# ANNUAL REPORT 2016

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# COMPANY PROFILE

## Southern Steel Berhad ("SSB")

is a public listed company and its shares are traded on the Main Market of Bursa Malaysia Securities Berhad.

SSB is principally an investment holding company and involved in the manufacturing, sale and trading in billets, steel bars, wire rods and its related products whilst the principal activities engaged by its subsidiaries are that of manufacturing, sale and trading in billets, steel bars, wire rods, wire mesh, pre-stressed concrete bars and wires, hot rolled steel coils, steel pipes, steel wires and fencing panels, and investment holding.

SSB also has an associated company which is involved in the manufacturing and trading of steel bars.

# CORPORATE INFORMATION

## DIRECTORS

**YBhg Datuk Kwek Leng San**
*(Chairman)*

**Mr Chow Chong Long**
*(Group Managing Director)*

**YBhg Dato' Dr Tan Tat Wai**

**Mr Soon Seong Keat**

**Mr Ang Kong Hua**

**Mr Seow Yoo Lin**

**Dr Kwa Lay Keng**

## COMPANY SECRETARIES

Ms Joanne Leong Wei Yin

Ms Lee Wui Kien

## AUDITORS

KPMG
Level 18, Hunza Tower
163E Jalan Kelawei
10250 Penang
Tel: 04-238 2288
Fax: 04-238 2222

## REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
Level 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 1818
Fax: 03-2164 3703

## REGISTERED OFFICE

Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 2631
Fax: 03-2164 2514

## COUNTRY OF INCORPORATION/ DOMICILE

A public limited liability company, incorporated and domiciled in Malaysia

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Fifty-fourth Annual General Meeting of Southern Steel Berhad ("the Company") will be held at Training Room B, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Monday, 14 November 2016 at 2.00 p.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2016.

2. To approve the payment of Director fees of RM244,809/- for the financial year ended 30 June 2016 (2015: RM257,178/-), to be divided amongst the Directors in such manner as the Directors may determine. **Resolution 1**

3. To re-elect the following retiring Directors:

   (a) YBhg Datuk Kwek Leng San **Resolution 2**
   (b) Mr Chow Chong Long **Resolution 3**
   (c) Dr Kwa Lay Keng **Resolution 4**
   (d) Mr Soon Seong Keat **Resolution 5**

4. To pass the following motion as an Ordinary Resolution:

   "**THAT** Mr Ang Kong Hua, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the conclusion of the next Annual General Meeting." **Resolution 6**

5. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**

**SPECIAL BUSINESS**

As special business, to consider and, if thought fit, pass the following motions:

6. **Ordinary Resolution**
   **-Authority To Directors To Issue Shares**

   "**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being; **AND THAT** the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 8**

7. **Ordinary Resolution**
   **-Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Leong Company (Malaysia) Berhad ("HLCM") And Persons Connected With HLCM**

   "**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3 (A) of the Circular to Shareholders dated 21 October 2016 with HLCM and persons connected with HLCM ("Hong Leong Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Leong Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

# Notice of Annual General Meeting
(cont'd)

**AND THAT** such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

**AND THAT** the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution."

**Resolution 9**

8. **Ordinary Resolution**
**-Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Su Hock Company Sdn Bhd ("Su Hock") And Its Subsidiary**

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3 (B) of the Circular to Shareholders dated 21 October 2016 with Su Hock and its subsidiary ("Su Hock Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Su Hock Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

**AND THAT** such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

**AND THAT** the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution."

**Resolution 10**

# Notice of Annual General Meeting
(cont'd)

9. **Ordinary Resolution**
**-Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Bee Hardware Company, Sdn Berhad ("Hong Bee Hardware")**

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3 (B) of the Circular to Shareholders dated 21 October 2016 with Hong Bee Hardware provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to Hong Bee Hardware than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

**AND THAT** such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

**AND THAT** the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution."

**Resolution 11**

10. To consider any other business of which due notice shall have been given.

By Order of the Board

Joanne Leong Wei Yin
Lee Wui Kien
Company Secretaries

Kuala Lumpur
21 October 2016

***Notes***

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 8 November 2016 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*

2. *Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*

3. *Where two or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid.*

4. *The Form of Proxy must be deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting.*

5. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all resolutions set out in this Notice will be put to vote by way of a poll.*

**Explanatory Notes**

1. Resolution 8 - Authority To Directors To Issue Shares

   The proposed ordinary resolution, if passed, will give a renewed mandate to the Directors of the Company to issue ordinary shares of the Company from time to time provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being ("Renewed Mandate"). The Renewed Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting held on 11 November 2015 and which will lapse at the conclusion of the Fifty-fourth Annual General Meeting.

   The Renewed Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issue of new shares, and to avoid delay and cost in convening general meetings to approve such issue of shares.

2. Resolutions 9 to 11 - Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature

   The proposed ordinary resolutions, if passed, will empower the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Southern Steel Berhad Group, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders of the Company ("Proposed Renewal Of Shareholders' Mandate").

   Detailed information on the Proposed Renewal Of Shareholders' Mandate is set out in the Circular to Shareholders dated 21 October 2016 which is despatched together with the Company's Annual Report.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

*(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)*

1. Details of individuals who are standing for election as Directors

   No individual is seeking election as a Director at the Fifty-fourth Annual General Meeting of the Company.

2. Statement relating to general mandate for issue of securities in accordance with Paragraph 6.03(3) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

   Details of the general mandate to issue securities in the Company pursuant to Section 132D of the Companies Act, 1965 are set out in Explanatory Note 1 of the Notice of Fifty-fourth Annual General Meeting.

# BOARD OF DIRECTORS

## YBHG DATUK KWEK LENG SAN

*Chairman; Non-Executive/Non-Independent*
*Age 61, Male, Singaporean*

Datuk Kwek Leng San graduated from University of London with a Bachelor of Science (Engineering) degree. He also holds a Master of Science (Finance) degree from City University London. He has extensive business experience in various business sectors, including financial services and manufacturing.

Datuk Kwek was appointed to the Board of Directors ("Board") of Southern Steel Berhad ("SSB") on 27 October 1992 and assumed the position of Chairman on 18 June 2003. He is also the Chairman of the Remuneration Committee, and a member of the Nominating Committee and Research & Development Committee of SSB.

He is the Chairman of Malaysian Pacific Industries Berhad, Hume Industries Berhad and Hong Leong Industries Berhad, companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). He is also a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation.

## MR CHOW CHONG LONG

*Group Managing Director/Non-Independent*
*Age 64, Male, Malaysian*

Mr Chow Chong Long graduated from University of Canterbury, New Zealand with a Bachelor of Engineering (Electrical) degree.

Mr Chow has over 27 years of working experience in management of engineering and project works, and general management. He joined SSB Group in 1990 as Deputy General Manager. He was appointed as Chief Operating Officer in 2001, a position he held until 2009. On 1 January 2010, he assumed the position of Group Chief Operating Officer until 2012 when he became the Deputy Group Managing Director of SSB. Mr Chow was appointed as the Group Managing Director of SSB on 1 January 2014. He does not sit on any committee of SSB.

He is a Director of Malaysian Iron & Steel Industry Federation.

# Board of Directors
(cont'd)

## YBHG DATO' DR TAN TAT WAI

*Non-Executive Director/Non-Independent*
*Age 69, Male, Malaysian*

Dato' Dr Tan Tat Wai holds a Bachelor of Science degree in Electrical Engineering and Economics from the Massachusetts Institute of Technology, a Master of Economics degree from University of Wisconsin (Madison) and a PhD in Economics from Harvard University.

He started his career with Bank Negara Malaysia ("BNM") in 1978, undertaking research in economic policies and subsequently as consultant to BNM, World Bank and the United Nations University for several years. He served as the Secretary and a member on the Council of Malaysian Invisible Trade set up to formulate policies to reduce Malaysia's deficit in service trade. He was a member of the Government appointed Malaysian Business Council, APEC Business Advisory Council, the Penang Industrial Council, the Industrial Co-ordination Council (ICC) and the National Committee on Business Competitiveness (NCBC) set up by the Ministry of International Trade and Industry. Currently, he is a Council Member of Wawasan Open University.

On 18 May 1984, Dato' Dr Tan was appointed as the Chief Executive Officer as well as a Director of SSB. He was appointed as the Managing Director of SSB in September 1990 and assumed the position of Group Managing Director in December 1993 until 1 January 2014 when he was re-designated as Executive Director of SSB. Subsequently, he was re-designated as Non-Executive Director of SSB in January 2016. Dato' Dr Tan is also a member of the Remuneration Committee and Research & Development Committee of SSB.

He is a Director of Shangri-La Hotels (Malaysia) Berhad and Malayan Banking Berhad, companies listed on the Main Market of Bursa Securities, and a Director of Maybank Trustees Berhad. He is also a Director of NSL Ltd ("NSL"), a public company listed on the Singapore Stock Exchange.

## MR SOON SEONG KEAT

*Non-Executive Director/Non-Independent*
*Age 55, Male, Malaysian*

Mr Soon Seong Keat is a Chartered Accountant and a Member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Mr Soon started his professional career with KPMG from 1981 to 1988 during which he acquired his professional qualification.

He joined the Hong Leong Group of Companies in 1988 where he held various senior financial positions including as the Group Financial Controller of both Hong Leong Industries Berhad and Hume Industries (Malaysia) Berhad (now known as Hume Concrete Sdn Bhd).

In December 2005, Mr Soon joined Hap Seng Consolidated Berhad ("HSCB") as Chief Financial Officer and has since held various executive Board positions in HSCB and related companies. He was the Group Finance Director of HSCB until his resignation on 31 March 2011.

He joined HLMG Management Co Sdn Bhd as its Chief Financial Officer in May 2013, a position he held until July 2016. He is currently the Finance & Treasury Director of HL Management Co Sdn Bhd.

Mr Soon was appointed to the Board of SSB on 1 September 2016 and is a member of the Board Audit & Risk Management Committee of SSB.

# Board of Directors
(cont'd)

## MR ANG KONG HUA

*Non-Executive Director/Independent*
*Age 72, Male, Singaporean*

Mr Ang Kong Hua graduated from University of Hull, United Kingdom with a Bachelor of Science (Economics) Upper II Honours degree in 1966.

Following stints at the Economic Development Board from 1966 to 1967 and DBS Bank from 1968 to 1974, Mr Ang spent 28 years as the Chief Executive Officer ("CEO") of NSL. He retired as CEO of NSL in 2003 and as Executive Director in 2010. Mr Ang currently serves as the Chairman of Sembcorp Industries Ltd ("Sembcorp"), an industrial conglomerate listed on the Singapore Stock Exchange.

Mr Ang was appointed to the Board of SSB on 3 May 2011. He is the Chairman of the Nominating Committee. He is also a member of the Board Audit & Risk Management Committee, Remuneration Committee and Research & Development Committee of SSB.

## MR SEOW YOO LIN

*Non-Executive Director/Independent*
*Age 60, Male, Malaysian*

Mr Seow Yoo Lin qualified as a Certified Public Accountant in 1981. He holds a Master in Business Administration from the International Management Centre, Buckingham, United Kingdom.

Mr Seow joined KPMG Malaysia in 1977. In 1983, he was seconded to KPMG United States to gain overseas experience. He returned in 1985 and was admitted as Partner in 1990.

He has been the audit partner on a wide range of companies including public listed companies and multinationals in banking and finance, manufacturing, trading, and services. He was the Managing Partner of KPMG Malaysia from 2007 to 2010. He retired from the firm in 2011.

He was a member of the Executive Committee of the Malaysian Institute of Certified Public Accountants from 2009 to 2011 and was a Council member of the Malaysian Institute of Accountants from 2007 to 2011.

Mr Seow was appointed to the Board of SSB on 31 January 2012. He is the Chairman of the Board Audit & Risk Management Committee and a member of the Nominating Committee of SSB.

Mr Seow is a Director of Hume Industries Berhad, Dolomite Corporation Berhad and AMMB Holdings Berhad, companies listed on the Main Market of Bursa Securities.

# Board of Directors
(cont'd)

## DR KWA LAY KENG

*Non-Executive Director/Independent*
*Age 57, Female, Malaysian*

Dr Kwa Lay Keng graduated from University of Leeds, Leeds, United Kingdom with a Bachelor of Science in Mechanical Engineering (Honours) degree and a PhD.

Dr Kwa currently serves as the Chairman of Raffles Marina Holdings Ltd. She is a Director of the Management Board of Energy Studies Institute in Singapore and a member of the SIM University Education Fund Committee. She is a member of the Technology Advisory Panel of Sembcorp. Dr Kwa started her career as a Senior Officer with the Singapore Economic Development Board in 1983. She joined NSL in 1988 and was appointed the Group Chief Operating Officer of NSL in July 2005. She was appointed the Chief Executive Officer of NSL in January 2011 and retired in the same year.

Dr Kwa was appointed to the Board of SSB on 4 February 2013. She is the Chairman of the Research & Development Committee and a member of the Board Audit & Risk Management Committee of SSB.

**Notes:**

1. **Family Relationship with Director and/or Major Shareholder**
   YBhg Datuk Kwek Leng San is a brother of YBhg Tan Sri Quek Leng Chan and Mr Quek Leng Chye, both major shareholders of SSB. Save as disclosed herein, none of the Directors has any family relationship with any other Director and/or major shareholder of SSB.

2. **Conflict of Interest**
   None of the Directors has any conflict of interest with SSB.

3. **Conviction of Offences**
   None of the Directors has been convicted of any offences (excluding traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2016.

4. **Attendance of Directors**
   Details of Board meeting attendance of each Director are disclosed in the Statement on Corporate Governance, Risk Management and Internal Control in the Annual Report.

# KEY SENIOR MANAGEMENT

## MR ANG MENG CHUAN

*Group Financial Controller, Southern Steel Berhad*
*Age 54, Male, Malaysian*

Mr Ang Meng Chuan holds a professional accountancy qualification and a Fellow of the Association of Chartered Certified Accountants.

Mr Ang started his career in a public accounting firm in 1986 before joining the Hong Leong Group in 1989 where he has served in various capacities ranging from finance to projects and operations. In 2001, Mr Ang was transferred to Southern Steel Berhad ("SSB") as Financial Controller and subsequently held various senior management positions in several subsidiaries of SSB, before assuming his current position as Group Financial Controller of SSB on 3 August 2016.

## MR CHENG LAI SENG

*Chief Operating Officer, Southern Steel Berhad (Bar Division)*
*Age 51, Male, Malaysian*

Mr Cheng Lai Seng graduated from University of Manchester Institute of Science and Technology, United Kingdom with a Bachelor of Degree in Electrical and Electronic Engineering.

Mr Cheng joined SSB Group in 1987 as Management Trainee where he gained over 19 years of working experience in maintenance and production. Mr Cheng held various senior management positions in SSB Group, including as Chief Operating Officer of the Reinforced Steel Division. Following a recent restructuring exercise of SSB, Mr Cheng was appointed as Chief Operating Officer of the Bar Division on 1 August 2016, overseeing the whole supply chain of steel making, rolling and, cut and bend operations. He also holds the position of Vice President of the Malaysian Iron & Steel Industry Federation.

## MR CHEONG KHAI KONG

*Chief Operating Officer, Southern Steel Rod Sdn Bhd*
*Age 53, Male, Malaysian*

Mr Cheong Khai Kong graduated from University Science Malaysia with a Bachelor of Applied Science (Honours). He also holds a Certified Diploma in Accounting & Finance from the Association of Chartered Certified Accountants and a Master of Business Administration from University of Nottingham, United Kingdom.

Mr Cheong started his career in Carsem (M) Sdn Bhd, a related company, as Production Supervisor before he joined SSB Group as Management Trainee in 1987. He held various senior management positions within the SSB Group before assuming the position of Chief Operating Officer of the Rod Division in June 2012. Mr Cheong moved on to Southern Steel Rod Sdn Bhd, a wholly-owned subsidiary of SSB, on 1 June 2015 to assume his current position as Chief Operating Officer, following a restructuring exercise of SSB.

**Notes:**

1. **Family Relationship with Director and/or Major Shareholder**
   None of the Key Senior Management has any family relationship with any Director and/or major shareholder of SSB.

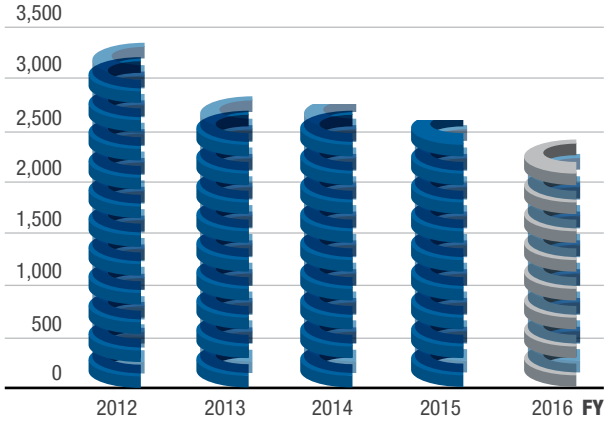
2. **Conflict of Interest**
   None of the Key Senior Management has any conflict of interest with SSB.

3. **Conviction of Offences**
   None of the Key Senior Management has been convicted of any offences (excluding traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2016.

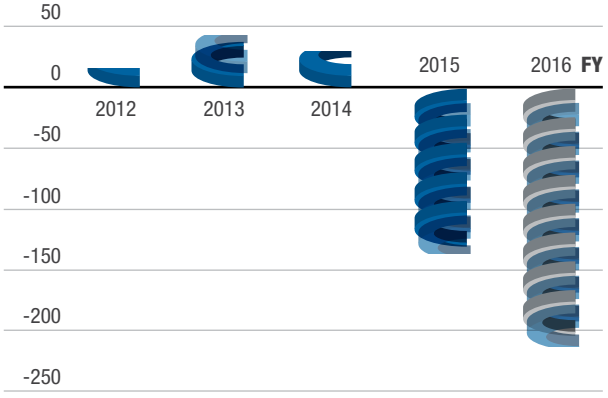
# GROUP FINANCIAL HIGHLIGHTS

| RM'Million | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|---|---|
| Revenue | 3,295 | 2,823 | 2,814 | 2,530 | 2,400 |
| Profit/(Loss) Before Taxation | 15 | 44 | 31 | (137) | (213) |
| Profit/(Loss) Attributable to Owners of the Company | 6 | 42 | 19 | (118) | (221) |
| Net Earnings/(Loss) Per Share (sen) | 1 | 10 | 5 | (28) | (53) |
| Net Dividend Per Share (sen) | 10 | 7 | 4 | – | – |
| Total Equity | 846 | 867 | 871 | 913 | 688 |
| Total Assets | 1,941 | 2,200 | 2,405 | 2,584 | 2,116 |
| Capital Expenditure | 194 | 288 | 389 | 122 | 71 |

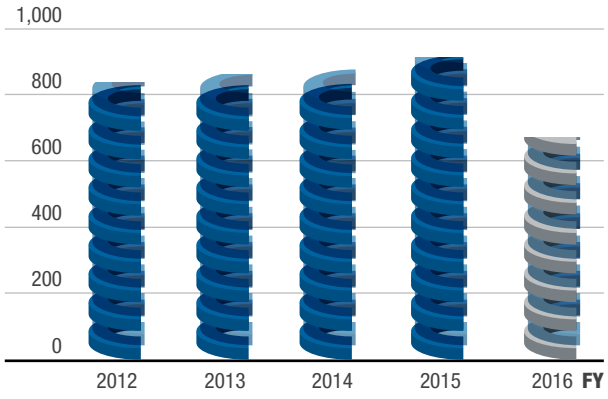
**Revenue**
(RM'million)



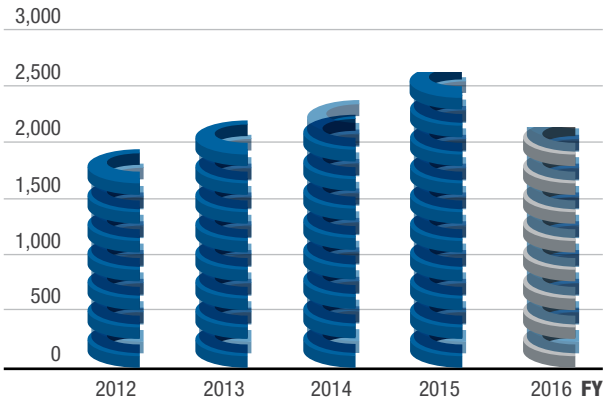

**Profit/(Loss) Before Taxation**
(RM'million)




**Total Equity**
(RM'million)




**Total Assets**
(RM'million)



# CHAIRMAN'S STATEMENT

***On behalf of the Board of Directors of Southern Steel Berhad ("SSB" or "the Company"), I am pleased to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ended 30 June 2016 ("FY 2016").***

## BUSINESS ENVIRONMENT

Against the backdrop of sluggish growth in global trade and low prices of oil and other commodities, worldwide steel industry remains depressed. Furthermore, overcapacity in Chinese steel industry is exacerbated by its declining domestic demand. In order to stabilise its decelerating economy, China needs to export more to counter its domestic slowdown. This explains why the Chinese Government's effort to reduce overcapacity has been slow so far. As such, the local steel market continues to be unstable, compounded by intermittent influx of cheap Chinese imports amidst countervailing trade measures adopted by the Malaysian Government.

## FINANCIAL REVIEW

For FY 2016, the Group's revenue decreased from RM2,530 million to RM2,400 million due to lower prices, with a loss before taxation of RM213 million as compared with a loss of RM137 million in the previous financial year. The reported loss included a write off from property, plant and equipment of the hot rolled coil project cost in our subsidiary amounting to RM141 million. Excluding this write off, operational performance of our Group improved compared to last year's, despite the challenging environment mentioned above. All operating units except the hot rolled coil business recorded improved results for this year.

Subsequent to the financial year end, the Group's subsidiary, Southern HRC Sdn Bhd ("SHRC"), terminated its contract with the machine supplier of the plant of our hot rolled coil project on the ground that the machine supplier failed to remedy and resolve the issues which constitute a major default and failure by the machine supplier to fulfil its fundamental obligations under the contract.

# Chairman's Statement
(cont'd)

Further to the termination, SHRC has commenced arbitration proceedings against the machine supplier and is claiming for remedies for misrepresentation and breach of contract. The machine supplier has also commenced arbitration proceedings against SHRC under the same contract. Both arbitration proceedings have been consolidated and will be heard together in Singapore under the Arbitration Rules of the International Chamber of Commerce.

## PROSPECTS

Although the Malaysian construction sector is expected to remain healthy with a growth rate of more than 5%, steel industry will continue to be affected by the unfair trade practice of low price imports.

## DIVIDEND

In light of the weak operating results achieved during the period under review, the Board does not recommend a final dividend for FY 2016.

## ACKNOWLEDGEMENT

On behalf of the Board, I warmly welcome Mr Soon Seong Keat who joined the Board as Non-Independent Non-Executive Director on 1 September 2016. I would also like to extend our sincere thanks and appreciation to Mr Tang Hong Cheong, our Non-Independent Non-Executive Director who resigned on the same date, for his past services and contributions to the Group.

Last but not least, I would like to extend my sincere appreciation to each and every member of the Board, management team, and staff for their contributions, commitments and dedication to the Group. My appreciation goes also to our valued customers, business associates, vendors, financiers, shareholders and the Government for their continuous support and confidence in the Group.

**DATUK KWEK LENG SAN**
Chairman

# GROUP MANAGING DIRECTOR'S REVIEW

Selling prices of steel products continued its downward trend due to the dumping of steel by Chinese mills in the region until the beginning of 2016 when price rebounded. However, the price rally did not last long. The short-lived price surge started in early March 2016 and ended in May 2016. As a result, steel industry in Malaysia, especially the upstream, continued to register losses with certain mills being forced to curtail or stop operations.

The Group recorded a lower turnover for the financial year ("FY") ended 30 June 2016 ("FY 2016") even though sales volume was higher than FY ended 30 June 2015 ("FY 2015"), attributed to lower selling prices. For FY 2016, the Group registered higher loss before taxation of RM213 million, which was inclusive of RM141 million written off from property, plant and equipment in a subsidiary. Operational performance excluding this write off improved as compared with FY 2015.

## OPERATION REVIEW

### Southern Steel Berhad ("SSB")

As reported in FY 2015, SSB transferred its rod business to a wholly-owned subsidiary, Southern Steel Rod Sdn Bhd, towards the end of FY 2015. As such, the current year operations of SSB relate mainly to bar business only. Due to strategic inventory management measures adopted by the Group, SSB turned around from a loss in the first half of the FY 2016 to record an operational profit for the FY 2016 as a whole.

### Southern Steel Rod Sdn Bhd ("SSR")

SSR took over the rod business from SSB since the end of FY 2015. SSR continued to face challenges from the surge in imports and the slowdown in domestic demand. SSR's continuing efforts to cut costs have shown some results.

### Southern Steel Mesh Sdn Bhd ("SSM") & Southern PC Steel Sdn Bhd ("SPC")

As compared with FY 2015, both SSM and SPC made improvements in their profits for FY 2016. In general, downstream steel business was not as badly affected directly by cheap imports from China. Our strategy to provide a complete and integrated solution, with value-added services through cut and bent bars and cut-to-size mesh, has helped to improve profitability. Our production bases in various major towns in the Klang Valley, Penang, Johor and Pahang, and sale offices in Ipoh, Kota Bahru, Malacca and Bintulu have continued to serve our customers well.

# Group Managing Director's Review (cont'd)

### Southern Pipe Industry (Malaysia) Sdn Bhd ("SPIM")

SPIM managed to record higher profit in FY 2016 due to its relentless focus on niche products and expansion into the export markets. Continuous cost reduction efforts have helped to further strengthen our competitiveness in this uncertain market.

### Southern HRC Sdn Bhd ("SHRC")

The "Thin Slab Casting Unit" to produce hot rolled coil, suffered from unresolved issues and defects, and the quality of the hot rolled coil produced was still unsatisfactory.

Consequently, on 7 July 2016, SHRC terminated its contract with the machine supplier of the plant of our hot rolled coil project on the ground that the machine supplier failed to remedy and resolve the issues which constitute a major default and failure by the machine supplier to fulfil its fundamental obligations under the contract.

Futher to the termination, SHRC has commenced arbitration proceedings against the machine supplier and is claiming for remedies for misrepresentation and breach of contract. The machine supplier has also commenced arbitration proceedings againts SHRC under the same contract. Both arbitration proceedings have been consolidated and will be heard together in Singapore under the Arbitration Rules of the International Chamber of Commerce.

## OUTLOOK

In the World Steel Short Range Outlook 2016-2017 published by World Steel Association, it is noted that steel demand in China is expected to contract in both years of 2016/17, as its growth rate decelerates due to rebalancing of its economy. Whilst the emerging economies continued to be exposed to China's slow down, steel demand in the ASEAN 5 (Thailand, Malaysia, Vietnam, Indonesia and Philippines) is expected to maintain a growth rate of around 6% due to their infrastructure building activities. Effective from 26 September 2016, the Malaysian Government has also imposed provisional safeguard duty of 13.9% and 13.4% for steel wire rod and rebar respectively, pending futher investigation into the imports of such steel products.

In view of the above, we are cautiously optimistic of an improved performance in the FY ending 30 June 2017, especially with our continuous cost reduction efforts and strategic response to cheap Chinese dumping imports.

**CHOW CHONG LONG**
Group Managing Director

# CORPORATE SOCIAL RESPONSIBILITY

**The Hong Leong Group is a leading Malaysian conglomerate with diversified businesses. Over the years, we have grown in size and strength through sound and focused business strategies, aided by strong management and a dedicated workforce against a backdrop of a growing economy.**

We are also a group that prioritises the communities that we operate within and we believe that, whilst the bottom line is important, our role is to firstly cater to the business needs of these communities. Be it locally or across the geographies where the Hong Leong Group of companies operates, from individuals, to small, medium enterprises (SMEs) to multinational companies (MNC), we are committed to ensuring that we are guided by the Group's core values and remain cognisant of our social responsibility.

We have over the past two decades made Corporate Social Responsibility ("CSR") an increasingly large part of our identity. We have also taken the necessary steps to integrate sustainable practices into the core of the Group's businesses as we prepare to compete in an increasingly complex environment amidst more stringent regulatory requirements, increasingly sophisticated consumers and rapid technological advancements.

## WORKPLACE

As the Group continues to grow and expand regionally, we believe it is vital to put in place a work environment where the rights and well-being of each employee is respected. This helps us attract good talent regardless of background.

To this end, cross-cultural understanding is key and that is why we have a diversity and inclusion philosophy that is upheld by our Best Work Environment practices. We ensure all applicable laws pertaining to non-discrimination and equal opportunity are complied with and upheld.

The Group identifies and hires local talent through our Graduate Development Programme – a programme in which local graduates are hired to undergo a training programme for 18 months. Our aim is to identify and develop young graduates into relevant fields of talents to support the growth of the Group. To date, 7 fresh graduates have been hired while 14 existing employees were identified to enrol into this development programme. During the 18 months on-the-job familiarisation, all 21 participants are exposed to at least 3 different functional departments to gain wider experience.

We continue to maintain a high safety and health standards at the workplace. The competency of employees in carrying out their daily tasks in a safe environment is crucial to us. Workplace initiatives also include efforts to inculcate a healthier lifestyle. Our Sports Recreation Club has conducted various sport activities, including Bowling & Football Tournament and Fun Run, for health betterment, and to enhance the working relationship and build team spirit among the employees.

# Corporate Social Responsibility
(cont'd)

## ENVIRONMENT

Each year, the Group continues to improve on initiatives to minimise its operational impact on the environment. We have been careful with the consumption of resources such as water and energy, as well as having been conscious of reducing waste generation and carbon emissions.

In line with the belief that sustainable change starts from within, we continue to build on the existing partnership between Hong Leong Foundation and Science of Life Systems 247 Sdn Bhd (SOLS Tech) in the form of a group wide technology recycling programme called 'Transform It'.

Through 'Transform It', employees are invited to donate old electronic devices as well and given a convenient means to recycle their electronic waste responsibly. Since it began in April 2016, a total of 76 usable electronic items have been re-created out of recycled parts. These items are refurbished and then delivered to underserved communities in Peninsular Malaysia.

In tandem with the Government's Go Green effort, the Group has been practising the 3R Concept, i.e. reducing, reusing and recycling paper to minimise the usage of paper and switching off lights and air-conditioners when not in use.

## MARKETPLACE

For many years now, the Group has had in place internally generated best practices to ensure the economic sustainability of all its companies, such as:

- Financial Management Disciplines which drive excellence in financial management so that the quality of the business as an ongoing concern is both preserved, enhanced and sustained.
- Enterprise Risk Management structure to ensure that a systematic process and delegation of responsibility are clearly set out to guide management.
- A code of business conduct and ethics of financial reports, which contains disclosures that are true and fair.
- In choosing its directors, the Group seeks individuals of high integrity, with shareholder orientation and a genuine interest in the respective businesses of the respective companies. The Group also advocates gender equality at work.

## COMMUNITY

Concerted efforts that channel direct help to our communities to address their needs are mostly done through Hong Leong Foundation, the philanthropic arm of the Hong Leong Group.

Hong Leong Foundation expended a total of RM6,834,370 for the financial year ended 30 June 2016 and has the following in place with our Community Partners:

I Community Welfare Programme that addresses the needs of homes, shelters and community centres.

II Education focused initiatives that comprise the following:
- Tertiary Scholarships
- Reach Out and Rise Education Development Programme
- The Hong Leong Masters Scholarship Programme
- After School Care Programme.

III Community Partner Programmes that further the goal of achieving the Foundation's mission and vision including:
- Employment Development Programme to find good jobs for members of the community
- Welfare Home Transformation Programme to provide better homes for those in need
- Hong Leong Foundation NGO Accelerator Programme to provide a platform that eases the process of establishing a non-governmental organisation for different causes.

The Foundation's contributions have benefited 86 organisations, and brought positive impact directly to 3,430 individuals nationwide.

### Education remains key

The Group sees grassroot initiatives and education as the road to empowering local underserved communities and the key to effecting real change. Recognising that there are gaps of opportunity along the entire spectrum of educational development, Hong Leong Foundation has set up a comprehensive programme to empower their scholars, namely in the following forms: enrichment workshops, internships, mentorships, and other support to help the young excel in their formative university years, and beyond.

# Corporate Social Responsibility
(cont'd)

## COMMUNITY *cont'd*

Since 1997, Hong Leong Foundation has awarded more than RM28.9 million in scholarships to 909 scholars via its scholarship programmes for diplomas, degrees or masters. During the past financial year, Hong Leong Foundation disbursed RM2.5 million in scholarships to benefit 112 underprivileged Malaysian youths.

Apart from these programmes, the Group also provides opportunities for its employees to participate in activities and causes that they are passionate about, whilst channeling aid to various segments of the community.

Along the year, various philanthropic endeavours, big and small, came to life through the concerted efforts of staff from diverse backgrounds across the Group; who wanted to come together for a good cause.

### The spirit of volunteerism is ever present

We are proud to see our employees come together to answer the call for CSR involvement through various programmes organised by our Heart to Heart Club. The club's programmes for the year included:

- blood donation;
- visit to Ladang Krian, Bukit Panchor, Nibong Tebal, Pulau Pinang for Deepavali celebration with the villagers;

# Corporate Social Responsibility
(cont'd)

## COMMUNITY *cont'd*

- visit to Sekolah Jenis Kebangsaan (Cina) Seng Yok, Kupang, Kedah for Chinese New Year celebration with the students; and
- visit to Perkampungan Orang Asli, Kampung Leryar, Cameron Highlands.

There was good turnout at the blood donation drive held in August 2015, which was in collaboration with the Penang General Hospital. A total of 218 successful donors were recorded in this blood donation drive. In August 2016, in conjunction with the World Blood Donor Day 2016, the Group was presented with a Certificate of Appreciation by the Penang General Hospital for organising blood donation drives throughout 2015/2016.

## LOOKING FORWARD

We will build upon and learn from our past CSR contributions and activities. This would naturally lead to higher expectations of ourselves as responsible corporate citizens, while we continue to explore new ideas and new ways of increasing actual and tangible improvements to our communities.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

**"CORPORATE GOVERNANCE IS THE PROCESS AND STRUCTURE USED TO DIRECT AND MANAGE THE BUSINESS AND AFFAIRS OF THE COMPANY TOWARDS ENHANCING BUSINESS PROSPERITY AND CORPORATE ACCOUNTABILITY WITH THE ULTIMATE OBJECTIVE OF REALISING LONG TERM SHAREHOLDER VALUE, WHILST TAKING INTO ACCOUNT THE INTEREST OF OTHER STAKEHOLDERS."**

*~ Finance Committee on Corporate Governance*

The Board of Directors ("Board") has reviewed the manner in which the Malaysian Code on Corporate Governance 2012 ("Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the principles and recommendations as set out in the Code except where otherwise stated.

## A. ROLES AND RESPONSIBILITIES OF THE BOARD

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed annually by the Board and published on the Company's website at www.southsteel.com ("SSB Website"). The key roles and responsibilities broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure.

The day-to-day business of the Group is managed by the Group Managing Director ("GMD") assisted by the management team. The GMD and his management team are accountable to the Board for the performance of the Group. In addition, the Board delegates certain of its responsibilities to Board Committees, which operate within clearly defined TOR primarily to assist the Board in the execution of its duties and responsibilities. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The Chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman and the GMD, which are distinct and separate. Although the Chairman is not an independent director, this segregation of responsibilities between the Chairman and the GMD ensures an appropriate balance of role, responsibility and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The GMD is responsible for the vision and strategic direction of the Group, implementing the policies and decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, setting the benchmark and targets for operating companies, overseeing the day-to-day operations and tracking compliance and business progress.

Independent Non-Executive Directors ("INEDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. INEDs do not participate in the day-to-day management of the Company and there are no relationships or circumstances that could interfere with or are likely to affect the exercise of their independent judgment or the ability to act in the best interest of the Company and its shareholders.

# Corporate Governance, Risk Management and Internal Control (cont'd)

## A. ROLES AND RESPONSIBILITIES OF THE BOARD *cont'd*

The Group continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Group's key corporate social responsibility activities or sustainability plan are set out in the Corporate Social Responsibility Statement in this Annual Report.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia ("CCM") which is available on CCM's website at www.ssm.com.my. In addition, the Group also has a Code of Ethics that sets out sound principles and standards of good practice which are observed by the employees. The Group has in place procedures and rules for employees to raise responsibly, in confidence, concerns about serious misconduct and other improprieties which pose financial, legal, reputational or operational risks to the Group.

## B. BOARD COMPOSITION

The Board comprises 7 directors, 6 of whom are non-executive. Of the non-executive directors, 3 are independent. The profiles of the members of the Board are provided in the Annual Report.

The Company is guided by the Policy on Board Composition adopted by the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa") ["MMLR"] in determining its board composition. The policy includes the following:

- The Board shall determine the appropriate size of the board to enable an efficient and effective conduct of board deliberation.
- The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company and shall have an appropriate balance of independent directors ("ID" or "IDs") comprising at least one third of the board.
- The Board shall also include a balanced composition of executive and non-executive directors.
- Board members should have the ability to commit time and effort to carry out duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender, ethnicity and age balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

The Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

## C. BOARD COMMITTEES

Board Committees have been established by the Board to assist in the effective discharge of its duties:

### I Board Audit & Risk Management Committee ("BARMC")

The composition of the BARMC and a summary of its activities are set out in the Board Audit & Risk Management Committee Report in this Annual Report. The TOR of the BARMC are published on the SSB Website.

# Corporate Governance, Risk Management and Internal Control
(cont'd)

## C. BOARD COMMITTEES *cont'd*

### II Nominating Committee ("NC")

The NC was established on 29 April 2013 and its TOR are published on the SSB Website.

The composition of the NC is as follows:

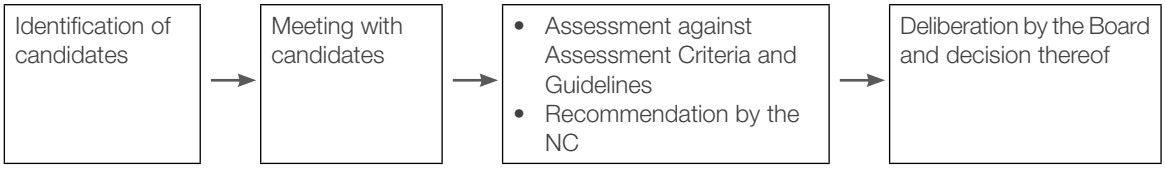
**Mr Ang Kong Hua**
*Chairman, Independent Non-Executive Director*

**Mr Seow Yoo Lin**
*Independent Non-Executive Director*

**YBhg Datuk Kwek Leng San**
*Non-Independent Non-Executive Director*

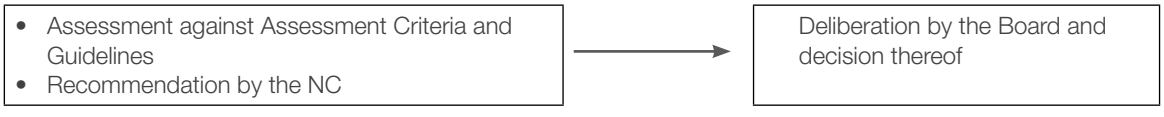
The Company has in place the process and procedure for assessment of new appointment, re-appointment, re-election, retention and removal of directors, and the appointment of Board Committee members and chief executive, and the criteria used for such assessments. All candidates to the Board, Board Committees or chief executive are assessed by the NC prior to their appointments, taking into account the mix of skills, expertise, knowledge and experience in the industry, market and segment, independence and time commitment, before they are recommended to the Board for approval.

The nomination and approval process for candidates is as follows:




A formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, Board Committees as a whole and the contribution and performance of each individual director, Board Committee member, chief executive and the chief financial officer on an annual basis. For newly appointed Director/chief executive, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service. The assessments will take into consideration, amongst others, the appropriate skills, experience, soundness of judgment and competencies, independence, attendance and level of participation and contribution at Board and Board Committee meetings. The results of the assessment formed one of the criteria of the NC's recommendation to the Board for the re-appointment/re-election/retention of directors at the annual general meeting ("AGM").

The nomination and approval process for re-appointment/re-election/retention of directors shall be as follows:




For removal of directors, the Company shall carry out such removal in accordance with the provisions of the Companies Act, 1965 and any other relevant regulatory requirements. The NC may recommend to the Board the removal of a director who is ineligible, disqualified, incapacitated or who has failed in the discharge of fiduciary duties.

## C. BOARD COMMITTEES *cont'd*

### II Nominating Committee ("NC") *cont'd*

For management succession planning, it has been embedded in the Group's process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

The NC met once during the financial year ended 30 June 2016 ("FY 2016") where all the NC members attended.

During the FY 2016, the NC carried out its duties in accordance with its TOR. The NC considered and reviewed the following:

- NC Charter, policies on Board Composition, Independence of Directors, Board Diversity and Directors' Training;
- composition of the Board and Board Committees;
- mix of skills, professional qualification, experience and other qualities of directors including gender, ethnicity and age balance;
- independence of IDs and their tenure;
- trainings undertaken by directors and recommendation of training programmes for directors; and
- re-election and re-appointment of directors.

Having reviewed the Board composition, the NC was satisfied that the current Board comprises a good mix of skills and that the current size and composition of the Board are appropriate and effective in discharging its functions.

The NC has also evaluated the performance of the Board, Board Committees, each individual director and each Board Committee member, benchmarking against their respective TOR and Assessment Criteria, and through the annual assessment conducted during FY 2016. The NC was satisfied that they have continued to operate effectively in discharging their duties and responsibilities. They have also fulfilled their responsibilities and are suitably qualified to hold their positions.

### III Remuneration Committee ("RC")

The RC was established on 9 May 2005 and its TOR are published on the SSB Website.

The composition of the RC is as follows:

**YBhg Datuk Kwek Leng San**
*Chairman, Non-Independent Non-Executive Director*

**YBhg Dato' Dr Tan Tat Wai**
*Non-Independent Non-Executive Director*

**Mr Ang Kong Hua**
*Independent Non-Executive Director*

The RC met once during FY 2016 where all the RC members attended.

# Corporate Governance, Risk Management and Internal Control
(cont'd)

## C. BOARD COMMITTEES *cont'd*

### III Remuneration Committee ("RC") *cont'd*

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of non-executive directors reflects the level of responsibilities undertaken by them.

The remuneration packages of executive directors are reviewed by the RC. The executive director concerned shall not participate in the deliberations and shall vacate the meeting room during deliberations of his remuneration package.

The RC, in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices.

The fees of directors are recommended and endorsed by the Board for approval by the shareholders of the Company at its AGM.

The aggregate remuneration of directors for FY 2016 is as follows:

| | Fees (RM) | | Salaries & Other Emolument (RM) | | Total (RM) | |
|---|---|---|---|---|---|---|
| | Company | Group | Company | Group | Company | Group |
| Executive Directors | – | 19,235 | 2,179,537 | 2,179,537 | 2,179,537 | 2,198,772 |
| Non-Executive Directors | 244,809 | 245,574 | 225,628 | 225,628 | 470,437 | 471,202 |

The number of directors whose remuneration falls into the following bands is as follows:

| | Executive | | Non-Executive | |
|---|---|---|---|---|
| Range Of Remuneration (RM) | Company | Group | Company | Group |
| 50,000 and below | – | – | – | – |
| 50,001 – 100,000 | – | – | 1 | 1 |
| 100,001 – 150,000 | – | – | 3 | 3 |
| 150,001 – 500,000 | – | – | – | – |
| 500,001 – 550,000 | 1 | 1 | – | – |
| 550,001 – 1,650,000 | – | – | – | – |
| 1,650,001 – 1,700,000 | 1 | 1 | – | – |

# Corporate Governance, Risk Management and Internal Control (cont'd)

## C. BOARD COMMITTEES *cont'd*

### IV Research and Development Committee ("R&D")

The R&D was established on 21 November 2014 and its TOR are published on the SSB Website.

The composition of the R&D is as follows:

**Dr Kwa Lay Keng**
*Chairman, Independent Non-Executive Director*

**YBhg Datuk Kwek Leng San**
*Non-Independent Non-Executive Director*

**YBhg Dato' Dr Tan Tat Wai**
*Non-Independent Non-Executive Director*

**Mr Ang Kong Hua**
*Independent Non-Executive Director*

The R&D met twice during FY 2016 where all the R&D members attended.

## D. INDEPENDENCE

The Board takes cognisance of Recommendations 3.2 and 3.3 of the Code. Recommendation 3.2 states that the tenure of an ID should not exceed a cumulative term of 9 years and upon completion of the 9 years, an ID may continue to serve on the Board subject to the director's re-designation as a non-independent director. Recommendation 3.3 states that in the event the Company wishes to retain an ID who has served a cumulative term of 9 years and above, shareholders' approval shall be sought at the AGM every year with justifications, in accordance with the Code.

The Company has in place, an Independence of Directors Policy ("ID Policy") which sets out the criteria for assessing the independence of IDs. The Board will apply these criteria upon admission, annually and when any new interest or relationship develops. In addition, the ID Policy states that the Company shall seek shareholders' approval at the AGM every year to retain IDs who have served on the Board for a period of 9 years continuously or more as IDs, with justifications and subject to favourable assessment of the NC and the Board.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from directors who have, over time, gained valuable insight into the Group, its market and the industry.

The IDs have declared their independence and the NC and the Board have determined, at the annual assessment carried out, that they remain objective and have continued to bring independent and objective judgment to Board deliberations and decision-making.

# Corporate Governance, Risk Management and Internal Control
(cont'd)

## E. COMMITMENT

The directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, directors are required to comply with the restrictions on the number of directorships in public listed companies. Directors provide notifications to the Board for acceptance of any new Board appointment. This ensures that their commitment, resources and time are focused on the affairs of the Company to enable them to discharge their duties effectively. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Directors are required to attend at least 50% of Board meetings pursuant to the MMLR.

The Board meets quarterly with timely notices of issues to be discussed. Additional meetings may be convened on an adhoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions.

The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to the Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and of the Group and management's proposals which require the approval of the Board.

All directors have access to the advice and services of qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 139A of the Companies Act, 1965. They are responsible for providing support and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate governance. All directors also have access to the advice and services of the internal auditors and in addition, independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman of the Company.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretaries accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

The Board met 4 times during FY 2016.

Details of attendance of each director are as follows:

| Directors | Attendance |
|---|---|
| YBhg Datuk Kwek Leng San | 4/4 |
| Mr Chow Chong Long | 4/4 |
| YBhg Dato' Dr Tan Tat Wai | 4/4 |
| Mr Tang Hong Cheong *(Resigned on 1 September 2016)* | 4/4 |
| Mr Ang Kong Hua | 4/4 |
| Mr Seow Yoo Lin | 4/4 |
| Dr Kwa Lay Keng | 4/4 |

*Note:*

*Mr Soon Seong Keat was appointed as a Director of the Company after the close of FY 2016 and as such, did not attend any of the Board meetings held during the said financial year.*

The Board recognises the importance of continuous professional development and training for directors.

# Corporate Governance, Risk Management and Internal Control (cont'd)

## E. COMMITMENT *cont'd*

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for directors of the Company. The Induction Programme which includes visits to the Group's various business operations and meetings with senior management is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Group's businesses. The CPD encompasses areas related to the industry or businesses of the Group, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' continuing training programmes.

All directors of the Company have completed the Mandatory Accreditation Programme.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

In assessing the training needs of directors, upon recommendation by the NC, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management and/or statutory/ regulatory compliance, be recommended and arranged for the directors to enhance their contributions to the Board.

During FY 2016, the directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised in-house programmes for its directors and senior management.

The directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as directors.

During FY 2016, all the directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Updates on HK contracts (Rights of Third Parties) Ordinance and recent personal data privacy cases
- New Landscape in Auditors' Reporting
- Advocacy Sessions on Management Discussion & Analysis for Chief Executive Officer and Chief Financial Officer
- Nominating Committee Programme Part 2 - Effective Board Evaluations
- Maybank Annual Risk Workshop
- Advanced Risk Governance and Risk Management Programme
- Maybank 2015 Risk Master Class
- The Most Innovative Companies – Four Factors that Differentiate Leaders
- Directors Corporate Governance Series: Building Effective Finance Function: From Reporting to Analytics to Strategic Input
- HSBC Forum: RMB and China Global Future
- FIDE Forum Invite: Board leading the Change: Organisational Transformation Strategy as Key to Sustainable Growth in Challenging Times
- Risk Management and Internal Control Workshop: Is Our Line of Defence Adequate and Effective?
- FIDE Forum: Directors Register Focus Group Session
- KPMG Budget Conference
- FIDE Forum: 6th Distinguished Board Leadership Series – Digital Transformation and its Impact on Financial Services – Roles of Board in Maximising Potentials and Managing Risks
- Leadership Energy Summit Asia
- FIDE Forum: 1st Distinguished Board Leadership Series – "Cyber-Risk Oversight"
- MFRS/FRS Update 2015/2016 Seminar
- Audit Committee Institute Breakfast Roundtable
- Bursa CG Breakfast Series with Directors: Future of Auditor Reporting – The Game Changer for Boardroom
- Board Chairman Series Part 2: Leadership Excellence From The Chair
- Hong Leong Group Sustainability Training

# Corporate Governance, Risk Management and Internal Control
(cont'd)

## F. ACCOUNTABILITY AND AUDIT

The financial reporting and internal control system of the Group is overseen by the BARMC which comprises all non-executive directors with a majority independent. The primary responsibilities of the BARMC are set out in the Board Audit & Risk Management Committee Report.

The BARMC is supported by the Internal Audit Department whose principal responsibilities are to conduct risk-based audits to ensure that adequate and effective controls are in place to mitigate risks; operational audits to identify opportunities for operational improvement; and also ensure compliance with standard operating procedures of the Group. Investigation or special review will be carried out at the request of the BARMC and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC meetings where appropriate actions will be taken.

### I Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the BARMC which assesses the financial statements with the assistance of the external auditors.

### II Risk Management and Internal Control

The Statement on Risk Management and Internal Control ("SORMIC") as detailed under Paragraph I of this Statement provides an overview of the system of internal controls and risk management framework of the Group.

### III Relationship with Auditors

The Board, through the BARMC, maintains a formal and transparent professional relationship with the external auditors, Messrs KPMG. The appointment of external auditors is recommended by the BARMC which determines the remuneration of the external auditors. The BARMC reviews the performance, suitability, effectiveness and independence of the external auditors annually. The BARMC also reviews the nature and fees of non-audit services provided by the external auditors in assessing the independence of the external auditors. In accordance with the Malaysian Institute of Accountants ("MIA"), Messrs KPMG rotate its Engagement Partner and Concurring Partner once every 5 years to ensure objectivity, independence and integrity of the audit opinions.

The external auditors meet with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

At least twice a year, the BARMC will have a separate session with the external auditors without the presence of senior management.

For FY 2016, the BARMC members undertook an annual assessment on the performance, suitability, effectiveness and independence of the external auditors. No major concerns were noted from the results of the assessment. The external auditors also gave their assurance confirming their independence and objectivity throughout the conduct of the audit engagement and the internal processes undertaken by them to determine their independence.

# Corporate Governance, Risk Management and Internal Control (cont'd)

## G. DISCLOSURE

The Company has in place a corporate disclosure policy for compliance with the disclosure requirements set out in the MMLR, and to raise awareness and provide guidance to the Board and management on the Group's disclosure requirements and practices.

All timely disclosure and material information documents will be posted on the SSB Website after release to Bursa.

## H. SHAREHOLDERS

### I Dialogue with Shareholders and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the Annual Reports, circulars to shareholders, quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on the SSB Website, Bursa's website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate in general meetings either in person, by corporate representative, by proxy or by attorney.

Shareholders can access for information at the SSB Website, which includes the Board Charter, TOR of Board Committees, corporate information, announcements/press releases/briefings, financial information, products information and investor relations.

In addition, shareholders and investors can have a channel of communication with the Group Financial Controller ("GFC") to direct queries and provide feedback to the Group.

Queries may be conveyed to the following person:

| | | |
|---|---|---|
| Name | : | Mr Ang Meng Chuan |
| Tel No. | : | 04-3852 710 |
| Fax No. | : | 04-3908 060 |
| Email address | : | IRelations@southsteel.com |

### II AGM

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM.

Pursuant to the Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meetings will be put to vote by way of a poll and the voting results will be announced at the meetings and through Bursa.

# Corporate Governance, Risk Management and Internal Control
(cont'd)

## I. SORMIC

### The responsibility of the Board

The Board recognises its overall responsibility for the adequacy and effectiveness of the Group's system of internal controls and risk management framework to safeguard shareholders' investment and the Group's assets. The Board adopts MS ISO 31000: 2010 as its risk management framework.

Accordingly, the Board has entrusted the BARMC to provide oversight of the system of internal controls and risk management framework. The BARMC is assisted by the Group's Internal Audit Department in this role.

### The Risk Management Framework

For FY 2016, management has complied with the risk management framework in accordance with MS ISO 31000: 2010. Based on the framework, management has carried out the following:

- establish the context of risk in relation to the Group's risk appetite, i.e. how risks are perceived and the levels at which they are acceptable or otherwise;
- identify risks in relation to the objectives of every business function of the Group's operating companies;
- identify emerging risks faced by the Group in the operating environment of its various industries;
- assess the likelihood and impact of such risks identified, using qualitative and also quantitative measures where applicable, to determine the risk level, i.e. "Severe", "Major", "Significant", "Minor" or "Trivial";
- evaluate the severity of the risks and their treatment options to set priority of management's attention and devise appropriate actions to avoid, share, retain or mitigate risks within reasonable timeframes; and
- record the details of risks and treatment plans in the risk registers and present to the BARMC quarterly to review the adequacy and effectiveness of the risk management measures.

Further, on an on-going basis, each operating company has clear accountabilities to:

- monitor its existing risks, identify emerging risks and update the enterprise-wide risk registers;
- maintain the adequacy, effectiveness and relevance of action plans and control systems to manage risks; and
- prepare risk management report on a quarterly basis for reporting to the BARMC.

### The System of Internal Controls

The key elements of the Group's system of internal controls are described below:

- A management structure exists with clearly defined delegation of responsibilities to the management of the Group's operating companies, including authorisation levels for all aspects of the business and operations. The management of the Group's operating companies own and manage risks and they are responsible for implementing controls to mitigate the risks pertaining to all aspects of the business and operations.
- Documented corporate policies and procedures covering various aspects of the business and operations of the Group.
- Promotion of a strong internal control culture through the Group's values and ethics and also the "tone at the top".
- Diligent review of the quarterly financial results and reports and identifying the reasons for any unusual variances.
- Internal control assurance activities such as self-audits and completion of internal control questionnaires undertaken by management of the operating companies. These activities are part of the Group's risk & control assurance framework; provide the breadth in risk and control assurance; and demonstrate management's commitment to effective risk management.
- Risk-based internal audits carried out by the Group's Internal Audit Department focusing on key risk areas which are selected from the Group's audit universe. The key risk areas are documented in the annual audit plan which is approved by the BARMC. The risk-based internal audits cover sales; production; supply chain management; plant operations; and safety, health & environment.
- Quarterly reporting to the BARMC on the results of control assurance and audit activities and also the management of risks throughout the Group.

## I. SORMIC *cont'd*

### Management and Decision-Making Processes

The internal control and risk management processes of the Group are in place for the year under review and up to the date of approval of the SORMIC for inclusion in the Annual Report; and reviewed quarterly by the BARMC. The BARMC reviews the principal risks, significant audit observations and/or areas for improvement and ascertains that appropriate remedial actions or improvements are taken by the management of the Group's operating companies. These processes are intended to manage and not expected to eliminate all risks of failure to achieve business objectives. Accordingly, they can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

The Board has received assurance from the GMD and the GFC that the Group's system of internal controls and risk management framework are operating adequately and effectively, in all material aspects, based on the internal control system and risk management framework of the Group.

The SORMIC has not dealt with or included the state of risk management and internal control of the associates.

### Review of the SORMIC by External Auditors

Pursuant to Paragraph 15.23 of the MMLR, the external auditors have reviewed the SORMIC pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised) issued by the MIA for inclusion in the 2016 Annual Report, and reported to the Board that nothing has come to their attention that causes them to believe that the SORMIC is not prepared, in all material aspects, in accordance with the disclosures required by Paragraphs 41 and 42 of the Statement on Risk Management and Internal Control Guidelines for Directors of Listed Issuers, nor is the SORMIC factually inaccurate. RPG 5 (Revised) does not require the external auditors to consider whether the SORMIC covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and management thereon. The external auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

### The Board's Opinion

The Board, through the BARMC, is of the view that the Group's risk management framework and system of internal controls are adequate and effective in safeguarding the shareholders' investments and the Group's assets.

## J. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The MMLR requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of the financial performance and cash flows of the Group and of the Company for the financial year.

The directors of the Company are satisfied that the financial statements of the Group and of the Company for FY 2016 have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia and that the Group and the Company have adopted appropriate accounting policies and have applied them consistently.

*This Statement on Corporate Governance, Risk Management and Internal Control is made in accordance with the resolution of the Board of Directors.*

# BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

## CONSTITUTION

The Board Audit & Risk Management Committee ("the Committee") of Southern Steel Berhad ("SSB" or "the Company") has been established since 29 October 1993.

## COMPOSITION

The Committee has been re-constituted as follows:

**Mr Seow Yoo Lin**
*Chairman, Independent Non-Executive Director*

**Mr Soon Seong Keat**
*Non-Independent Non-Executive Director*
*(Appointed on 1 September 2016)*

**Mr Ang Kong Hua**
*Independent Non-Executive Director*

**Dr Kwa Lay Keng**
*Independent Non-Executive Director*

**Mr Tang Hong Cheong**
*Non-Independent Non-Executive Director*
*(Resigned on 1 September 2016)*

## SECRETARY

The Secretary to the Committee is Ms Joanne Leong Wei Yin who is the Company Secretary of SSB.

## AUTHORITY

The Committee is authorised by the Board to review any activity of the Group within its Terms of Reference, details of which are available on the Company's website at www.southsteel.com. The Committee is authorised to seek any information it requires from any director or member of management and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

## MEETINGS

The Committee meets at least 4 times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The head of finance, head of internal audit, chief risk officer, Group Managing Director and senior management may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

# Board Audit & Risk Management Committee Report (cont'd)

## MEETINGS *cont'd*

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meetings. Where the Committee is considering a matter in which a Committee member has an interest, such member abstains from reviewing and deliberating on the subject matter.

2 members of the Committee, who shall be independent, shall constitute a quorum.

After each Committee meeting, the Chairman of the Committee shall report and update the Board on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board.

## ACTIVITIES

An annual assessment on the performance and effectiveness of the Committee and each of its members for the financial year ended 30 June 2016 ("FY 2016") was carried out by the Nominating Committee ("NC"). The NC and the Board are satisfied that the Committee and its members had carried out their duties in accordance with the Committee's Terms of Reference.

During FY 2016, 4 Committee meetings were held and the attendance of the Committee members was as follows:

| Members | Attendance |
|---|---|
| Mr Seow Yoo Lin | 4/4 |
| Mr Tang Hong Cheong | 4/4 |
| Mr Ang Kong Hua | 4/4 |
| Dr Kwa Lay Keng | 3/3 * |

* *Reflects the attendance and the number of meetings held during the period the Committee member held office.*

The Committee carried out the following key activities during FY 2016:

- Reviewed the quarterly reports and annual financial statements of the Group prior to submission to the Board for consideration and approval.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Charter and Internal Audit Charter.
- Held 2 separate sessions with the external auditors without the presence of senior management.
- Met with the external auditors and discussed the audit plan 2016 on the nature and scope of the audit, considered significant changes in accounting and auditing issues, where relevant, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards.
- Reviewed and recommended to the Board for approval the audit fees and non-audit fees payable to the external auditors in respect of services provided to the Group. It also reviewed the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the auditor's independence or objectivity. Details of non-audit fees incurred by the Group for FY 2016 are stated in the Notes to the Financial Statements.
- Assessed the performance, suitability, independence and objectivity of the external auditors, taking into consideration factors such as quality of service, adequacy of experience and resources of the firm and the professional staff assigned to the audit, and communication and interaction, and made recommendation to the Board for shareholders' approval on the re-appointment of the external auditors.

# Board Audit & Risk Management Committee Report
(cont'd)

## ACTIVITIES *cont'd*

- Reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.
- Met with the internal auditors and approved the annual audit plan and also reviewed the internal audit ("IA") findings and recommendations.
- Reviewed the Policy and Procedure of Recurrent Related Party Transactions and various recurrent related party transactions ("RRPT") carried out by the Group.
- Reviewed the proposed mandate for RRPT with various related parties prior to Board's recommendation for shareholders' approval.
- Reviewed the Statement on Risk Management and Internal Control ("SORMIC") of the Group, and received the report of the external auditors in respect of their review on the SORMIC prior to Board's approval for inclusion in the Company's Annual Report.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Report for inclusion in the Company's Annual Report.

## INTERNAL AUDIT

The IA function is carried out in-house by the IA Department. The total cost incurred by the IA Department for FY 2016 amounted to RM820,128.

The IA Department, led by the Head of IA, reports to the Committee. The IA function is performed with impartiality, proficiency and due professional care. The IA Department supports the Committee in the effective discharge of its responsibilities in respect of governance, internal controls and the risk management framework of the Group. The Committee had undertaken an assessment on the performance of the IA Department for FY 2016. The Committee had also reviewed the adequacy of the scope, functions and resources of the IA function and the competency of the IA Department. The Committee is satisfied with the performance and competency of the IA Department and that it had adequate resources to carry out its function.

The IA Department applies appropriate auditing standards in assessing the integrity and effectiveness of internal controls and compliance to the established policies and procedures. It also challenges and adds value on the efficiency, effectiveness and economy of operating companies' operations, usage of assets and resources; and the integrity of management information systems.

The annual audit plan prepared by the IA Department is submitted to the Committee for review and approval. Internal audits are carried out as per the approved annual audit plan. IA reports are discussed and issued to management for their feedback and to formulate action plans with target implementation dates for improvements. Any resulting salient control concerns are reviewed by the Committee, and the implementation status of audit recommendations are monitored and reported to the Committee on a quarterly basis. The areas of IA's review during this financial year are described in the SORMIC.

The IA Department also facilitates the implementation and maintenance of the risk management framework of the Group on an on-going basis.

*This Board Audit & Risk Management Committee Report is made in accordance with the resolution of the Board of Directors.*

# FINANCIAL STATEMENTS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# DIRECTORS' REPORT

*for the financial year ended 30 June 2016*

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2016.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, manufacturing, sale and trading in billets, steel bars, wire rods and its related products whilst the principal activities of the subsidiary companies and associated companies are as stated in Note 3 to the financial statements.

## RESULTS

| | Group RM'000 | Company RM'000 |
|---|---|---|
| (Loss)/Profit for the year attributable to: | | |
| Owners of the Company | (221,153) | (60,948) |
| Non-controlling interests | 1,270 | – |
| | (219,883) | (60,948) |

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in the financial statements.

## DIVIDENDS

No dividend was paid since the end of the previous financial year and the Directors do not recommend a final dividend for the financial year ended 30 June 2016.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

YBhg Datuk Kwek Leng San, Chairman
Mr Chow Chong Long, Group Managing Director
YBhg Dato' Dr Tan Tat Wai
Mr Seow Yoo Lin
Mr Tang Hong Cheong
Mr Ang Kong Hua
Dr Kwa Lay Keng

# Directors' Report (cont'd)

*for the financial year ended 30 June 2016*

## DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who have beneficial interests in the ordinary shares and/or options and/or redeemable convertible unsecured loan stocks over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2016 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

| | | Number of ordinary shares/ ordinary shares to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks**/ ordinary shares received# or to be received## arising from vesting of share grant | | | |
|---|---|---|---|---|---|
| | Nominal value per share RM | At 1.7.2015 | Acquired | Sold | At 30.6.2016 |
| *Shareholdings in which Directors have direct interests* | | | | | |
| **Interests of YBhg Datuk Kwek Leng San in:** | | | | | |
| Hong Leong Company (Malaysia) Berhad | 1.00 | 117,500 | 43,395 | – | **160,895** |
| Hong Leong Industries Berhad | 0.50 | 2,520,000 | – | 220,000 | **2,300,000** |
| Malaysian Pacific Industries Berhad | 0.50 | 1,260,000 | – | – | **1,260,000** |
| Hong Leong Bank Berhad | 1.00 | 462,000 | 74,000(1) | – | **536,000** |
| Hong Leong Financial Group Berhad | 1.00 | 600,000 | 54,000(1) | – | **654,000** |
| The Rank Group Plc | GBP13 8/9 p | 45,800 | – | – | **45,800** |
| Guoco Group Limited | USD0.50 | 209,120 | – | – | **209,120** |
| Hume Industries Berhad | 1.00 | 3,118,951 | 382,649# | – | **3,501,600** |
| | | 802,649## | – | 382,649(2) | **420,000##** |
| **Interests of YBhg Dato' Dr Tan Tat Wai in:** | | | | | |
| Southern Steel Berhad | 1.00 | 14,854 | – | – | **14,854** |
| | | 7,073** | – | – | **7,073**** |
| **Interests of Mr Tang Hong Cheong in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | 191,800 | 16,200(1) | 30,000 | **178,000** |
| | | 100,000* | 1,636*(7) | 30,490*(3) | **71,146*** |
| Hong Leong Industries Berhad | 0.50 | 644,900 | – | 344,900 | **300,000** |
| Hume Industries Berhad | 1.00 | 736,492 | 40,000 | – | **776,492** |
| | | 200,000* | – | – | **200,000*** |
| GL Limited (formerly known as GuocoLeisure Limited) | USD0.20 | 195,000 | 105,000(5) | – | **300,000** |
| | | 305,000* | – | 105,000*(5) | **200,000*** |

# Directors' Report (cont'd)

*for the financial year ended 30 June 2016*

## DIRECTORS' INTERESTS *cont'd*

| | Nominal value per share RM | Number of ordinary shares/ ordinary shares to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks**/ ordinary shares received# or to be received## arising from vesting of share grant | | | |
|---|---|---|---|---|---|
| | | At 1.7.2015 | Acquired | Sold | At 30.6.2016 |
| **Interests of Mr Tang Hong Cheong in:** | | | | | |
| GuocoLand Limited | (6) | 65,000 | – | – | **65,000** |
| | – | 35,000* | – | 35,000*(3) | **–** |
| Malaysian Pacific Industries Berhad | 0.50 | – | 60,000(5) | 60,000 | **–** |
| | – | 200,000* | – | 200,000*(5) | **–** |
| GuocoLand (Malaysia) Berhad | 0.50 | – | 90,000(5) | – | **90,000** |
| | – | 300,000* | – | 90,000(5) | **210,000*** |
| The Rank Group Plc | – | 200,000* | – | – | **200,000*** |
| Southern Steel Berhad | – | 200,000* | – | – | **200,000*** |
| Guoco Group Limited | – | – | 120,000* | – | **120,000*** |
| **Interests of Mr Chow Chong Long in:** | | | | | |
| Southern Steel Berhad | 1.00 | 95,563 | – | – | **95,563** |
| | | 45,505** | – | – | **45,505**** |
| **Interests of Mr Ang Kong Hua in:** | | | | | |
| Southern Steel Berhad | 1.00 | 1,000,000 | – | – | **1,000,000** |
| | | 476,190** | – | – | **476,190**** |
| *Shareholdings in which Directors have indirect interests* | | | | | |
| **Interest of YBhg Datuk Kwek Leng San in:** | | | | | |
| The Rank Group Plc | GBP13$^{8/9}$p | 10,661(4) | – | – | **10,661(4)** |
| **Interests of YBhg Dato' Dr Tan Tat Wai in:** | | | | | |
| Southern Steel Berhad | 1.00 | 34,742,238 | – | – | **34,742,238** |
| | | 15,866,283** | – | – | **15,866,283**** |
| **Interests of Mr Tang Hong Cheong in:** | | | | | |
| Hong Leong Industries Berhad | 0.50 | 21,000(4) | – | – | **21,000(4)** |
| Hume Industries Berhad | 1.00 | 22,680(4) | – | – | **22,680(4)** |
| **Interests of Mr Chow Chong Long in:** | | | | | |
| Southern Steel Berhad | 1.00 | 5,000(4) | – | – | **5,000(4)** |
| | | 2,380**(4) | – | – | **2,380**(4)** |

**Legend:**

(1) Shares acquired from rights issue.
(2) Shares vested.
(3) Share options lapsed.
(4) Interest pursuant to Section 134(12)(c) of the Companies Act, 1965 in shares held by family member.
(5) Exercise of share options.
(6) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005.
(7) Additional options - adjustment to the number of options arising from the rights issue.

# Directors' Report (cont'd)

*for the financial year ended 30 June 2016*

## DIRECTORS' BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or as fixed salary of full-time employees of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except for YBhg Dato' Dr Tan Tat Wai who may be deemed to derive a benefit in respect of the trading transactions, contracts and agreements between related corporations and companies in which YBhg Dato' Dr Tan Tat Wai has interests.

There were no arrangements during and at the end of the financial year which has the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## EXECUTIVE SHARE SCHEME ("ESS")

The Company has, on 28 February 2014 ("Effective Date"), terminated the existing Executive Share Option Scheme ("ESOS") which was implemented in 2008 and implemented a new ESS of up to 10% of the issued and paid-up ordinary share capital of the Company, comprising an ESOS and an executive share grant scheme ("ESGS") for the benefit of eligible executives. The ESS would be in force for a period of 10 years from the Effective Date.

The main features of the ESS are, inter alia, as follows:

(i) Eligible executives are those executives of the Group who have been confirmed in service on the date of offer or directors of the Group. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options or grants.

(ii) The aggregate number of shares comprised in:

(a) exercised options;
(b) unexercised options;
(c) unexpired option offers and unexpired grant offers pending acceptances by the eligible executives;
(d) outstanding grants;
(e) completed grants; and
(f) exercised options, unexercised options, outstanding grants, completed grants and unexpired offers pending acceptances, under any other executive share schemes established by the Company which are still subsisting,

shall not exceed 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company at any one time ("Maximum Aggregate").

(iii) The option price shall not be at a discount of more than 10% (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the date of offer and shall in no event be less than the par value of the shares of the Company.

(iv) The exercise of the options or vesting of shares may, at the absolute discretion of the Board, be satisfied by way of issuance of new ordinary shares of RM1.00 each in the Company (unless otherwise adjusted); transfer of existing shares, or a combination of both new shares and existing shares.

(v) At any point in time during the existence of the ESS, the allocation to an eligible executive who, either singly or collectively through persons connected with the eligible executive, holds 20% or more of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company, must not exceed 10% of the Maximum Aggregate.

# Directors' Report (cont'd)

*for the financial year ended 30 June 2016*

## EXECUTIVE SHARE SCHEME ("ESS") *cont'd*

(vi) The option offered to an option holder under the ESOS is exercisable by the option holder or the shares to be vested to a grant holder under the ESGS will be vested to the grant holder only during his employment or directorship with the Group and within the option exercise period of the ESOS, subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESS.

There were no shares and options over shares granted under the ESS of the Company during the financial year.

## ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued and paid-up capital of the Company and the Company has not issued any debentures during the financial year.

## OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

## OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts; and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent; or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading; or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

(iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

## OTHER STATUTORY INFORMATION *cont'd*

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, other than as disclosed in Note 23 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 30 June 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

On behalf of the Board,

**Seow Yoo Lin**

**Chow Chong Long**

22 August 2016

# STATEMENTS OF FINANCIAL POSITION

*as at 30 June 2016*

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 4 | **1,247,321** | 1,377,138 | **172,983** | 188,070 |
| Goodwill on consolidation | 5 | **30,256** | 30,256 | **–** | – |
| Investments in subsidiary companies | 6 | **–** | – | **861,309** | 1,041,784 |
| Investments in associated companies | 7 | **14,127** | 15,823 | **5,500** | 5,500 |
| Other investments | 8 | **381** | 525 | **381** | 427 |
| Deferred tax assets | 9 | **49,664** | 47,915 | **51,706** | 50,477 |
| Tax credit receivable | 10 | **18,341** | 18,351 | **13,357** | 13,367 |
| **Total non-current assets** | | **1,360,090** | 1,490,008 | **1,105,236** | 1,299,625 |
| Inventories | 11 | **518,637** | 783,866 | **277,122** | 403,840 |
| Trade and other receivables, including derivatives | 12 | **189,093** | 254,256 | **357,717** | 303,879 |
| Current tax assets | | **1,649** | 2,195 | **1,641** | 119 |
| Cash and cash equivalents | 13 | **46,949** | 53,666 | **12,087** | 21,921 |
| **Total current assets** | | **756,328** | 1,093,983 | **648,567** | 729,759 |
| **Total assets** | | **2,116,418** | 2,583,991 | **1,753,803** | 2,029,384 |

# Statements of Financial Position (cont'd)

*as at 30 June 2016*

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share capital | 14 | **419,417** | 419,417 | **419,417** | 419,417 |
| Reserves | 15 | **106,502** | 332,561 | **363,902** | 426,495 |
| RCULS - equity portion | 16 | **153,900** | 153,900 | **153,900** | 153,900 |
| **Total equity attributable to owners of the Company** | | **679,819** | 905,878 | **937,219** | 999,812 |
| **Non-controlling interests** | | **8,316** | 7,046 | **–** | – |
| **Total equity** | | **688,135** | 912,924 | **937,219** | 999,812 |
| **Liabilities** | | | | | |
| Deferred tax liabilities | 9 | **14,987** | 21,912 | **–** | – |
| RCULS - liability portion | 16 | **30,306** | 37,869 | **30,306** | 37,869 |
| Deferred income | 17 | **13,246** | 14,771 | **11,432** | 12,843 |
| Retirement benefits | 18 | **26,821** | 25,358 | **13,730** | 13,246 |
| Trade and other payables, including derivatives | 19 | **67,912** | 103,502 | **–** | – |
| Borrowings | 20 | **221,137** | 278,946 | **50,763** | 121,212 |
| **Total non-current liabilities** | | **374,409** | 482,358 | **106,231** | 185,170 |
| Retirement benefits | 18 | **441** | 241 | **120** | 69 |
| Trade and other payables, including derivatives | 19 | **426,747** | 370,161 | **221,232** | 232,651 |
| Borrowings | 20 | **621,196** | 817,919 | **489,001** | 611,682 |
| Current tax liabilities | | **5,490** | 388 | **–** | – |
| **Total current liabilities** | | **1,053,874** | 1,188,709 | **710,353** | 844,402 |
| **Total liabilities** | | **1,428,283** | 1,671,067 | **816,584** | 1,029,572 |
| **Total equity and liabilities** | | **2,116,418** | 2,583,991 | **1,753,803** | 2,029,384 |

The notes on pages 54 to 129 are an integral part of these financial statements.

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*for the year ended 30 June 2016*

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Revenue | 21 | **2,400,495** | 2,529,605 | **1,764,512** | 2,119,636 |
| Cost of sales | | **(2,284,469)** | (2,467,352) | **(1,701,897)** | (2,063,832) |
| **Gross profit** | | **116,026** | 62,253 | **62,615** | 55,804 |
| Distribution expenses | | **(73,956)** | (68,279) | **(38,967)** | (51,846) |
| Administrative expenses | | **(79,369)** | (63,410) | **(31,857)** | (34,708) |
| Other operating expenses | | **(176,518)** | (26,368) | **(138,475)** | (76,812) |
| Other operating income | | **44,985** | 28,756 | **104,944** | 35,562 |
| **Results from operations** | | **(168,832)** | (67,048) | **(41,740)** | (72,000) |
| Interest income | | **1,621** | 923 | **10,216** | 18,460 |
| Finance costs | 22 | **(44,222)** | (38,249) | **(30,599)** | (34,605) |
| Share of loss in associated companies, net of tax | | **(1,696)** | (32,369) | **–** | – |
| **Loss before taxation** | 23 | **(213,129)** | (136,743) | **(62,123)** | (88,145) |
| Taxation | 24 | **(6,754)** | 19,784 | **1,175** | 29,199 |
| **Loss for the year** | | **(219,883)** | (116,959) | **(60,948)** | (58,946) |
| **(Loss)/Profit attributable to:** | | | | | |
| Owners of the Company | | **(221,153)** | (117,581) | **(60,948)** | (58,946) |
| Non-controlling interests | | **1,270** | 622 | **–** | – |
| | | **(219,883)** | (116,959) | **(60,948)** | (58,946) |
| **Basic loss per ordinary share (sen)** | 25 | **(52.73)** | (28.03) | | |
| **Diluted earnings per ordinary share (sen)** | 25 | **N/A** | N/A | | |

# Statements of Profit or Loss and Other Comprehensive Income (cont'd)

*for the year ended 30 June 2016*

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Loss for the year** | | **(219,883)** | (116,959) | **(60,948)** | (58,946) |
| **Other comprehensive income/ (expense), net of tax** | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | |
| Re-measurement of defined benefit liability | | **–** | 3,034 | **–** | 2,174 |
| *Items that are or may be reclassified subsequently to profit or loss* | | | | | |
| Loss on fair value of available -for-sale financial assets | | **(10)** | (336) | **(35)** | (320) |
| Reversal of fair value reserve upon disposal of available -for-sale financial assets | | **(42)** | – | **–** | – |
| Foreign currency translation differences for foreign operation | | **(3,743)** | 2,021 | **–** | – |
| Cash flow hedge | | **(1,111)** | – | **(1,610)** | – |
| **Total other comprehensive (expense)/ income for the year** | 26 | **(4,906)** | 4,719 | **(1,645)** | 1,854 |
| **Total comprehensive expense for the year** | | **(224,789)** | (112,240) | **(62,593)** | (57,092) |
| **Total comprehensive (expense)/ income attributable to:** | | | | | |
| Owners of the Company | | **(226,059)** | (112,862) | **(62,593)** | (57,092) |
| Non-controlling interests | | **1,270** | 622 | **–** | – |
| | | **(224,789)** | (112,240) | **(62,593)** | (57,092) |

The notes on pages 54 to 129 are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

*for the year ended 30 June 2016*

| | ← Attributable to owners of the Company → | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ← Non-distributable → | | | | | | | Distributable | | | |
| **Group** | **Share capital RM'000** | **Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion RM'000** | **Share premium RM'000** | **Merger reserve RM'000** | **Other reserve RM'000** | **Fair value reserve RM'000** | **Foreign currency translation reserve RM'000** | **Retained earnings RM'000** | **Total RM'000** | **Non-controlling interests RM'000** | **Total equity RM'000** |
| At 1 July 2014 | 419,417 | – | 35,852 | 30,000 | 50 | 399 | 3,446 | 375,676 | 864,840 | 6,424 | 871,264 |
| (Loss)/Profit for the year | – | – | – | – | – | – | – | (117,581) | (117,581) | 622 | (116,959) |
| *Other comprehensive (expense)/ income:* | | | | | | | | | | | |
| - Re-measurement of defined benefit liability | – | – | – | – | – | – | – | 3,034 | 3,034 | – | 3,034 |
| - Loss on fair value of available-for-sale financial assets | – | – | – | – | – | (336) | – | – | (336) | – | (336) |
| - Foreign currency translation differences | – | – | – | – | – | – | 2,021 | – | 2,021 | – | 2,021 |
| **Total comprehensive (expense)/ income for the year** | – | – | – | – | – | (336) | 2,021 | (114,547) | (112,862) | 622 | (112,240) |
| **Contribution from owners of the Company** | | | | | | | | | | | |
| - Issuance of RCULS (Note 16) | – | 153,900 | – | – | – | – | – | – | 153,900 | – | 153,900 |
| **At 30 June 2015** | 419,417 | 153,900 | 35,852 | 30,000 | 50 | 63 | 5,467 | 261,129 | 905,878 | 7,046 | 912,924 |

| | *Attributable to owners of the Company* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Non-distributable* | | | | | | | | *Distributable* | | | |
| **Group** | **Share capital RM'000** | **Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion RM'000** | **Share premium RM'000** | **Merger reserve RM'000** | **Other reserve RM'000** | **Fair value reserve RM'000** | **Hedging reserve RM'000** | **Foreign currency translation reserve RM'000** | **Retained earnings RM'000** | **Total RM'000** | **Non-controlling interests RM'000** | **Total equity RM'000** |
| At 1 July 2015 | 419,417 | 153,900 | 35,852 | 30,000 | 50 | 63 | – | 5,467 | 261,129 | 905,878 | 7,046 | 912,924 |
| (Loss)/Profit for the year | – | – | – | – | – | – | – | – | (221,153) | (221,153) | 1,270 | (219,883) |
| *Other comprehensive income/ (expense):* | | | | | | | | | | | | |
| - Loss on fair value of available-for-sale financial assets | – | – | – | – | – | (10) | – | – | – | (10) | – | (10) |
| - Reversal of fair value reserve upon disposal of available-for-sale financial assets | – | – | – | – | – | (42) | – | – | – | (42) | – | (42) |
| - Foreign currency translation differences | – | – | – | – | – | – | – | (3,743) | – | (3,743) | – | (3,743) |
| - Cash flow hedge | – | – | – | – | – | – | (1,111) | – | – | (1,111) | – | (1,111) |
| **Total comprehensive (expense)/ income for the year** | – | – | – | – | – | (52) | (1,111) | (3,743) | (221,153) | (226,059) | 1,270 | (224,789) |
| **Total transactions with owners of the Company** | | | | | | | | | | | | |
| - Transfer to other reserve | – | – | – | – | 50 | – | – | – | (50) | – | – | – |
| **At 30 June 2016** | **419,417** | **153,900** | **35,852** | **30,000** | **100** | **11** | **(1,111)** | **1,724** | **39,926** | **679,819** | **8,316** | **688,135** |

# Statements Of Changes In Equity (cont'd)

*for the year ended 30 June 2016*

| | ← Attributable to owners of the Company → | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ← Non-distributable → | | | | | | Distributable | |
| Company | Share capital RM'000 | Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion RM'000 | Share premium RM'000 | Merger reserve RM'000 | Fair value reserve RM'000 | Hedging reserve RM'000 | Retained earnings RM'000 | Total equity RM'000 |
| At 1 July 2014 | 419,417 | – | 35,852 | 33,600 | 346 | – | 413,789 | 903,004 |
| Loss for the year | – | – | – | – | – | – | (58,946) | (58,946) |
| *Other comprehensive (expense)/income:* | | | | | | | | |
| - Re-measurement of defined benefit liability | – | – | – | – | – | – | 2,174 | 2,174 |
| - Loss on fair value of available-for-sale financial assets | – | – | – | – | (320) | – | – | (320) |
| **Total comprehensive expense for the year** | – | – | – | – | (320) | – | (56,772) | (57,092) |
| ***Contribution from owners of the Company*** | | | | | | | | |
| - Issuance of RCULS (Note 16) | – | 153,900 | – | – | – | – | – | 153,900 |
| At 30 June 2015/1 July 2015 | 419,417 | 153,900 | 35,852 | 33,600 | 26 | – | 357,017 | 999,812 |
| Loss for the year | – | – | – | – | – | – | (60,948) | (60,948) |
| *Other comprehensive expense:* | | | | | | | | |
| - Loss on fair value of available-for-sale financial assets | – | – | – | – | (35) | – | – | (35) |
| - Cash flow hedge | – | – | – | – | – | (1,610) | – | (1,610) |
| **Total comprehensive expense for the year** | – | – | – | – | (35) | (1,610) | (60,948) | (62,593) |
| **At 30 June 2016** | **419,417** | **153,900** | **35,852** | **33,600** | **(9)** | **(1,610)** | **296,069** | **937,219** |

The notes on pages 54 to 129 are an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS

*for the year ended 30 June 2016*

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| **Cash flows from operating activities** | | | | |
| Loss before taxation | **(213,129)** | (136,743) | **(62,123)** | (88,145) |
| *Adjustments for:* | | | | |
| Property, plant and equipment:- | | | | |
| - depreciation | **63,440** | 68,328 | **17,495** | 38,797 |
| - gain on disposal | **(125)** | (35) | **(95)** | (35) |
| - write-off | **140,900** | 51 | **–** | 28 |
| (Gain)/Loss on disposal of | | | | |
| - Quoted investment in Malaysia | **(52)** | – | **2** | – |
| - Associate companies | **(25,039)** | – | **(25,039)** | – |
| Fair value loss/(gain) on derivative instruments | **634** | (466) | **(129)** | (466) |
| Fair value loss on financial instruments designated as hedge instruments | **121** | – | **629** | – |
| Provision for retirement benefits | **2,604** | 3,079 | **989** | 1,270 |
| Dividend income | **(4)** | (607) | **(58,997)** | (14,401) |
| Interest income | **(1,621)** | (923) | **(10,216)** | (18,460) |
| Share of loss in associated companies | **1,696** | 32,369 | **–** | – |
| Finance costs | **44,222** | 38,249 | **30,599** | 34,605 |
| Amortisation of deferred income | **(1,525)** | (2,847) | **(1,411)** | (1,411) |
| Unrealised loss/(gain) on foreign exchange | **12,419** | (5,573) | **(61)** | 79 |
| Impairment loss on investment in an associated company | **–** | 17,353 | **–** | 73,441 |
| Impairment loss on investment in a subsidiary company | **–** | – | **130,475** | – |
| **Operating profit before working capital changes** | **24,541** | 12,235 | **22,118** | 25,302 |
| Inventories | **265,229** | (84,217) | **126,718** | 35,361 |
| Trade and other receivables | **65,549** | (51,379) | **(53,777)** | (93,285) |
| Trade and other payables | **2,542** | 30,423 | **(13,529)** | (60,035) |
| **Cash generated from/(used in) operations** | **357,861** | (92,938) | **81,530** | (92,657) |
| Retirement benefits paid | **(941)** | (413) | **(454)** | (275) |
| Finance costs paid | **(45,572)** | (52,744) | **(28,875)** | (34,605) |
| Dividend income received | **4** | 607 | **58,997** | 14,401 |
| Interest income received | **1,621** | 923 | **10,216** | 18,460 |
| Taxation paid (net) | **(9,770)** | (7,966) | **(1,566)** | (1,020) |
| **Net cash generated from/(used in) operating activities** | **303,203** | (152,531) | **119,848** | (95,696) |

# Statements of Cash Flows (cont'd)

*for the year ended 30 June 2016*

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | A | **(71,449)** | (121,724) | **(2,426)** | (8,908) |
| Additional investments in subsidiary companies, net | B | **–** | – | **–** | (200,000) |
| Proceeds from disposal of plant and equipment | | **125** | 35 | **113** | 35 |
| Proceeds from disposal of investment in associated companies | | **25,039** | – | **25,039** | – |
| Proceeds from disposal of other investment | | **144** | – | **9** | – |
| Proceed from redemption of Redeemable Preference Shares in a subsidiary company | | **–** | – | **50,000** | – |
| **Net cash (used in)/generated from investing activities** | | **(46,141)** | (121,689) | **72,735** | (208,873) |
| **Cash flows from financing activities** | | | | | |
| (Repayment)/Draw-down of trade borrowings, net | | **(80,675)** | 194,164 | **(96,994)** | 179,510 |
| Repayment of term loan | | **(202,414)** | (140,449) | **(92,413)** | (70,449) |
| Draw-down of term loan | | **32,641** | 22,981 | **–** | – |
| Net proceeds from issuance of Redeemable Convertible Unsecured Loan Stock ("RCULS") | | **–** | 185,087 | **–** | 185,087 |
| RCULS coupon payment | | **(9,287)** | – | **(9,287)** | – |
| **Net cash (used in)/generated from financing activities** | | **(259,735)** | 261,783 | **(198,694)** | 294,148 |
| Net change in cash and cash equivalents | | **(2,673)** | (12,437) | **(6,111)** | (10,421) |
| Effect of exchange rate fluctuations on cash held | | **40** | 2,021 | **–** | – |
| Cash and cash equivalents at 1 July 2015/1 July 2014 | | **48,132** | 58,548 | **18,081** | 28,502 |
| **Cash and cash equivalents at 30 June** | C | **45,499** | 48,132 | **11,970** | 18,081 |

# Statements of Cash Flows (cont'd)

*for the year ended 30 June 2016*

NOTES

A. Payments for acquisition of property, plant and equipment is arrived at as follows:-

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Additions of property, plant and equipment | **(74,523)** | (136,219) | **(2,426)** | (8,908) |
| Interest capitalised in property, plant and equipment shown as finance cost | **3,074** | 14,495 | **–** | – |
| | **(71,449)** | (121,724) | **(2,426)** | (8,908) |

B. Additional investments in subsidiary companies include:-

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Additional investments in subsidiary companies | **–** | – | **–** | (410,000) |
| Additions through transfer of:- | | | | |
| - inventories | **–** | – | **–** | 93,683 |
| - property, plant and equipment | **–** | – | **–** | 116,317 |
| Net outflow on investments in subsidiary companies | **–** | – | **–** | (200,000) |

C. Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Deposits with licensed banks | **18,575** | 26,533 | **5,385** | 7,380 |
| Cash and bank balances | **28,374** | 27,133 | **6,702** | 14,541 |
| Bank overdrafts | **(1,450)** | (5,534) | **(117)** | (3,840) |
| | **45,499** | 48,132 | **11,970** | 18,081 |

The notes on pages 54 to 129 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Southern Steel Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

**Registered office**

Level 9, Wisma Hong Leong
18, Jalan Perak
50450 Kuala Lumpur.

**Principal place of business**

2435, Lorong Perusahaan 12
Prai Industrial Estate
13600 Prai, Penang.

The immediate and ultimate holding companies of the Company are Hong Leong Manufacturing Group Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2016 comprise the Company, its subsidiaries (together referred to as "the Group") and the Group's interest in associates. The financial statements of the Company as at and for the financial year ended 30 June 2016 do not include other entities.

The Company is principally engaged in investment holding, manufacturing, sale and trading in billets, steel bars, wire rods and its related products whilst the principal activities of the subsidiary companies and associated companies are as stated in Note 3 to the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 22 August 2016.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared on the historical cost basis, other than as those disclosed in Note 2.2 to the financial statements.

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the Companies Act, 1965 in Malaysia.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.1 Basis of preparation *cont'd*

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

i) Note 4.3 - Write-off of property, plant and equipment
ii) Note 5 - Impairment of goodwill
iii) Note 9 - Income taxes
iv) Note 11 - Net realisable value of inventories

The Board of Directors has considered the cyclical factor of the industry, adequacy of existing banking facilities/ limits and availability of cash flows from future operations to meet its liabilities as and when they fall due in their assessment of the going concern assumption used in the preparation of financial statements.

These financial statements are presented in Ringgit Malaysia ("RM"), which is the functional currency of the Company and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

### 2.2 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

The results of all subsidiary companies are consolidated using the acquisition method of accounting except for the consolidation of Southern Steel Holdings Sdn Bhd sub-group prior to 1 January 2002 using the merger method of accounting in accordance with Malaysian Accounting Standard No 2, "*Accounting for Acquisitions and Mergers*", the generally accepted accounting principles prevailing at that time. The Group has applied MFRS 3 *Business Combination* prospectively. Accordingly, the business combination entered into prior to 1 January 2002 has not been restated to comply with the aforesaid MFRS.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (a) Basis of consolidation *cont'd*

##### (i) Subsidiaries *cont'd*

Under the merger method of accounting, the results of the subsidiary companies are presented as if the merger had been effected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amount from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the value of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable merger reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not been capitalised by a debit difference, are classified and presented as movement in other capital reserves.

##### (ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

##### (iii) Acquisitions of non-controlling interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (a) Basis of consolidation *cont'd*

##### (iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established: for this purpose, comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any resulting gain/loss is recognised directly in equity.

##### (v) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

##### (vi) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution (or included in a disposal group that is classified as held for sale or distribution). The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (a) Basis of consolidation *cont'd*

##### (vi) Associates *cont'd*

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of the investment includes transaction costs.

##### (vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### (viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### (b) Property, plant and equipment

##### (i) Recognition and measurement

Property, plant and equipment are measured at cost less any accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (b) Property, plant and equipment *cont'd*

##### (i) Recognition and measurement *cont'd*

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" and "other operating expenses" respectively in profit or loss.

##### (ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### (iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

| | % |
|---|---|
| Leasehold land | 1.0 - 3.3 |
| Buildings | 2 - 12 |
| Plant and machinery | 5 - 50 |
| Office equipment | 5 - 50 |
| Motor vehicles | 20 - 25 |

Depreciation methods, useful lives and residual values are reviewed and adjusted as appropriate at the end of the reporting period.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (c) Leased assets

##### (i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed. Leasehold land, which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

##### (ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the statement of financial position.

Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

#### (d) Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates.

#### (e) Financial instruments

##### (i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (e) Financial instruments *cont'd*

##### (ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

***Financial assets***

***(a) Financial assets at fair value through profit or loss***

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

***(b) Loans and receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

***(c) Available-for-sale financial assets***

Available-for-sale category comprises investments in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2.2(f)(i)).

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (e) Financial instruments *cont'd*

##### (ii) Financial instrument categories and subsequent measurement *cont'd*

***Financial liabilities***

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

##### (iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

##### (iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial asset is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (e) Financial instruments *cont'd*

##### (v) Hedge accounting

***Cash flow hedge***

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

***Fair value hedge***

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedge item categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss. For a hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (e) Financial instruments *cont'd*

##### (vi) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial assets are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### (f) Impairment

##### (i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and associates) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (f) Impairment *cont'd*

##### (i) Financial assets *cont'd*

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

##### (ii) Other assets

The carrying amounts of other assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

#### (i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group and the Company recognises any impairment loss on the assets associated with that contract.

#### (j) Contingencies

**Contingent liabilities**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**Contingent assets**

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (k) Compound financial instruments

A compound financial instrument is a non-derivative financial instrument that contains both a liability and an equity component.

Compound financial instruments issued by the Company comprise redeemable convertible unsecured loan stock ("RCULS") that can be converted to share capital at the option of the holder, when the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially based on the discounted stream of coupon payments over the duration of RCULS, using the borrowing rate of the Company. The equity component is recognised initially as the difference between the proceeds raised of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

#### (l) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

##### (i) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

##### (ii) Ordinary shares

Ordinary shares are classified as equity.

#### (m) Foreign currency

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (m) Foreign currency *cont'd*

##### (i) Foreign currency transactions *cont'd*

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

##### (ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 July 2011 which are reported using the exchange rates at the date of acquisition. The income and expenses of foreign operations are translated to RM at average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve ("FCTR") in equity. However, if the operation is a non wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

#### (n) Revenue and other income

##### (i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (n) Revenue and other income *cont'd*

##### (ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

##### (iii) Rental income

Rental income is recognised in profit or loss on an accrual basis.

##### (iv) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

#### (o) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

#### (p) Taxation

Taxation comprises current and deferred taxation. Current taxation and deferred taxation are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (p) Taxation *cont'd*

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred taxation is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A tax incentives that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

The Group and the Company regard the unutilised reinvestment allowance ("RA") and unutilised investment tax allowance ("ITA") as investment tax credits ("ITCs") and these ITCs are recognised using accounting treatment similar to that of a government grant. Unutilised RA and ITA to the extent that it is probable that future taxable profit will be available against the unutilised RA and ITA can be utilised are recognised as a tax credit receivable and correspondingly deferred income.

The tax credit receivable will be charged out to the profit or loss based on the utilisation of RA and ITA in each financial period. Deferred income, on the other hand, will be amortised over the estimated remaining useful lives of the assets concerned.

#### (q) Earnings per ordinary share ("EPS")

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to owners of the Company and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible loan stocks and share options granted to employees.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (r) Employee benefits

##### (i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus if the Group and the Company have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's and the Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations.

##### (ii) Post-employment benefits

The Company and its subsidiary companies have 6 unfunded plans.

Included in the unfunded plans is a plan established pursuant to the Collective Agreement between certain subsidiary companies and The Metal Industry Employees' Union for a duration of 3 years which ended on 31 December 2012. The unfunded defined benefits plan obligations are provided for based on triennial actuarial valuations last carried out in June 2015, using the projected unit credit method.

Effective 1 April 2002, the defined benefit plans of all eligible non-unionised employees of the Company and its subsidiary companies were changed to that of higher EPF contributions depending on years of service. The defined benefit obligation in respect of these employees up to 31 March 2002 under the unfunded old plans was carried forward as provision for retirement benefits in the financial statements. For other eligible employees, the defined benefit obligation is determined based on years of service of employees up to the reporting date.

The liability in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets, together with adjustments for actuarial gains/ losses and past service cost.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed in the interval of every 3 years by a qualified actuary using the projected unit credit method and the last actuarial valuation was carried out in June 2015. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (r) Employee benefits *cont'd*

##### (ii) Post-employment benefits *cont'd*

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

##### (iii) Share-based payments

The Group operates equity-settled, share-based compensation plans for the employees of the Group under the Southern Steel Berhad ("SSB")'s Executive Share Scheme ("ESS").

In connection with the ESS, trusts have been set up and are administered by an appointed trustee ("ESS Trust"). The trustee will be entitled from time to time, to accept advances from the Group, upon such terms and conditions as the Group and the trustee may agree to purchase the ordinary shares of the Company from the open market for the ESS Trusts ("Trust Shares").

The fair value of the share options or grant offers granted to employees is recognised as an employment cost with a corresponding increase in the executive share scheme reserve over the vesting period. When the share options are exercised or grant offers are completed, the amount from the executive share scheme reserve is transferred to retained earnings as applicable. When the share options not exercised or grant offers not completed are expired, the amount from the executive share scheme reserve is transferred to retained earnings.

The fair value of the share options or grant offers is measured using Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The ESS Trusts for SSB are consolidated into the Group's consolidated financial statements as a deduction from equity and classified as reserves for own shares. Dividends received by the ESS Trusts are eliminated against the Company's dividend payment.

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.2 Summary of significant accounting policies *cont'd*

#### (s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

#### (t) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset and liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

# Notes to the Financial Statements (cont'd)

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.3 Statement of compliance

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016***

- MFRS 14, *Regulatory Deferred Accounts*
- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements,* MFRS 12*, Disclosure of Interests in Other Entities and* MFRS 128*, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements - Accounting for Acquisition of Interest in Joint Operations*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment and* MFRS 138*, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment and* MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017***

- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018***

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*

***MFRSs, Interpretations and amendments effective for a date yet to be confirmed***

- Amendments to MFRS 10, *Consolidated Financial Statements and* MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

## 2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

### 2.3 Statement of compliance *cont'd*

The Group and the Company plan to apply the abovementioned accounting standards, amendments and interpretations, where applicable:

- from the annual period beginning on 1 July 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016.
- from the annual period beginning on 1 July 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 July 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.
- from the annual period beginning on 1 July 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the financial impact that may arise from the initial application of the abovementioned accounting standards, amendment or interpretations.

## 3. COMPANIES IN THE GROUP

The principal activities of the companies in the Group, their country of incorporation and the effective interest of Southern Steel Berhad are as shown below:

| Name of Company | Country of incorporation | Effective interest 2016 % | Effective interest 2015 % | Principal activities |
|---|---|---|---|---|
| **Subsidiary Companies** | | | | |
| Southern Steel Rod Sdn Bhd | Malaysia | 100.0 | 100.0 | Manufacture, sale and trading of billets, wire rods, deformed bar in coils and other related products |
| Southern HRC Sdn Bhd | Malaysia | 100.0 | 100.0 | Manufacture, sale and marketing of steel billets and hot rolled steel coils |
| Southern PC Steel Sdn Bhd | Malaysia | 100.0 | 100.0 | Manufacture and sale of pre-stressed concrete strands, wires and bars |

# Notes to the Financial Statements (cont'd)

## 3. COMPANIES IN THE GROUP *cont'd*

| Name of Company | Country of incorporation | Effective interest 2016 % | Effective interest 2015 % | Principal activities |
|---|---|---|---|---|
| **Subsidiary Companies** | | | | |
| Southern Steel Mesh Sdn Bhd | Malaysia | 100.0 | 100.0 | Manufacture, sale and marketing of steel wire mesh, concrete wires, fencing panels and cut and bend bars |
| • E-Tatt Steel Wires Sdn Bhd | Malaysia | 100.0 | 100.0 | Trading in steel wire mesh and temporary ceased operations during the year |
| • Smart Motive Sdn Bhd ^ | Malaysia | 100.0 | 100.0 | In members' voluntary liquidation |
| Southern Pipe Industry (Malaysia) Sdn Bhd | Malaysia | 91.4 | 91.4 | Manufacture, sale and processing of steel pipes and other related products |
| • Southern Steel Pipe Sdn Bhd | Malaysia | 91.4 | 91.4 | Manufacture, sale and processing of steel pipes and other related products |
| Southern Steel Properties Sdn Bhd | Malaysia | 100.0 | 100.0 | Rental of properties |
| Danstil Sdn Bhd | Malaysia | 100.0 | 100.0 | Rental of properties |
| Southern Steel Holdings Sdn Bhd | Malaysia | 100.0 | 100.0 | Investment holding |
| • Saint Sense Blu Sdn Bhd ^ | Malaysia | 100.0 | 100.0 | Dissolved in July 2016 |
| • Starglow Investments Ltd #* | Malaysia | 100.0 | 100.0 | Investment holding |
| Solid Samphire Motif Sdn Bhd ^ | Malaysia | 100.0 | 100.0 | In member's voluntary liquidation |
| **Associated Companies** | | | | |
| Super Othello Sdn Bhd # | Malaysia | 50.0 | 50.0 | Ceased to engage in investment holding |
| Steel Industries (Sabah) Sdn Bhd | Malaysia | 27.5 | 27.5 | Manufacture and trading of steel bars |

# Notes to the Financial Statements (cont'd)

## 3. COMPANIES IN THE GROUP *cont'd*

| Name of Company | Country of incorporation | Effective interest 2016 % | Effective interest 2015 % | Principal activities |
|---|---|---|---|---|
| **Associated Companies** | | | | |
| Bekaert Southern Wire Pte Ltd #/(i) | Singapore | – | 45.0 | Investment holding |
| ■ Bekaert Southern Speciality Wire Sdn Bhd # | Malaysia | – | 45.0 | Manufacture and sale of all types of fine steel wire |
| ■ PT Bekaert Southern Wire # | Indonesia | – | 45.0 | Manufacture and sale of wire products |
| ■ Bekaert Southern Wire Sdn Bhd # | Malaysia | – | 45.0 | Manufacture and sale of all types of galvanised wires |
| ■ Cempaka Raya Sdn Bhd # | Malaysia | – | 45.0 | Ceased operation |

The financial year end of all the subsidiaries companies is co-terminous with the Company.

The financial year end of all associated companies is on 31 December.

Notes:
- • Sub-subsidiary companies.
- ^ These subsidiaries are in member's/members' voluntary liquidation and have been consolidated based on unaudited financial statements.
- # The financial statements of these subsidiary and associated companies are not audited by member firms of KPMG International.
- * Starglow Investments Ltd was a sub-subsidiary of Southern Steel Holdings Sdn Bhd ("SSH") until its shares were distributed in specie to SSH by Saint Sense Blu Sdn Bhd during the financial year.
- ■ Subsidiary companies of Bekaert Southern Wire Pte Ltd ("BSWPL")
- (i) On 29 September 2015, the Company entered into a shares sale agreement with Bekaert Singapore Pte Ltd and NV Bekaert SA to dispose of its entire shareholding of 45% in BSWPL, for total consideration of RM25,039,000 ("Disposal"). The Disposal was completed on the same day. The gain from the Disposal was RM25,039,000.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Office equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Cost** | | | | | | | | |
| **At 1 July 2014** | 25,331 | 157,547 | 271,909 | 1,383,138 | 61,656 | 11,988 | 776,692 | 2,688,261 |
| Additions | – | – | 630 | 4,800 | 2,775 | 768 | 127,246 | 136,219 |
| Write-off | – | – | – | (830) | (210) | – | – | (1,040) |
| Disposals | – | – | – | – | – | (271) | – | (271) |
| Reclassification | – | – | 161,749 | 4,404 | – | – | (166,153) | – |
| **At 30 June 2015/1 July 2015** | 25,331 | 157,547 | 434,288 | 1,391,512 | 64,221 | 12,485 | 737,785 | 2,823,169 |
| Additions | – | – | 855 | 4,937 | 881 | 1,491 | 66,359 | 74,523 |
| Write-off | – | – | (18) | (1,138) | (151) | (39) | (140,873) | (142,219) |
| Disposals | – | – | – | – | – | (1,092) | – | (1,092) |
| Reclassification | – | – | – | 3,264 | – | – | (3,264) | – |
| **At 30 June 2016** | **25,331** | **157,547** | **435,125** | **1,398,575** | **64,951** | **12,845** | **660,007** | **2,754,381** |

## 4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Office equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Accumulated depreciation and impairment loss** | | | | | | | | |
| **At 1 July 2014** | | | | | | | | |
| - Accumulated depreciation | – | 28,276 | 181,910 | 1,072,674 | 57,403 | 10,982 | – | 1,351,245 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | – | 28,276 | 186,865 | 1,095,437 | 57,403 | 10,982 | – | 1,378,963 |
| Charge for the year | – | 3,357 | 9,765 | 52,590 | 2,102 | 514 | – | 68,328 |
| Write-off | – | – | – | (783) | (206) | – | – | (989) |
| Disposals | – | – | – | – | – | (271) | – | (271) |
| **At 30 June 2015/1 July 2015** | | | | | | | | |
| - Accumulated depreciation | – | 31,633 | 191,675 | 1,124,481 | 59,299 | 11,225 | – | 1,418,313 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | – | 31,633 | 196,630 | 1,147,244 | 59,299 | 11,225 | – | 1,446,031 |
| Charge for the year | – | 3,341 | 11,278 | 46,107 | 2,187 | 527 | – | 63,440 |
| Write-off | – | – | (2) | (1,128) | (150) | (39) | – | (1,319) |
| Disposals | – | – | – | – | – | (1,092) | – | (1,092) |
| **At 30 June 2016** | | | | | | | | |
| - Accumulated depreciation | – | 34,974 | 202,951 | 1,169,460 | 61,336 | 10,621 | – | 1,479,342 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | **–** | **34,974** | **207,906** | **1,192,223** | **61,336** | **10,621** | **–** | **1,507,060** |

## 4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Office equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Carrying amounts** | | | | | | | | |
| At 1 July 2014 | 25,331 | 129,271 | 85,044 | 287,701 | 4,253 | 1,006 | 776,692 | 1,309,298 |
| At 30 June 2015/1 July 2015 | 25,331 | 125,914 | 237,658 | 244,268 | 4,922 | 1,260 | 737,785 | 1,377,138 |
| **At 30 June 2016** | **25,331** | **122,573** | **227,219** | **206,352** | **3,615** | **2,224** | **660,007** | **1,247,321** |
| **Company** | | | | | | | | |
| **Cost** | | | | | | | | |
| **At 1 July 2014** | 6,997 | 138,374 | 205,114 | 757,442 | 46,047 | 10,579 | 4,494 | 1,169,047 |
| Additions | – | – | 259 | 3,365 | 1,477 | 768 | 3,039 | 8,908 |
| Write-off | – | – | – | (75) | (7) | – | – | (82) |
| Disposals | – | – | – | – | – | (271) | – | (271) |
| Transfer to a subsidiary | – | – | – | (601,188) | (2,546) | (2,183) | – | (605,917) |
| Reclassification | – | – | 4,116 | 3,417 | – | – | (7,533) | – |
| **At 30 June 2015/1 July 2015** | 6,997 | 138,374 | 209,489 | 162,961 | 44,971 | 8,893 | – | 571,685 |
| Additions | – | – | 55 | 852 | 236 | 821 | 462 | 2,426 |
| Write-off | – | – | – | (1,009) | – | – | – | (1,009) |
| Disposals | – | – | – | – | (25) | (1,092) | – | (1,117) |
| Reclassification | – | – | – | 462 | – | – | (462) | – |
| **At 30 June 2016** | **6,997** | **138,374** | **209,544** | **163,266** | **45,182** | **8,622** | **–** | **571,985** |

## 4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Office equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| **Accumulated depreciation and impairment loss** | | | | | | | | |
| **At 1 July 2014** | | | | | | | | |
| - Accumulated depreciation | – | 24,960 | 161,195 | 567,862 | 43,247 | 9,761 | – | 807,025 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | – | 24,960 | 166,150 | 590,625 | 43,247 | 9,761 | – | 834,743 |
| Charge for the year | – | 3,061 | 8,035 | 25,891 | 1,340 | 470 | – | 38,797 |
| Write-off | – | – | – | (49) | (5) | – | – | (54) |
| Disposals | – | – | – | – | – | (271) | – | (271) |
| Transfer to a subsidiary | – | – | – | (485,113) | (2,446) | (2,041) | – | (489,600) |
| **At 30 June 2015/1 July 2015** | | | | | | | | |
| - Accumulated depreciation | – | 28,021 | 169,230 | 108,591 | 42,136 | 7,919 | – | 355,897 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | – | 28,021 | 174,185 | 131,354 | 42,136 | 7,919 | – | 383,615 |
| Charge for the year | – | 3,061 | 6,491 | 6,337 | 1,181 | 425 | – | 17,495 |
| Write-off | – | – | – | (1,009) | – | – | – | (1,009) |
| Disposals | – | – | – | – | (7) | (1,092) | – | (1,099) |
| **At 30 June 2016** | | | | | | | | |
| - Accumulated depreciation | – | 31,082 | 175,721 | 113,919 | 43,310 | 7,252 | – | 371,284 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | **–** | **31,082** | **180,676** | **136,682** | **43,310** | **7,252** | **–** | **399,002** |

## 4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Office equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| **Carrying amount** | | | | | | | | |
| At 1 July 2014 | 6,997 | 113,414 | 38,964 | 166,817 | 2,800 | 818 | 4,494 | 334,304 |
| At 30 June 2015/1 July 2015 | 6,997 | 110,353 | 35,304 | 31,607 | 2,835 | 974 | – | 188,070 |
| **At 30 June 2016** | **6,997** | **107,292** | **28,868** | **26,584** | **1,872** | **1,370** | **–** | **172,983** |

## 4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

### 4.1 Leasehold land

Included in the carrying amount of leasehold land are:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Leasehold land with unexpired lease period of less than 50 years | **74,262** | 76,864 | **64,921** | 67,355 |
| Leasehold land with unexpired lease period of more than 50 years | **48,311** | 49,050 | **42,371** | 42,998 |
| | **122,573** | 125,914 | **107,292** | 110,353 |

### 4.2 Capital work-in-progress (before write-off)

The Group through its wholly-owned subsidiary, Southern HRC Sdn Bhd ("SHRC") had, on 16 June 2011, contracted with the vendor, Danieli & C. Officine Meccaniche S.p.A ("Danieli") for the design, manufacture and supply of a "Thin Slab Casting Unit feeding directly a twin Steckel Mill" ("the Plant") for the production of hot rolled coil ("Contract").

As at the end of the financial year, a total cost of RM791,409,000 (2015: RM734,952,000) was incurred in constructing the Plant and is classified as capital work-in-progress of the Group. Included in this capital work-in-progress is also an amount of RM140,873,000 (2015: RM118,957,000) comprising RM95,795,000 (2015: RM76,953,000) direct attributable costs in testing the Plant and RM45,078,000 (2015: RM42,004,000) borrowing costs incurred for the Plant.

### 4.3 Write-off of capital work-in-progress

SHRC had subsequently, on 7 July 2016, terminated the Contract with Danieli in accordance with the terms of the Contract as Danieli has failed to remedy and resolve the issues which constitute a major default and failure by Danieli to fulfill its fundamental obligations under the Contract. Arising from the termination, SHRC reserved all of its rights to exercise all remedies available to SHRC under the Contract and at law. Any disputes arising from such termination shall be finally settled by arbitration process.

SHRC considers that it has credible grounds to terminate the Contract and seek damages from Danieli for Danieli's major default and failure as aforesaid. Pending the outcome of SHRC's claims against Danieli in the arbitration, an amount of RM140,873,000 (representing the total capitalised direct attributable costs in commissioning the Plant and the capitalised borrowing costs incurred for the Plant) was written off and is included in other operating expenses in the statements of profit or loss and other comprehensive income. Contingent asset arising from all other claims for compensation are however not accounted for in these financial statements.

The carrying amount of the Plant (after the aforesaid write off) was assessed based on fair value less cost of disposal method in which uncertainty exists because the ultimate outcome of any arbitration cannot be predicted.

# Notes to the Financial Statements (cont'd)

## 5. GOODWILL ON CONSOLIDATION

| | Group | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| **At cost:** | | |
| At 1 July/30 June | **30,256** | 30,256 |

### *(a) Impairment test of goodwill*

The carrying amounts of goodwill allocated to the Group's cash-generating units are as follows:-

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| Southern Steel Mesh Sdn Bhd | **19,767** | 19,767 |
| Southern PC Steel Sdn Bhd | **9,684** | 9,684 |
| Danstil Sdn Bhd | **805** | 805 |
| | **30,256** | 30,256 |

The Group undertakes an annual test for impairment evaluation. No impairment loss was identified for the aforesaid carrying amount of goodwill assessed at the reporting date as their recoverable amounts were in excess of their carrying amounts.

### *(b) Recoverable amount based on value in use*

The recoverable amounts of cash-generating units containing the above goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections that have been projected to perpetuity based on a five year financial budgets and projections prepared by the management and approved by the Board of Directors. The sales tonnage and gross margin of the cash-generating units used in preparing the projected cash flows were determined based on past business performance and management's expectations on market development. The discount rate used of 10% (2015: 10%) is a pre-tax rate that is applied to the cash flow projections and represents the industry's estimated weighted average cost of capital used.

### *(c) Impact of possible change in key assumptions*

The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, management has concluded that no reasonable change in the base case key assumptions would cause the carrying amounts of the cash-generating units to exceed their recoverable amounts.

## 6. INVESTMENTS IN SUBSIDIARY COMPANIES

| | Company | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **At cost:** | | |
| Unquoted shares | **901,784** | 433,348 |
| Redeemable Preference Shares | **70,000** | 120,000 |
| Redeemable Convertible Cumulative Preference Shares | **20,000** | 20,000 |
| Irredeemable Convertible Unsecured Loan Stock | **–** | 268,436 |
| Redeemable Convertible Unsecured Loan Stock | **–** | 200,000 |
| | **991,784** | 1,041,784 |
| Less : Impairment loss | **(130,475)** | – |
| | **861,309** | 1,041,784 |

The subsidiary companies and their principal activities are disclosed in Note 3 to the financial statements.

During the financial year, the Company made an impairment loss for the cost of investment in Southern HRC Sdn Bhd amounting to RM130,475,000 to adjust the carrying amount of the investment to its estimated recoverable amount.

## 7. INVESTMENTS IN ASSOCIATED COMPANIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **At cost:** | | | | |
| Unquoted shares | **15,635** | 89,076 | **15,635** | 89,076 |
| Less : Impairment losses | **–** | (17,353) | **(10,135)** | (83,576) |
| | **15,635** | 71,723 | **5,500** | 5,500 |
| Share of post-acquisition reserves | **(1,508)** | (55,900) | **–** | – |
| | **14,127** | 15,823 | **5,500** | 5,500 |

The associated companies and their principal activities are disclosed in Note 3 to the financial statements.

# Notes to the Financial Statements (cont'd)

## 7. INVESTMENTS IN ASSOCIATED COMPANIES *cont'd*

Summary financial information for associates, not adjusted for the percentage ownership held by the Group:

| | Steel Industries (Sabah) Sdn Bhd RM'000 |
|---|---|
| **Group** | |
| **2016** | |
| **Summarised financial information** | |
| **As at 30 June 2016** | |
| Non-current assets | **32,073** |
| Current assets | **37,098** |
| Current liabilities | **(17,800)** |
| Net assets | **51,371** |
| **Year ended 30 June 2016** | |
| Loss for the year representing total comprehensive expense | **(6,168)** |
| **Included in the total comprehensive income is:** | |
| Revenue | **107,627** |
| **Reconciliation of net assets to carrying amount** | |
| **As at 30 June 2016** | |
| Group's share of net assets | **14,127** |
| **Group's share of results** | |
| **Year ended 30 June 2016** | |
| Group's share of loss for the year representing total comprehensive expense | **(1,696)** |

# Notes to the Financial Statements (cont'd)

## 7. INVESTMENTS IN ASSOCIATED COMPANIES *cont'd*

| | Bekaert Southern Wire Pte Ltd RM'000 | Other individually immaterial associates RM'000 | Total RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2015** | | | |
| **Summarised financial information** | | | |
| **As at 30 June 2015** | | | |
| Non-current assets | 101,257 | 31,478 | 132,735 |
| Current assets | 156,196 | 58,501 | 214,697 |
| Non-current liabilities | (6,697) | – | (6,697) |
| Current liabilities | (274,971) | (32,441) | (307,412) |
| Net (liabilities)/assets | (24,215) | 57,538 | 33,323 |
| **Year ended 30 June 2015** | | | |
| (Loss)/Profit for the year representing total comprehensive (expense)/income | (84,941) | 3,904 | (81,037) |
| **Included in the total comprehensive income is:** | | | |
| Revenue | 374,548 | 154,513 | 529,061 |
| **Reconciliation of net assets to carrying amount** | | | |
| **As at 30 June 2015** | | | |
| Group's share of net (liabilities)/assets | (10,897) | 15,823 | 4,926 |
| Goodwill | 23,441 | – | 23,441 |
| Elimination of unrealised profits | 11 | – | 11 |
| Impairment loss | (17,353) | – | (17,353) |
| Further losses not equity accounted for | 4,798 | – | 4,798 |
| Carrying amount in the statement of financial position | – | 15,823 | 15,823 |
| **Group's share of results** | | | |
| **Year ended 30 June 2015** | | | |
| Group's share of profit or loss for the year representing total comprehensive (expense)/income | (33,444) | 1,075 | (32,369) |

# Notes to the Financial Statements (cont'd)

## 8. OTHER INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| *Available-for-sale financial assets* | | | | |
| Shares quoted in Malaysia | **381** | 525 | **381** | 427 |

## 9. DEFERRED TAX ASSETS/(LIABILITIES)

**Recognised deferred tax assets/(liabilities)**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Group** | | | | | | |
| Property, plant and equipment | **–** | – | **(106,343)** | (65,516) | **(106,343)** | (65,516) |
| Unabsorbed capital allowances | **81,357** | 5,011 | **–** | – | **81,357** | 5,011 |
| Unutilised tax losses | **14,622** | 41,655 | **–** | – | **14,622** | 41,655 |
| Provisions | **14,814** | 12,761 | **–** | – | **14,814** | 12,761 |
| Unutilised increased export allowance | **21,652** | 22,122 | **–** | – | **21,652** | 22,122 |
| Other deductible temporary differences | **2,091** | 881 | **(792)** | – | **1,299** | 881 |
| RCULS interests | **7,276** | 9,089 | **–** | – | **7,276** | 9,089 |
| Deferred tax assets/(liabilities) | **141,812** | 91,519 | **(107,135)** | (65,516) | **34,677** | 26,003 |
| Set off of tax | **(92,148)** | (43,604) | **92,148** | 43,604 | **–** | – |
| Net tax assets/(liabilities) | **49,664** | 47,915 | **(14,987)** | (21,912) | **34,677** | 26,003 |
| **Company** | | | | | | |
| Property, plant and equipment | **8,089** | 7,428 | **–** | – | **8,089** | 7,428 |
| Unabsorbed capital allowances | **6,523** | 3,600 | **–** | – | **6,523** | 3,600 |
| Provisions | **8,166** | 8,238 | **–** | – | **8,166** | 8,238 |
| Unutilised increased export allowance | **21,652** | 22,122 | **–** | – | **21,652** | 22,122 |
| RCULS interests | **7,276** | 9,089 | **–** | – | **7,276** | 9,089 |
| Deferred tax assets | **51,706** | 50,477 | **–** | – | **51,706** | 50,477 |

# Notes to the Financial Statements (cont'd)

## 9. DEFERRED TAX ASSETS/(LIABILITIES) *cont'd*

**Movements in temporary differences during the financial year are as follows:**

| | At 1.7.2014 RM'000 | Recognised in profit or loss (Note 24) RM'000 | Recognised in RCULS equity portion RM'000 | At 30.6.2015/ 1.7.2015 RM'000 | Recognised in profit or loss (Note 24) RM'000 | At 30.6.2016 RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Property, plant and equipment | (63,245) | (2,271) | – | (65,516) | (40,827) | **(106,343)** |
| Unabsorbed capital allowances | 1,130 | 3,881 | – | 5,011 | 76,346 | **81,357** |
| Unutilised tax losses | 14,153 | 27,502 | – | 41,655 | (27,033) | **14,622** |
| Provisions | 11,596 | 1,165 | – | 12,761 | 2,053 | **14,814** |
| Unutilised increased export allowance | 22,428 | (306) | – | 22,122 | (470) | **21,652** |
| Others | 1,394 | (513) | – | 881 | 418 | **1,299** |
| RCULS interests | – | (761) | 9,850 | 9,089 | (1,813) | **7,276** |
| | (12,544) | 28,697 | 9,850 | 26,003 | 8,674 | **34,677** |
| **Company** | | | | | | |
| Property, plant and equipment | (22,811) | 30,239 | – | 7,428 | 661 | **8,089** |
| Unabsorbed capital allowances | – | 3,600 | – | 3,600 | 2,923 | **6,523** |
| Provisions | 8,402 | (164) | – | 8,238 | (72) | **8,166** |
| Unutilised increased export allowance | 22,428 | (306) | – | 22,122 | (470) | **21,652** |
| RCULS interests | – | (761) | 9,850 | 9,089 | (1,813) | **7,276** |
| | 8,019 | 32,608 | 9,850 | 50,477 | 1,229 | **51,706** |

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

| | Group | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Unutilised tax losses | **317,781** | 72,987 |
| Unabsorbed capital allowances | **1,444** | 1,444 |
| Unabsorbed investment tax allowances | **1,297** | 1,297 |
| | **320,522** | 75,728 |

The unutilised tax losses, unabsorbed capital allowances and unabsorbed investment tax allowances do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the respective Group entities can utilise the benefits there from.

# Notes to the Financial Statements (cont'd)

## 10. TAX CREDIT RECEIVABLE

Tax credit receivable is attributable to the following:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Unutilised reinvestment allowances | **18,341** | 18,351 | **13,357** | 13,367 |

Tax credit receivable is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

***Movements in tax credit receivable during the financial year are as follows:***

| | At 1.7.2014 RM'000 | Recognised in profit or loss (Note 24) RM'000 | Recognition of unutilised reinvestment allowance RM'000 | At 30.6.2015/ 1.7.2015 RM'000 | Recognised in profit or loss (Note 24) RM'000 | At 30.6.2016 RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Unutilised reinvestment allowances | 16,637 | 391 | 1,323 | 18,351 | (10) | **18,341** |
| **Company** | | | | | | |
| Unutilised reinvestment allowances | 12,976 | 391 | – | 13,367 | (10) | **13,357** |

## 11. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Raw materials | **293,336** | 415,150 | **222,991** | 245,278 |
| Work-in-progress | **17,802** | 17,929 | **455** | 418 |
| Finished goods | **108,916** | 247,106 | **45,700** | 139,566 |
| General consumables and other stores | **98,583** | 103,681 | **7,976** | 18,578 |
| | **518,637** | 783,866 | **277,122** | 403,840 |
| Recognised in profit or loss: | | | | |
| Inventories recognised as cost of sales | **2,253,955** | 2,444,079 | **1,670,503** | 2,045,164 |

# Notes to the Financial Statements (cont'd)

## 12. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Trade** | | | | | |
| Trade receivables | | | | | |
| - Third parties | | **161,370** | 162,933 | **52,536** | 50,777 |
| - Subsidiaries | 12.1 | **–** | – | **40,220** | 108,996 |
| - Related parties | 12.1 | **8,642** | 14,370 | **5,219** | 9,544 |
| - Associated companies | 12.1 | **–** | 1,961 | **–** | 478 |
| | | **170,012** | 179,264 | **97,975** | 169,795 |
| **Non-trade** | | | | | |
| Amounts due from: | | | | | |
| - Subsidiaries | 12.2 | **–** | – | **248,097** | 119,329 |
| - Associated companies | 12.2 | **56** | 1,300 | **56** | 1,274 |
| Other receivables | 12.3 | **17,827** | 71,756 | **9,580** | 11,773 |
| Deposits | | **1,286** | 1,272 | **816** | 500 |
| Prepayments | | **12,785** | 13,806 | **9,237** | 9,252 |
| Derivative financial assets | | | | | |
| - Interest rate swap contracts | | **–** | 673 | **–** | – |
| - Forward exchange contracts designated as hedge instruments | | **1,059** | – | **–** | – |
| | | **33,013** | 88,807 | **267,786** | 142,128 |
| Less: Impairment losses | | | | | |
| - trade | | **(6,087)** | (5,970) | **(199)** | (199) |
| - non-trade | | **(7,845)** | (7,845) | **(7,845)** | (7,845) |
| | | **(13,932)** | (13,815) | **(8,044)** | (8,044) |
| | | **189,093** | 254,256 | **357,717** | 303,879 |

**Note 12.1**
The trade amounts due from subsidiaries, related parties and associated companies are subject to normal trade terms.

**Note 12.2**
The non-trade amounts due from subsidiaries and associated companies are unsecured and repayable on demand. Non-trade amounts due from subsidiaries of approximately RM2,316,000 (2015: RM2,425,000) at the reporting date carried an interest rate ranging from 5.35% to 5.96% (2015: 5.49% to 5.61%) per annum. The remaining balance of amount due from subsidiaries and amount due from associated companies at the end of the reporting date are interest-free.

**Note 12.3**
In preceding financial year ended 30 June 2015, included in other receivables is an amount of RM42,100,000 representing refundable deposit from supplier which was subsequently refunded during the financial year.

# Notes to the Financial Statements (cont'd)

## 13. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Deposits with licensed banks | **18,575** | 26,533 | **5,385** | 7,380 |
| Cash and bank balances | **28,374** | 27,133 | **6,702** | 14,541 |
| | **46,949** | 53,666 | **12,087** | 21,921 |

## 14. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number of shares '000 | Amount RM'000 | Number of shares '000 | Amount RM'000 |
| Ordinary shares of RM1.00 each | | | | |
| *Authorised:* | | | | |
| At 1 July 2015/1 July 2014 | **800,000** | **800,000** | 500,000 | 500,000 |
| Increase during the financial year | **–** | **–** | 300,000 | 300,000 |
| At 30 June | **800,000** | **800,000** | 800,000 | 800,000 |
| Preference shares of RM1.00 each | | | | |
| At 1 July 2015 and 30 June 2016/ 1 July 2014 and 30 June 2015 | **2,000** | **2,000** | 2,000 | 2,000 |
| Ordinary shares of RM1.00 each | | | | |
| *Issued and fully paid:* | | | | |
| At 1 July 2015 and 30 June 2016/ 1 July 2014 and 30 June 2015 | **419,417** | **419,417** | 419,417 | 419,417 |

## 15. RESERVES

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Share premium | 15.1 | **35,852** | 35,852 | **35,852** | 35,852 |
| Merger reserve | 15.2 | **30,000** | 30,000 | **33,600** | 33,600 |
| Other reserve | 15.3 | **100** | 50 | **–** | – |
| Fair value reserve | 15.4 | **11** | 63 | **(9)** | 26 |
| Foreign currency translation reserve | 15.5 | **1,724** | 5,467 | **–** | – |
| Hedging reserve | 15.6 | **(1,111)** | – | **(1,610)** | – |
| Retained earnings | | **39,926** | 261,129 | **296,069** | 357,017 |
| | | **106,502** | 332,561 | **363,902** | 426,495 |

**Note 15.1**
Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares.

**Note 15.2**
Merger reserve is the difference between the cost of acquisition and the nominal value of the share capital and reserves of the merged subsidiary companies.

**Note 15.3**
Other reserve of the Group represents the Group's interest in subsidiary companies' capital redemption reserve which represents a transfer from the retained earnings arising from the redemption of redeemable preference shares by subsidiary companies of the Company.

**Note 15.4**
Fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

**Note 15.5**
Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

**Note 15.6**
Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

## 16. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| RCULS - Equity portion | **153,900** | 153,900 | **153,900** | 153,900 |
| RCULS - Liability portion | **30,306** | 37,869 | **30,306** | 37,869 |
| | **184,206** | 191,769 | **184,206** | 191,769 |

# Notes to the Financial Statements (cont'd)

## 16. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS *cont'd*

During the preceding financial year ended 30 June 2015, the Company issued RM185,741,250 nominal value of 5-year 5% Redeemable Convertible Unsecured Loan Stocks ("RCULS") at 100% of its nominal value by way of a renounceable rights issue to shareholders on the basis of RM1.00 nominal value of rights RCULS for every 2 existing ordinary shares of RM1.00 each held in the Company ("SSB Shares").

The RCULS were issued on 27 January 2015 ("Issue Date") and officially listed on Bursa Malaysia Securities Berhad on 30 January 2015.

The RCULS are constituted by a Trust Deed dated 1 December 2014.

The RCULS have a maturity date of 24 January 2020 ("Maturity Date"). The coupon rate of the RCULS is 5% per annum calculated on the nominal value of the RCULS outstanding and payable semi-annually in arrears each year. The RCULS holders have the right to convert all or any amount of the RCULS held by them into SSB Shares at any time from the Issue Date up to and including the Maturity Date. All outstanding RCULS which have not been earlier converted or redeemed on the Maturity Date will be automatically converted into new SSB Shares on the Maturity Date. The conversion price has been fixed at RM1.05 per SSB Share to be satisfied by surrendering the RCULS with an aggregate nominal value equivalent to the conversion price for cancellation by the Company. The new SSB Shares to be issued pursuant to the conversion of the RCULS will, upon allotment and issue, rank pari passu in all respects with the existing SSB Shares in issue except that they will not be entitled to any dividends, rights, allotments and/or other distributions in respect of which the entitlement date is prior to the date of allotment of the new SSB Shares.

Subject to the Company giving irrevocable notice to the RCULS holders at least 30 days prior to the Maturity Date, the Company has the option to redeem the outstanding RCULS (if not earlier converted) in cash at 100% of the nominal amount of the RCULS, in whole or in part (but always in the same proportion in relation to each RCULS holder) on the Maturity Date.

| | 2015<br>RM'000 |
|---|---|
| Proceeds from the issuance of RM185,741,250 nominal value of RCULS | 185,741 |
| Transaction cost | (654) |
| Net proceeds | 185,087 |
| (Less)/Add: | |
| Discounted stream of coupon payments classified as liability component | (37,869) |
| Accrued coupon payment | (3,996) |
| Interest accreted | 828 |
| RCULS - equity portion | 144,050 |
| Provision of deferred tax asset against the equity portion of RCULS | 9,850 |
| RCULS - equity portion at 30 June 2015 / 1 July 2015 / 30 June 2016 | 153,900 |

## 16. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS *cont'd*

The carrying amount of the liability component of RCULS at the reporting date is arrived at as follows:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Liability component of RCULS at 1 July/Initial recognition | **37,869** | 41,037 |
| Accrued coupon payment | **(9,287)** | (3,996) |
| Interest accreted (Note 22) | **1,724** | 828 |
| At 30 June | **30,306** | 37,869 |

## 17. DEFERRED INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Non-current** | | | | |
| Reinvestment allowance | **13,246** | 14,771 | **11,432** | 12,843 |

The tax benefits arising from reinvestment allowance are being amortised over the estimated useful lives of the underlying plant and equipment for which reinvestment allowances were claimed. During the financial year, a total of RM1,525,000 (2015: RM2,847,000) and RM1,411,000 (2015: RM1,411,000) have been amortised and recognised as other operating income in profit or loss of the Group and of the Company respectively.

## 18. RETIREMENT BENEFITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Non-current | **26,821** | 25,358 | **13,730** | 13,246 |
| Current | **441** | 241 | **120** | 69 |
| | **27,262** | 25,599 | **13,850** | 13,315 |
| **Funded plan** | | | | |
| - Present value of obligations | **–** | 564 | **–** | – |
| - Fair value of plan assets | **–** | (360) | **–** | – |
| | **–** | 204 | **–** | – |
| **Unfunded plans** | | | | |
| Present value of recognised liability of unfunded obligations | **27,262** | 25,395 | **13,850** | 13,315 |
| | **27,262** | 25,599 | **13,850** | 13,315 |

# Notes to the Financial Statements (cont'd)

## 18. RETIREMENT BENEFITS *cont'd*

**Movements in net defined benefit liability**

| | Defined benefit obligations | | Fair value of plan assets | | Net defined benefit liability | |
|---|---|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Group** | | | | | | |
| At 1 July | **25,959** | 26,327 | **(360)** | (360) | **25,599** | 25,967 |
| **Included in profit or loss** | | | | | | |
| Current service cost | **1,471** | 1,729 | **–** | – | **1,471** | 1,729 |
| Interest cost | **1,133** | 1,350 | **–** | – | **1,133** | 1,350 |
| | **2,604** | 3,079 | **–** | – | **2,604** | 3,079 |
| **Included in other comprehensive income** | | | | | | |
| Re-measurement (gain)/loss | | | | | | |
| - Actuarial (gain)/loss arising from: | | | | | | |
| - Demographic assumptions | **–** | (2,240) | **–** | – | **–** | (2,240) |
| - Financial assumptions | **–** | (1,139) | **–** | – | **–** | (1,139) |
| - Experience adjustment | **–** | 345 | **–** | – | **–** | 345 |
| | **–** | (3,034) | **–** | – | **–** | (3,034) |
| **Others** | | | | | | |
| Benefits (paid)/received | **(1,301)** | (413) | **360** | – | **(941)** | (413) |
| At 30 June | **27,262** | 25,959 | **–** | (360) | **27,262** | 25,599 |

# Notes to the Financial Statements (cont'd)

## 18. RETIREMENT BENEFITS *cont'd*

**Movements in net defined benefit liability** *cont'd*

| | Defined benefit obligations | | Fair value of plan assets | | Net defined benefit liability | |
|---|---|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Company** | | | | | | |
| At 1 July | **13,315** | 14,494 | **–** | – | **13,315** | 14,494 |
| **Included in profit or loss** | | | | | | |
| Current service cost | **226** | 717 | **–** | – | **226** | 717 |
| Past service cost | **–** | (34) | **–** | – | **–** | (34) |
| Interest cost | **763** | 587 | **–** | – | **763** | 587 |
| | **989** | 1,270 | **–** | – | **989** | 1,270 |
| **Included in other comprehensive income** | | | | | | |
| Re-measurement gain | | | | | | |
| - Actuarial gain arising from: | | | | | | |
| - Demographic assumptions | **–** | (899) | **–** | – | **–** | (899) |
| - Financial assumptions | **–** | (857) | **–** | – | **–** | (857) |
| - Experience adjustment | **–** | (418) | **–** | – | **–** | (418) |
| | **–** | (2,174) | **–** | – | **–** | (2,174) |
| **Others** | | | | | | |
| Benefits paid | **(454)** | (275) | **–** | – | **(454)** | (275) |
| At 30 June | **13,850** | 13,315 | **–** | – | **13,850** | 13,315 |

Plan assets consist of:

| | Group | |
|---|---|---|
| | 2016 % | 2015 % |
| Cash and cash equivalents | **–** | 100 |

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

No further contribution was paid to the funded plan subsequent to the change in defined benefit plans effective 1 April 2002 as disclosed in Note 2.2(r)(ii) to the financial statements.

# Notes to the Financial Statements (cont'd)

## 18. RETIREMENT BENEFITS *cont'd*

### Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **%** | % | **%** | % |
| Discount rate | **5.50 - 5.75** | 4.75 - 5.75 | **5.75** | 5.75 |
| Expected rates of salary increases | **5.00** | 3.10 - 5.00 | **5.00** | 5.00 |
| Expected return on plan assets | **–** | 5.00 | **–** | – |
| Weighted-average duration | **10 - 13 years** | 10 - 13 years | **13 years** | 13 years |

### Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown below.

| | Defined benefit obligations | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **Increase** | **Decrease** | **Increase** | **Decrease** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **2016** | | | | |
| Discount rate (1% movement) | **(3,092)** | **2,938** | **(1,486)** | **1,729** |
| Future salary growth (1% movement) | **2,915** | **(3,086)** | **1,591** | **(1,374)** |
| **2015** | | | | |
| Discount rate (1% movement) | (3,353) | 2,234 | (1,488) | 1,743 |
| Future salary growth (1% movement) | 2,798 | (2,202) | 1,468 | (1,269) |

Although the analysis does not account for the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

# Notes to the Financial Statements (cont'd)

## 19. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Other payables | | **67,912** | 103,502 | **–** | – |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade payables | | | | | |
| - Third parties | | **128,387** | 166,870 | **97,064** | 97,023 |
| - Subsidiaries | 19.1 | **–** | – | **433** | 718 |
| | | **128,387** | 166,870 | **97,497** | 97,741 |
| **Non-trade** | | | | | |
| Amount due to | | | | | |
| - Subsidiaries | 19.2 | **–** | – | **61,346** | 61,431 |
| - Associated companies | 19.2 | **–** | 72 | **–** | – |
| Other payables and accrued expenses | | **295,815** | 202,926 | **60,081** | 73,281 |
| Derivative financial liabilities | | | | | |
| - Forward exchange contracts | | **–** | 293 | **–** | 198 |
| - Forward exchange contracts designated as hedge instruments | | **2,291** | – | **2,239** | – |
| - Interest rate swap contracts | | **254** | – | **69** | – |
| | | **298,360** | 203,291 | **123,735** | 134,910 |
| | | **426,747** | 370,161 | **221,232** | 232,651 |

**Note 19.1**
The trade amounts due to subsidiaries is subject to normal trade terms.

**Note 19.2**
The non-trade amount due to subsidiaries and associated companies are unsecured, interest free and repayable on demand.

Included in other payables and accrued expenses are:

i) Provision for expenses relating to clearing of industrial waste of RM12,000,000 (2015: RM12,000,000) of the Group and of the Company.

ii) An amount owing to a supplier of plant and machinery by a subsidiary company of RM199,448,000 (2015: RM186,418,000) and out of which RM67,912,000 (2015: RM103,502,000) is not due and not payable within a year. The non-current portion is bearing interest at 1% (2015: 2%) per annum.

# Notes to the Financial Statements (cont'd)

## 20. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Non-current (Unsecured)** | | | | |
| Term loan | **221,137** | 278,946 | **50,763** | 121,212 |
| **Current (Unsecured)** | | | | |
| Bank overdrafts | **1,450** | 5,534 | **117** | 3,840 |
| Bankers' acceptances | **433,497** | 596,972 | **330,435** | 507,429 |
| Revolving credit | **95,800** | 13,000 | **88,000** | 8,000 |
| Term loan | **90,449** | 202,413 | **70,449** | 92,413 |
| | **621,196** | 817,919 | **489,001** | 611,682 |
| | **842,333** | 1,096,865 | **539,764** | 732,894 |

## 21. REVENUE - GROUP/COMPANY

Revenue represents the invoiced value of goods sold less discounts and returns.

## 22. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Interest expense on: | | | | |
| Borrowings | **45,550** | 51,903 | **28,853** | 33,764 |
| RCULS | **1,724** | 828 | **1,724** | 828 |
| Others | **22** | 13 | **22** | 13 |
| | **47,296** | 52,744 | **30,599** | 34,605 |
| Recognised in profit or loss | **44,222** | 38,249 | **30,599** | 34,605 |
| Capitalised on qualifying assets: | | | | |
| Capital work-in-progress | **3,074** | 14,495 | **–** | – |
| | **47,296** | 52,744 | **30,599** | 34,605 |

## 23. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Auditors' remuneration | | | | |
| Statutory audits | | | | |
| - Holding company's auditors | | | | |
| - current year | **285** | 307 | **116** | 166 |
| - prior year | **6** | 50 | **6** | 50 |
| - Other auditors | **8** | 7 | **–** | – |
| Other services | | | | |
| - Holding company's auditors | **6** | 6 | **6** | 6 |
| Amortisation of deferred income | **(1,525)** | (2,847) | **(1,411)** | (1,411) |
| Dividend income | | | | |
| - Quoted investment in Malaysia | **(4)** | (607) | **(1)** | (325) |
| - Subsidiary companies | **–** | – | **(58,996)** | (14,076) |
| (Gain)/Loss on disposal of | | | | |
| - Quoted investment in Malaysia | **(52)** | – | **2** | – |
| - Associated companies | **(25,039)** | – | **(25,039)** | – |
| Employee benefit expense | | | | |
| - Directors' remunerations | | | | |
| - Executive Directors of the Company | | | | |
| - Fee* | **19** | 60 | **–** | – |
| - Salaries and bonuses | **2,040** | 2,650 | **2,040** | 2,650 |
| - Contribution to Employees Provident Fund | **115** | 146 | **115** | 146 |
| | **2,174** | 2,856 | **2,155** | 2,796 |
| - Non-Executive Directors of the Company | | | | |
| - Fees | **245** | 257 | **245** | 257 |
| - Other emoluments | **226** | 234 | **226** | 234 |
| | **471** | 491 | **471** | 491 |
| - Staff costs | | | | |
| - Salaries and other expenses | **128,080** | 120,944 | **28,674** | 54,099 |
| - Contribution to Employees Provident Fund | **12,285** | 12,282 | **2,834** | 5,590 |
| - Retirement benefits | **2,604** | 3,079 | **989** | 1,270 |
| | **142,969** | 136,305 | **32,497** | 60,959 |
| Fair value loss/(gain) on derivative instruments | **634** | (466) | **(129)** | (466) |
| Fair value loss on financial instruments designated as hedge instruments | **121** | – | **629** | – |
| (Gain)/Loss on foreign exchange | | | | |
| - realised | **(5,687)** | (288) | **(4,173)** | (1,643) |
| - unrealised | **12,419** | (5,573) | **(61)** | 79 |

# Notes to the Financial Statements (cont'd)

## 23. LOSS BEFORE TAXATION *cont'd*

Loss before taxation is arrived at after charging/(crediting): *cont'd*

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Impairment loss: | | | | |
| - investment in a subsidiary company | **–** | – | **130,475** | – |
| - investment in an associated company | **–** | 17,353 | **–** | 73,441 |
| - trade receivables | **117** | – | **–** | – |
| Interest income | **(1,621)** | (923) | **(10,216)** | (18,460) |
| Provision for and write-off of inventories | **30,514** | 23,273 | **31,394** | 18,668 |
| Property, plant and equipment | | | | |
| - Depreciation | **63,440** | 68,328 | **17,495** | 38,797 |
| - Gain on disposal | **(125)** | (35) | **(95)** | (35) |
| - Write-off | **140,900** | 51 | **–** | 28 |
| Rental of - equipment | **1,867** | 986 | **1,155** | 599 |
| - premises | **396** | 745 | **278** | 269 |
| Rental income from - equipment | **(14)** | (17) | **(14)** | (17) |
| - premises | **(52)** | (845) | **(3,616)** | (1,186) |

The estimated monetary value of Executive Directors' benefit-in-kind of the Group and the Company is RM24,000 (2015: RM41,000).

* This includes the fee for Directors which has been assigned in favour of the Company where the Director is employed.

## 24. TAXATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Current taxation | | | | |
| - Current year | **16,324** | 7,510 | **1,597** | 2,825 |
| - Prior year | **(906)** | 1,794 | **(1,553)** | 975 |
| | **15,418** | 9,304 | **44** | 3,800 |
| Deferred taxation | | | | |
| - Current year | **(8,475)** | (27,681) | **(2,104)** | (31,521) |
| - Prior year | **(199)** | (1,016) | **875** | (1,087) |
| | **(8,674)** | (28,697) | **(1,229)** | (32,608) |
| Utilisation of tax credit receivable arising from unutilised reinvestment allowances (Note 10) | | | | |
| - Prior year | **10** | (391) | **10** | (391) |
| | **6,754** | (19,784) | **(1,175)** | (29,199) |

## 24. TAXATION *cont'd*

The reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax at the effective tax rate of the Group and of the Company are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Loss before taxation | **(213,129)** | (136,743) | **(62,123)** | (88,145) |
| Taxation at Malaysian statutory tax rates of 24% (2015: 25%) | **(51,151)** | (34,186) | **(14,910)** | (22,036) |
| Non-deductible expenses | **4,578** | 8,020 | **32,806** | 21,714 |
| Non-taxable income | **(5,385)** | (1,731) | **(20,169)** | (3,953) |
| Effect of tax incentive | **(321)** | (58) | **–** | – |
| Difference attributable to associated companies | **407** | 8,091 | **–** | – |
| Deferred tax assets not recognised/ (recognised) | **58,751** | (1,843) | **–** | – |
| Derecognition of deferred tax liability arising from assets transferred to subsidiaries | **–** | – | **–** | (25,099) |
| RCULS coupon payment | **1,816** | 761 | **1,816** | 761 |
| Others | **(846)** | 775 | **(50)** | (83) |
| | **7,849** | (20,171) | **(507)** | (28,696) |
| (Over)/Under provision in prior years | **(1,095)** | 387 | **(668)** | (503) |
| | **6,754** | (19,784) | **(1,175)** | (29,199) |

## 25. LOSS PER ORDINARY SHARE

**Basic loss per ordinary share**

The basic loss per ordinary share is calculated by dividing the Group's losses attributable to owners of the Company of RM221,153,000 (2015: RM117,581,000) by the weighted average number of ordinary shares outstanding during the financial year of 419,417,208 (2015: 419,417,208).

**Diluted loss per ordinary share**

The Group's diluted loss per ordinary share is not presented as the assumed potential new ordinary shares are anti-dilutive.

# Notes to the Financial Statements (cont'd)

## 26. OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR

| | Before tax RM'000 | Tax (expense)/ benefit RM'000 | Net of tax RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2016** | | | |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Loss on fair value of available-for-sale financial assets | **(10)** | **–** | **(10)** |
| Reversal of fair value reserve upon disposal of available-for-sale financial assets | **(42)** | **–** | **(42)** |
| Foreign currency translation differences for foreign operations | | | |
| - Loss arising during the year | **(3,743)** | **–** | **(3,743)** |
| Cash flow hedge | | | |
| - Loss arising during the year | **(1,232)** | **–** | **(1,232)** |
| - Reclassification adjustment for loss included in profit or loss | **121** | **–** | **121** |
| | **(1,111)** | **–** | **(1,111)** |
| | **(4,906)** | **–** | **(4,906)** |
| **2015** | | | |
| ***Items that will not be reclassified subsequently to profit or loss*** | | | |
| Re-measurement of defined benefit liability | 3,034 | – | 3,034 |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Loss on fair value of available-for-sale financial assets | (336) | – | (336) |
| Foreign currency translation differences for foreign operations | | | |
| - Gain arising during the year | 2,021 | – | 2,021 |
| | 4,719 | – | 4,719 |

# Notes to the Financial Statements (cont'd)

## 26. OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR *cont'd*

| | Before tax RM'000 | Tax (expense)/ benefit RM'000 | Net of tax RM'000 |
|---|---|---|---|
| **Company** | | | |
| **2016** | | | |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Loss on fair value of available-for-sale financial assets | **(35)** | **–** | **(35)** |
| Cash flow hedge | | | |
| - Loss arising during the year | **(2,239)** | **–** | **(2,239)** |
| - Reclassification adjustment for loss included in profit or loss | **629** | **–** | **629** |
| | **(1,610)** | **–** | **(1,610)** |
| | **(1,645)** | **–** | **(1,645)** |
| **2015** | | | |
| ***Items that will not be reclassified subsequently to profit or loss*** | | | |
| Re-measurement of defined benefit liability | 2,174 | – | 2,174 |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Loss on fair value of available-for-sale financial assets | (320) | – | (320) |
| | 1,854 | – | 1,854 |

# Notes to the Financial Statements (cont'd)

## 27. RELATED PARTIES

### 27.1 Identity of related parties

The Group has related party transactions with corporations which are related to the Directors and/or major shareholders of the Company and/or related corporations and/or persons connected with them as follows:

(a) Hong Leong Company (Malaysia) Berhad ("HLCM") is a major shareholder of the Company through Hong Leong Manufacturing Group Sdn Bhd ("HLMG"). YBhg Tan Sri Quek Leng Chan is a major shareholder of the Company, and a Director and a major shareholder of HLMG and HLCM. YBhg Datuk Kwek Leng San is a Director of the Company, HLMG and HLCM and a shareholder of HLCM. Mr Kwek Leng Beng is a Director of HLCM and a major shareholder of HLCM. Mr Quek Leng Chye and Mr Kwek Leng Kee are major shareholders of the Company and HLCM. YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San and Mr Quek Leng Chye are brothers. HLCM is a person connected with YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Quek Leng Chye, Mr Kwek Leng Kee and Mr Kwek Leng Beng;

(b) Hong Bee Hardware Company, Sdn Berhad ("HBH") and Hong Bee Engineering Sdn Bhd ("HBE") are persons connected with Mr Chuah Chuan Thye, a past Director of a subsidiary of the Company, YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Quek Leng Chye, Mr Kwek Leng Kee and Mr Kwek Leng Beng;

(c) Cheah Hong Inn Sdn Bhd ("CHI") is a person connected with Mr Cheah Cheng Leng, a past Director of a subsidiary of the Company;

(d) Kim Company Sdn Bhd ("Kim Co") is a person connected with YBhg Tan Sri Dato' Ong Gim Huat, a past Director of a subsidiary of the Company; and

(e) Su Hock Company Sdn Bhd and its subsidiary ("SHG") are persons connected with YBhg Dato' Dr Tan Tat Wai, a Director and major shareholder of the Company.

### 27.2 Significant transactions with related parties are as follows:

**(i) Transactions with subsidiary companies**

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **Company** | | |
| Sale of goods | **739,943** | 821,003 |
| Purchase of goods | **366,769** | 521,188 |
| Rental expenses | **269** | 269 |
| Rental income | **7,592** | 5,163 |
| Interest income | **9,803** | 17,919 |
| Management fees income | **8,966** | 4,071 |
| Management fees expenses | **933** | 362 |
| Cut and bend related charges | **4,372** | 8,328 |
| Dividend income | **58,996** | 14,076 |

# Notes to the Financial Statements (cont'd)

## 27. RELATED PARTIES *cont'd*

### 27.2 Significant transactions with related parties are as follows: *cont'd*

**(ii) Transactions with related parties**

| | Related party | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| Receipt of Group management and/or support services | Subsidiary of HLCM | **2,188** | 2,727 | **2,188** | 2,727 |
| Sale of goods | HBH & HBE | **69,787** | 90,829 | **38,936** | 63,721 |
| | Subsidiary of HLCM | **116,506** | 132,283 | **83,125** | 96,503 |
| | CHI | **29,951** | 36,404 | **–** | – |
| Sale of goods | Kim Co | **14,877** | 19,894 | **241** | 539 |
| | Associated companies of SSB | **–** | 72,251 | **–** | 70,889 |
| Purchase of goods | HBH | **715** | 618 | **–** | 618 |
| | Subsidiary of HLCM | **7** | 26 | **7** | 26 |
| Purchase of insurance | Subsidiary of HLCM | **101** | 126 | **–** | 17 |
| Royalty receivable | Associated companies of SSB | **–** | 1,998 | **–** | 1,998 |
| Freight charges | SHG | **12** | 157 | **12** | 157 |

Significant balances with related parties of the Group and of the Company at the reporting date are disclosed in Note 12 and Note 19.

The above transactions have been carried out on commercial terms consistent with the usual business practices and policies of the Group and of the Company.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly. The key management personnel includes all the Directors of the Group.

There were no transactions with any key management personnel during the financial year other than Directors' remunerations as disclosed in Note 23.

# Notes to the Financial Statements (cont'd)

## 28. OPERATING SEGMENTS

The Board of Directors reviews financial reports at least on a quarterly basis. Operating segments are components in which separate financial information that is available and is evaluated by the Board of Directors on resource allocation and in assessing performance.

The Group comprises the following reportable segments:

a) Steel products
b) Investment holding and others

**Segment profit**

Performance is measured based on segment results before interest income, finance costs, share of results of associated companies and taxation as included in the internal management reports that are reviewed by the Board of Directors.

**Segment assets**

Segment assets information is not presented to the Board of Directors and hence, no disclosure is made on the segment asset.

**Segment liabilities**

Segment liabilities information is not presented to the Board of Directors and hence, no disclosure is made on the segment liability.

**Reconciliation of the Group's reportable segment (loss)/profit**

| | Steel Products RM'000 | Investment holding and others RM'000 | Total RM'000 |
|---|---|---|---|
| **2016** | | | |
| **Segment (Loss)/Profit** | **(172,771)** | **3,939** | **(168,832)** |
| Interest income | | | **1,621** |
| Finance costs | | | **(44,222)** |
| Share of loss in associated companies, net of tax | | | **(1,696)** |
| Consolidated loss before taxation | | | **(213,129)** |
| Included in the measure of segment (loss)/profit are: | | | |
| Revenue from external customers | **2,400,495** | **–** | **2,400,495** |
| Provision for and write-off of inventories | **30,514** | **–** | **30,514** |
| Property, plant and equipment written off | **140,900** | **–** | **140,900** |
| Depreciation | **63,416** | **24** | **63,440** |

# Notes to the Financial Statements (cont'd)

## 28. OPERATING SEGMENTS *cont'd*

**Reconciliation of the Group's reportable segment (loss)/profit** *cont'd*

| | Steel Products RM'000 | Investment holding and others RM'000 | Total RM'000 |
|---|---|---|---|
| **2015** | | | |
| **Segment Loss** | (65,042) | (2,006) | (67,048) |
| Interest income | | | 923 |
| Finance costs | | | (38,249) |
| Share of loss in associated companies, net of tax | | | (32,369) |
| Consolidated loss before taxation | | | (136,743) |
| Included in the measure of segment loss are: | | | |
| Revenue from external customers | 2,529,605 | – | 2,529,605 |
| Provision for and write-off of inventories | 23,273 | – | 23,273 |
| Property, plant and equipment written off | 51 | – | 51 |
| Depreciation | 68,306 | 22 | 68,328 |

**Geographical information**

Revenue of the Group by geographical locations of the customers is as follows:

| | Revenue | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Malaysia | **2,177,974** | 2,306,839 |
| ASEAN countries | **105,180** | 156,642 |
| Others | **117,341** | 66,124 |
| | **2,400,495** | 2,529,605 |

Non-current assets (except for investments in associated company, financial instruments, deferred tax assets and tax credit receivable) of the Group by geographical locations of the assets are as follows:

| | Non-Current assets | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Malaysia | **1,345,582** | 1,473,660 |
| ASEAN countries | **–** | – |
| Others | **–** | – |
| | **1,345,582** | 1,473,660 |

# Notes to the Financial Statements (cont'd)

## 29. CAPITAL COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Property, plant and equipment | | | | |
| - Authorised and contracted for | **1,458** | 44,181 | **330** | 1,552 |
| - Authorised but not contracted for | **10,910** | 22,012 | **6,485** | 707 |
| | **12,368** | 66,193 | **6,815** | 2,259 |

## 30. FINANCIAL INSTRUMENTS

### 30.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL): - Held for trading (HFT);
(c) Available-for-sale financial assets (AFS); and
(d) Other financial liabilities measured at amortised cost (OL).

| | Carrying amount RM'000 | L&R RM'000 | AFS RM'000 | Derivatives used for hedging RM'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial assets** | | | | |
| **Group** | | | | |
| Other investments | **381** | **–** | **381** | **–** |
| Trade and other receivables, including derivatives (excluding deposits and prepayments) | **182,867** | **181,808** | **–** | **1,059** |
| Cash and cash equivalents | **46,949** | **46,949** | **–** | **–** |
| | **230,197** | **228,757** | **381** | **1,059** |
| **Company** | | | | |
| Other investments | **381** | **–** | **381** | **–** |
| Trade and other receivables, including derivatives (excluding deposits and prepayments) | **355,509** | **355,509** | **–** | **–** |
| Cash and cash equivalents | **12,087** | **12,087** | **–** | **–** |
| | **367,977** | **367,596** | **381** | **–** |

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.1 Categories of financial instruments *cont'd*

| | Carrying amount RM'000 | OL RM'000 | FVTPL - HFT RM'000 | Derivatives used for hedging RM'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial liabilities** | | | | |
| **Group** | | | | |
| RCULS - liability portion | **30,306** | **30,306** | **–** | **–** |
| Borrowings | **842,333** | **842,333** | **–** | **–** |
| Trade and other payables, including derivatives | **494,659** | **492,114** | **254** | **2,291** |
| | **1,367,298** | **1,364,753** | **254** | **2,291** |
| **Company** | | | | |
| RCULS - liability portion | **30,306** | **30,306** | **–** | **–** |
| Borrowings | **539,764** | **539,764** | **–** | **–** |
| Trade and other payables, including derivatives | **221,232** | **218,924** | **69** | **2,239** |
| | **791,302** | **788,994** | **69** | **2,239** |

| | Carrying amount RM'000 | L&R RM'000 | FVTPL - HFT RM'000 | AFS RM'000 |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial assets** | | | | |
| **Group** | | | | |
| Other investments | 525 | – | – | 525 |
| Trade and other receivables, including derivatives (excluding deposits and prepayments) | 247,023 | 246,350 | 673 | – |
| Cash and cash equivalents | 53,666 | 53,666 | – | – |
| | 301,214 | 300,016 | 673 | 525 |
| **Company** | | | | |
| Other investments | 427 | – | – | 427 |
| Trade and other receivables, including derivatives (excluding deposits and prepayments) | 301,972 | 301,972 | – | – |
| Cash and cash equivalents | 21,921 | 21,921 | – | – |
| | 324,320 | 323,893 | – | 427 |

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.1 Categories of financial instruments *cont'd*

| | Carrying amount RM'000 | OL RM'000 | FVTPL - HFT RM'000 |
|---|---|---|---|
| **2015** | | | |
| **Financial liabilities** | | | |
| **Group** | | | |
| RCULS - liability portion | 37,869 | 37,869 | – |
| Borrowings | 1,096,865 | 1,096,865 | – |
| Trade and other payables, including derivatives | 473,663 | 473,370 | 293 |
| | 1,608,397 | 1,608,104 | 293 |
| **Company** | | | |
| RCULS - liability portion | 37,869 | 37,869 | – |
| Borrowings | 732,894 | 732,894 | – |
| Trade and other payables, including derivatives | 232,651 | 232,453 | 198 |
| | 1,003,414 | 1,003,216 | 198 |

### 30.2 Net gains and losses arising from financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Net (losses)/gains arising on: | | | | |
| Loans and receivables | **6,059** | 4,286 | **14,771** | 21,101 |
| Other liabilities | **(58,583)** | (39,021) | **(30,920)** | (35,683) |
| Fair value through profit or loss | | | | |
| - Loss on financial instruments designated as hedge instruments | **(1,232)** | – | **(2,239)** | – |
| - (Loss)/Gain on fair value of derivative instruments | **(634)** | 466 | **129** | 466 |
| Available-for-sale financial assets | | | | |
| - recognised in profit or loss | **56** | 607 | **(1)** | 325 |
| - recognised in other comprehensive income | **(52)** | (336) | **(35)** | (320) |
| | **(54,386)** | (33,998) | **(18,295)** | (14,111) |

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

#### (a) Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group's and the Company's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from financial guarantees given to banks for credit facilities granted to subsidiaries. The Group does not specifically monitor the ageing of other receivables. Nevertheless, other receivables are not considered to be overdue.

**Receivables**

***Risk management objectives, policies and processes for managing the risk***

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group and the Company is represented by the carrying amount of each financial asset.

***Exposure to credit risk, credit quality and collateral***

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statements of financial position.

Management has taken reasonable steps to ensure that trade receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due which are deemed to have higher credit risk are monitored individually.

The exposure of credit risk for trade receivables, net of allowance for impairment losses, as at the end of the reporting period by geographic region was:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Malaysia | **146,710** | 151,634 | **97,776** | 166,347 |
| ASEAN countries | **14,531** | 16,242 | **–** | 803 |
| Others | **2,684** | 5,418 | **–** | 2,446 |
| | **163,925** | 173,294 | **97,776** | 169,596 |

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (a) Credit risk *cont'd*

**Receivables** *cont'd*

**Impairment losses**

The ageing of trade receivables as at end of the reporting period was:

| | Gross RM'000 | Individual impairment RM'000 | Net RM'000 |
|---|---|---|---|
| **2016** | | | |
| **Group** | | | |
| Not past due | **124,782** | **–** | **124,782** |
| Past due 1 - 30 days | **28,345** | **–** | **28,345** |
| Past due 31 - 120 days | **11,079** | **(359)** | **10,720** |
| Past due more than 120 days | **5,806** | **(5,728)** | **78** |
| | **170,012** | **(6,087)** | **163,925** |
| **Company** | | | |
| Not past due | **79,743** | **–** | **79,743** |
| Past due 1 - 30 days | **18,029** | **–** | **18,029** |
| Past due 31 - 120 days | **4** | **–** | **4** |
| Past due more than 120 days | **199** | **(199)** | **–** |
| | **97,975** | **(199)** | **97,776** |
| **2015** | | | |
| **Group** | | | |
| Not past due | 147,801 | – | 147,801 |
| Past due 1 - 30 days | 20,035 | – | 20,035 |
| Past due 31 - 120 days | 5,152 | – | 5,152 |
| Past due more than 120 days | 6,276 | (5,970) | 306 |
| | 179,264 | (5,970) | 173,294 |
| **Company** | | | |
| Not past due | 161,384 | – | 161,384 |
| Past due 1 - 30 days | 8,027 | – | 8,027 |
| Past due 31 - 120 days | 185 | – | 185 |
| Past due more than 120 days | 199 | (199) | – |
| | 169,795 | (199) | 169,596 |

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (a) Credit risk *cont'd*

**Receivables** *cont'd*

**Impairment losses** *cont'd*

The movements in the impairment losses of trade receivables during the financial year were:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| At 1 July 2015/2014 | **5,970** | 5,970 | **199** | 199 |
| Additions | **174** | – | **–** | – |
| Reversal | **(57)** | – | **–** | – |
| At 30 June | **6,087** | 5,970 | **199** | 199 |

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

**Intercompany balances**

***Risk management objectives, policies and processes for managing the risk***

The Company provides unsecured advances to its subsidiaries. The Company monitors the results of the subsidiaries regularly.

***Exposure to credit risk, credit quality and collateral***

As at the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amounts in the statements of financial position.

***Impairment losses***

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries.

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (a) Credit risk *cont'd*

**Cash and cash equivalents**

***Risk management objectives, policies and processes for managing the risk***

The Group's and Company's short term deposits are placed as fixed rates investments and upon which management endeavours to obtain the best rate available in the market.

Cash and cash equivalents are maintained with licensed financial institutions.

***Exposure to credit risk, credit quality and collateral***

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position.

***Impairment losses***

As at the end of the reporting period, there was no indication that the cash and cash equivalents were not recoverable.

**Financial guarantees**

***Risk management objectives, polices and processes for managing the risk***

The Company provides unsecured financial guarantees to a bank in respect of banking facilities granted to a subsidiary company. The Company monitors on an ongoing basis the results of the subsidiary and repayments made by the subsidiary.

***Exposure to credit risk, credit quality and collateral***

The maximum exposure to credit risk for the Company amounted to about RM379 million (2015: RM267 million) representing the outstanding banking facilities of the subsidiary covered by the financial guarantee as at the end of the reporting period.

As at the end of the reporting period, there was no indication that the subsidiary would default on repayment.

The fair values of the financial guarantees have not been recognised since the fair value was not material.

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (a) Credit risk *cont'd*

**Investments and other financial assets**

***Risk management objectives, policies and processes for managing the risk***

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group and the Company. Transactions involving derivative financial instruments are with approved financial institutions.

***Exposure to credit risk, credit quality and collateral***

As at the end of the reporting period, the Group and the Company have invested in domestic securities. The maximum exposure to credit risk is represented by the carrying amounts in the statements of financial position.

In view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligations. The Group and the Company do not have overdue investments that have not been impaired.

***Impairment losses***

As at the end of the reporting period, there were no significant financial difficulties being experienced by the issuer.

#### (b) Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group and the Company manage its debt maturity profile, operating cash flows and the availability of funding so as to ensure that repayment, and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments as well as sufficient undrawn lines of banking facilities to meet its working capital requirements.

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (b) Liquidity risk *cont'd*

***Maturity analysis***

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

| | Carrying amount RM'000 | Contractual interest rates % | Contractual cash flows RM'000 | Under 1 year RM'000 | 1-2 years RM'000 | 2-5 years RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2016** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS - liability portion | **30,306** | **5.00** | **33,151** | **9,287** | **9,287** | **14,577** |
| Borrowings | **842,333** | **3.65 - 7.85** | **874,282** | **635,751** | **74,464** | **164,067** |
| Trade and other payables | **424,202** | **–** | **424,202** | **424,202** | **–** | **–** |
| Other payables | **67,912** | **1.00** | **67,912** | **–** | **67,912** | **–** |
| | **1,364,753** | | **1,399,547** | **1,069,240** | **151,663** | **178,644** |
| *Derivative financial liabilities* | | | | | | |
| Interest rate swap contracts | **254** | **–** | **254** | **254** | **–** | **–** |
| Forward exchange contracts: | | | | | | |
| - outflow | **2,291** | **–** | **174,425** | **174,425** | **–** | **–** |
| - inflow | **–** | **–** | **(172,134)** | **(172,134)** | **–** | **–** |
| | **1,367,298** | | **1,402,092** | **1,071,785** | **151,663** | **178,644** |
| **2015** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS - liability portion | 37,869 | 5.00 | 40,891 | 9,287 | 9,287 | 22,317 |
| Borrowings | 1,096,865 | 3.65 - 7.35 | 1,129,371 | 837,481 | 189,699 | 102,191 |
| Trade and other payables | 286,952 | – | 286,952 | 286,952 | – | – |
| Other payables | 186,418 | 2.00 | 186,418 | 82,916 | 61,402 | 42,100 |
| | 1,608,104 | | 1,643,632 | 1,216,636 | 260,388 | 166,608 |
| *Derivative financial liabilities* | | | | | | |
| Forward exchange contracts: | | | | | | |
| - outflow | 293 | – | 232,161 | 232,161 | – | – |
| - inflow | – | – | (231,868) | (231,868) | – | – |
| | 1,608,397 | | 1,643,925 | 1,216,929 | 260,388 | 166,608 |

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (b) Liquidity risk *cont'd*

***Maturity analysis*** *cont'd*

| | Carrying amount RM'000 | Contractual interest rates % | Contractual cash flows RM'000 | Under 1 year RM'000 | 1-2 years RM'000 | 2-5 years RM'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2016** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS - liability portion | **30,306** | **5.00** | **33,151** | **9,287** | **9,287** | **14,577** |
| Borrowings | **539,764** | **3.65 - 7.35** | **547,047** | **493,735** | **35,965** | **17,347** |
| Trade and other payables | **218,924** | **–** | **218,924** | **218,924** | **–** | **–** |
| Financial guarantees | **–** | **–** | **190,000** | **190,000** | **–** | **–** |
| | **788,994** | | **989,122** | **911,946** | **45,252** | **31,924** |
| *Derivative financial liabilities* | | | | | | |
| Interest rate swap contracts | **69** | **–** | **69** | **69** | **–** | **–** |
| Forward exchange contracts: | | | | | | |
| - outflow | **2,239** | **–** | **158,493** | **158,493** | **–** | **–** |
| - inflow | **–** | **–** | **(156,254)** | **(156,254)** | **–** | **–** |
| | **791,302** | | **991,430** | **914,254** | **45,252** | **31,924** |
| **2015** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS - liability portion | 37,869 | 5.00 | 40,891 | 9,287 | 9,287 | 22,317 |
| Borrowings | 732,894 | 3.65 - 7.35 | 749,894 | 621,400 | 75,182 | 53,312 |
| Trade and other payables | 232,453 | – | 232,453 | 232,453 | – | – |
| Financial guarantees | – | – | 267,000 | 267,000 | – | – |
| | 1,003,216 | | 1,290,238 | 1,130,140 | 84,469 | 75,629 |
| *Derivative financial liabilities* | | | | | | |
| Forward exchange contracts: | | | | | | |
| - outflow | 198 | – | 147,742 | 147,742 | – | – |
| - inflow | – | – | (147,544) | (147,544) | – | – |
| | 1,003,414 | | 1,290,436 | 1,130,338 | 84,469 | 75,629 |

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Group's and the Company's financial position or cash flows.

#### (i) Currency risk

The Group and the Company are exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currencies of the Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD), Singapore Dollar (SGD) and European Dollar (EURO).

***Risk management objectives, policies and processes for managing the risk***

Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts, on a case by case basis.

***Exposure to foreign currency risk***

The Group's and the Company's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| **Amount denominated in USD:** | | | | |
| Trade and other receivables | **6,085** | 10,715 | **–** | 3,916 |
| Trade and other payables | **(332)** | (49,516) | **(124)** | (49,311) |
| Cash and bank balances | **9,426** | 11,978 | **3** | 7,107 |
| Forward exchange contracts | **(2,239)** | (352) | **(2,239)** | (286) |
| Net exposure | **12,940** | (27,175) | **(2,360)** | (38,574) |
| **Amount denominated in SGD:** | | | | |
| Trade and other receivables | **9,824** | 11,179 | **–** | – |
| Trade and other payables | **(16)** | – | **(16)** | – |
| Cash and bank balances | **1,287** | 665 | **–** | – |
| Forward exchange contracts | **–** | 88 | **–** | 88 |
| Net exposure | **11,095** | 11,932 | **(16)** | 88 |

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (c) Market risk *cont'd*

##### (i) Currency risk *cont'd*

***Exposure to foreign currency risk** cont'd*

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| **Amount denominated in EURO:** | | | | |
| Trade and other payables | **(199,475)** | (186,903) | **(4)** | (291) |
| Forward exchange contracts | **–** | (28) | **–** | – |
| Net exposure | **(199,475)** | (186,931) | **(4)** | (291) |

***Currency risk sensitivity analysis***

A 5% (2015: 5%) strengthening of the RM against the following currencies at the end of the reporting period would have increased/(decreased) profit before taxation by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

| | Profit or loss | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| USD | **(647)** | 1,359 | **118** | 1,929 |
| SGD | **(555)** | (597) | **1** | (4) |
| EURO | **9,974** | 9,347 | **–** | 15 |

A 5% (2015: 5%) weakening of the RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (c) Market risk *cont'd*

##### (ii) Interest rate risk

The Group and the Company manage the interest rate exposure by maintaining available lines of fixed and floating rate borrowings.

***Exposure to interest rate risk***

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period were:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| **Fixed rate instruments** | | | | |
| Financial assets | **18,575** | 26,533 | **7,701** | 9,805 |
| Financial liabilities | **(627,515)** | (834,259) | **(448,741)** | (553,298) |
| | **(608,940)** | (807,726) | **(441,040)** | (543,493) |
| **Floating rate instrument** | | | | |
| Financial liabilities | **(313,036)** | (486,893) | **(121,329)** | (217,465) |

***Interest rate risk sensitivity analysis***

*(a) Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

*(b) Cash flow sensitivity analysis for variable rate instruments*

An increase/(decrease) of 50 basis points ("bp") in interest rates at the end of the reporting period would have (decreased)/increased profit before taxation of the Group and the Company by RM1,565,000 (2015: RM2,434,000) and RM607,000 (2015: RM1,087,000) respectively. This analysis assumes that all other variables remain constant.

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (c) Market risk *cont'd*

##### (iii) Other price risk

Equity price risk arises from the Group's and the Company's investments in equity securities.

***Risk management objectives, policies and processes for managing the risk***

Management of the Group monitors the equity investments on an individual basis and all buy and sell decisions are approved by the Risk Management Committee of the Group.

***Equity price risk sensitivity analysis***

This analysis assumes that all other variables remained constant and the Group's equity investments moved in correlation with Bursa Malaysia Securities Berhad ("BMSB").

A 10% (2015: 10%) strengthening in BMSB at the end of the reporting period would have increased total equity of the Group and of the Company by RM38,000 (2015: RM53,000) and RM38,000 (2015: RM43,000) respectively. A 10% (2015: 10%) weakening in BMSB would have had equal but opposite effect on the total equity.

#### (d) Hedging activities

##### (i) Cash flow hedge

The Group and the Company has entered into a number of forward exchange contracts to hedge the cash flow risk in relation to the variations of cash flows arising from future forecasted transactions. These forward exchange contracts has a total notional amount of USD57,983,338, SGD3,465,471 and EURO24,262 (2015: Nil) and USD38,723,501 (2015: Nil) for the Group and the Company respectively, and all of the forward exchange contracts have maturities of less than one year after the end of the reporting period.

# Notes to the Financial Statements (cont'd)

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.3 Financial risk management *cont'd*

#### (d) Hedging activities *cont'd*

##### (i) Cash flow hedge *cont'd*

The following table indicates the periods in which the cash flows associated with the foreign exchange currencies are expected to occur and affect profit or loss:

| | Carrying amount RM'000 | Expected cash flow RM'000 | Under 1 year RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2016** | | | |
| **Financial asset** | | | |
| Forwards exchange contracts | **1,059** | **1,059** | **1,059** |
| **Financial liabilities** | | | |
| Forwards exchange contracts | **2,291** | **2,291** | **2,291** |
| **Company** | | | |
| **2016** | | | |
| **Financial liabilities** | | | |
| Forwards exchange contracts | **2,239** | **2,239** | **2,239** |

During the financial year, a loss of RM1,232,000 and RM2,239,000 was recognised in other comprehensive income of the Group and the Company respectively. A loss of RM121,000 and RM629,000 was reclassified from equity to profit or loss of the Group and the Company as other operating expenses.

Ineffectiveness loss amounting to RM121,000 and RM629,000 was recognised in profit or loss of the Group and the Company respectively during the financial year in respect of the hedge.

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.4 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate their fair values due to the relatively short term nature of these financial instruments. Accordingly, the fair value and fair value hierarchy levels have not been presented for these instruments.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

| | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Total fair value RM'000 | Carrying amount RM'000 |
| **Group** | | | | | | | | | | |
| **2016** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | **381** | **–** | **–** | **381** | **–** | **–** | **–** | **–** | **381** | **381** |
| Forward exchange contracts | **–** | **1,059** | **–** | **1,059** | **–** | **–** | **–** | **–** | **1,059** | **1,059** |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | **–** | **–** | **–** | **–** | **–** | **–** | **30,306** | **30,306** | **33,151** | **30,306** |
| Forward exchange contracts | **–** | **2,291** | **–** | **2,291** | **–** | **–** | **–** | **–** | **2,291** | **2,291** |
| Interest rate swap | **–** | **254** | **–** | **254** | **–** | **–** | **–** | **–** | **254** | **254** |
| Term loan | **–** | **–** | **–** | **–** | **–** | **–** | **311,586** | **311,586** | **311,586** | **311,586** |
| Other payables | **–** | **–** | **–** | **–** | **–** | **–** | **67,912** | **67,912** | **67,912** | **67,912** |
| **2015** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | 525 | – | – | 525 | – | – | – | – | 525 | 525 |
| Interest rate swap | – | 673 | – | 673 | – | – | – | – | 673 | 673 |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | – | – | – | – | – | – | 37,869 | 37,869 | 40,891 | 37,869 |
| Forward exchange contracts | – | 293 | – | 293 | – | – | – | – | 293 | 293 |
| Term loan | – | – | – | – | – | – | 481,359 | 481,359 | 481,359 | 481,359 |
| Other payables | – | – | – | – | – | – | 186,418 | 186,418 | 186,418 | 186,418 |

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.4 Fair value information *cont'd*

| | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Total fair value RM'000 | Carrying amount RM'000 |
| **Company** | | | | | | | | | | |
| **2016** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | **381** | **–** | **–** | **381** | **–** | **–** | **–** | **–** | **381** | **381** |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | **–** | **–** | **–** | **–** | **–** | **–** | **30,306** | **30,306** | **33,151** | **30,306** |
| Forward exchange contracts | **–** | **2,239** | **–** | **2,239** | **–** | **–** | **–** | **–** | **2,239** | **2,239** |
| Interest rate swap | **–** | **69** | **–** | **69** | **–** | **–** | **–** | **–** | **69** | **69** |
| Term loans | **–** | **–** | **–** | **–** | **–** | **–** | **121,212** | **121,212** | **121,212** | **121,212** |
| **2015** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | 427 | – | – | 427 | – | – | – | – | 427 | 427 |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | – | – | – | – | – | – | 37,869 | 37,869 | 40,891 | 37,869 |
| Forward exchange contracts | – | 198 | – | 198 | – | – | – | – | 198 | 198 |
| Term loans | – | – | – | – | – | – | 213,625 | 213,625 | 213,625 | 213,625 |

## 30. FINANCIAL INSTRUMENTS *cont'd*

### 30.4 Fair value information *cont'd*

**Policy on transfer between levels**

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

**Level 1 fair value**

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

**Level 2 fair value**

*Derivatives*

The fair value of the forward exchange contracts and interest rate swap contract is estimated by reference to the market rate for similar contracts obtained from the bank which the Group contracted with.

**Transfers between Level 1 and Level 2 fair values**

There has been no transfer between Level 1 and 2 fair values during the financial year. (2015: no transfer in either directions)

**Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

The carrying amount of floating rate loans and borrowings approximate their fair values as their effective interest rate changes accordingly to movements in the market interest rate. The fair value of redeemable convertible unsecured loan stocks are calculated using discounted cash flows where the market rate of interest is determined by reference to similar borrowing arrangements which is at 5% (2015: 5%).

# Notes to the Financial Statements (cont'd)

## 31. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio.

The debt-to-equity ratios are as follows:

| | Group | |
|---|---|---|
| | **2016 RM'000** | **2015 RM'000** |
| Total borrowings (including RCULS - liability portion) | **872,639** | 1,134,734 |
| Less: Cash and cash equivalents | **(46,949)** | (53,666) |
| Net debt | **825,690** | 1,081,068 |
| Total equity | **688,135** | 912,924 |
| Debt-to-equity ratio | **1.20** | 1.18 |

Under the requirements of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million.

## 32. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 30 June, into realised and unrealised profits/(losses) is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Total retained earnings of the Company and its subsidiaries: | | | | |
| - Realised | **120,904** | 348,662 | **385,675** | 327,037 |
| - Unrealised | **14,044** | 14,197 | **(89,606)** | 29,980 |
| | **134,948** | 362,859 | **296,069** | 357,017 |
| Total share of accumulated losses from associated companies | | | | |
| - Realised | **(1,508)** | (55,911) | **–** | – |
| - Unrealised | **–** | 11 | **–** | – |
| Less: Consolidation adjustments | **(93,514)** | (45,830) | **–** | – |
| Total retained earnings | **39,926** | 261,129 | **296,069** | 357,017 |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profit or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

# STATEMENT BY DIRECTORS

*pursuant to Section 169(15) of the Companies Act, 1965*

In the opinion of the Directors, the financial statements set out on pages 44 to 128 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirement of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2016 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 32 on page 129 to the financial statements has been compiled in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

On behalf of the Board,

**Seow Yoo Lin**

**Chow Chong Long**

22 August 2016

# STATUTORY DECLARATION

*pursuant to Section 169(16) of the Companies Act, 1965*

I, Ang Meng Chuan, the person primarily responsible for the financial management of Southern Steel Berhad, do solemnly and sincerely declare that the financial statements set out on pages 44 to 129 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Ang Meng Chuan, at Kuala Lumpur in the Federal Territory on 22 August 2016.

**Ang Meng Chuan**

Before me:

**Zahir B. Ghazali**
Commissioner for Oaths
Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT

*to the members of Southern Steel Berhad*

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Southern Steel Berhad, which comprise the statements of financial position as at 30 June 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 44 to 128.

*Directors' Responsibility for the Financial Statements*

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2016 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 4.3 which describes the uncertainty in respect of the outcome of the arbitration process filed by a subsidiary of the Company, Southern HRC Sdn Bhd against the machine supplier, Danieli & C. Officine Meccaniche S.p.A.

# Independent Auditors' Report (cont'd)

*to the members of Southern Steel Berhad*

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of the subsidiary of which we have not acted as auditors, which is indicated in Note 3 to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 32 on page 129 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**KPMG**
AF 0758
Chartered Accountants

**Lee Phaik Im**
3177/05/17 (J)
Chartered Accountant

22 August 2016

Penang

# OTHER INFORMATION

## 1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2016

| Location | Tenure | Existing Use | Acquisition Date | Approximate Area | Approximate Age of Building (Year) | Net Book Value as at 30 June 2016 (RM'000) |
|---|---|---|---|---|---|---|
| No PT 3057 Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 21 Mar 2050 | Office and factory building | 08 Jun 1990 | 2.53 acres | 2 | |
| No PT 3982 Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 13 Jan 2059 | Office and factory building | 03 Jun 1997 | 1.11 acres | 2 | |
| No PT 3039<br>Lorong Perusahaan 10<br>Prai Industrial Estate<br>13600 Prai, Penang | Leasehold expiring on 07 Nov 2049 | Office and factory building | 31 Dec 2007 | 1.15 acres | 2 | 166,068 |
| No PT 2996<br>Lorong Perusahaan 10<br>Prai Industrial Estate<br>13600 Prai, Penang | Leasehold expiring on 18 Sep 2049 | Office and factory building | 19 Mar 2012 | 10,170.08 sq metre | 2 | |
| No PT 2992<br>Lorong Perusahaan 10<br>Prai Industrial Estate<br>13600 Prai, Penang | Leasehold expiring on 18 Sep 2049 | Office and factory building | 16 Jun 2011 | 13,126.38 sq metre | 2 | |
| Plot 524(c)<br>Prai Industrial Park | Leasehold expiring on 24 Oct 2073 | Office and factory building | 04 Apr 2012 | 1.41 acres | 2 | |
| PMT 3016<br>Tingkat Perusahaan 6<br>Kawasan Perusahaan Perai<br>13600 Seberang Perai Tengah<br>Penang | Leasehold expiring on 03 Oct 2042 | Warehouse | 11 Oct 2011 | 61,271.77 sq metre | 13-14 | 26,924 |

# Other Information (cont'd)

## 1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2016 *cont'd*

| Location | Tenure | Existing Use | Acquisition Date | Approximate Area | Approximate Age of Building (Year) | Net Book Value as at 30 June 2016 (RM'000) |
|---|---|---|---|---|---|---|
| No PT 3171 Mukim 1 Seberang Perai Tengah Penang | Leasehold expiring on 21 Mar 2050 | Factories | 19 Oct 1990 | 4.78 acres | 18-20 | |
| No PT 3178 Mukim 1 Seberang Perai Tengah Penang | Leasehold expiring on 09 Apr 2050 | Factories | 19 Oct 1990 | 2.60 acres | 18 | |
| 2595 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang | Leasehold expiring on 09 Apr 2050 | Factories | 07 Oct 1991 | 2.60 acres | 18 | |
| 2613 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang | Leasehold expiring on 21 Mar 2050 | Factories | 23 Sep 1991 | 5.10 acres | 18 | 26,883 |
| No PT 3831 Mukim 1 Seberang Perai Tengah Penang | Leasehold expiring on 21 Oct 2054 | Factories | 25 May 1993 | 1.31 acres | 20 | |
| No PT 3980 Mukim 1 Seberang Perai Tengah Penang | Leasehold expiring on 25 Jan 2059 | Drains | 12 Aug 1996 | 2.13 acres | – | |
| No PT 4271 (formerly Plot 596) Mukim 1 Seberang Perai Tengah Penang | Leasehold expiring on 04 Nov 2064 | Vacant Land | 18 Mar 1998 | 0.12 hectares | – | |
| 4457 Mukim 15 Jalan Chain Ferry 12100 Butterworth Penang | Freehold | Factory Godown | 12 Jun 1989 | 413,427 sq ft | 20-47 | 25,697 |

# Other Information (cont'd)

## 1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2016 *cont'd*

| Location | Tenure | Existing Use | Acquisition Date | Approximate Area | Approximate Age of Building (Year) | Net Book Value as at 30 June 2016 (RM'000) |
|---|---|---|---|---|---|---|
| PLO No 129<br>Tanjung Langsat<br>Industrial Complex<br>Johor Darul Takzim | Leasehold expiring on 28 Dec 2069 | Office and factory building | 18 Sep 2008 | 8.09 hectares | 6 | 23,419 |
| PT 4639, Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 01 Jul 2112 | Vacant Land | 25 Mar 2013 | 7.25 hectares | – | 18,939 |
| 5 1/2 Mile, Jalan Kapar<br>42100 Klang<br>Selangor Darul Ehsan | Freehold | Office and factory building | 03 Feb 1981 | 31,180 sq metre | 20-35 | 13,615 |
| Rawang Integrated<br>Industrial Park | Freehold | Office and factory building | 20 Apr 1994 | 4.63 hectares | 19 | 11,571 |
| 3081 Jalan Besar<br>Nibong Tebal, Penang | Freehold | Office and factory building | 22 Jun 1998 | 304,210 sq ft | 20-52 | 9,603 |
| Lot 77A, Jalan Gebeng 1/6<br>Gebeng Industrial Estate<br>26080 Kuantan<br>Pahang Darul Makmur | Leasehold expiring on 05 Feb 2052 | Office and factory building | 05 Jul 2010 | 40,468.60 sq metre | 16 | 7,620 |

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 30 SEPTEMBER 2016

Class of Shares : Ordinary shares of RM1.00 each
Voting Rights : 1 vote for each share held

**Distribution Schedule Of Shareholders As At 30 September 2016**

| Size of Holdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| Less than 100 | 45 | 1.39 | 1,796 | 0.00 |
| 100 – 1,000 | 1,077 | 33.20 | 1,040,967 | 0.25 |
| 1,001 – 10,000 | 1,481 | 45.65 | 6,526,210 | 1.55 |
| 10,001 – 100,000 | 525 | 16.19 | 17,691,283 | 4.22 |
| 100,001 – less than 5% of issued shares | 113 | 3.48 | 80,216,896 | 19.12 |
| 5% and above of issued shares | 3 | 0.09 | 314,130,532 | 74.86 |
| | 3,244 | 100.00 | 419,607,684 | 100.00 |

# Other Information (cont'd)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 30 SEPTEMBER 2016 *cont'd*

**List Of Thirty Largest Shareholders As At 30 September 2016**

| | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1. | Assets Nominees (Tempatan) Sdn Bhd<br>- Hong Leong Manufacturing Group Sdn Bhd | 171,879,054 | 40.96 |
| 2. | Assets Nominees (Tempatan) Sdn Bhd<br>- Signaland Sdn Bhd | 120,281,255 | 28.67 |
| 3. | Southern Amalgamated Co Sdn Bhd | 21,970,223 | 5.23 |
| 4. | Southern Properties Sdn Bhd | 14,570,399 | 3.47 |
| 5. | UOBM Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Southern Amalgamated Co Sdn Bhd (PGB) | 7,500,000 | 1.79 |
| 6. | Hong Bee Hardware Company, Sdn Berhad | 7,371,493 | 1.76 |
| 7. | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Malayan Banking Berhad (MBB2 SWAP-M) | 4,450,000 | 1.06 |
| 8. | Leong Kok Tai | 4,008,137 | 0.96 |
| 9. | Hock Kheng Industries Sendirian Berhad | 3,500,000 | 0.83 |
| 10. | HSBC Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Hwang Enterprises Sdn Bhd (201-468246-089) | 3,000,000 | 0.72 |
| 11. | Malaysia Nominees (Tempatan) Sendirian Berhad<br>- Great Eastern Life Assurance (Malaysia) Berhad (Par 1) | 2,739,244 | 0.65 |
| 12. | AmanahRaya Trustees Berhad<br>- Public Islamic Select Treasures Fund | 1,931,300 | 0.46 |
| 13. | Liao York | 1,384,427 | 0.33 |
| 14. | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Lim Chow Lee (Margin) | 1,211,000 | 0.29 |
| 15. | Choong Cheow Sai | 1,050,944 | 0.25 |
| 16. | HSBC Nominees (Asing) Sdn Bhd<br>- Exempt AN for Credit Suisse (HK Br-Tst-Asing) | 1,000,000 | 0.24 |
| 17. | Southgroup Holdings Sdn Bhd | 972,815 | 0.23 |
| 18. | Affin Hwang Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Chang Lee Fong (M01) | 970,000 | 0.23 |
| 19. | Chua Holdings Sdn Bhd | 921,795 | 0.22 |
| 20. | Toh Ean Hai | 900,000 | 0.21 |
| 21. | Tan Aik Choon | 861,000 | 0.21 |
| 22. | Seri Pinang Sdn Bhd | 781,200 | 0.19 |
| 23. | Public Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tan Yok Son @ Tan Siew Tuan (E-BPT) | 744,200 | 0.18 |
| 24. | Affin Hwang Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Oon Hooi Lin (M01) | 676,700 | 0.16 |
| 25. | Tan Liew Cheun | 602,346 | 0.14 |
| 26. | Huang Phang Lye | 579,500 | 0.14 |
| 27. | Maybank Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tye Terk Soon | 564,100 | 0.13 |
| 28. | Insotech Sdn Bhd | 504,557 | 0.12 |
| 29. | CIMB Group Nominees (Tempatan) Sdn Bhd<br>- CIMB Commerce Trustee Berhad – Hong Leong Strategic Opportunity Fund | 500,000 | 0.12 |
| 30. | Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Lee See Kwan (AL0089) | 500,000 | 0.12 |
| | | 377,925,689 | 90.07 |

# Other Information (cont'd)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 30 SEPTEMBER 2016 *cont'd*

**Substantial Shareholders**

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 September 2016 are as follows:

| | Name of Shareholders | Direct Interest No. of Shares | % | Indirect Interest No. of Shares | % | |
|---|---|---|---|---|---|---|
| 1. | Hong Leong Manufacturing Group Sdn Bhd | 171,879,054 | 40.96 | 120,281,255 | 28.67 | * |
| 2. | Signaland Sdn Bhd | 120,281,255 | 28.67 | – | – | |
| 3. | Hong Leong Company (Malaysia) Berhad ("HLCM") | – | – | 292,160,309 | 69.63 | * |
| 4. | YBhg Tan Sri Quek Leng Chan | – | – | 299,541,202 | 71.39 | ^ |
| 5. | HL Holdings Sdn Bhd | – | – | 292,160,309 | 69.63 | ® |
| 6. | Hong Realty (Private) Limited | – | – | 299,531,802 | 71.38 | ^ |
| 7. | Hong Leong Investment Holdings Pte. Ltd. | – | – | 299,541,202 | 71.39 | ^ |
| 8. | Kwek Holdings Pte Ltd | – | – | 299,541,202 | 71.39 | ^ |
| 9. | Mr Kwek Leng Beng | – | – | 299,541,202 | 71.39 | ^ |
| 10. | Mr Kwek Leng Kee | – | – | 299,541,202 | 71.39 | ^ |
| 11. | Davos Investment Holdings Private Limited | – | – | 299,541,202 | 71.39 | ^ |
| 12. | Mr Quek Leng Chye | – | – | 299,541,202 | 71.39 | ^ |
| 13. | Southern Amalgamated Co Sdn Bhd | 29,470,223 | 7.02 | – | – | |
| 14. | Su Hock Company Sdn Bhd | – | – | 29,470,223 | 7.02 | # |
| 15. | Hock Kheng Industries Sendirian Berhad | 3,500,000 | 0.83 | 29,470,223 | 7.02 | # |
| 16. | YBhg Dato' Dr Tan Tat Wai | 14,854 | 0.00 | 34,742,238 | 8.28 | @ |

***Notes:***

* Held through subsidiary(ies)
^ Held through HLCM and company(ies) in which the substantial shareholder has interest
® Held through HLCM
\# Held through a company in which the substantial shareholder has interest
@ Held through spouse and companies in which the substantial shareholder has interest

## 3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("RCULS") HOLDINGS AS AT 30 SEPTEMBER 2016

Voting Rights : 1 vote for each RM1.00 nominal amount of RCULS held

**Distribution Schedule Of RCULS Holders As At 30 September 2016**

| Size of Holdings | No. of RCULS Holders | % | No. of RCULS | % |
|---|---|---|---|---|
| Less than 100 | 12 | 2.17 | 510 | 0.00 |
| 100 – 1,000 | 144 | 25.99 | 114,385 | 0.06 |
| 1,001 – 10,000 | 249 | 44.95 | 997,644 | 0.54 |
| 10,001 – 100,000 | 109 | 19.67 | 3,437,280 | 1.85 |
| 100,001 – less than 5% RCULS outstanding | 39 | 7.04 | 33,911,277 | 18.28 |
| 5% and above of RCULS outstanding | 1 | 0.18 | 147,080,154 | 79.27 |
| | 554 | 100.00 | 185,541,250 | 100.00 |

# Other Information (cont'd)

## 3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("RCULS") HOLDINGS AS AT 30 SEPTEMBER 2016 *cont'd*

**List Of Thirty Largest RCULS Holders As At 30 September 2016**

| | Name of RCULS Holders | No. of RCULS | % |
|---|---|---|---|
| 1. | Assets Nominees (Tempatan) Sdn Bhd<br>- HLMG Capital Sdn Bhd | 147,080,154 | 79.27 |
| 2. | Southern Amalgamated Co Sdn Bhd | 6,000,000 | 3.23 |
| 3. | Southern Consortium Sdn Bhd | 3,600,000 | 1.94 |
| 4. | Hock Kheng Industries Sendirian Berhad | 2,600,000 | 1.40 |
| 5. | Lim Seow Chin | 2,310,000 | 1.25 |
| 6. | Leong Kok Tai | 1,731,000 | 0.93 |
| 7. | Hong Bee Hardware Company, Sdn Berhad | 1,628,507 | 0.88 |
| 8. | Kheng Lip Company Sdn Berhad | 1,500,000 | 0.81 |
| 9. | Southern Properties Sdn Bhd | 1,500,000 | 0.81 |
| 10. | Su Hock Company Sdn Bhd | 1,500,000 | 0.81 |
| 11. | Kim Poh Sitt Tat Feedmill Sendirian Berhad | 1,494,700 | 0.81 |
| 12. | Wang Hui Tzu | 1,069,000 | 0.58 |
| 13. | Kenanga Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Teh Siew Wah (021) | 849,000 | 0.46 |
| 14. | Cheong Chen Yue | 700,000 | 0.38 |
| 15. | Ooi Chieng Sim | 527,625 | 0.28 |
| 16. | Choong Cheow Sai | 525,472 | 0.28 |
| 17. | HSBC Nominees (Asing) Sdn Bhd<br>- Exempt AN for Credit Suisse (HK Br-Tst-Asing) | 500,000 | 0.27 |
| 18. | Ong Guat Li | 400,000 | 0.22 |
| 19. | Tan Liew Cheun | 397,923 | 0.21 |
| 20. | Seri Pinang Sdn Bhd | 390,600 | 0.21 |
| 21. | Lee Wen Siong | 370,000 | 0.20 |
| 22. | Maybank Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tye Terk Soon | 360,700 | 0.19 |
| 23. | Ong Yih Yeong | 331,100 | 0.18 |
| 24. | Kenanga Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Cheong Chen Yue | 310,000 | 0.17 |
| 25. | Ong Chin Hong | 304,000 | 0.16 |
| 26. | Chua Holdings Sdn Bhd | 300,000 | 0.16 |
| 27. | Santomi Sdn Bhd | 300,000 | 0.16 |
| 28. | Chim Luang Eng | 294,200 | 0.16 |
| 29. | Huang Phang Lye | 288,900 | 0.15 |
| 30. | Public Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Teh Shin Luu (E-KPG) | 270,000 | 0.15 |
| | | 179,432,881 | 96.71 |

## 4. DIRECTORS' INTERESTS AS AT 30 SEPTEMBER 2016

Subsequent to the financial year end, there was no change, as at 30 September 2016, to the Directors' interests in the ordinary shares and/or options/RCULS over ordinary shares of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 39 to 40 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 except for the changes set out below:

| | No. of Ordinary Shares | % |
|---|---|---|
| **Direct Interests of Mr Soon Seong Keat (appointed on 1 September 2016) in:** | | |
| Hong Leong Industries Berhad | 100,000 | 0.03 |
| Hume Industries Berhad | 216,000 | 0.05 |
| Hong Leong Financial Group Berhad | 33,100 | * |
| GuocoLand Limited | 55,000 | * |
| **Indirect Interests of Mr Soon Seong Keat in:** | | |
| Hong Leong Industries Berhad | 15,000 | * @ |
| Hume Industries Berhad | 211,200 | 0.04 @ |

***Notes:***

* *Negligible.*

@ *Interest pursuant to Section 134(12)(c) of the Companies Act, 1965 in shares held by a family member.*

## 5. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors, chief executive and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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南達 **Southern Steel** Berhad (5283-X)
A Member of the Hong Leong Group

# FORM OF PROXY

I/We _____

NRIC/Passport/Company No. _____

of _____

being a member of **SOUTHERN STEEL BERHAD** ("the Company"), hereby appoint _____

_____

_____

NRIC/Passport No. _____

of _____

_____

or failing him/her _____

_____

NRIC/Passport No. _____

of _____

_____

or falling him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Fifty-fourth Annual General Meeting of the Company to be held at Training Room B, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Monday, 14 November 2016 at 2.00 p.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote on a poll as indicated below with an "X":

| | RESOLUTIONS | FOR | AGAINST |
|---|---|---|---|
| 1. | To approve the payment of Director fees | | |
| 2. | To re-elect YBhg Datuk Kwek Leng San as a Director | | |
| 3. | To re-elect Mr Chow Chong Long as a Director | | |
| 4. | To re-elect Dr Kwa Lay Keng as a Director | | |
| 5. | To re-elect Mr Soon Seong Keat as a Director | | |
| 6. | To re-appoint Mr Ang Kong Hua as a Director pursuant to Section 129 of the Companies Act, 1965 | | |
| 7. | To re-appoint Messrs KPMG as Auditors and to authorise the Directors to fix their remuneration | | |
| | Special Business | | |
| 8. | To approve the ordinary resolution on authority to Directors to issue shares | | |
| 9. | To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM | | |
| 10. | To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Su Hock Company Sdn Bhd and its subsidiary | | |
| 11. | To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Bee Hardware Company, Sdn Berhad | | |

Dated this _____ day of _____ 2016

_____ _____

Number of shares held Signature(s) of Member

***Notes:***

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record Depositors as at 8 November 2016 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*
2. *If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.*
3. *If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.*
4. *A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
5. *Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*
6. *Where two or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).*
7. *In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.*
8. *All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than forty-eight hours before the time appointed for holding of the meeting or adjourned meeting.*
9. *In the event two or more proxies are appointed, please fill in the ensuing section:*

| *Name of proxies* | *% of shareholdings to be represented* |
|---|---|
| | |
| | |

10. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the Fifty-fourth Annual General Meeting will be put to vote by way of a poll.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretaries
**Southern Steel Berhad** (5283-X)
Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

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**Southern Steel Berhad** (5283-X)
Level 9, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-2164 2631
Fax : 03-2164 2514

**www.southsteel.com**