MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Consolidated Statement of Profit or Loss	1.1.2022 to 31.12.2022 (12 months) RM'000	1.7.2020 to 31.12.2021 (18 months) RM'000
Revenue	**838,773**	871,808
Profit from operations	**7,282**	9,161
Profit before tax	**2,681**	145,601 [(1)]
Profit after tax	**601**	141,195 [(1)]

Consolidated Statement of Financial Position	31.12.2022 RM'000	31.12.2021 RM'000
Total assets	**883,448**	870,642
Fixed deposits, cash and bank balances	**80,981**	150,596
Total liabilities	**142,743**	131,073
Bank borrowings	**18,711**	16,860
Net assets	**740,662**	739,096

Segment Results

	Revenue		Segment Profit/(Loss) [(2)]	
	1.1.2022 to 31.12.2022 (12 months) RM'000	1.7.2020 to 31.12.2021 (18 months) RM'000	1.1.2022 to 31.12.2022 (12 months) RM'000	1.7.2020 to 31.12.2021 (18 months) RM'000
Building materials and steel products ("Building Materials")	**725,087**	739,917	**5,793**	9,012 [(2)]
Lubricants, petroleum products and automotive products ("Lubricants")	**111,635**	119,822	**8,880**	17,560
Others	**2,051**	12,069	**(7,391)**	(17,411)
	838,773	871,808	**7,282**	9,161

(1) *Included a gain of RM136.5 million being the net amount recovered from the secured debts settlement arrangement entered into with Lion Diversified Holdings Berhad (in liquidation) via a transfer of 70.5% equity interest in Well Morning Limited.*

(2) *"Segment profit/(loss)" refers to profit from operations before finance costs, share of results of associated companies and income tax expense.*

The Group is principally engaged in:
- Trading and distribution of building materials and steel products;
- Manufacturing and trading of lubricants, trading and distribution of petroleum-based products and automotive components; and
- Other businesses which include mainly provision of training services, distribution and retailing of consumer products, investment in Cambodia and investment holding.

The financial year end of the Group was changed from 30 June to 31 December last year. Accordingly, the financial year ended 31 December 2022 comprised 12 months from 1 January 2022 to 31 December 2022 whilst the preceding financial period ended 31 December 2021 comprised 18 months from 1 July 2020 to 31 December 2021. As such, the results for these two periods are not directly comparable.

For the financial year ended 31 December 2022, the Group registered a revenue of RM838.8 million and a profit from operations of RM7.3 million with the Building Materials and the Lubricants Divisions continuing to be the two main contributors to the Group's performance.

After accounting for loss of associated companies of RM4.1 million, the Group recorded a profit before tax of RM2.7 million. The Group's net assets per share as at 31 December 2022 was RM3.25, an increase of 1 sen over that of the preceding financial period.

By segment, Building Materials Division recorded a revenue of RM725.1 million and posted a profit of RM5.8 million. Sales to the local construction and property development sectors were higher as compared to that of the same period last year.

Lubricants Division posted a revenue of RM111.6 million and recorded a profit of RM8.9 million for the financial year under review. The Division continued to record healthy operating profits despite higher production and operating costs.

Results from other businesses were mainly derived from the provision of training services, distribution and retailing of consumer products, investment in Cambodia and investment holding. These activities collectively contributed a revenue of RM2.1 million. The Division recorded a lower loss of RM7.4 million after the dissolution of Changshu Lion Enterprise Co Ltd, a subsidiary company in China on 15 July 2022. The loss for the financial year under review comprised mainly expenses incurred by the investment in Cambodia.

REVIEW OF OPERATIONS

Building Materials and Steel Products

2022 was another challenging year for the Division with several negative factors affecting the building materials business. Notwithstanding the unfavourable economic conditions, the Division registered a 49% growth in revenue at RM725 million over the same period last year (January 2021 to December 2021) mainly attributable to higher sales of steel bars to the local construction and property development sectors.

The construction industry remained in the doldrums during the first half of 2022 due to major price hikes in steel bar and cement with prices of fuel and premix materials edging higher. Construction activities rebounded in Q3 of 2022 as the economy fully emerged from COVID-19 curbs. Output accelerated for residential and non-residential buildings with a strong upturn in civil engineering activities. The sector saw improved earnings in the second half of 2022 despite a labour shortage and rising interest rates amid the weaker ringgit that continued to weigh in on the local construction sector.

The construction industry is expected to remain challenging in 2023 over the lack of new mega projects, labour shortages and elevated cost for some building materials. However, the allocation by the Government for development expenditure will provide much-needed support for the sector with small and mid-size construction players continuing to gain some perks from the higher development spending. Positive growth is also seen in the continuation and acceleration of existing major infrastructure projects which will 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 remain positive on 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 throughout Malaysia for 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 will continue to strive and improve its performance to contribute positively to the Group. The Division has also taken all necessary precautions to prevent any disruption to its business operations in the event of any global pandemic.

Lubricants, Petroleum Products and Automotive Products

The Division started the financial year with its business operations recovering from the effects of the 18 December 2021 flood. Production activities were quickly restored to their original condition to avoid any supply disruption to our customers; thanks to the continuous hard work and commitment by the staff during the flood recovery period. Thus, our first quarter sales were relatively lower compared to the later months of the year.

Market demand for lubricants in 2022 escalated compared to the previous year; an effect from the re-opening from the lock-downs, active stimulation in economic activities and generally, a much more positive outlook and expectation of better containment of the COVID-19 pandemic. At the same time, raw material and operating costs continued to increase as goods and labour faced tight supplies challenges. The Ringgit faced its weakest level which compounded an already tough recovery situation.

Despite these numerous unprecedented challenges, the Division recorded more than 30% increase in its revenue compared to that in the same period last year (January 2021 to December 2021), and continued to record healthy operating profits for the Group. We broke the RM100 million annual sales level mainly from higher litreage sales and partly from higher sales price due to supply and cost pressure. Our achievement was principally supported by successful sales and operations strategies focusing on changing trends in customers' needs and behaviours. We continued to build close rapport with all our customers and dealers, with win-win outcomes for all.

As more countries ease their COVID-19 restrictions, and practise better and more effective community engagement, we anticipate that 2023 will pave the way for a more positive economic and business environment. Barring unforeseen circumstances, the Division is expected to continue to record healthy revenues and profit for the Group.