MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW OF BUSINESS AND OPERATIONS

In financial year ended 31 December 2016 ("FY2016"), Chin Hin Group Berhad ("Chin Hin" or "the Company" or "the Group") continued to focus on its core businesses of manufacturing in tandem with growing industry demand from the construction sector.

Despite the continued slowdown in the property sector, demand for autoclaved aerated concrete ("AAC") blocks, precast concrete and steel mesh products continued to rise, fueled by a growing momentum in the overall construction sector on the back of government backed infrastructure development projects. These include the affordable housing projects such as Perumahan Rakyat 1Malaysia (PR1MA) and the People's Housing Programme (PPR) as well as transportation projects such as the Mass Rapid Transit Second Line ("MRT 2") and the Light Rail Transit Line 3 ("LRT 3"), encapsulated under the 11th Malaysia Plan.

On the back of this industry momentum, Chin Hin remained busy to meet the increasing demand for its products. The Group focused on increasing production capacity at its existing plants and also investing in new plants. Quality remained a key focus to ensure that as we ramped up quantity, the end product continued to meet or exceed industry specifications.

Having realised a major milestone by becoming a public listed entity in FY 2016, the Group continues to pursue its agenda of becoming a market leader and the preferred brand of the construction sector. We continued to diligently pursue our internal and external business strategies for rapid growth.

FINANCIAL REVIEW

In FY 2016, turnover decreased by 11.70% to RM1,058.83 million from RM1,199.15 million in the preceding year. As a result, overall gross profit decreased by 2.68% to RM98.82 million from RM101.54 million year-on-year.

The decline in revenue that attributed to lower contribution from the Group's distribution of building material and ready-mixed concrete segment due to sluggish housing construction activities. The negative impact, however was partly offset by the increase in revenue from autoclaved aerated concrete ("AAC") block, precast concrete and steel mesh product segments.

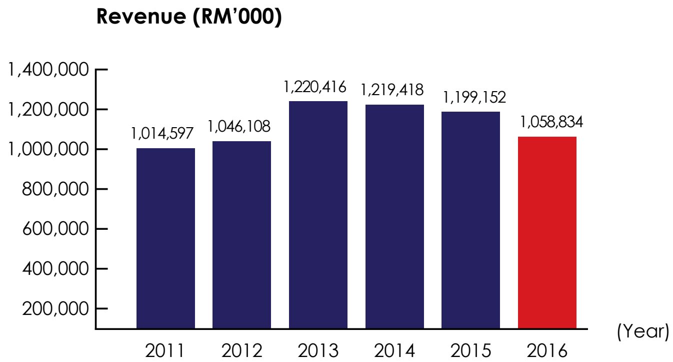
Gross profit margin has improved to 9.33% in FY 2016 from 8.47% in the preceding year. The increase in the Group's gross profit margin was mainly contributed by stronger contribution from the manufacturing sector and shifting in the Group's strategy from distribution of "high volume and low margin" products to "low volume and high margin" offerings. This was augmented by an increased focus on a higher grade of ready-mixed concrete sales.

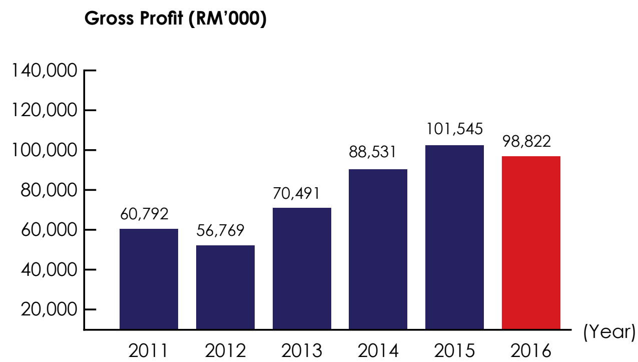
The Group recorded a higher profit before tax for RM51.17 million in the current financial year as compared to RM38.98 million in the preceding year. The significant increase was mainly contributed by a stronger contribution from manufacturing segment, lower finance cost, other operating income mainly from the 2.425MW solar power panels and the fair value adjustment on investment properties. For comparative purposes if the fair value adjustment of RM10.57 million and one-off listing expenses of RM2.92 million were excluded from our FY 2016 operating results, the Group's profit before tax would have increased by RM4.54 million or 11.65% as compared to last year despite the drop in revenue of RM140.32 million.

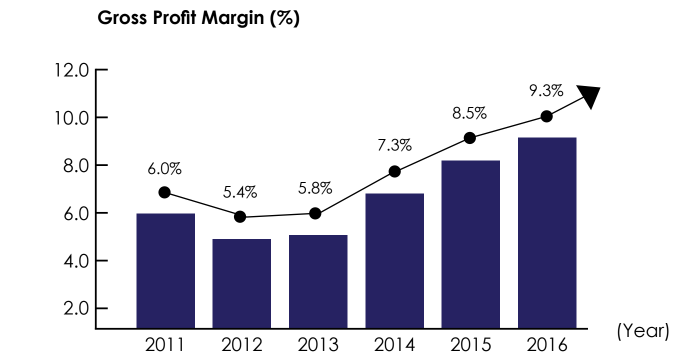
The Group's effective tax rate was 19.0% in FY 2016 which was lower than the 22.5% in FY 2015 and statutory tax rate of 24%. During the year under review, the Group has qualified for a reinvestment allowance for the hefty sum of investment in capital expenditures for its capacity expansion. Besides, the Company still possessed a huge amount of unabsorbed capital allowances carried forward and some unabsorbed business losses carried forward.

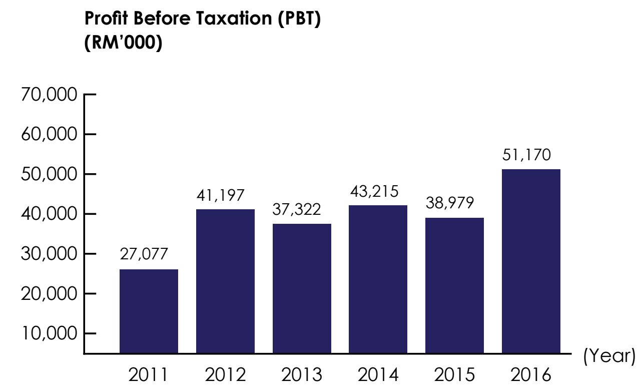
Financial Indicators	FY 2016	FY 2015	Difference (%)
Revenue (RM'000)	1,058,834	1,199,152	(11.7)%
Gross Profit (RM'000)	98,822	101,545	(2.7)%
Profit Before Tax ("PBT") (RM'000)	51,170	38,979	31.3%
Profit After Tax ("PAT") (RM'000)	41,426	30,221	37.1%
Net assets	1.01	1.08	(0.07)
Gearing ratio (times)	1.00	1.57	(0.6)
Gross Profit Margin (%)	9.3	8.5	0.8%
Net Profit Margin ("PAT") (%)	3.9	2.5	1.4%

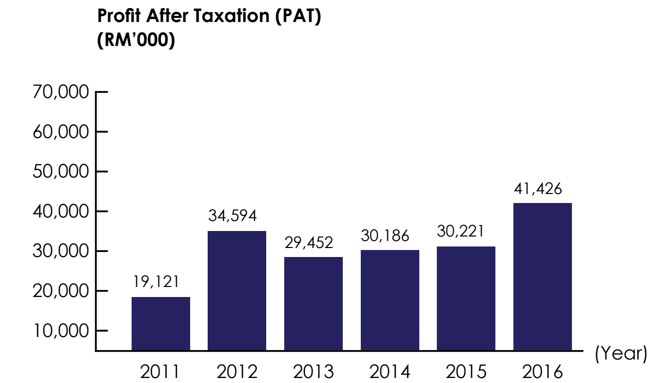
MANAGEMENT DISCUSSION & ANALYSIS











Utilising funds from the listing exercise, the Group has successfully pared down its debts and hence reduced its gearing ratio to 1.00 times. This is a further reflection of Chin Hin's strong business fundamentals and puts the Company in a prime position to seek additional loans, if needed.

The Group's order book presently stands at RM236.10 million. This will keep the company busy for the next 2-3 years. Growth in the order book stems particularly from the manufacturing segment, i.e. precast concrete, autoclaved aerated concrete ("AAC") block and ready-mixed concrete.

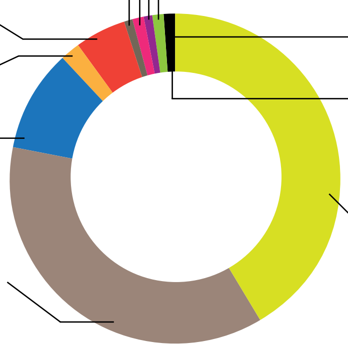
MANAGEMENT DISCUSSION & ANALYSIS

Order Book

Order books	FY 2016
G-Cast Sdn Bhd	84.59 million
Starken AAC Sdn Bhd	70.47 million
Metex Steel Sdn Bhd	24.23 million
Formino Metal Sdn Bhd	7.59 million
Chin Hin Concrete (KL) Sdn Bhd	49.22 million
TOTAL	**236.10 million**

Capital Expenditure

Robust Capital Expenditure	FY 2016 (RM)
Land & Building	30,225,621
Capital - WIP	26,571,351
Plant & Machineries	7,415,584
Mould	3,490,475
Motor Vehicle	1,506,914
Tool & Equipment	724,792
Computer & software	642,426
Office Equipment	428,823
Furniture & Fittings	415,525
Electrical installation	89,259
Others	10,500
Total	**71,521,270**



BREAKDOWN OF CAPEX

In FY 2016, 89% of total capital expenditure incurred was due to outlay on land & building, capital work in progress (WIP) and plant & machineries, mainly to extend the production capacity of the manufacturing plants. Of this, 42% were spent on land & building, 47% were for capital work in progress and on plant & machineries.

Major land and building expenditure were:-

- Acquisition of a 50.6 acres freehold land located at Mukim of Kota Tinggi, Daerah Kota Tinggi for a total consideration of RM21,935,236. Total Capex of RM85 million will be allocated for this Johor expansion plan.
- Acquisition of twenty six (26) parcels of leasehold vacant land held under individual titles at Lot 12448 through to Lot 12473, located in Mukim Bidor, Daerah Batang Padang, Perak with a combined size of 18.55 acres. The total cost consideration for the acquisition is approximately RM7.0 million. The Company spent another RM2.44 million to construct the G-Cast factory, allowing us to expand our customer base and address the rising demand for precast concrete production division.

Signing Ceremony for the purchase of one machine line for Autoclaved aerated concrete ("AAC") block and wall panel product from Wehrhahn GmbH, a German-based counterpart

Major Capital WIP (work in progress) and plant & machinery expenditure were:

- One machine line for autoclaved aerated concrete ("AAC") block and wall panel product which was purchased from Wehrhahn GmbH, a German based counterpart. This machine will be installed at Starken's upcoming factory in Kota Tinggi, Johor. The said machine which is valued at EUR 4 million (approximately RM19 million) will increase production capacity by 420,000 meter cube, as well as enabling Chin Hin to expand into the overseas markets, especially in the Asia Pacific region. The Group has paid a progressive payment to date of RM8.25 million to Wehrhahn GmbH in FY 2016. Besides, the Company has paid an additional RM6.69 million for other plant and machineries (capital WIP) to be installed at this factory;

- Autoclave 6 and other equipment installed at autoclaved aerated concrete ("AAC") block factory at Serendah worth RM1.32 million;
- Wet concrete batching plant, wire cage machine, spun pipe feeder machine, gantry crane and other factory equipment amounting to RM7.4 million were purchased for G-Cast factory in Serendah, Kulai and Bidor;
- World's latest wide body, fast speed CTS welder, MG800 from Schlatter Industries AG of Switzerland and Koch-3 machine. Total capital expenditure spent at the Nilai mesh factory is approximately RM6.56 million;
- Floor decking roll forming machine, C & Z purlin machine for roofing segment of RM1.21 million;
- Solar power panel worth RM2.55 million.

Statements of Cash Flows

	2016 RM'000	2015 RM'000	Change
Net Cash Inflows from Operating activities	6,018	39,575	-85%
Net Cash (Outflows)/Inflows for Investing activities	(51,788)	(14,835)	> 100%
Net Cash (Outflows)/Inflows for Financing activities	(50,959)	29,038	> -100%
Net (decrease)/increase in cash balance	(96,728)	53,778	> -100%
Cash balance at beginning of the year	165,883	112,060	48%
Cash balance at end of year	69,353	165,883	-58%

The Group's net cash inflow from operating activities for the financial year decreased by 85% to RM6.02 million, largely due to the outflow of working capital for the purchase of raw materials to meet increasing demand for autoclaved aerated concrete ("AAC") block and precast concrete. Other key items included repayment of advances to directors and the provision of financial assistance under the Money Lending License Act.

Cash outflows from investing activities recorded a net outflow of RM51.79 million mainly due to:

- Acquisition of a 50.6 acres freehold land located at Mukim of Kota Tinggi, Daerah Kota Tinggi for a total consideration of RM21,935,236.

- The aforementioned acquisition of twenty six (26) parcels of leasehold vacant land in Mukim Bidor, Daerah Batang Padang, Perak, for a total consideration of approximately RM7.0 million;

- The acquisition of property, plant and machineries and capital WIP of RM69.21 million at Starken AAC Sdn Bhd, G-Cast Concrete Sdn Bhd, Metex Steel Sdn Bhd and Formino Metal Sdn Bhd for the expansion of production capacity; offset by proceeds from the disposal of the Group's motor vehicles and investment property.

The net cash outflows for financing activities of RM50.96 million, mainly stemmed from the net repayment of bank borrowings of RM93.09 million and the payout of first single tier interim dividend to our shareholders during the year amounting to RM7.59 million. This was offset by the proceeds from the issuance of 63,197,900.00 new ordinary shares at Initial Public Offering (IPO) price of RM0.65 per share.

MANAGEMENT DISCUSSION & ANALYSIS

Statements of Financial Position

	2016 RM'000	2015 RM'000
ASSETS		
Non current assets	365,065	304,500
Current assets	455,376	548,452
Total Assets	820,441	852,952
EQUITY AND LIABILITIES		
EQUITY		
Share capital	252,944	221,345
Share premium	7,656	-
Merger reserve	(153,192)	(153,192)
Foreign currency translation reserve	545	452
Revaluation reserve	8,769	8,769
Retained earnings	207,592	183,873
Total equity attributable to owners of the Company	324,314	261,247
LIABILITIES		
Non current liabilities	43,084	85,356
Current liabilities	453,043	506,349
Total liabilities	496,127	591,705
Total Equity and Liabilities	820,441	852,952
Net assets per share attributable to ordinary owner of the company	RM0.64	RM0.59

In FY 2016, total assets of the Group decreased by RM32.51 million to close the year at RM820.44 million. The decrease was mainly due to the reduction in cash and bank balances for the acquisition of property, plant and equipment worth RM63.77 million for capacity expansion in the autoclaved aerated concrete ("AAC"), precast concrete and steel mesh plant.

On the liabilities side, total liabilities decreased by RM95.58 million, mainly due to the pared down term loan, bankers' acceptance and hire purchase debts with funds from the listing exercise and internally generated profits.

The net assets per share has increased by RM0.05 or 8.47% due to the increase in net operating profit of RM13.15 million after netting off the first and second single tier interim dividend payout of RM17.71 million, fair value adjustment on investment properties of RM10.57 million and issued paid up share capital of RM31.60 million with a premium of RM7.66 million.

INTERNAL BUSINESS STRATEGY

We continued to pursue internal improvements across the Group through revamping processes and systems to deliver enhanced quality and productivity as well as to reduce operating cost. Chin Hin also adopted CRM solutions to manage not just customer orders, but also to analyse and identify insights into an individual customer's buying patterns. Such insights will empower us to better meet customers' requirements by preparing orders in advance or by providing customised bundling options to meet their requirements. The CRM solution was implemented in stages over the last quarter of FY 2016, supported by necessary training for the sales and marketing staff.

With regard to quality initiatives, Chin Hin sought to acquire quality accreditations, namely the ISO 9001 and ISO 14001 standards. In tandem with this effort, our manufacturing plants also intensified efforts to develop their quality management system (QMS) processes to enhance overall quality within their respective plant operations.

MANAGEMENT DISCUSSION & ANALYSIS

Our quality efforts have borne fruit; Metex Steel Sdn Bhd was recommended for ISO 9001: 2015 Quality Management System and ISO 14001: 2015 Environmental Management System by SGS (Malaysia) Sdn Bhd and SGS United Kingdom Ltd in the last quarter of FY 2016. The Company received these certifications in the first half of 2017. Metex Steel Sdn Bhd will join Starken AAC Sdn Bhd, G-Cast Concrete Sdn Bhd, Chin Hin Concrete (KL) Sdn Bhd and Chin Hin (North) Sdn Bhd, who already have been ISO 9001 certified.

SEGMENTAL OVERVIEW

Distribution of Building Material and Provision of Logistics Services

The distribution of building material and provision of logistics services sector recorded a total revenue of RM708.45 million in FY 2016, a decline of 18.06% as compared to RM864.58 million recorded in the previous year. The Division contributed 66.74% of the Group's consolidated revenue. The decline in revenue was due to the decrease in sales volume of cement by approximately 14.12% as a result of the slowdown in housing construction activities in 2016. The decrease in revenue was also attributed to the decline in sales volume of steel bars by approximately 24.64%, a result of the shift in the Group's strategy from distribution of "high volume and low margin" to "low volume and high margin" products. Despite the decrease in revenue from distribution of building materials, gross profit margin has increased from 6.37% in FY2015 to 7.27% in FY2016. This is mainly due to the Group being able to negotiate better pricing and rebates from suppliers, thereby reducing sales costs. Higher profit margin was achieved for steel bar sales as a result of the recovery of global steel prices.

There was an increase in profit before tax of RM18.89 million as compared to FY 2015. The increase was derived from the fair value adjustment of RM10.57 million from its investment properties, gain on disposal of investment property and motor vehicles of RM2.16 million, reduction of finance cost as a result of pared down of term loan, bankers' acceptance with funds from the listing exercise and the settlement of hire purchase debts after the disposal of motor vehicles to CHL Logistics Sdn. Bhd.

READY-MIXED CONCRETE

The total revenue for the ready-mixed concrete segment decreased by approximately RM23.88 million or 14.73% in FY2016. The Division contributed 13.04% of the Group's consolidated revenue. The decreased was due to lower sales volume captured as most of the Group's high rise projects had reached their completion stage. The decrease in revenue from ready-mixed concrete was also due to stiff competition from competitors offering lower selling prices. This sector recorded a profit before tax of RM7.25 million, representing an increase of 0.95% as compared to FY 2015. Despite the decrease in revenue, profit before tax increased due to the change in our Group's strategy, which was focused on higher grade ready-mixed concrete with better margins and reduction of the finance cost mainly from hire purchase interest as a result of the disposal of the motor vehicles to CHL Logistics Sdn. Bhd.

MANUFACTURING SECTOR

Manufacturing of Autoclaved Aerated Concrete ("AAC") and Precast Concrete

The manufacturing of AAC and precast concrete recorded a total revenue of RM124.64 million in FY2016, representing a growth of 30.77% as compared to RM95.31 million recorded in FY2015 and contributed 10.42% of the Group's consolidated revenue. This sector recorded a profit before tax of RM14.28 million, representing an increase of 57.56% as compared to FY 2015.

The increase in revenue and profit before tax for autoclaved aerated concrete ("AAC") block was mainly due to the rising number of projects specified by local consultants as a result of the high adoption rate in the market which eroding the conventional brick market share. The increase in both revenue and earnings for precast concrete were due to the improved market demand for jacking pipes and manholes arising from the implementation of Langat Sewerage Project and Centralised Sewage Treatment Plant and the Sewerage Project at Daerah Kinta, Perak. Moreover, the positive growth was contributed by the additional earnings from the 1.425MW of solar panels.

MANAGEMENT DISCUSSION & ANALYSIS

Manufacturing of Steel Mesh and Metal Roofing Systems

The manufacturing of steel mesh and metal roofing systems recorded a total revenue of RM151.00 million in FY 2016, representing an increase of 5.19% as compared to RM143.54 million recorded in FY 2015, and contributed 9.80% of the Group's consolidated revenue. This sector recorded an increase of profit before tax of RM1.89 million, representing an increase of 57.95% as compared to FY 2015. The increase in revenue and earnings were aided by the recovery of global steel prices, which contributed to higher margins in the wire mesh segment and additional earnings from 1MW of solar generation.

PROSPECTS

Manufacturing & Trading Sector

The Group has actively expanded the production capacity of its autoclaved aerated concrete ("AAC") block, precast concrete and steel mesh by setting up more plants locally to strengthen its product presence and customer portfolios in Asia Pacific.

Precast concrete capacity will be increased to 300,000 metric tonnes in 2017 from the four plants, which are located in Serendah, Kulai (10 acres of a leased industrial land), Bidor and Rawang (18 acres of a leased industrial land). The new plants at Bidor and Rawang started their operations in January 2017; contribution from these plants will commence by the first quarter of 2017. With the government's continuous focus in the water and sewerage sector, we are optimistic about precast concrete business prospects ahead in the future undertaking.

The Group has finalised the acquisition of 50.6 acres of land in Kota Tinggi, Johor for RM22 million. The Company's production capacity will be further enhanced with the setup of a 45,000 tonne precast plant and a 420,000 m3 autoclaved aerated concrete ("AAC") block plant at the site. The new autoclaved aerated concrete ("AAC") and wall panel plant will be equipped with high-tech German machinery, which had already been purchased with the delivery scheduled by FY 2017. The two plants in Johor are targeted to be operational in the first quarter of 2018 to ease the current strong and rising order demand for autoclaved aerated concrete ("AAC") blocks as a result of high adoption rate in the market (reflected in the longer lead time of 4-5 months).

The Johor production line of autoclaved aerated concrete ("AAC") is interchangeable between autoclaved aerated concrete ("AAC") blocks and wall panels. The wall panel is well established in overseas market, especially in Singapore. The Housing and Development Board of Singapore (HDB) has accepted Starken's wall panel for their government's affordable housing project. This justifies the rationale in establishing the plant in Johor within close proximity to Singapore, which is a long established market for our products. This plant will be geared up to increase the production quantity of wall panels to cater for the increasing demand from the local market as well as neighbouring countries.

The Group has also installed the world's latest wide body, fast-speed CTS welder, MG 800 from Schlatter Industries AG of Switzerland in December 2016 at Nilai's steel mesh plant; this is expected to increase production capacity by 2,000 tonnes per month. The Group's wire mesh capacity is expected to increase by 33% from 6,000 to 8,000 metric tonnes per month. This new machine is expected to contribute positively to our Group's earnings in 2017.

In continuing to strengthen our manufacturing divisions, we have entered into conditional share sale agreements ("SSA") with Midah Industries Sdn Bhd and Epic Diversity Sdn Bhd's vendors to acquire the entire issued and paid up share capital of both companies for a total cash consideration of RM17.08 million. The Management believes that these strategic acquisitions will yield tremendous value to Chin Hin Group and they can further enhance our vertical integration strategy. Furthermore, the acquisitions were pursued on the premise of Profit Guarantee Agreements for two consecutive financial years, i.e. 2017 and 2018 with a guaranteed profit before tax each year of not less than RM3.0 million for Chin Hin.

MANAGEMENT DISCUSSION & ANALYSIS

Midah Industries Sdn Bhd is primarily involved in the manufacturing of quality fire-rated doors, having 27 years of solid experience. It currently has a total of 15 fire doors' licenses granted by the Fire and Rescue Department Malaysia (FRDM). It is one of the top five market players in the local fire door industry. To date, it has a total installed capacity of 60,000 units of fire door per annum at the Semenyih factory.

This acquisition could further expand Chin Hin's product range such as hollow metal doors and fire rated roller shutter with higher margin potential. As such, it should improve the profit margins of Chin Hin's trading segment. In addition, Chin Hin is also able to leverage on its 4,000 strong customer network.

Signing Ceremony for the Acquisition of Midah Industries Sdn Bhd and Epic Diversity Sdn Bhd

Epic Diversity Sdn Bhd is a trading company which supplies various types of high quality door locks, miscellaneous architectural hardware accessories, cylindrical lock and sliding door systems. It specialises in the planning and implementation of ironmongery packages for commercial, industrial as well as residential properties. Chin Hin can leverage on Epic's ironmongery expertise to widen its existing trading product range.

In continuing to further strengthen our manufacturing divisions, we have entered into conditional share sale agreements ("SSA") to acquire the entire issued and paid up share capital of MI Polymer Concrete Pipes Sdn Bhd ("MIPCP") for a total cash consideration of RM35 million. This acquisition further broaden our product range in the concrete piping segment, and capitalise on growing water and sewage related infrastructure spending in the region. MIPCP was established in 2009 and a technology pioneer owning intellectual property rights in manufacturing of polymer concrete pipes in the Asean region.

Signing Ceremony for the Acquisition of MIPCP

The MIPCP's Batu Pahat plant with 20,000 tonnes per annum is currently running at 100% capacity. We are planning to set up another plant adjacent to the current facility which will double up its production capacity when completed by end of the year.

Synergistic acquisitions provide a faster means for our organisation's growth. It offers a faster solution in dealing with increasing competition, immediate benefit of economies of scale while enabling us to quickly penetrate the niche markets that offer lucrative opportunities.

Moving forward, Chin Hin will be actively looking for more merger and acquisition opportunities that can enhance the group's earnings prospects apart from organic growth.

Solar Power Generation Income

In FY 2016, Chin Hin was granted certification by the Sustainable Energy Development Authority of Malaysia with a total of 2.425MW Feed in Tariff. This has contributed positively to the Group's strategy of recurring income generation.

The Group recorded a Green Technology Solar Panel (other operating) gross income of RM2.14 million in the current financial year from its electricity production capacity of 2,425 kilowatt per hour ("kWh"). The Group currently holds an existing 21-year agreement whereby the Company will deliver and sell, and TNB will purchase and accept the metered renewable energy. The earlier 1,425 kWh renewable energy sources of income have been granted pioneer status with tax exemption of 100% of statutory income for 10 years by the Malaysian Investment Development Authority (MIDA). The Group will continue to record the 2.425MW Feed in Tariff solar panels recurring income, which shall further boost up the bottom line of the Company.

MANAGEMENT DISCUSSION & ANALYSIS

FUTURE OUTLOOK

While Malaysia's economy is forecasted to grow at a pace of 4.2%, we foresee the construction sector, maintaining its average growth rate of 8%-10% in FY 2017. Our optimism is understandably cautious, centred on the expected start of a gradual recovery in the property sector.

Recent industry data from various reputable sources point to improvement in consumer sentiments, though issues with end-financing and the perceived costly prices of homes remain as stumbling blocks. However, for the most part, consumers have adjusted themselves to market realities i.e. a "market crash" is highly unlikely and 2017 presents a prime opportunity to buy a home, more so with the government expanding eligibility for more buyers under PR1MA. However, the recovery will be gradual and is expected to only take effect in the later part of FY 2017. Yet, we are positive that this is a favourable development and will augur well for the construction industry, especially for players such as Chin Hin.

Equally positive is the Malaysian Government's aspirations under the 11th Malaysia Plan and the recently announced Budget. Essentially, the government aims to increase the efficiency and productivity of water and sewerage services by expanding and upgrading such services particularly in the rural areas.

The remaining five states namely Kedah, Kelantan, Pahang, Selangor and Terengganu are expected to migrate to the new licencing regime in line with the Water Services Industry Act (WSIA) during the 11th Malaysia Plan. Sewerage services, however which are part of the WSIA, have yet to be integrated. Chin Hin is optimistic on precast concrete order replenishments going forward since we are involved in the Langat Centralised Sewage Treatment Plant (CSTP).

Above and beyond, the continued momentum of the government's mega infrastructure and housing projects such as Perumahan Rakyat 1Malaysia (PR1MA), People's Housing Programme (PPR), People's Friendly Homes (PMR), Tun Razak Exchange, Bandar Malaysia, etc are set to drive growth in Malaysia's construction industry in the medium term. The rollout of these projects will underpin the growth in the demand for building materials. We shall continue to benefit from the affordable housing developments and infrastructure projects such as Light Rail Transit Line 3 "LRT3" and Mass Rapid Transit Second Line "MRT 2" under the 11th Malaysia Plan since we provide Industrialised Building System (IBS).

With regard to industry challenges, we foresee intense market competition with the emergence of new players entering the market. The government's recent decisions to freeze hiring of new foreign workers, the increase of levy and the rising cost of raw materials will have a significant impact on all industrial players. In mitigating these adverse factors, Chin Hin will continue to improve on its product quality and services in order to stay competitive in the market and to seek long term contracts with flexi price positions with clients.

As a matter of fact, the Group is also looking actively to widen its product portfolio and diversify its income stream through organic growth and/or mergers and acquisitions. Barring any unforeseen circumstances, the results of the Group in 2017 are expected to be satisfactory. We look to the future with cautious optimism and strong business fundamentals.