

LEON FUAT BERHAD

Registration No. 200601036648 (756407-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2020

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2020 RM'000	Preceding Year Quarter 31.03.2019 RM'000	Current Year- To-Date 31.03.2020 RM'000	Preceding Year- To-Date 31.03.2019 RM'000
Revenue	120,038	144,465	120,038	144,465
Cost of sales	(106,568)	(132,219)	(106,568)	(132,219)
Gross profit	13,470	12,246	13,470	12,246
Other income	869	664	869	664
Distribution costs	(2,149)	(2,103)	(2,149)	(2,103)
Administrative costs	(5,156)	(5,959)	(5,156)	(5,959)
Net (addition)/reversal of impairment losses of financial assets	(193)	11	(193)	11
Other costs	(1,112)	(319)	(1,112)	(319)
	(8,610)	(8,370)	(8,610)	(8,370)
Profit from operations	5,729	4,540	5,729	4,540
Finance costs	(3,653)	(3,787)	(3,653)	(3,787)
Profit before tax	2,076	753	2,076	753
Income tax expense	(1,013)	(366)	(1,013)	(366)
Profit for the financial period	1,063	387	1,063	387
Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange difference on translation of foreign subsidiary	(6)	(5)	(6)	(5)
Total other comprehensive income, net of tax	(6)	(5)	(6)	(5)
Total comprehensive income for the financial period	1,057	382	1,057	382
Profit/(Loss) attributable to:				
- Owners of the Company	1,025	453	1,025	453
- Non-controlling interests	38	(66)	38	(66)
	1,063	387	1,063	387

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2020 (CONT'D)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2020 RM'000	Preceding Year Quarter 31.03.2019 RM'000	Current Year- To-Date 31.03.2020 RM'000	Preceding Year- To-Date 31.03.2019 RM'000
Total comprehensive income/(loss) attributable to:				
- Owners of the Company	1,019	448	1,019	448
- Non-controlling interests	38	(66)	38	(66)
	<u>1,057</u>	<u>382</u>	<u>1,057</u>	<u>382</u>
 Earnings per share (sen) attributable to owners of the Company:				
- Basic	0.33	0.15	0.33	0.15
- Diluted	0.33	0.15	0.33	0.15

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 2019 and the accompanying explanatory notes attached to this interim financial statement.

LEON FUAT BERHAD

Registration No. 200601036648 (756407-D)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	As at 31.03.2020 RM'000 (Unaudited)	As at 31.12.2019 RM'000 (Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	211,481	209,275
Capital work-in-progress	2,588	5,972
	<u>214,069</u>	<u>215,247</u>
Current assets		
Inventories	268,386	261,543
Trade receivables	149,477	161,376
Other receivables, deposits and prepayments	6,493	4,614
Tax assets	6,239	4,870
Deposits with licensed banks	34,068	33,817
Cash and bank balances	7,051	8,979
	<u>471,714</u>	<u>475,199</u>
TOTAL ASSETS	<u><u>685,783</u></u>	<u><u>690,446</u></u>
EQUITY AND LIABILITIES		
Equity		
Share capital	160,094	160,094
Merger deficit	(109,545)	(109,545)
Capital reserve	1	1
Retained earnings	301,317	300,292
Foreign currency translation reserve	(20)	(14)
	<u>351,847</u>	<u>350,828</u>
Non-controlling interests	638	600
Total Equity	<u>352,485</u>	<u>351,428</u>
Non-current liabilities		
Borrowings	63,719	64,885
Deferred tax liabilities	6,140	5,518
	<u>69,859</u>	<u>70,403</u>
Current liabilities		
Trade payables	19,036	35,132
Other payables and accruals	8,936	11,319
Contract liabilities	3,755	2,641
Derivative financial liability	8	-
Amount due to ultimate holding company	137	137
Borrowings	231,510	217,486
Tax liabilities	57	1,900
	<u>263,439</u>	<u>268,615</u>
Total Liabilities	<u>333,298</u>	<u>339,018</u>
TOTAL EQUITY AND LIABILITIES	<u><u>685,783</u></u>	<u><u>690,446</u></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 2019 and the accompanying explanatory notes attached to this interim financial statement.

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Registration No. 200601036648 (756407-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST QUARTER ENDED 31 MARCH 2020

-----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 interests RM'000	Total Equity RM'000
2020							
At 1 January 2020	160,094	(109,545)	1	(14)	300,292	600	351,428
Profit for the financial period	-	-	-	-	1,025	38	1,063
Other comprehensive income	-	-	-	(6)	-	-	(6)
Total comprehensive income	-	-	-	(6)	1,025	38	1,057
At 31 March 2020	160,094	(109,545)	1	(20)	301,317	638	352,485
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

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 2019 and the accompanying explanatory notes attached to this interim financial statement.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

	Current Year-To-Date 31.03.2020 RM'000	Preceding Year-To-Date 31.03.2019 RM'000
Cash Flows from Operating Activities		
Profit before tax	2,076	753
Adjustments for:		
Amortisation of prepaid land lease payment	-	35
Bad debt written off	2	-
Depreciation of property, plant and equipment	3,827	3,289
Fair value loss on derivative	8	-
Impairment losses on trade receivables	193	34
Interest income	(282)	(343)
Interest expense	3,460	3,536
Gain on disposal of property, plant and equipment	(20)	-
Net unrealised (gain)/loss on foreign exchange	(53)	30
Reversal of impairment losses on trade receivables	-	(45)
Operating profit before changes in working capital	9,211	7,289
Inventories	(6,843)	(9,388)
Trade and other receivables	10,161	8,170
Trade and other payables	(19,376)	7,441
Cash (used in)/generated from operations	(6,847)	13,512
Interest received	263	369
Interest paid	(3,881)	(3,689)
Income tax paid	(3,602)	(2,092)
Net cash (used in)/from operating activities	(14,067)	8,100
Cash Flows from Investing Activities		
Addition to deposits pledged with licensed banks	(84)	(719)
Capital work-in-progress paid	(154)	(368)
Deposits paid for acquisition of plant and equipment	(160)	(578)
Purchase of property, plant and equipment	(234)	(333)
Proceeds from disposal of property, plant and equipment	20	-
Net cash used in investing activities	(612)	(1,998)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FIRST QUARTER ENDED 31 MARCH 2020 (CONT'D)

	Current Year-To-Date 31.03.2020 RM'000	Preceding Year-To-Date 31.03.2019 RM'000
Cash Flows from Financing Activities		
Advance from ultimate holding company	-	5,000
Repayments of term loan	(450)	(450)
Payments to lease liabilities/finance lease payables	(1,132)	(1,377)
Net repayments of islamic financing	(9,721)	(7,869)
Net drawdowns of bankers' acceptances	22,123	5,166
Net cash from financing activities	<u>10,820</u>	<u>470</u>
Net (decrease)/increase in cash and cash equivalents	(3,859)	6,572
Effect of exchange rate changes on cash and cash equivalents	138	(19)
Cash and cash equivalents at beginning of the financial period	(6,079)	15,472
Cash and cash equivalents at end of the financial period	<u>(9,800)</u>	<u>22,025</u>
Cash and cash equivalents at end of the financial period comprises:		
Cash and bank balances	7,051	44,162
Deposits with licensed banks	<u>34,068</u>	<u>10,096</u>
	41,119	54,258
Less: Bank overdrafts	(42,942)	(24,467)
Less: Deposits pledged with licensed banks	(7,977)	(7,766)
	<u>(9,800)</u>	<u>22,025</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 2019 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 2019.

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 2019.

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 2019, except for the adoption of the following:

Amendments/Improvements to MFRSs

MFRS 3	Business Combinations
MFRS 7	Financial Instruments : Disclosures
MFRS 9	Financial Instruments
MFRS 101	Presentation of Financial Statements
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error
MFRS 139	Financial Instruments : Recognition and Measurement

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

<u>New MFRS</u>		Effective for financial periods beginning on or after
MFRS 17	Insurance Contracts	1 January 2023
<u>Amendments/Improvements to MFRSs</u>		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2023#
MFRS 3	Business Combinations	1 January 2023#
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2023#
MFRS 7	Financial Instruments: Disclosures	1 January 2023#
MFRS 9	Financial Instruments	1 January 2023#
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2023#
MFRS 101	Presentation of Financial Statements	1 January 2022

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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 107	Statement of Cash Flows	1 January 2023#
MFRS 116	Property, Plant and Equipment	1 January 2023#
MFRS 119	Employee Benefits	1 January 2023#
MFRS 128	Investments in Associates and Joint Ventures	1 January 2023#/ Deferred
MFRS 132	Financial instruments: Presentation	1 January 2023#
MFRS 136	Impairment of Assets	1 January 2023#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2023#
MFRS 138	Intangible Assets	1 January 2023#
MFRS 140	Investment Property	1 January 2023#

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 and amendments/improvements to MFRSs.

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 2019 were not subject to any qualification.

A3. Seasonality or Cyclical 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.

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.

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A EXPLANATION NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134: INTERIM FINANCIAL REPORTING (CONT’D)**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 2020 is as follows:

	Trading of Processing Steel of Steel			
	Products	Products	Others ⁽¹⁾	Total
	RM’000	RM’000	RM’000	RM’000
External revenue	39,621	80,334	83	120,038
Cost of sales	(34,530)	(71,982)	(56)	(106,568)
Gross profit	<u>5,091</u>	<u>8,352</u>	<u>27</u>	<u>13,470</u>
Add/(Less):				
- Other income				869
- Operating expenses				(8,417)
- Net addition of impairment losses of financial assets				(193)
- Finance costs				<u>(3,653)</u>
Profit before tax				2,076
Income tax expense				<u>(1,013)</u>
Profit for the financial period				<u><u>1,063</u></u>

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

	Trading of Processing Steel of Steel			
	Products	Products	Others ⁽¹⁾	Total
	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	<u>4,269</u>	<u>7,967</u>	<u>10</u>	<u>12,246</u>
Add/(Less):				
- Other income				664
- Operating expenses				(8,381)
- Net reversal of impairment losses of financial assets				11
- Finance costs				<u>(3,787)</u>
Profit before tax				753
Income tax expense				<u>(366)</u>
Profit for the financial period				<u><u>387</u></u>

*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.*

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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
	31.03.2020	31.12.2019
	RM'000	RM'000
Approved and contracted for:		
- purchase of plant and equipment	1,119	191
- construction of factory and warehouse buildings	3,371	811
	<u>4,490</u>	<u>1,002</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 2020.

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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 31.03.2020 RM’000	Preceding Year Quarter 31.03.2019 RM’000	Current Year- To-Date 31.03.2020 RM’000	Preceding Year- To-Date 31.03.2019 RM’000
Sales to related parties	669	934	669	934
Purchases from related parties	26	38	26	38
Rental expense paid to related parties	513	513	513	513
Interest charged by related party	-	40 ⁽¹⁾	-	40 ⁽¹⁾

Note:

(1) In respect of interest arising from an unsecured loan from ultimate holding company to Leon Fuat Metal Sdn Bhd which was 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 was 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 31.03.2020 RM'000	Preceding Year Quarter 31.03.2019 RM'000	Variance	
			RM'000	%
Revenue	120,038	144,465	(24,427)	-16.9%
Gross profit	13,470	12,246	1,224	10.0%
Profit before interest and tax	5,536	4,289	1,247	29.1%
Profit before tax	2,076	753	1,323	175.7%
Profit after tax	1,063	387	676	174.7%
Profit attributable to owners of the Company	1,025	453	572	126.3%

The revenue recorded for the current quarter and the preceding year corresponding quarter was RM120.04 million and RM144.46 million respectively, decreased by 16.9% or approximately RM24.42 million.

The decrease in revenue was mainly due to lower overall tonnage sales by 15.1%, generally caused by the impact of nationwide Movement Control Order (“MCO”) which was implemented on 18 March 2020 as a preventive measure by the federal government of Malaysia in response to the COVID-19 pandemic in the country.

However, the decrease in overall revenue due to the impact of MCO was partially offset by higher revenue from the production of welded steel pipes division, which saw its revenue increased by RM10.29 million, which also contributed to the increase in revenue for processing of steel products by approximately 20.8% or approximately RM13.80 million, from RM66.53 million to RM80.33 million.

Our main business segments continued to be trading and processing of steel products, which collectively contributed 99.9% of our total revenue for the current quarter. The trading segment and the processing segment contributed revenue of 33.0% and 66.9% respectively for the current quarter whereas the trading segment and the processing segment contributed revenue of approximately 53.9% and 46.1% respectively for the preceding year corresponding quarter.

Despite decrease in revenue by 16.9% or approximately RM24.42 million, from RM144.46 million to RM120.04 million, our gross profit increased by 10.0% or RM1.22 million, from RM12.25 million to RM13.47 million, mainly attributable to higher overall gross profit margin, from 8.5% for the preceding year corresponding quarter to 11.2% for the current quarter, due to better gross profit margin for trading of steel products by approximately 7.3 percentage points, from 5.5% to 12.8%, as the result of:

- higher gross profit margin for trading of flat carbon steel products by 8.4 percentage points, mainly due to increase in average selling price by 3.5% while the average cost for input materials had decreased by approximately 6.1%;
- higher gross profit margin for trading of long carbon steel products by 5.0 percentage points, mainly due to decrease in average cost for input materials by 16.5% while the average selling price had only decreased by 10.7%; and
- higher gross profit margin for trading of other long steel products by 3.5 percentage points, mainly due to decrease in average cost for input materials by 10.2% while the average selling price had only decreased by 6.4%.

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 other income for the current quarter was RM0.87 million as compared to RM0.66 million for the preceding year corresponding quarter, increased by RM0.21 million, mainly due to rental income of RM0.30 million in the current quarter which was derived from letting of a portion of warehouse space, offset by absence of late payment charges imposed on customers of RM0.11 million.

Our operating costs increased slightly by RM0.24 million from RM8.37 million for the preceding year corresponding quarter to RM8.61 million for the current quarter, as the result of the following:

1. Net addition of impairment losses on financial assets/trade receivables of RM0.19 million for the current quarter as oppose to net reversal of impairment losses of RM0.01 million for the preceding year corresponding quarter.
2. Increase in other costs by RM0.79 million, mainly due to tax penalty of RM0.87 million imposed on the additional taxation in respect of certain compensations received in relation to the compulsory acquisition of the Group's real estate properties which were treated as non-taxable items previously. An appeal has been filed and the outcome is still pending from the tax authority.
3. Decrease in administrative costs by RM0.80 million, mainly caused by:
 - decrease in staff related costs by RM0.13 million, mainly due to certain staff costs were allocated to distribution costs;
 - decrease in accommodation expenses by RM0.11 million;
 - decrease in advertising expenses by RM0.15 million;
 - decrease in entertainment expenses by RM0.08 million;
 - decrease in professional fees incurred by RM0.07 million; and
 - decrease in upkeep of motor vehicles, insurance, road tax, petrol, parking and toll expenses by RM0.14 million.

Total finance costs for the current quarter was RM3.65 million, decreased by approximately RM0.14 million as compared to RM3.79 million for the preceding year corresponding quarter, despite higher utilisation of overdraft and trade facilities. This was attributable to lower total interest expense for overdraft facilities, bankers' acceptances and Islamic financing by RM0.04 million mainly due to decrease in interest rates following the reduction of Overnight Policy Rate by Bank Negara Malaysia in January 2020 and March 2020, as well as lower bank charges incurred in the current quarter by RM0.05 million.

Based on the foregoing factors, our Group registered an increase in profit before tax by approximately 175.7% or approximately RM1.32 million to RM2.08 million as compared to RM0.75 million for the preceding year corresponding 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**

	Current Quarter 31.03.2020 RM'000	Immediate Preceding Quarter 31.12.2019 RM'000	Variance	
			RM'000	%
Revenue	120,038	149,582	(29,544)	-19.8%
Gross profit	13,470	12,495	975	7.8%
Profit before interest and tax	5,536	1,331	4,205	315.9%
Profit before tax	2,076	(2,527)	4,603	182.2%
Profit after tax	1,063	(4,197)	5,260	125.3%
Profit attributable to owners of the Company	1,025	(4,182)	5,207	124.5%

Our Group achieved revenue of RM120.04 million for the current quarter, which was lower than the immediate preceding quarter's revenue by 19.8% or RM29.54 million, generally due to the impact of MCO which had caused lower overall tonnage sales by 20.2%.

Despite decrease in revenue by 19.8% or RM29.54 million, from RM149.58 million to RM120.04 million, our gross profit increased by 7.8% or approximately RM0.98 million, from RM12.49 million to RM13.47 million, mainly due to higher overall gross profit margin, from 8.4% for the immediate preceding quarter to 11.2% for the current quarter.

The increase in overall gross profit margin was mainly resulted from the following:

- higher gross profit margin recorded for trading of flat carbon steel products by approximately 5.6 percentage points, mainly due to increase in average selling price by 2.5%, while the average cost for input materials had decreased by 3.8%;
- higher gross profit margin recorded for trading of long carbon steel products by 7.3 percentage points, mainly due to increase in average selling price by 2.0%, while the average cost for input materials had decreased by 5.8%; and
- better gross profit margin for processing of flat carbon steel products by 2.1 percentage points, mainly due to the average cost for input materials decreased by 2.9%, while the average selling price had only decreased by 0.8%.

The other income of RM0.87 million for the current quarter as compared to RM0.75 million for the immediate preceding quarter, increased by RM0.12 million, mainly due to higher rental income of RM0.09 million in the current quarter which was derived from letting of a portion of warehouse space.

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 decreased by RM3.13 million, from RM11.74 million for the immediate preceding quarter to RM8.61 million for the current quarter, as the result of the following:

1. Decrease in distribution costs by RM1.22 million mainly due to:
 - decrease in staff related costs by RM0.91 million, resulted from the absence of provision of bonuses for 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; and
 - decrease in upkeep of lorries, petrol, parking and toll expenses by RM0.21 million.
2. Decrease in administrative costs by RM2.56 million, mainly due to:
 - lower directors' remuneration and staff related costs by RM1.93 million, mainly resulted from the absence of provision of bonuses for directors and staff; and
 - lower professional fees including absence of audit fees in the current quarter by RM0.39 million.
3. Increase in other costs by approximately RM0.56 million, mainly caused by:
 - tax penalty of RM0.87 million imposed on the additional taxation in respect of certain compensations received in relation to the compulsory acquisition of the Group's real estate properties which were treated as non-taxable items previously. An appeal has been filed and the outcome is still pending from the tax authority; offset by
 - absence of capital work-in-progress written off of RM0.37 million.

The finance costs for the current quarter was RM3.65 million, decreased by approximately RM0.39 million as compared to RM4.04 million for the immediate preceding quarter. This was attributable to lower interest expense for overdraft facilities, bankers' acceptances, Islamic financing and term loans by RM0.36 million mainly due to decrease in interest rates following the reduction of Overnight Policy Rate by Bank Negara Malaysia in January 2020 and March 2020.

Based on the foregoing factors, our group recorded profit before tax of RM2.08 million for the current quarter, as opposed to loss before tax of RM2.53 million for the immediate preceding quarter.

B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)**B3. Commentary on Prospects**

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. 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.

Although the production of steel pipes had only contributed modest revenue for 2019, we are recording an increasing trend of demand for these products and hence, we can expect a more significant revenue contribution for 2020.

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 some of our merchandise are sourced from overseas.

On the global front, the prolonged US-China trade war is hurting exporting countries globally. The latest development of the trade dispute saw the two economic powerhouses announcing a “phase one” deal. Among other things, the deal scrapped the second tranche of the tariffs imposed by both countries, while some portion of the first tranche of the tariffs imposed were reduced. However, the effects of the de-escalation of the trade war are still uncertain especially with the renewed tension with regards to Hong Kong’s national security re-arrangement. The current worldwide outbreak of Covid-19, of which the World Health Organisation has declared a global pandemic, has also posed various uncertainties in the global economies.

Locally, we are similarly facing the brunt of the Covid-19 outbreak with most economic activities being halted upon implementation of the MCO commencing from 18 March 2020, and has only been conditionally relaxed towards the end of April 2020. Various assistance and relief measures have been handed out by the government to ease the hardship faced by affected citizens and industries. However, there remain significant uncertainties as to potential impact of the pandemic on the paced of recovery of our local economy in view of the possible constraint faced in respect of household spending, private investment projects and public sector capital spending.

Mindful of the risks arising from global and local factors mentioned above, our Group will constantly keep 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. The risk of Covid-19 pandemic has also been actively addressed with implementation of various preventive measures including inculcating work place hygiene and regular sanitisation.

In view of the prevailing significant risks and uncertainties mentioned above, our Board maintains a neutral outlook on the financial performance of our Group for the remaining quarters of 2020.

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

B4. Variance of Forecast Profit and Profit Guarantee

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

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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 31.03.2020 RM'000	Preceding Year Quarter 31.03.2019 RM'000	Current Year- To-Date 31.03.2020 RM'000	Preceding Year- To-Date 31.03.2019 RM'000
Amortisation of prepaid land lease payment	-	35	-	35
Bad debt written off	2	-	2	-
Depreciation of property, plant and equipment	3,827	3,289	3,827	3,289
Fair value loss on derivative	8	-	8	-
Impairment losses on trade receivables	193	34	193	34
Insurance claimed	(88)	(111)	(88)	(111)
Interest income	(282)	(343)	(282)	(343)
Interest expense	3,460	3,536	3,460	3,536
Net (gain)/loss on foreign exchange				
- realised	(34)	11	(34)	11
- unrealised	(53)	30	(53)	30
Gain on disposal of property, plant and equipment	(20)	-	(20)	-
Rental of premises	27	32	27	32
Rental of equipment	5	3	5	3
Rental income	(305)	-	(305)	-
Reversal of impairment losses on trade receivables	-	(45)	-	(45)

Note:

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.

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B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)**B6. Income Tax Expense**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2020 RM'000	Preceding Year Quarter 31.03.2019 RM'000	Current Year- To-Date 31.03.2020 RM'000	Preceding Year- To-Date 31.03.2019 RM'000
Current income tax				
- for the financial period	326	186	326	186
- under provision in prior financial year	64	-	64	-
Deferred tax				
- origination of temporary differences	606	431	606	431
- effect of adopting MFRS 16	-	(242)	-	(242)
- under/(over) provision in prior financial year	17	(9)	17	(9)
Income tax expense	<u>1,013</u>	<u>366</u>	<u>1,013</u>	<u>366</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 company within the Group.

B7. Status of Corporate Proposals

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

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B ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES (CONT'D)**B8. Group Borrowings**

	As at 31.03.2020 RM'000	As at 31.12.2019 RM'000
<u>Current</u>		
Secured:		
Bankers' acceptances	101,426	80,600
Lease liabilities	2,507	2,490
Term loan	1,800	1,800
Bank overdrafts	29,753	25,843
	<u>135,486</u>	<u>110,733</u>
Unsecured:		
Bankers' acceptances	58,469	57,172
Lease liabilities	875	1,230
Islamic financing	23,491	33,212
Bank overdrafts	13,189	15,139
	<u>96,024</u>	<u>106,753</u>
	<u>231,510</u>	<u>217,486</u>
<u>Non-current</u>		
Secured:		
Lease liabilities	4,484	5,124
Term loans	48,166	48,615
	<u>52,650</u>	<u>53,739</u>
Unsecured:		
Lease liabilities	11,069	11,146
	<u>63,719</u>	<u>64,885</u>
Total Borrowings	<u><u>295,229</u></u>	<u><u>282,371</u></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.

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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 31.03.2020 RM'000	Preceding Year Quarter 31.03.2019 RM'000	Current Year- To-Date 31.03.2020 RM'000	Preceding Year- To-Date 31.03.2019 RM'000
Profit attributable to owners of the Company	1,025	453	1,025	453
Weighted average number of ordinary shares in issue ('000)	310,000	310,000	310,000	310,000
Basic Earnings Per Share (sen)	0.33	0.15	0.33	0.15

(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
12 June 2020