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	**2,579,174**	3,937,446
Loss from operations	**(343,743)**	(12,426)
(Loss)/Profit before tax	**(321,990)**	570,284
(Loss)/Profit after tax	**(312,562)**	539,241

Consolidated Statement of Financial Position	31.12.2022 RM'000	31.12.2021 RM'000
Total assets	**3,097,978**	3,512,778
Deposits, cash and bank balances	**208,253**	726,062
Total liabilities	**1,363,962**	1,474,073
Loans and borrowings	**155,836**	182,211
Net assets	**1,508,798**	1,813,558

The Company changed its financial year end from 30 June to 31 December the previous year, and hence the preceding financial period in the previous year was for an 18-month period from 1 July 2020 to 31 December 2021. The financial year under review that ended on 31 December 2022 comprised 12 months from 1 January 2022 to 31 December 2022. As such, the results for these two periods are not directly comparable.

For the financial year under review, the Group registered a revenue of RM2,579 million with the steel and building materials businesses being the main contributors to the Group's revenue. However, the Steel Division recorded a significantly higher loss this year due to the lack of encouraging economic drivers in the market that witnessed declining steel prices and surging production cost.

The Group shared a lower loss of RM41.4 million from the associated companies and a joint venture, compared with RM50.9 million loss in the 18-month period last year. This was largely attributable to the strong profit posted by the retail business in Malaysia of the associated company subsequent to the reopening of Malaysia's borders and relaxation of COVID-19 restrictions.

For the financial year under review, the Group posted a loss before tax of RM322.0 million against a profit of RM570.3 million in the last financial period. Included in the profit of the last financial period was a 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

	31.12.2022 (12 months) RM Million	31.12.2021 (18 months) RM Million
Revenue	**2,137**	3,421
(Loss)/Profit	**(359.2)**	55.5

Product	Annual Rated Capacity (Metric Tons)
Billets/Molten Steel Steel Bars and Wire Rods	2.2 million 1.6 million

Long Steel 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 in Klang and Banting.

The long steel products business posted a revenue of RM2.0 billion for this financial year with contribution mainly from the steel plant at Bukit Raja, Klang. Domestically, demand for steel remained low from the construction and property sectors mainly due to the lack of new mega infrastructure projects, over supply of properties, labour shortages, weak market sentiments and concerns over the surge in inflation and interest rates.

The profit margin was squeezed by the relatively higher production costs and lower steel prices. Accordingly, the long steel products business recorded a loss of about RM112 million for this financial year.

Flat Steel Product ("Hot Rolled Coil")

The flat steel plant located in Banting started with its hot test production in the middle of 2022.

However, in view of the extremely challenging steel market condition locally and globally, the Group has suspended the commercial production of the plant.

Building Materials

	31.12.2022 (12 months) RM Million	31.12.2021 (18 months) RM Million
Revenue	**725.1**	739.9
Profit	**5.8**	9.0

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		
	31.12.2022 (12 months) RM Million	**31.12.2021 (18 months) RM Million**
Revenue	**111.6**	119.8
Profit	**8.9**	17.6

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.