financial Year-To-Date

	Current Year- To-Date 30.06.2019 RM'000	Preceding Year- To-Date 30.06.2018 RM'000	Variance	
			RM'000	%
Revenue	314,309	287,532	26,777	9.3%
Gross profit	33,911	44,529	(10,618)	-23.8%
Profit before interest and tax	18,144	25,763	(7,619)	-29.6%
Profit before tax	10,857	20,348	(9,491)	-46.6%
Profit after tax	7,878	14,902	(7,024)	-47.1%
Profit attributable to owners of the Company	7,947	14,994	(7,047)	-47.0%

Our revenue increased by 9.3% or RM26.78 million from RM287.53 million for the preceding financial year-to-date to RM314.31 million for the current financial year-to-date.

The increase in revenue was mainly resulted from the followings:

- higher revenue from trading of flat carbon steel products by 41.5% or approximately RM32.86 million, from RM79.25 million to RM112.11 million, mainly due to increase in tonnage sales by 64.1%, negated by a reduction in average selling price by 13.8%;
- higher revenue from trading of other flat steel products by 80.2% or RM7.70 million, from RM9.60 million to RM17.30 million, mainly attributable to increase in tonnage sales by 83.8%, negated by a reduction in average selling price by 2.0%;
- higher revenue from processing of long carbon steel products by 36.9% or approximately RM3.44 million, from RM9.29 million to RM12.73 million, mainly due to increase in tonnage sales by 56.1%, negated by a reduction in average selling price by 12.3%; and
- higher revenue from processing of other flat steel products by 23.5% or RM7.88 million, from RM33.50 million to RM41.38 million, mainly due to increase in tonnage sales by 8.9%, as well as higher average selling price by 13.4%; partly offset by
- decrease in revenue for trading of long carbon steel products by 7.5% or RM2.70 million, from RM35.84 million to RM33.14 million, mainly due to lower average selling price by 6.7%, coupled with slightly lower tonnage sales by 0.9%; and
- decrease in revenue for processing of flat carbon steel products by 21.7% or approximately RM22.83 million, from RM105.32 million to RM82.49 million, mainly due to lower tonnage sales by 19.0%, coupled with lower average selling price by 3.4%.

Despite higher revenue by 9.3% or RM26.78 million, from RM287.53 million to RM314.31 million, our gross profit decreased by 23.8% or RM10.62 million, from RM44.53 million to RM33.91 million, mainly caused by lower overall gross profit margin, from 15.5% for the preceding financial year-to date to 10.8% for the current financial year-to-date, due to lower gross profit margin for trading of steel products by approximately 7.7 percentage points, from 16.4% to 8.7%, resulted from the decrease in average selling price by 12.1%, while the average cost for input materials had only decreased by 2.6%.

The other income for the current financial year-to-date was RM1.50 million as compared to RM1.33 million for the preceding financial year-to-date, higher by approximately RM0.17 million, mainly due to higher insurance claims by RM0.17 million and rental income of RM0.28 million in the current financial year-to-date, largely offset by lower interest income from the deposits with licensed banks and lower late payment charges imposed on customers by RM0.17 million and RM0.08 million respectively.

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

B1. Review of Performance (Cont'd)

Current Financial Year-To-Date Compared To Preceding Financial Year-To-Date (Cont'd)

Our operating costs decreased by approximately RM2.96 million from RM19.73 million for the preceding financial year-to-date to RM16.77 million for the current financial year-to-date, as the result of the followings:

1. Decrease in distribution costs and administrative costs by RM0.62 million and RM1.99 million respectively mainly due to absence of provision of bonuses for directors and staff. The management has decided to provide bonuses at the last quarter of current financial year where it can be better determined instead of providing it at the beginning of the current financial year.
2. Decrease in other costs by RM0.33 million, mainly due to:
 - absence of loss on disposal of property, plant and equipment of RM0.05 million which had been charged to the preceding financial year-to-date;
 - lower quit rent and assessment expenses by RM0.16 million due to certain portion of these expenses were allocated to direct overhead costs; and
 - lower stamp duties paid by RM0.12 million.

Total finance costs increased by RM2.01 million as compared to the preceding financial year-to-date. This was mainly due to higher interest expenses incurred for overdraft facilities and term loans by RM0.12 million and RM1.37 million respectively for the current financial year-to-date, as well as the interest expense on lease liabilities amounting to RM0.32 million arising from the changes in accounting treatment for operating leases upon applying new MFRS 16.

Based on the foregoing factors, our Group registered a decrease in profit before tax by 46.6% or RM9.49 million from RM20.35 million for the preceding financial year-to-date to RM10.86 million for the current financial year-to-date.

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

	Current Quarter 30.06.2019 RM'000	Immediate Preceding Quarter 31.03.2019 RM'000	Variance	
			RM'000	%
Revenue	169,844	144,465	25,379	17.6%
Gross profit	21,665	12,246	9,419	76.9%
Profit before interest and tax	13,855	4,289	9,566	223.0%
Profit before tax	10,104	753	9,351	1241.8%
Profit after tax	7,491	387	7,104	1835.7%
Profit attributable to owners of the Company	7,494	453	7,041	1554.3%

Our Group achieved revenue of RM169.84 million for the current quarter, which was higher than the immediate preceding quarter's revenue by 17.6% or RM25.38 million, as the result of the followings:

- higher revenue from trading of flat carbon steel products by 15.4% or RM8.00 million, from RM52.05 million to RM60.05 million, mainly attributable to higher tonnage sales by 17.9%, slightly offset by a reduction in average selling price by 2.1%;
- higher revenue from trading of other flat steel products by 119.0% or approximately RM6.46 million, from RM5.42 million to RM11.88 million, mainly attributable to increase in tonnage sales by 114.4%, as well as higher average selling price by 2.2%; and
- higher revenue from processing of flat carbon steel products by 32.1% or RM11.39 million, from RM35.55 million to RM46.94 million, mainly due to increase in tonnage sales by 35.5%, negated by a reduction in average selling price by 2.6%.

For the current quarter, our gross profit increased by 76.9% or RM9.42 million, from RM12.25 million for the immediate preceding quarter to RM21.67 million for the current quarter, which was mainly attributable to the increase in revenue by 17.6% or RM25.38 million, from RM144.46 million for the immediate preceding quarter to RM169.84 million for the current quarter, as well as higher overall gross profit margin from 8.5% for the immediate preceding quarter to 12.8% for the current quarter mainly due to the overall average cost for input materials had decreased by 6.6%, while the overall average selling price had only decreased by 2.6%.

The other income of RM0.84 million for the current quarter as compared to RM0.66 million for the immediate preceding quarter, was higher by RM0.18 million, mainly due to rental income of RM0.28 million in the current quarter, offset by lower late payment charges imposed on customers by RM0.11 million as compared to the immediate preceding quarter.

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)

Our operating costs increased negligibly by RM0.03 million, from RM8.37 million for the immediate preceding quarter to RM8.40 million for the current quarter, resulted from:

1. Increase in distribution costs by RM0.21 million, mainly due to increase in transportation, travelling and accommodation expenses by RM0.20 million.
2. Decrease in administrative costs by RM0.53 million, mainly caused by:
 - decrease in directors' remuneration and staff related costs by RM0.20 million;
 - lower professional fees by RM0.07 million;
 - lower accommodation expenses by RM0.08 million; and
 - lower advertising expenses by RM0.15 million.
3. Net addition of impairment losses on financial assets/trade receivables of RM0.56 million for the current quarter as opposed to net reversal of impairment losses of RM0.01 million for the immediate preceding quarter.
4. Decrease in other costs by RM0.22 million, mainly due to lower quit rent and assessment expenses by RM0.20 million due to certain portion of these expenses were allocated to direct overhead costs.

The finance costs for the current quarter was RM4.00 million, increased by approximately RM0.21 million as compared to RM3.79 million for the immediate preceding quarter. This was mainly due to higher interest expenses incurred for trade financing facilities and term loans by RM0.34 million and RM0.18 million respectively, largely negated by the decrease in interest expense on overdraft and Islamic financing facilities by RM0.20 million and RM0.10 million respectively.

Based on the foregoing factors, our profit before tax increased by 1241.8% or RM9.35 million, from RM0.75 million for the immediate preceding quarter to RM10.10 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 economic growth for second half of 2019 is expected to ease against the backdrop of trade protectionism and slower global economic growth.

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.

In addition, as an effort to build a more resilient business, our Group had also embarked on a downstream production of steel pipes which commenced commercial operations at 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.

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 escalating trade tension between the United States of America and China and outflows of capital from emerging markets have clouded the global economic outlook and may also affect prices of steel.

In the local front, domestic demand should firm up on government consumption although there may be some headwinds on private investment, as business sentiments softened in the face of trade uncertainties. The uncertain impact of the more expansionary fiscal stance on government finances and financial market volatility may also threaten the outlook and thus demand from our customers.

To address the risks arising from global and local factors mentioned above, our Group has been and 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 while keeping our operating costs at a manageable level.

In view of the above, the Board believes that our Group, leveraging on the one-stop solution, pro-active in handling risks arising from steel prices fluctuations 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 30.06.2019 RM'000	Preceding Year Quarter 30.06.2018 RM'000	Current Year- To-Date 30.06.2019 RM'000	Preceding Year- To-Date 30.06.2018 RM'000
Amortisation of prepaid land lease payment	36	35	71	70
Bad debt written off	-	16	-	16
Depreciation of property, plant and equipment	3,016	2,658	5,866	5,249
Depreciation of right-of-use assets	437	-	876	-
Deposits written off	-	21	-	21
Fair value loss on derivative	2	-	2	-
Impairment loss on trade receivables	555	40	589	618
Insurance claimed	(97)	(34)	(208)	(43)
Interest income	(326)	(521)	(669)	(839)
Interest expense	3,751	2,788	7,287	5,415
Net loss/(gain) on foreign exchange				
- realised	68	(17)	79	(16)
- unrealised	(112)	(182)	(82)	(53)
Net (gain)/loss on disposal of property, plant and equipment	-	(12)	-	55
Rental of premises	32	532	64	999
Rental of motor vehicle	-	6	-	13
Rental of equipment	7	18	10	34
Rental of land	-	130	-	260
Rental income	(280)	-	(280)	-
Reversal of impairment loss on trade receivables	3	(13)	(42)	(47)
Relocation expenses ⁽¹⁾	-	3	-	23

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 30.06.2019 RM'000	Preceding Year- Quarter 30.06.2018 RM'000	Current Year- To-Date 30.06.2019 RM'000	Preceding Year- To-Date 30.06.2018 RM'000
Current tax				
- for the financial period	1,105	2,310	1,291	5,654
Deferred tax				
- origination/(reversal) of temporary differences	1,510	514	1,941	(129)
- effect of adopting MFRS 16	-	-	(242)	-
- over provision in prior year	(2)	(79)	(11)	(79)
Tax expense	<u>2,613</u>	<u>2,745</u>	<u>2,979</u>	<u>5,446</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 30.06.2019 RM'000	As at 31.12.2018 RM'000
<u>Current</u>		
Secured:		
Bankers' acceptances	112,106	92,923
Finance lease payables	2,396	2,264
Term loan	1,800	1,800
Bank overdrafts	18,618	15,187
	<u>134,920</u>	<u>112,174</u>
Unsecured:		
Bankers' acceptances	60,495	48,513
Islamic financing	23,317	41,528
Bank overdrafts	4,880	15,333
	<u>88,692</u>	<u>105,374</u>
	<u>223,612</u>	<u>217,548</u>
<u>Non-current</u>		
Secured:		
Finance lease payables	6,189	5,076
Term loans	49,515	45,661
	<u>55,704</u>	<u>50,737</u>
	<u>279,316</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

A final single tier dividend of 1.5 sen per share in respect of the financial year ended 31 December 2018 (financial year ended 31 December 2017: 1.5 sen per share) has been approved by the shareholders at the Annual General Meeting of the Company held on 12 June 2019. The final dividend was paid on 25 July 2019.

LEON FUAT BERHAD

(Company No.756407-D)

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 Year Quarter 30.06.2019 RM'000	Preceding Year- Quarter 30.06.2018 RM'000	Current Year- To-Date 30.06.2019 RM'000	Preceding Year- To-Date 30.06.2018 RM'000
Profit attributable to owners of the Company	7,494	8,461	7,947	14,994
Weighted average number of ordinary shares in issue ('000)	310,000	310,000	310,000	310,000
Basic Earnings Per Share (sen)	2.42	2.73	2.56	4.84

(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
28 August 2019