

HUPSTEEL LIMITED

FIRST QUARTER FINANCIAL STATEMENT (UNAUDITED)

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL-YEAR RESULTS

1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income for the corresponding period of the immediately preceding financial year
The following figures have not been audited or reviewed.

	GROUP (S\$'000)		
	1QFY19 30.09.18	1QFY18 30.09.17	% +/(-)
Revenue	15,318	12,700	21%
Changes in inventories	95	(3,027)	NM
Purchases of inventories	(11,770)	(6,953)	69%
Gross profit	3,643	2,720	34%
Other (losses)/gains - net	(145)	4,416	NM
Other operating income	622	406	53%
Staff cost	(1,880)	(1,695)	11%
Depreciation	(465)	(490)	-5%
Other operating expenses	(790)	(691)	14%
Finance cost - net	-	-	NA
Profit before tax	985	4,666	-79%
Income tax expense	(12)	(7)	71%
Total profit	973	4,659	-79%
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation	167	34	391%
Available-for-sale financial assets			
- Fair value losses	-	(48)	NM
- Reclassification	-	117	NM
	167	103	62%
Items that will not be reclassified subsequently to profit or loss:			
Financial assets, at fair value through other comprehensive income ("FVOCI")			
- Fair value gains	159	-	NM
Total comprehensive income	1,299	4,762	-73%
Profit attributable to Equity holders of the Company	973	4,659	-79%
Total comprehensive income attributable to Equity holders of the Company	1,299	4,762	-73%
Earnings per share based on profit attributable to equity shareholders:			
- Basic (cent) - see section 6	0.80	3.81	
- Diluted (cent) - see section 6	0.80	3.81	

Profit attributable to shareholders is arrived at after charging the following:

	GROUP (S\$'000)	
	1QFY19 30.09.18	1QFY18 30.09.17
Dividend income	120	73
Interest income	166	169
Reclassification from other comprehensive income on disposal of available-for-sale financial	-	(117)
Gain on disposal of investment property	-	4,515
Foreign exchange (gain)/loss	(145)	18
Finance cost-net is made up of :		
Interest expense	-	-
Foreign exchange loss arising from borrowings	-	-
Bad debts recovered	-	96

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	GROUP		COMPANY	
	30.09.2018	30.06.2018	30.09.2018	30.06.2018
	\$'000	\$'000	\$'000	\$'000
Current Assets				
Cash and cash equivalents	47,611	45,995	8,112	7,093
Trade and other receivables	19,105	21,043	5,288	7,203
Inventories	32,454	32,359	14,534	15,375
Other current assets	180	206	63	62
Tax recoverable	70	67	-	-
Due from subsidiaries	-	-	8,989	8,363
	99,420	99,670	36,986	38,096
Non-Current Assets				
Available-for-sale financial assets	-	20,577	-	20,577
Financial assets, at FVOCI	20,867	-	20,867	-
Investment in subsidiaries	-	-	9,457	9,457
Loan to a subsidiary	-	-	29,512	29,499
Property, plant and equipment	18,964	19,181	82	89
Investment properties	31,990	32,053	27,037	27,155
	71,821	71,811	86,955	86,777
Total Assets	171,241	171,481	123,941	124,873
Current Liabilities				
Trade and other payables	5,791	6,565	2,547	3,734
Derivative financial instruments	-	218	-	218
Due to a subsidiary	-	-	1,153	1,153
Provision for directors' retirement gratuity	75	75	75	75
Borrowings	-	558	-	558
	5,866	7,416	3,775	5,738
Non-Current Liabilities				
Deferred income tax liabilities	14	14	-	-
Provision for directors' retirement gratuity	36	25	36	25
	50	39	36	25
Total Liabilities	5,916	7,455	3,811	5,763
Net Assets	165,325	164,026	120,130	119,110
Share capital and reserves				
Share capital	107,485	107,485	107,485	107,485
Treasury shares	(3,389)	(3,389)	(3,389)	(3,389)
Capital reserves	(558)	(558)	1,349	1,349
Currency translation reserves	(1,390)	(1,557)	-	-
Fair value reserves	(138)	(278)	(138)	(278)
Retained profits	63,315	62,323	14,823	13,943
	165,325	164,026	120,130	119,110

1(b)(ii) Aggregate amount of group's borrowings and debt securities**Amount repayable in one year or less, or on demand (S\$'000)**

As at 30.9.2018		As at 30.6.2018	
Secured	Unsecured	Secured	Unsecured
-	-	-	558

Amount repayable after one year (S\$'000)

As at 30.9.2018		As at 30.6.2018	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

The unsecured group borrowings consist of trust receipts of the Group arising from the ordinary course of business and bank borrowings. Certain Group borrowings are covered by corporate guarantee from the Company.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group (S\$'000)	
	1QFY19 30.09.18	1QFY18 30.09.17
Cash flow from operating activities		
Total profit	992	4,659
Adjustments for :		
- Income tax expense	12	7
- Property, plant and equipment and investment properties		
- Depreciation	465	490
- Gain on disposal	-	(4,515)
- Available-for sale financial assets		
- Reclassification from other comprehensive income on disposal	-	117
- Interest income	(166)	(169)
- Dividend income	(120)	(73)
	1,183	516
Change in working capital		
- Trade and other receivables	1,938	(148)
- Inventories	(95)	3,027
- Other current assets	26	(24)
- Trade and other payables	(992)	(2,782)
- Provision for directors' retirement gratuity	11	11
Cash provided by operations	2,071	600
Income tax paid	(15)	(10)
Interest received	166	169
Net cash provided by operating activities	2,222	759
Cash flows from investing activities		
Property, plant & equipment and investment properties		
- Purchases	(185)	(121)
- Proceeds from disposal	-	5,165
Financial assets, at FVOCI / available-for-sale		
- Purchases	(543)	(1,001)
- Proceeds from disposal	412	6,899
Dividends received	120	73
Net cash (used in)/generated by investing activities	(196)	11,015
Cash flows from financing activities		
Purchase of treasury shares	-	(351)
Proceeds from borrowings	-	547
Repayment of borrowings	(558)	(645)
Net cash used in financing activities	(558)	(449)
Net increase in cash and cash equivalents	1,468	11,325
Cash and cash equivalents at beginning of the financial period	45,995	52,555
Effects of currency translation on cash and cash equivalents	148	34
Cash and cash equivalents at end of the financial period	47,611	63,914

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Share Capital	Treasury Shares	Capital Reserves	Currency Translation Reserves	Fair Value Reserves	Retained Profits	Total Equity
Group	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
At 1 July 2018	107,485	(3,389)	(558)	(1,557)	(278)	62,323	164,026
Total comprehensive income for 1 st quarter	-	-	-	167	159	973	1,299
Transfer upon disposal of investments	-	-	-	-	(19)	19	-
At 30 September 2018	107,485	(3,389)	(558)	(1,390)	(138)	63,315	165,325
Group							
At 1 July 2017	107,485	(3,038)	(477)	(1,701)	514	62,465	165,248
Purchase of treasury shares	-	(351)	-	-	-	-	(351)
Total comprehensive income for 1 st quarter	-	-	-	34	69	4,659	4,762
At 30 September 2017	107,485	(3,389)	(477)	(1,667)	583	67,124	169,659

	Share Capital	Treasury Shares	Capital Reserves	Currency Translation Reserves	Fair Value Reserves	Retained Profits	Total Equity
Company	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
At 1 July 2018	107,485	(3,389)	1,349	-	(278)	13,943	119,110
Total comprehensive income for 1 st quarter	-	-	-	-	159	861	1,020
Transfer upon disposal of investments	-	-	-	-	(19)	19	-
At 30 September 2018	107,485	(3,389)	1,349	-	(138)	14,823	120,130
Company							
At 1 July 2017	107,485	(3,038)	1,430	-	514	13,290	119,681
Purchase of treasury shares	-	(351)	-	-	-	-	(351)
Total comprehensive income for 1 st quarter	-	-	-	-	69	4,528	4,597
At 30 September 2017	107,485	(3,389)	1,430	-	583	17,818	123,927

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Treasury Shares	No. of shares	\$'000
Balance as at 30 Jun 2018	3,429,100	3,389
Purchases	-	-
Balance as at 30 Sep 2018	3,429,100	3,389

(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	30.09.18	30.06.18
Number of shares in issue excluding treasury shares	122,045,014	122,045,014

(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the end of the current financial period reported on.

Not applicable. None of the above occurred since the end of the previous period reported on.

2. Whether the figures have been audited, or reviewed and in accordance with which standard or practice.

The figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

Except as disclosed in Note 5 below, the Group has applied the same accounting policies and methods of computation in preparing the financial statement for the current accounting period compared with the most recently audited financial statements for the year ended 30 June 2018.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

The Singapore Accounting Standards Council has issued a new Singapore financial reporting framework that is identical to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), referred to as Singapore Financial Reporting Standards (International) ("SFRS(I)").

As required by the listing requirements of the Singapore Exchange, the Group has adopted SFRS(I) on 1 July 2018 and is required to apply all of the specific transition requirements in SFRS(I) 1 First-time Adoption of SFRS(I). The Group has also concurrently applied the new SFRS(I) 9 Financial Instruments.

The Group has not early adopted any other mandatory standards, amendments and interpretations to existing standards that have been published but are only effective for the Group's accounting periods beginning on or after 1 July 2018. These include SFRS(I) 16 Leases (effective for annual periods beginning on or after 1 July 2019). The Group is assessing the impact of the relevant new or revised accounting standards and interpretations.

(1) Application of SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)

The Group has elected the deemed cost exemption to set the revalued amount of its investment properties comprising of freehold land and buildings of the Group which was performed as one-off valuation between 1 January 1984 and 31 December 1996 (both dates inclusive) as their deemed cost at the date of transition to SFRS(I) on 1 July 2017. As the Group had measured the revalued amount of its investment properties using the cost model since one-off valuation, there is no material impact on the financial statements of the Group as the Group plans to continue to measure its investment properties using the cost model.

(2) Adoption of SFRS(I) 9 Financial Instruments

SFRS(I) 9 is effective for annual periods beginning on or after 1 July 2018. The Group has elected to apply the short-term exemption under SFRS(I) 1, which exempts the Group from applying SFRS(I) 9 to comparative information. Accordingly, requirements of SFRS 39 Financial Instruments: Recognition and Measurement will continue to apply to financial instruments up to the financial year ended 30 June 2018.

SFRS(I) 9 introduces new requirements for classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. SFRS(I) 9 also introduces expanded disclosure requirements and changes in presentation.

(a) Classification and measurement

The Group has assessed the business models that are applicable on 1 July 2018 to financial assets so as to classify them into appropriate categories under SFRS(I) 9.

Significant adjustments to the Group's balance sheet line items are as follows:

- Equity investments previously classified as financial assets, available-for-sale ("AFS") to financial assets, fair value through other comprehensive income ("FVOCI") The Group has elected to recognise changes in the fair value of debt and equity investments previously classified as AFS in other comprehensive income.

(b) Impairment of financial assets

The following financial assets have been subjected to the expected credit loss model under SFRS(I) 9:

- trade receivables recognised under SFRS(I) 15;
- other receivables at amortised cost.

There is no material change in the provision for impairment for the above financial assets from the application of the expected credit loss impairment model.

Impact on the comparatives for the First Quarter 2018 Financial Information

The financial effects of adopting SFRS(I)s are as follows:

	As at 01.07.2018 reported under SFRS(I)s \$'000	As at 30.06.2018 reported under SFRS* \$'000	As at 01.07.2017 reported under SFRS(I)s \$'000	As at 01.07.2017 reported under SFRS* \$'000
Group Balance Sheets				
Financial assets, available-for-sale	-	20,577	20,827	20,827
Financial assets, at FVOCI	20,867	-	-	-
Retained earnings	62,323	62,323	62,465	62,465

* Singapore Financial Reporting Standards

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	GROUP	
	1QFY19 30.09.18 (Note 1)	1QFY18 30.09.17 (Note 1)
Earnings/(Losses) per share based on profit attributable to equity shareholders:		
(a) Basic (cent)	0.80	3.81
(b) Diluted (cent)	0.80	3.81

Note 1 : The basic and diluted earnings per share is calculated based on the weighted average number of ordinary shares of 122,045,014 (30.09.17: 122,226,295) in issue during the period.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	GROUP		COMPANY	
	30.09.18	30.06.18	30.09.18	30.06.18
Net Asset Value per ordinary share (cents)	135.46	134.40	98.43	97.60

The net asset value per ordinary share is calculated based on the number of ordinary shares in issue of 122,045,014 at the end of the period (30.06.18: 122,045,014).

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Revenue and margin

	\$'000		
	1QFY19	4QFY18	1QFY18
Revenue	15,318	18,245	12,700
Gross Profit/(Loss)	3,643	4,477	2,720
GP %	23.8%	24.5%	21.4%

The Group's 1QFY19 revenue of \$15.3M improved by 21% compared with 1QFY18 of \$12.7M but declined from \$18.2M reported for 4QFY18. The decline of 1QFY19 revenue, when compared with the preceding quarter, was evidence that market conditions remained competitive and an indication of retraction in demand for steel products from the oil & gas sector amidst a raging trade war between the US and China.

Arising from increased revenue, the gross profit increased correspondingly from \$2.7M for 1QFY18 to \$3.6M for 1QFY19 with steel price stabilising. However, the Group recorded a lower gross profit of \$3.6M for 1QFY19 compared with gross profit of \$4.5M for 4QFY18. Gross profit margin for 1QFY19 was affected by tough competition and dipped slightly to 23.8% from 4QFY18 reported gross profit margin of 24.5% but better than 21.4% for 1QFY18.

Other losses/gains

Other losses of \$0.1M for 1QFY19 were mainly foreign exchange losses as compared to \$4.4M gains in 1QFY18. The higher other gains in 1QFY18 was due to gains from disposal of an investment property of \$4.5M.

Other operating income

Other operating income for 1QFY19 increased to \$622K from \$406K for 1QFY18 mainly attributable to higher rental income earned in the reporting quarter.

Staff costs, Depreciation, Other operating expenses and Finance cost

Manpower costs in 1QFY19 rose to \$1.9M from \$1.7M for 1QFY18 as the Group recorded higher provisions for staff incentives as revenue improved.

During the period, depreciation decreased to \$465K from \$490K in 1QFY18 as one of its investment properties was being redeveloped and some older plant and equipment had been fully depreciated.

Other operating expenses were slightly higher at \$790K for 1QFY19 (1QFY18: \$691K) in tandem with the increased in sales volume.

Profitability review

The Group reported a net profit of \$1.0M for 1QFY19, which was lower than net profit of \$4.7M for 1QFY18. The higher profit achieved during the corresponding quarter of the preceding financial year was due to the sale of an investment property.

REVIEW OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

Non current assets

Financial assets, at FVOCI (previously termed as Available-for-sale financial assets) increased slightly in value to \$20.9M (4QFY18: \$20.6M) as market prices had generally strengthened as at 30th September 2018.

Current assets and current liabilities

Trade and other receivables were marginally lower at \$19.1M as at 1QFY19 compared with \$21.0M as at 4QFY18 as revenue had softened compared with 4QFY18.

Stock balance stood at \$32.5M from \$32.4M (4QFY18).

Both trade and other payables and borrowings decreased to \$5.8M from \$7.1M as at 4QFY18 as the Group's strong cash position allowed it to pay its liabilities before they fall due.

The Group continued to maintain a healthy current ratio of 16.9 times (FY17: 13.4 times).

Share capital and reserves

Fair value reserves stood at \$138K, debit balance, as at 1QFY19 (4QFY18: \$278K debit balance) due to an appreciation in the market values of the Group's financial assets, at FVOCI.

Cashflow

During the quarter, the Group experienced net cash inflow of \$2.2M (FY18: \$0.8M) from its operations, a net cash outflow from investing activities of \$0.2M (FY18: \$11.0M net cash inflow) and a net cash outflow from financing activities of \$0.6M (FY18: \$0.4M). These had resulted in an overall increase of \$1.4M (FY18: \$11.3M) in cash and cash equivalents.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

NA.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

Demand for steel products which was observed to show signs of pick up in the first 6 months of calendar year 2018 had slightly cooled down in 1QFY19 (July to September 2018). This could mainly be attributed to deteriorating trade war between the US and China.

Market demand for steel products in the coming quarters will largely depend on outcomes of negotiations between these 2 largest world economies. The development of oil prices in the coming quarters would be another factor affecting the demand of steel products from Oil & Gas sector. The coming calendar year end and Chinese New Year holidays may cause disruption to deliveries. The gross profit margin of the Group is also challenged by the strong US dollar which will cause inventories to be more costly.

The Group will continue to exercise caution in replenishing stock and will seek to use its strong balance sheet to its advantage.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? No

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? No

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared/recommendeded, a statement to that effect

Not applicable.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

There was no IPT transaction for the quarter and the Group does not have any general mandate from shareholders pursuant to Rule 920.

14. Negative confirmation pursuant to Rule 705(5).

The Board of Directors of the Company hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited consolidated financial results for the quarter ended 30 September 2018 to be false or misleading.

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers pursuant to Rule 720(1) of the SGX Listing Manual.

The Company confirms that it has procured undertakings from all its Directors and Executive Officers (in the format set out in Appendix 7.7) pursuant to Rule 720 (1) of the SGX Listing Manual.

BY ORDER OF THE BOARD

Tan Ching Chek
Company Secretary
13 November 2018