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Southern Steel Berhad

A Member of the Hong Leong Group

*ANNUAL REPORT 2017*

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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 steel bars, wire rods and 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 strands, bars and wires, hot rolled steel coils, steel pipes, steel wires, fencing panels and other related products, 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)*

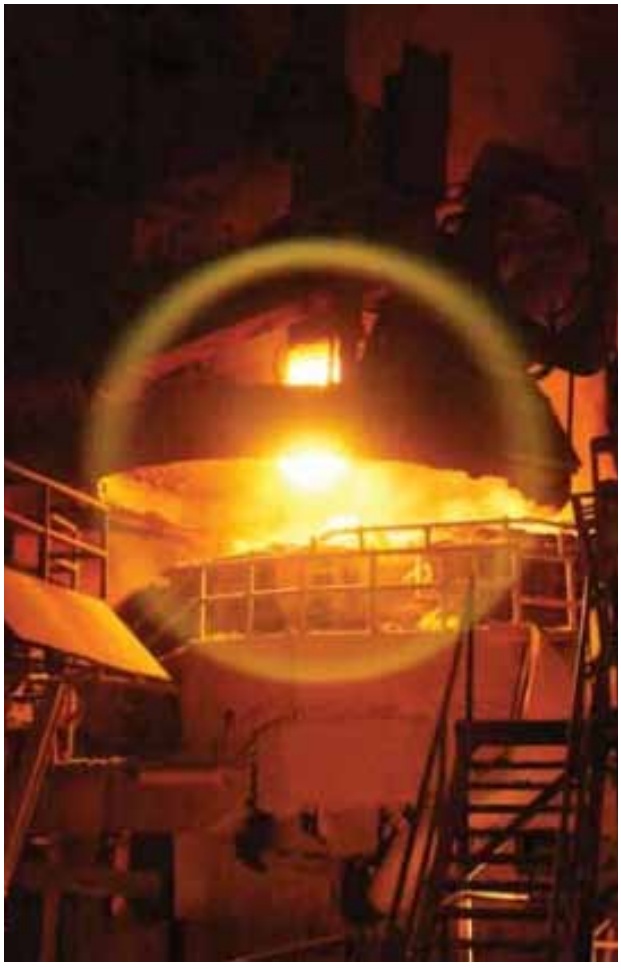
**YBhg Dato' Dr Tan Tat Wai**

**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 PLT
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-fifth 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 Tuesday, 28 November 2017 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 2017.

2. To approve the payment of Director Fees of RM530,000/- for the financial year ended 30 June 2017 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM91,000/- for the period of 31 January 2017 until the next Annual General Meeting. **Resolution 1**

3. To pass the following motion as an ordinary resolution:

   "**THAT** Mr Ang Kong Hua be and is hereby re-appointed as a Director of the Company." **Resolution 2**

4. To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 3**

**SPECIAL BUSINESS**

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

5. **Ordinary Resolution**
   **-Authority To Directors To Allot Shares**

   "**THAT** subject to the Companies Act 2016, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Company's Constitution and approval of the relevant governmental regulatory authorities, if required, the Directors be and are hereby empowered pursuant to Sections 75 and 76 of the Companies Act 2016 to allot shares in the Company, grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer 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 and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares 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 allotted 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 4**

# NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

6. **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 30 October 2017 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;

**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 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) 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 5**

7. **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 30 October 2017 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 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

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

whichever is the earlier;

# NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

**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 6**

8. **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 30 October 2017 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 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) 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 7**

9. 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
30 October 2017

# NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

**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 22 November 2017 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 (2) proxies to attend, participate, speak and vote in his stead. A proxy may but need not be a member of the Company. A member who is an authorised nominee may appoint not more than two (2) 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 (2) 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 twenty-four (24) 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 a vote by way of a poll.

**Explanatory Notes:**

1. Resolution 1 - Director Fees And Other Benefits

   Director Fees of RM530,000/- are inclusive of Board Committee Fees of RM250,000/-; and Directors' Other Benefits refer to Directors and Officers Liability Insurance coverage based on premium paid/payable and Directors' training benefits of up to RM91,000/-.

2. Resolution 2 - Re-appointment Of Director

   Under the new Companies Act 2016, the requirement to put forth the re-appointment of Directors of or over the age of 70 years had been repealed. At the Fifty-fourth Annual General Meeting ("AGM") held on 14 November 2016, the Company had obtained shareholders' approval for the re-appointment of Mr Ang Kong Hua as a Director of the Company and for him to continue in office as a Director until the conclusion of the next AGM of the Company. In this regard, the Company is seeking shareholders' approval for the re-appointment of Mr Ang Kong Hua as a Director of the Company. Mr Ang Kong Hua's retirement by rotation at subsequent AGMs will be in accordance with the Company's Constitution.

3. Resolution 4 - Authority To Directors To Allot Shares

   The proposed ordinary resolution, if passed, will renew the general mandate given to the Directors of the Company to allot ordinary shares of the Company from time to time and expand the mandate to grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer, provided that the aggregate number of shares issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company for the time being ("Renewed General Mandate"). In computing the aforesaid 10% limit, shares issued or agreed to be issued or subscribed pursuant to the approval of shareholders in a general meeting where precise terms and conditions are approved shall not be counted. The Renewed General Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

## NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

**Explanatory Notes:** *cont'd*

3. Resolution 4 - Authority To Directors To Allot Shares (*cont'd)*

   As at the date of this Notice, no new shares in the Company were issued and allotted pursuant to the general mandate given to the Directors at the last AGM held on 14 November 2016 and which will lapse at the conclusion of the Fifty-fifth AGM. The Renewed General 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 issuance and allotment of new shares, grant of rights to subscribe for shares, conversion of any security into shares, or allotment of shares under an agreement or option or offer, and to avoid delay and cost in convening general meetings to approve the same.

4. Resolutions 5 to 7 - 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 30 October 2017 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-fifth Annual General Meeting of the Company.

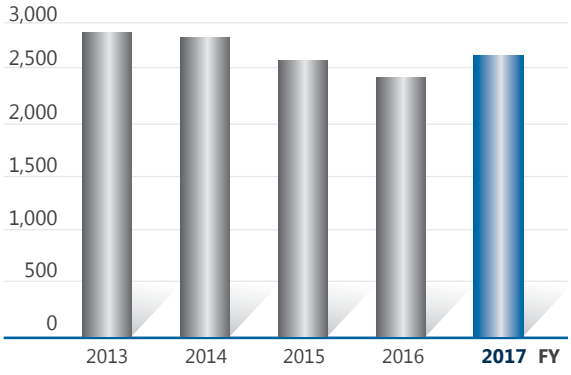
2. Statement relating to general mandate for issue of securities in accordance with Paragraph 6.03(3) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

   Details of the general mandate to allot shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note 3 of the Notice of Fifty-fifth Annual General Meeting.

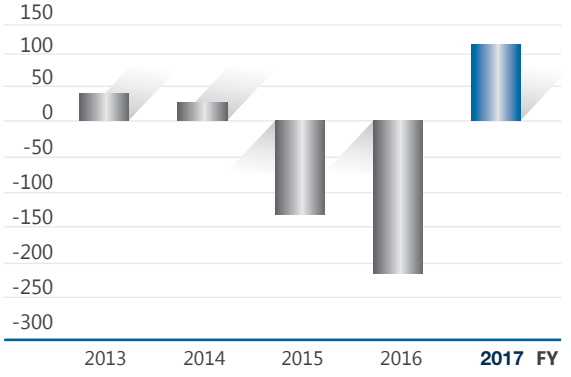
# GROUP FINANCIAL HIGHLIGHTS

| RM'Million | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| Revenue | 2,832 | 2,814 | 2,530 | 2,400 | 2,638 |
| Profit/(Loss) Before Taxation | 44 | 31 | (137) | (213) | 110 |
| Profit/(Loss) Attributable to Owners of the Company | 42 | 19 | (118) | (221) | 93 |
| Net Earnings/(Loss) Per Share (sen) | 10 | 5 | (28) | (53) | 22 |
| Net Dividend Per Share (sen) | 7 | 4 | - | - | 3 |
| Total Equity | 867 | 871 | 913 | 688 | 770 |
| Total Assets | 2,200 | 2,405 | 2,584 | 2,116 | 2,286 |
| Capital Expenditure | 228 | 389 | 122 | 71 | 11 |

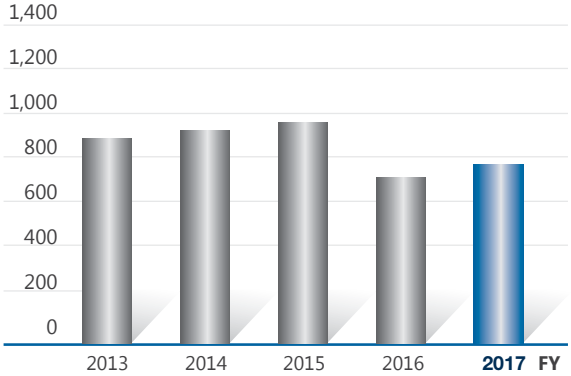
**REVENUE**
(RM'million)



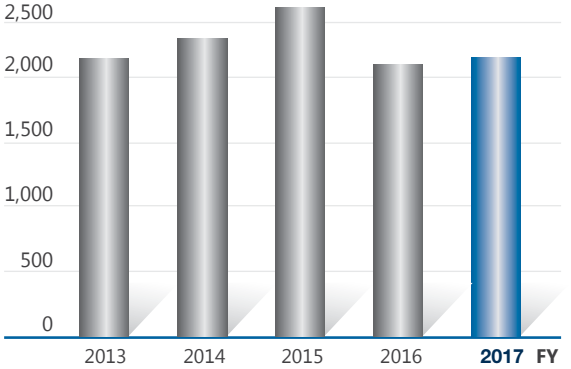

**PROFIT/(LOSS) BEFORE TAXATION**
(RM'million)




**TOTAL EQUITY**
(RM'million)




**TOTAL ASSETS**
(RM'million)



# BOARD OF DIRECTORS

## YBHG DATUK KWEK LENG SAN

*Chairman; Non-Executive/Non-Independent | Age 62, 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 ("HIB") 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 65, 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 70, 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. He was a Council Member for 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.

Dato' Dr Tan is a Director of Shangri-La Hotels (Malaysia) Berhad, a company 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, and the Chairman of Maybank Philippines, Inc., a public company in the Philippines.

## MR SOON SEONG KEAT

*Non-Executive Director/Non-Independent | Age 56, Male, Malaysian*

Mr Soon Seong Keat is a Chartered Accountant and a Member of 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 and 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 73, 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 from 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 61, Male, Malaysian*

Mr Seow Yoo Lin qualified as a Certified Public Accountant in 1981. He holds a Master in Business Administration from 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 HIB, 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 58, Female, Singaporean*

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 a Director on the Board of Barghest Building Performance Pte Ltd. She is also a Director of the Management Board of Energy Studies Institute in Singapore and the Science and Engineering Research Council, A*Star, Singapore. 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. In January 2011, she was appointed the Chief Executive Officer of NSL 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, a major shareholder 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 2017.

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

*Chief Financial Officer, Southern Steel Berhad | Age 55, 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. He assumed the position of Group Financial Controller of SSB on 3 August 2016 until 1 January 2017 when he was re-designated as Chief Financial Officer.

## MR CHENG LAI SENG

*Managing Director, Southern Steel Berhad (Bar Division) | Age 52, Male, Malaysian*

Mr Cheng Lai Seng graduated from University of Manchester Institute of Science and Technology, United Kingdom with a Bachelor of 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 Reinforced Steel Division. Mr Cheng was appointed as Chief Operating Officer of Bar Division on 1 August 2016, overseeing the whole supply chain of steel making, rolling and, cut and bend operations. On 1 April 2017, he was re-designated as Managing Director of Bar Division. Mr Cheng also holds the position of Vice President of the Malaysian Iron & Steel Industry Federation.

## MR CHEONG KHAI KONG

*Managing Director, Southern Steel Rod Sdn Bhd | Age 54, 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 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 the position of Chief Operating Officer. On 1 April 2017, he was re-designated as Managing Director.

**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 2017.

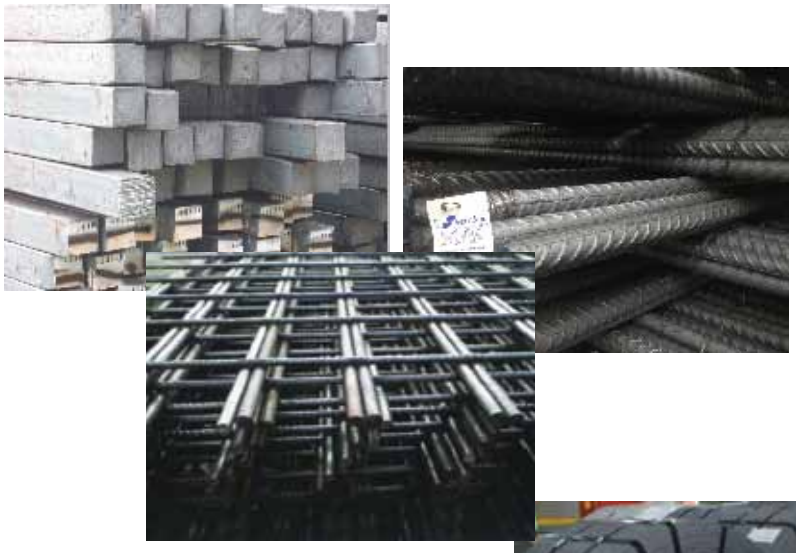
# CHAIRMAN'S STATEMENT

***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 2017 ("FY 2017").***

Over the course of FY 2017, we have seen positive actions from the Chinese Government in tackling the steel over-supply situation in China as worldwide duties are being raised on their exports. At the same time, the Malaysian Government has also put in place safeguard duties on steel imports from China. These actions have caused the market to be much more stable and the gradual firming of prices to more reasonable levels has helped the performance of SSB.

With better prices during FY 2017, the Group's revenue has increased from RM2,400 million to RM2,638 million and a profit before taxation of RM110 million was recorded as compared with a loss of RM213 million for the previous financial year.

The Malaysian construction industry is expected to be healthy with major infrastructure projects progressively being implemented. We look forward to a more stable market place and to achieve satisfactory results in the next financial year.



On behalf of the Board, I would like to extend my sincere appreciation to each and every member of the Board, management 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

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW OF THE GROUP'S BUSINESS AND STRATEGY

Southern Steel Berhad Group ("the Group") is an established producer of a wide range of high quality steel products including billets, steel bars, carbon steel wire rods, steel pipes, drawn wires, wire mesh, pre-stressed concrete ("PC") wires and PC strands. The main bulk of the Group's business is generated by the upstream long products which accounts for 70% of the Group's revenue whilst the downstream businesses account for the remaining 30% of the Group's revenue. The operations of the Group are well spread throughout Malaysia, with offices from the northern region of Malaysia to Tanjung Langsat in the South. This multi-location strategy enables the Group to serve our customer base throughout Malaysia, including East Malaysia, much more effectively.

To maintain competitiveness, the management continues to focus on the importance of quality and productivity, operation efficiency and control of expenses to ensure overall cost reduction. As for our downstream businesses, we continue to strengthen them with more value added products, services and solutions to our customers.

## HIGHLIGHT OF FINANCIAL RESULTS

| | FY 2017 RM' Million | FY 2016 RM' Million | Year-On-Year RM' Million | Year-On-Year % |
|---|---|---|---|---|
| Revenue | 2,638 | 2,400 | 238 | 10 |
| Gross Profit | 320 | 116 | 204 | >100 |
| Profit/(Loss) Before Taxation | 110 | (213) | 323 | >100 |
| Finance Cost | 48 | 44 | | |
| Depreciation etc *(including Impairment Loss Of Property, Plant & Equipment)* | 61 | 204 | | |
| Earnings Before Interest, Depreciation etc, Tax & Amortisation | 219 | 35 | 184 | >100 |
| Shareholders' Fund | 770 | 688 | 82 | 12 |
| Total Assets | 2,286 | 2,116 | 170 | 8 |
| Inventories | 689 | 519 | 170 | 33 |
| Trade & Other Receivables | 185 | 188 | (3) | (2) |
| Net Borrowings | 976 | 795 | 181 | 23 |
| Gearing (times) | 1.3 | 1.2 | | |

### Review of Results

For the financial year ended 30 June 2017 ("FY 2017"), the Group's revenue of RM2,638 million represented a 10% increase over that for the previous financial year ended 30 June 2016 ("FY 2016"), mainly due to higher selling prices. The Group registered a significant turnaround from a loss of RM213 million to a profit before taxation of RM110 million.

# MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

## Review of Operations

- **Southern Steel Berhad ("SSB")**

  SSB's bar business performed well in FY 2017, following the announcement on provisional safeguard duty in September 2016 which was later confirmed via the affirmative safeguard duties announced in April 2017. However, low demand in the market place has dampened this recovery. We expect demand to improve in tandem with the expected acceleration of construction activities in the near term.

- **Southern Steel Rod Sdn Bhd ("SSR")**

  Similarly, SSR benefited from the safeguard duties and recorded better results for FY 2017. Cost down efforts and improved productivity had further helped to ensure SSR's competitiveness in the long term.

- **Southern Steel Mesh Sdn Bhd ("SSM")**

  Due to intense price war triggered by new entrants and expanded capacity in a crowded mesh market, margin was inevitably badly affected. This margin was further eroded by rising wire rod prices. Consequently, SSM recorded a loss in FY 2017. However, we saw gradual improvements in our financials following a major restructuring of the operations and positive impact from our cost reduction initiatives.

- **Southern PC Steel Sdn Bhd ("SPC")**

  SPC was able to maintain its profit level due to higher local market share which resulted in higher sales volume. On the export front, SPC has also re-entered the Australian market after being absent from the said market for the past few years. Continued effort to drive down cost will enable SPC to remain profitable in this challenging market.

- **Southern Pipe Industry (Malaysia) Sdn Bhd ("SPIM")**

  SPIM recorded better results this year as compared with FY 2016, benefited from the improved pipe prices. However, towards the end of FY 2017, there were signs of prices softening which resulted in lower demand and lower sales volume. The management will continue to focus on their productivity drive to improve performance.

- **Southern HRC Sdn Bhd ("SHRC")**

  SHRC reduced its loss significantly after the temporary cessation of its hot rolled coil production pending the outcome of the arbitration proceedings to resolve the dispute with the machine supplier of its hot rolled coil plant. However, SHRC continued to produce billet for the Group's long product business and recorded a profit for the billet operation with improved selling prices.

# MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

## Financial Condition of the Group

Financial condition of the Group remained healthy. Gearing increased slightly from 1.2 times to 1.3 times in FY 2017. This was within expectation in view of the increase in inventories from RM519 million in FY 2016 to RM689 million in FY 2017. Turnover days for both inventories and receivables remained healthy at 108 days and 26 days respectively. It is always our Group's policy to be prudent in terms of inventory level and credit control and remains focus in our core business in steel manufacturing.

As part of our financial management discipline, we set a prudent level of capital to debt ratio with borrowing limits for each of the operating companies within the SSB Group. Close monitoring of budget figures is crucial to ensure the growth of each company in the Group is actively managed in a defined resource environment with optimal use of the assets.

## Known trend and events which have significant impact on operation

Dumping import which created an unlevelled playing field in the domestic market has been the most challenging factor in the steel industry.

The announced safeguard measures have resulted in a reduction of imported steel from China, and the Chinese Government's directive to cut overcapacity of between 100 million and 150 million Mt by 2020 will help to improve market sentiment. We anticipate more reasonable steel prices with the oversupply situation in China being progressively corrected.

We will continue to review our strategy to counter act against any possible dumping import and work closely with the Government to ensure effective trade remedies against unfair trade practices in the industry.

## Dividend

The Company declared and paid an interim single tier dividend of 3 sen per share for FY 2017.

Dividend payout is one of the important elements considered by the Company in enhancing its shareholder value. Earnings, capital expenditure requirements, borrowings repayment, capital adequacy, dividend yield and other relevant factors are considered by the Board in determining the actual dividend payout.

## Prospects and Outlook for the Financial Year Ending 30 June 2018

In March 2017 there was a dialogue between ASEAN Iron and Steel Council ("AISC") and China Iron and Steel Association ("CISA"). The key findings about impact of China's steel industry to the ASEAN countries were duly acknowledged in the dialogue. Amongst others, the following requests were made to China:

- Extending reduction of export rebate to cover more products and further action to prevent circumvention.
- Taking effective action to curb overcapacity and exercising voluntary export restraint.
- Ensuring China's investment in steel projects in ASEAN not to be on production of "like products" currently available in the region.
- Ensuring "One-Belt-One-Road" initiative by China to be a win-win collaboration between Chinese companies and local steel manufacturers.

We are, thus far, encouraged by the reduction of steel overcapacity in China and a better regulatory framework in Malaysia to prevent import circumvention and dumping. The Group is optimistic that with the roll out of infrastructure projects progressively in place, the performance of SSB Group will be positive.

# SUSTAINABILITY STATEMENT

**THIS IS SOUTHERN STEEL BERHAD'S ("SSB") FIRST ATTEMPT IN SUSTAINABILITY REPORTING IN RESPONSE TO BURSA MALAYSIA SECURITIES BERHAD'S ("BURSA SECURITIES") ENCOURAGEMENT TO EARLY REPORT**

This report has been prepared by reference to Practice Note 9 of Bursa Securities' Main Market Listing Requirements ("Listing Requirements"), in particular Part III on Sustainability Statement. Based on the Listing Requirements, SSB is required to:

(i) issue our first sustainability statement in our annual report in financial year ending 30 June 2018; and

(ii) comply with the full disclosure requirements of Paragraph 6.2, Practice Note 9 of the Listing Requirements in our annual report in financial year ending 30 June 2019.

Nevertheless, as encouraged by Bursa Securities, we have embarked on sustainability reporting earlier than the implementation dates relevant to us, albeit progressively, and included our inaugural Sustainability Statement in our 2017 Annual Report. As such, no separate disclosure of Corporate Social Responsibility Statement will be made for this financial year.

## ABOUT THIS REPORT

Our report enunciates what sustainability means to our Group with details of managing those significant sustainability matters. Our mission to be committed in promoting sustainability continues to guide our work.

The following Mission Statement has been adopted for the Group:-

### Mission Statement

"The Hong Leong Group is built on the strong heritage of value creation for our stakeholders and communities within which we operate. Over the years, we have taken a progressive approach in integrating sustainability into our businesses, towards a stronger, more resilient group. We are committed to: growing our businesses responsibly, balancing environmental with economic considerations, as well as creating a positive impact for our stakeholders and contributing to our communities.

Our core values continue to serve as our compass in all that we do:

| | |
|---|---|
| Honour | To conduct business with honour |
| Human resources | To enhance the quality of human resources - as the essence of management excellence |
| Entrepreneurshiip | To pursue management vision and foster entrepreneurship |
| Innovation | To nurture and be committed to innovation |
| Quality | To consistenly provide goods and services of the highest quality at competitive prices |
| Progress | To continuously improve existing operation and to position for expansion and new opportunities |
| Unity | To ensure oneness in purpose, harmony and friendship in the pursuit of prosperity for all |
| Social responsibility | To create wealth for the betterment of society |

### Governance Structure

We do not have a Sustainability Committee at the Board level, however, there is a Sustainability Steering ("SS") Committee made up of senior Heads of Department of relevant operations, chaired by our Group Managing Director with the Chief Financial Officer as Secretary. They play the role of Chief Sustainability Officer, reporting directly to the Board of any sustainability matters from time to time. The SS Committee oversees the implementation of the organisation's sustainability approach and ensures that key targets are monitored.

There is another Sustainability Working ("SW") Committee comprising key staff from various departments of the operating companies nominated by the SS Committee. The said composition allows the SS Committee to leverage on departmental access to information and specific stakeholders. The SW Committee's reporting duties include provision of information, collection of feedback from stakeholders, as well as addressing material issues and driving initiatives approved by the SS Committee.

# SUSTAINABILITY STATEMENT
(cont'd)

## Reference and Guidelines

This report reflects SSB's activities in relation to ISO9001, OHSAS18001 and ISO14001 standards (international standards for quality management, occupational health and safety, and environmental management system respectively) where applicable.

## Scope and Boundary

This report focuses only on major key operating operations (i.e. Bar, Rod, and Billet operations at the Prai area) as a start to our sustainability reporting journey.

## Reporting Period

This report, which will be produced annually, covers the period from 1 July 2016 to 30 June 2017 (Financial Year 2017). If there are selected indicators that have only been tracked recently, we would mention the reporting duration within the report. There are no significant restatements of data compared to prior years as this is our first sustainability report.

## Stakeholders Identified

Although we have not formally engaged with all the stakeholders, we have so far identified certain stakeholders relevant to our operations as follows, but more stakeholders will be identified along the journey to have a more comprehensive stakeholders' engagement.

| Stakeholders | Proposed mode of engagement | Frequency of engagement | Stakeholder concerns/ sustainability issues |
|---|---|---|---|
| Shareholders & Investors | Annual General Meeting | Annually | • Industry environment<br>• Profitability |
| Government & Regulators | Regulatory requirement | Periodically | • Environmental issues<br>• Occupational Safety & Health |
| Customers | Customer feedback | As needed | • Product quality |
| Employees | • Management meeting<br>• Staff appraisals<br>• Training need analysis<br>• Union/dialogue session | • Monthly<br>• Half yearly<br>• Annually<br>• As needed | • Learning & development<br>• Occupational Safety & Health |
| Local communities | Community programme | As needed | • Social & environmental issues |

## Material Sustainability Matters Identified

The main impacts during steel manufacturing come from the use of raw materials, energy and water. As we are 100% Electric Arc Furnace using scrap metal, we recycle nearly 1.5 million Mt of scrap metal every year – keeping everything from vehicles to appliances out of the landfill. In addition, we use millions of litres of water each year in closed loop systems within our plants. As a member of an industry that rely heavily on electrical energy and emit Green House Gases ("GHG"), we also focus on operating in an environmentally responsible manner. We also recognise the importance of having a competent workforce in carrying out their daily tasks in a safe environment, hence it is part of our culture to provide continuous training to our workforce to upgrade their skills.

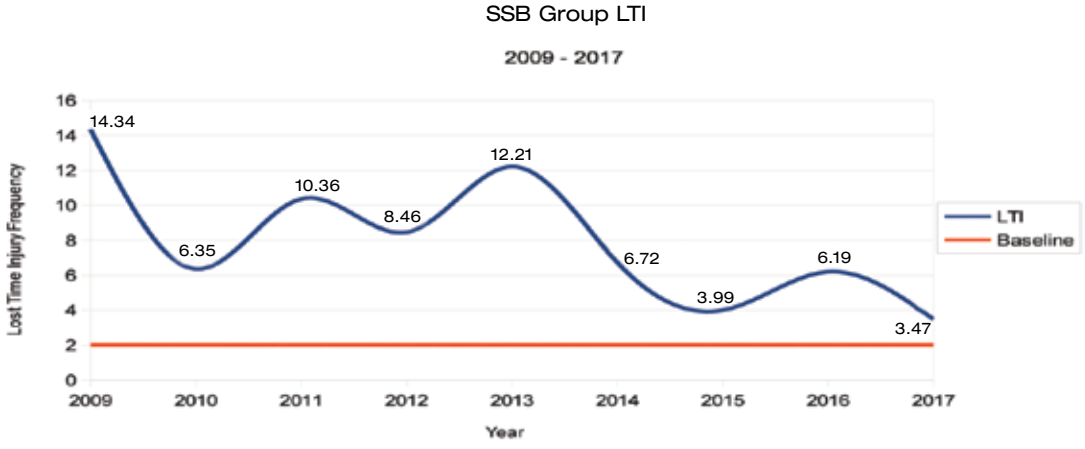
We have reviewed various sources from which relevant sustainability issues can be identified. These include internal management committee reports, internal analysis, stakeholder feedback & complaints, regulatory requirements and enterprise risk management assessment. From the review, we have identified the following material sustainability matters for a start, which have significant Economic, Environmental and Social impact. The reported measurement is only based on our own internal measurement.

# SUSTAINABILITY STATEMENT
(cont'd)

## Occupational Health And Safety - Loss Time Injury Frequency ("LTIF")

Workplace safety is essential to the sustainability of any corporation. At SSB, the company's value proposition starts, first and foremost, with an unrelenting commitment to employee safety. In our monthly management meetings, safety is one of the key agenda items discussed.

The following chart and table show LTIF rate and number of accident cases recorded:




| Calendar Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Accident cases | 28 | 21 | 8 | 18 | 14 as at July |

We have set a target of maximum accident cases per year of 10. Unfortunately, we were not able to achieve the target except in 2015. Whilst the lost time injuries have not come down to our targeted level, it has shown a down trend especially if compared to the accident cases of nearly 40 in earlier years.

Nevertheless, continuous efforts have been put in place to ensure a sustainable safe work place environment. In this respect, we have an Occupational Safety & Health Management System set up based on occupational health and safety risk of our Group, and have considered the requirements of relevant Environment, Health & Safety ("EHS") legislations. In particular, we have:

- established Safety Operating Procedures ("SOP") for each work activity; conducted Hazard Identification, Risk Analysis and Risk Control generated from SOP and work activities;
- ensured compliance with applicable EHS requirements such as Occupational Safety & Health Act 1994 and other regulation such as the Orders, Factory and Machinery Act 1967, Fire Service Acts, Regulations and Orders 1988, Atomic Energy Licensing 1984;
- implemented an Engineering and Administrative control throughout the machine and work system; and
- monthly audits on safety issues and regular inspection to identify unsafe activity and unsafe condition.

# SUSTAINABILITY STATEMENT
(cont'd)

### Learning & Development – Uncovering Young Talent

Our Graduate Development Programme ("GDP"), under the same umbrella of our holding company, Hong Leong Manufacturing Group Sdn Bhd, is an 18-month programme comprised specifically structured development through various meaningful and operations-centric learning pathways, where each graduate-mentee will have subject matter experts tied to their training programme as coach, including having a member of our Senior Leadership Team mentoring them throughout their 18 months journey under this guided programme.

The programme not only provides actual experiential learning to the graduate-mentee, but it also allows actual job exposure when each graduate-mentee takes over different roles under their guided job rotation that provides the platform for the incumbents to exercise their tertiary knowledge and hands-on experience to draw up business proposals for improvements, including creative innovation and technological advancement projects where they will have the opportunity to be recognised and rewarded by the business towards their contribution.

At SSB, we place great importance when it comes to identifying, hiring, growing and retaining talents in the steel industry as a way to contribute to society – where our focus and aim is geared towards having a diversified pool of talent, working cohesively together in bringing up the next generation of young, vibrant, creative, smart and innovative leaders.

**GDP Programme Success-Rate VS Employment Absorption Statistics**

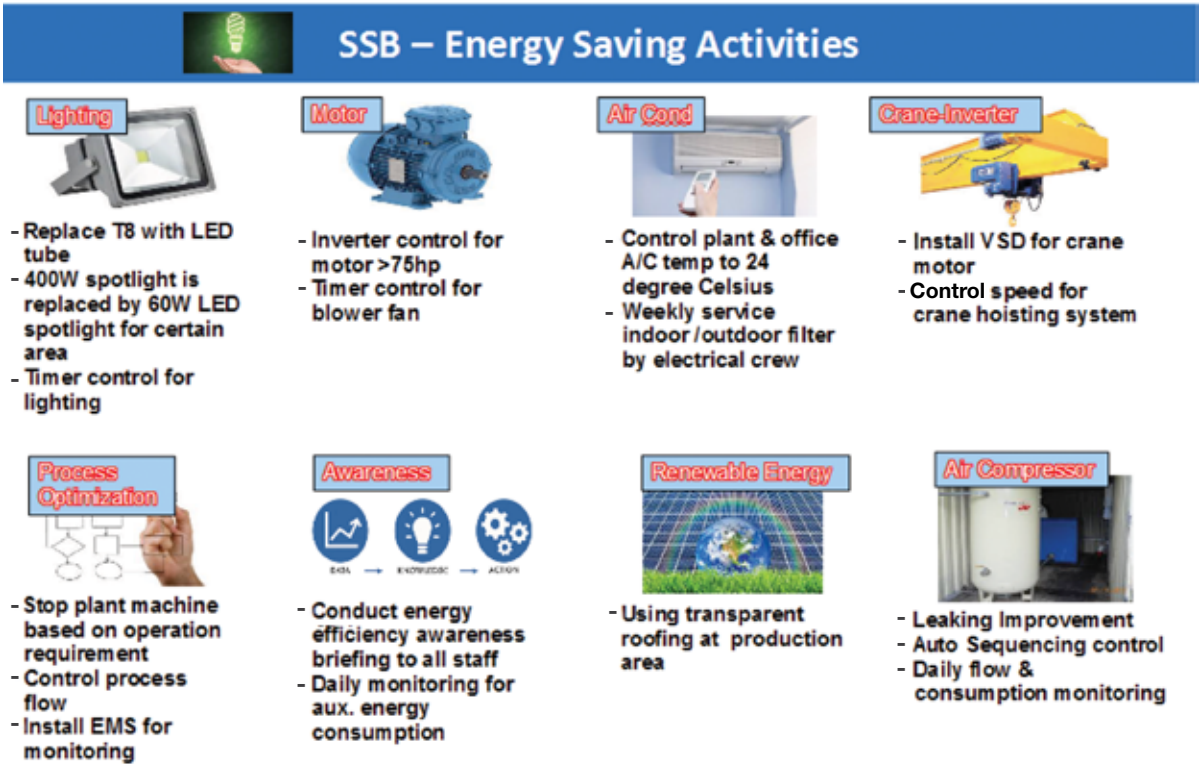
| Graduate Intake Batch & Time | No. of Graduate-Mentee at Intake | No. of Graduate-Mentee as at August 2017 | Overall GDP programme Success-Rate from Graduate-Mentee | No. of GDP Considered for Permanent Employment |
|---|---|---|---|---|
| **1st Batch- July 2016** | 9 | 8* | 89% | 87.5%* |
| **2nd Batch- July 2017** | 9 | 12* | 133% | N/A* |

* *Information updated as of 15 August 2017.*
*1st Batch - one dropped out due to family issue. 2nd Batch - additional three graduate-mentees were absorbed from other companies within the Group.*

# SUSTAINABILITY STATEMENT
(cont'd)

## Energy Management/Electrical Energy Consumption

As a responsible corporate citizen, we believe in taking a proactive approach to environmental management. As any reduction in the use of energy will lead to the abatement of GHG emissions, we therefore promote efficient use of energy. Guided by our Energy Policy, we have formed an Energy Management Programme Committee to oversee efficient use of energy. Our objective is to improve efficiency in energy consumption, contribute to reduction in utility costs, and to optimise capital expenditure. The following are the key energy related initiatives taken by us:




We have managed to achieve total energy savings of approximately 4.358 million kWh for FY 2017, with significant savings attributable to the following 2 projects/activities:

| Project | Activities | FY 2017 Energy Savings in kWh |
|---|---|---|
| Invertor Control | Auto sequencing control for air compressor system | 1,020,916 |
| Control System | Upgrade air compressor control by using auto sequencing control instead of centralisation | 1,511,204 |

# SUSTAINABILITY STATEMENT
(cont'd)

## Solid Particle discharged/processed

Each year, the Group continues to improve on initiatives to minimise its operational impact on the environment. We have been careful with disposal of solid particles generated from the steel making plants, which is a scheduled waste (categorised under Scheduled Wastes Code SW104 under the First Schedule of the Environmental Quality (Scheduled Waste) Regulations, 2005).

For FY 2017, a total of 26,662 Mt of Electric Arc Furnace ("EAF") dust (SW104) is disposed of to a licensed waste processor for further recycling to extract zinc oxide. The tonnage of EAF dust disposed in a similar manner over the past 5 years is as follows:

| Financial Year | 2013 (Mt) | 2014 (Mt) | 2015 (Mt) | 2016 (Mt) | 2017 (Mt) |
|---|---|---|---|---|---|
| Tonnage of EAF dust processed | 12,045 | 10,623 | 10,609 | 16,837 | 26,662 |

In FY 2017, the volume processed has increased as the licensed waste processor has expanded its capacity to process. This has also helped to reduce the tonnage stored in our plant which is subject to approval of the Department of Environment every 6 months. With better control in the quality of incoming scrap material, we envisage to reduce this waste gradually in future.

## Water Management/Waste Water Recycled

Water is a precious resource which is becoming scarce. Our operations use a significant volume of water which is recycled in a closed loop system to reduce water consumption, and risk of environmental impact. We have installed various water treatment facilities for waste water to be treated and return to the system with zero discharge. By recycling the processed water, we are able to conserve precious water and believe we would be able to reduce our operational costs consequently.

We have not installed any flow meter to measure the total amount of water recycled, and are in the process of exploring other alternative measurement methods as well as compiling measurement indicators.

## Community

We consciously work towards making a difference, however small, to the communities we operate in. This year, our contribution includes the following:

- Blood donation drive in collaboration with Hospital Seberang Jaya with successful 179 donors out of 214 participated (2016: with Penang General Hospital, with 206 successful donors out of 230 participated).
- Visit to old folks home at Happy Retirement Home Pematang Durian of Kepala Batas during Chinese New Year.
- Visit to Pertubuhan Anak-anak Yatim Ummu Sabariah at Kampung Charok Sik, Baling during Hari Raya.

Our voluntary members (employees) of Heart to Heart Club which organises the above programmes continue to put in effort relentlessly for their up and coming 2nd Blood Donation drive, Deepavali visit to old folks home and other programmes.

In addition, other community programmes and outreach are carried out through Hong Leong Foundation, the philanthropic arm of the Hong Leong Group of Companies.

*This Sustainability Statement is made in accordance with the resolution of the Board of Directors.*

# 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.

The Board took cognisance of the new Malaysian Code on Corporate Governance published in April 2017 ("MCCG 2017") which is applicable to annual reports published from 2018 onwards.

## 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 last review of the Board Charter was carried out in August 2017. The key roles and responsibilities of the Board 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") who is 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 support the Board in the performance 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 of the Board and the GMD. 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 formulating the vision and recommending policies and the strategic direction of the Group for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Group and tracking compliance and business progress.

Independent Non-Executive Directors ("ID" or "IDs") 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. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the IDs' independent judgment or their 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 takes a progressive approach in integrating sustainability into its businesses as set out in the Sustainability Statement which forms part of the Annual Report.

The Board observes the Code of Ethics for Company Directors 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 to be 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, 3 of whom are non-executive and 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 IDs comprising at least half 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 has in place a Board Diversity Policy. 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.

Based on the review of the Board composition in August 2017, 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. The Board will work towards increasing women participation on the Board in line with the MCCG 2017.

## 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.

## 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:

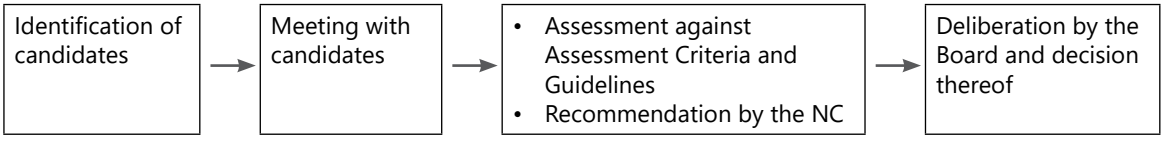
**Mr Ang Kong Hua**
*Chairman, Independent Non-Executive Director*

**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-election, retention and removal of directors, and the appointment of Board Committee members and chief executive, and the criteria used for such assessments.

The nomination, assessment and approval process for new appointment is as follows:




All candidates to the Board are assessed by the NC prior to their appointments, taking into account, inter-alia, the strategic and effective fit of the candidates for the Board, the overall desired Board composition including Board diversity and the required mix of skills, expertise, knowledge and experience in the industry, market and segment to enhance the Board's overall effectiveness and having regard to the candidates' attributes, qualifications, management, leadership, independence and time commitment, before they are recommended to the Board for approval. The Company has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and director databases in its search for suitable Board candidates.

In the case of chief executive, the NC will take into account the candidate's knowledge and experience in the industry, market and segment.

The assessment for Board Committee appointment will be based on the directors' potential contributions and value-add to the Board Committees with regard to Board Committees' roles and responsibilities.

In addition, 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/chief financial officer, 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 NC will deliberate on the results of the Board Annual Assessment and submit its recommendation to the Board for consideration and approval. 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").

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## C. BOARD COMMITTEES *cont'd*

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

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

| | | |
|---|---|---|
| • Assessment against Assessment Criteria and Guidelines<br>• Recommendation by the NC | → | Deliberation by the Board and decision thereof |

For removal of directors, the Company shall carry out such removal in accordance with the provisions of the Companies Act 2016 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.

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 2017 ("FY 2017") where all the NC members attended.

During the FY 2017, 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 took cognisance of the merits of Board diversity, including women representation on the Board. The NC will work towards increasing women participation on the Board in line with the MCCG 2017.

The NC has also evaluated the performance of the Board, Board Committees, each individual director, each Board Committee member and the Chief Financial Officer ("CFO"), benchmarking against their respective TOR and Assessment Criteria, and through the annual assessment conducted during FY 2017. 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.

## C. BOARD COMMITTEES *cont'd*

### 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 2017 where all the RC members attended.

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 scope of responsibilities and commitment 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 2017 is as follows:

| | Fees (RM) | | Remuneration & Other Benefits (RM) | | Total (RM) | |
|---|---|---|---|---|---|---|
| | Company | Group | Company | Group | Company | Group |
| Executive Directors | – | 20,000 | 2,594,681 | 2,594,681 | 2,594,681 | 2,614,681 |
| Non-Executive Directors | 530,000 | 531,041 | – | – | 530,000 | 531,041 |

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## C. BOARD COMMITTEES *cont'd*

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

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 | – | – | – | 1 |
| 50,001 – 100,000 | – | – | – | – |
| 100,001 – 150,000 | – | – | 4 | 4 |
| 150,001 – 2,500,000 | – | – | – | – |
| 2,500,001 – 3,000,000 | 1 | 1 | – | – |

### 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 three times during FY 2017. All the R&D members attended all the meetings, except for YBhg Dato' Dr Tan Tat Wai who attended 2 out of 3 meetings held.

## 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.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## D. INDEPENDENCE *cont'd*

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 the IDs remain objective and have continued to bring independent and objective judgment to Board deliberations and decision-making. The tenure of all the IDs on the Board does not exceed 9 years.

## 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. 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 235 of the Companies Act 2016 and they are Associate Members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The Company Secretaries support the effective functioning of the Board, provide advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitate effective information flow amongst the Board, Board Committees and senior management. All directors also have access to the advice and services of the internal auditors and in addition, to 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 2017.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## E. COMMITMENT *cont'd*

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 | 3/4 |
| Mr Ang Kong Hua | 4/4 |
| Mr Seow Yoo Lin | 4/4 |
| Dr Kwa Lay Keng | 4/4 |
| Mr Soon Seong Keat | 3/3 * |

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

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

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, information technology, internal control and/or statutory/regulatory compliance, be recommended and arranged for the directors to enhance their contributions to the Board.

During FY 2017, the directors received regular briefings and updates on the Group's businesses, operations, risk management, internal control, 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.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## E. COMMITMENT *cont'd*

During FY 2017, all the directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- 4th Industrial Revolution: Impact And Opportunities For Manufacturing And Financial Services
- Advocacy Session On Management Discussion & Analysis For Chief Executive Officers And Chief Financial Officers Of Listed Issuers
- 2017 SEAISI Conference And Exhibition
- Internal Capital Adequacy Assessment Process (ICAAP) Banks
- Current Issues In Corporate Governance
- Regional Geopolitical Developments Of China's Foreign Relations And One Belt One Road Initiative
- Technology Developments For Large-scale Urban Systems
- Effective Board Evaluation
- FinTech: Business Opportunity Or Disruptor?
- FinTech: Impact On Financial Institutions
- Breakfast Talk On CG Watch 2016 – Ecosystems Matter
- Sustainability Engagement Series For Directors/Chief Executive Officers 2017
- Efficient Inefficiency: Making Boards Effective In A Changing World
- Compliance Conference 2017
- Global Outlook 2017 – A Brave New World
- 2017 Market Outlook
- New Companies Act 2016

## 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.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## F. ACCOUNTABILITY AND AUDIT *cont'd*

### III Relationship with Auditors

The Board, through the BARMC, maintains a formal and transparent professional relationship with the external auditors, Messrs KPMG PLT. The appointment of external auditors is recommended by the BARMC which determines the remuneration of the external auditors. The BARMC reviews the performance, suitability, independence and objectivity 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 PLT 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, including key audit matters, 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 2017, the BARMC members together with the CFO undertook an annual assessment on the performance, suitability, independence and objectivity 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.

## 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 SBB 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, investor briefings, financial information, products information and investor relations. A summary of the key pertinent matters discussed at the AGM is published on the SSB Website.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## H. SHAREHOLDERS *cont'd*

### I Dialogue with Shareholders and Investors *cont'd*

In addition, shareholders and investors can have a channel of communication with the CFO to direct queries and provide feedback to the Group.

Queries may be conveyed to the following person:

| | | |
|---|---|---|
| Name | : | Mr Ang Meng Chuan |
| Tel No. | : | 04-3906 540 |
| 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. All Directors including the GMD attended the last AGM held on 14 November 2016.

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

## 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 2017, 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.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## I. SORMIC *cont'd*

### The Risk Management Framework *cont'd*

Further, on an on-going basis, each operating company's chief executive and authorised risk owners have 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 in FY 2017 cover sales, procurement and tender, production management and supply chain management.
- Quarterly reporting to the BARMC on the results of control assurance and audit activities and also the management of risks throughout the Group.

### 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 CFO 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.

# CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

## I. SORMIC *cont'd*

### 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 2017 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 2017 have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 2016 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

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

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

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

**Mr Soon Seong Keat**
*Non-Independent Non-Executive Director*

## 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 of Directors ("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.

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.

# BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
(cont'd)

## MEETINGS *cont'd*

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 2017 ("FY 2017") 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 2017, 4 Committee meetings were held and the attendance of the Committee members was as follows:

| Members | Attendance |
|---|---|
| Mr Seow Yoo Lin | 4/4 |
| Mr Ang Kong Hua | 4/4 |
| Dr Kwa Lay Keng | 4/4 |
| Mr Soon Seong Keat | 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 2017:

- 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 2017 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.
- Discussed with the external auditors the mock Auditors' Report with potential key audit matters identified by the external auditors.
- 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 external auditor's independence or objectivity. Details of non-audit fees incurred by the Group for FY 2017 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.
- 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 findings and recommendations.

# BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
(cont'd)

## ACTIVITIES *cont'd*

- Assessed the performance of the internal audit function as well as the adequacy and competency of internal audit resources.
- 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 ("IA")

The IA function is carried out in-house by the IA Department. There were 6 staff in the IA Department during FY 2017 and the total cost incurred by the IA Department amounted to RM985,111.

The IA Department, led by the Head of IA, reports to the Committee which has the authority to decide, amongst others, the appointment and removal; scope of work; and performance evaluation of the IA function. During FY 2017, the Head of IA was Mr Lim Eng Kok. Mr Lim is a Certified Internal Auditor, Certified Fraud Examiner, Fellow Member of the Association of Chartered Certified Accountants and a Chartered Member of the Institute of Internal Auditors Malaysia. The Committee is satisfied that the Head of IA has the relevant experience and sufficient standing and authority to discharge his duties as Head of IA.

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 IA Department also challenges and adds value to the efficiency, effectiveness and economy of operating companies' operations; usage of assets and resources; and the integrity of management information systems. In doing so, the IA function is performed with impartiality, proficiency and due professional care.

All the IA personnel had declared to the Committee that they are free from any relationships or conflicts of interest which would impair their impartiality or objectivity. The Committee had undertaken an assessment on the performance of the IA Department for FY 2017 whereby it is satisfied with the performance of the IA Department. The Committee had also reviewed the IA Department's resources, in particular the qualifications, experience and designations of all the IA personnel. As their continuous professional development, the IA personnel had kept abreast with developments in the profession, industry and regulations by attending internal and external training courses. The Committee is hence satisfied with the competency of the IA Department and that it had adequate resources to carry out its functions.

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 FY 2017 are described in the SORMIC.

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

The IA Department applies appropriate auditing standards in assessing the integrity and effectiveness of internal controls and compliance with the established policies and procedures; and is committed to continuously monitoring and improving the IA function.

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

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# DIRECTORS' REPORT

for the financial year ended 30 June 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2017.

## PRINCIPAL ACTIVITIES

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

## ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia and regarded by the Directors as the Company's ultimate holding company during the financial year until the date of this report.

## SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 3 to the financial statements.

## RESULTS

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit for the year attributable to: | | |
| Owners of the Company | 93,295 | 38,006 |
| Non-controlling interests | 1,898 | – |
| | 95,193 | 38,006 |

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in Note 15 and Note 27 to the financial statements.

## DIVIDENDS

Since the end of the previous financial year, the Company paid an interim single tier dividend of 3.0 sen per share amounting to RM12,864,289 in respect of the financial year ended 30 June 2017 on 1 June 2017.

The Directors do not recommend a final dividend for the financial year ended 30 June 2017.

# DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

## DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this 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 Ang Kong Hua
Dr Kwa Lay Keng
Mr Soon Seong Keat (Appointed on 1 September 2016)
Mr Tang Hong Cheong (Resigned on 1 September 2016)

The names of the Directors of subsidiaries are set out in the respective subsidiaries' financial statements and the said information is deemed incorporated herein by such reference and made a part hereof.

## DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who have beneficial interests in the ordinary shares 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 2017 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, are as follows:

| | | Number of ordinary shares/ ordinary shares issued* or to be issued** arising from the 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 1.7.2016/ Date of appointment** | **Acquired** | **Sold** | **At 30.6.2017** |
| *Shareholdings in which Directors have direct interests* | | | | | |
| **Interests of YBhg Datuk Kwek Leng San in:** | | | | | |
| Hong Leong Company (Malaysia) Berhad | (1) | 160,895 | – | – | **160,895** |
| Hong Leong Industries Berhad | (1) | 2,300,000 | – | – | **2,300,000** |
| Malaysian Pacific Industries Berhad | (1) | 1,260,000 | – | – | **1,260,000** |
| Hong Leong Bank Berhad | (1) | 536,000 | – | – | **536,000** |
| Hong Leong Financial Group Berhad | (1) | 654,000 | – | – | **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) | 3,501,600 | 420,000# | – | **3,921,600** |
| | | 420,000## | – | 420,000(2) | **–** |
| **Interest of YBhg Dato' Dr Tan Tat Wai in:** | | | | | |
| Southern Steel Berhad | (1) | 14,854 | – | – | **14,854** |
| | | 7,073** | – | – | **7,073**** |

# DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

## DIRECTORS' INTERESTS *cont'd*

| | Nominal value per share RM | Number of ordinary shares/ ordinary shares issued* or to be issued** arising from the conversion of redeemable convertible unsecured loan stocks/ordinary shares received# or to be received ## arising from vesting of share grant | | | |
|---|---|---|---|---|---|
| | | At 1.7.2016/ Date of appointment | Acquired | Sold | At 30.6.2017 |
| *Shareholdings in which Directors have direct interests cont'd* | | | | | |
| **Interests of Mr Soon Seong Keat in:** | | | | | |
| Hong Leong Financial Group Berhad | (1) | 33,100 | – | – | **33,100** |
| Hong Leong Industries Berhad | (1) | 100,000 | – | 100,000 | **–** |
| Hume Industries Berhad | (1) | 161,000 | 295,000 | – | **456,000** |
| GuocoLand Limited | (3) | 55,000 | – | – | **55,000** |
| Malaysian Pacific Industries Berhad | (1) | – | 65,000 | 65,000 | **–** |
| **Interest of Mr Chow Chong Long in:** | | | | | |
| Southern Steel Berhad | (1) | 95,563 | – | – | **95,563** |
| | | 45,505** | – | – | **45,505**** |
| **Interest of Mr Ang Kong Hua in:** | | | | | |
| Southern Steel Berhad | (1) | 1,000,000 | 476,190* | – | **1,476,190** |
| | | 476,190** | – | 476,190**(4) | **–** |
| *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(5) | – | – | **10,661(5)** |
| **Interest of YBhg Dato' Dr Tan Tat Wai in:** | | | | | |
| Southern Steel Berhad | (1) | 34,742,238 | – | – | **34,742,238** |
| | | 15,866,283** | – | – | **15,866,283**** |
| **Interests of Mr Soon Seong Keat in:** | | | | | |
| Hong Leong Industries Berhad | (1) | 15,000(5) | – | – | **15,000(5)** |
| Hume Industries Berhad | (1) | 211,200(5) | – | – | **211,200(5)** |
| **Interest of Mr Chow Chong Long in:** | | | | | |
| Southern Steel Berhad | (1) | 5,000(5) | – | – | **5,000(5)** |
| | | 2,380**(5) | – | – | **2,380**(5)** |

Legend:
(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016.
(2) Shares vested.
(3) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005.
(4) Conversion of redeemable convertible unsecured loan stocks into ordinary shares.
(5) Interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by a family member.

# DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

## DIRECTOR FEES AND OTHER 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 fees and benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the 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 the Company and/or related corporations and companies in which YBhg Dato' Dr Tan Tat Wai has interests.

The fees and other benefits in cash and/or in kind of the Directors of the Company are disclosed in Note 29.2 to the financial statements whilst the fees and other benefits of the Directors of the Company's subsidiaries are set out in the respective subsidiaries' financial statements and the said information is deemed incorporated herein by such reference and made a part thereof.

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.

## ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued ordinary share capital from RM419,417,208 to RM464,874,091 (inclusive of share premium) by the issue and allotment of 9,604,819 new ordinary shares arising from the conversion of RM10,085,068 nominal value of 5-year 5% Redeemable Convertible Unsecured Loan Stocks ("RCULS") at the conversion price of RM1.05 for every 1 new ordinary share in the Company. The conversion price is satisfied by surrendering for cancellation of the equivalent nominal value of RCULS.

The Company has not issued any debenture 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.

## INDEMNITY AND INSURANCE COSTS

During the financial year, Directors and Officers of Hong Leong Manufacturing Group Sdn Bhd, together with its subsidiaries and an associated company (the "Group", which includes Southern Steel Berhad and its subsidiaries and where applicable, associated companies) are covered under the Directors and Officers Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total amount of Directors and Officers Liability Insurance effected for the Directors and Officers of the Group was RM10 million. The total amount of premium paid for the Directors and Officers Liability Insurance by the Group was RM43,663 and the apportioned amount of the said premium paid by the Company was RM13,180.

# DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

## 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 values 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.

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, the financial performance of the Group and of the Company for the financial year ended 30 June 2017 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.

# DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

## AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 24 to the financial statements.

On behalf of the Board,

**Chow Chong Long**

**Seow Yoo Lin**

24 August 2017

# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2017

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Assets** | | | | | |
| Property, plant and equipment | 4 | **1,197,606** | 1,247,321 | **160,556** | 172,983 |
| Goodwill on consolidation | 5 | **30,256** | 30,256 | **–** | – |
| Investments in subsidiary companies | 6 | **–** | – | **855,205** | 861,309 |
| Investments in associated companies | 7 | **15,405** | 14,127 | **5,500** | 5,500 |
| Other investments | 8 | **1,427** | 381 | **1,427** | 381 |
| Deferred tax assets | 9 | **52,679** | 49,664 | **44,409** | 51,706 |
| Tax credit receivable | 10 | **22,716** | 18,341 | **13,221** | 13,357 |
| **Total non-current assets** | | **1,320,089** | 1,360,090 | **1,080,318** | 1,105,236 |
| Inventories | 11 | **688,566** | 518,637 | **415,523** | 277,122 |
| Trade and other receivables, including derivatives | 12 | **184,870** | 189,093 | **305,160** | 357,717 |
| Current tax assets | | **6,154** | 1,649 | **4,324** | 1,641 |
| Cash and cash equivalents | 13 | **86,542** | 46,949 | **18,872** | 12,087 |
| **Total current assets** | | **966,132** | 756,328 | **743,879** | 648,567 |
| **Total assets** | | **2,286,221** | 2,116,418 | **1,824,197** | 1,753,803 |

# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2017
(cont'd)

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share capital | 14 | **464,874** | 419,417 | **464,874** | 419,417 |
| Reserves | 15 | **154,692** | 106,502 | **356,097** | 363,902 |
| RCULS - equity portion | 16 | **145,544** | 153,900 | **145,544** | 153,900 |
| **Total equity attributable to owners of the Company** | | **765,110** | 679,819 | **966,515** | 937,219 |
| **Non-controlling interests** | | **5,148** | 8,316 | **–** | – |
| **Total equity** | | **770,258** | 688,135 | **966,515** | 937,219 |
| **Liabilities** | | | | | |
| Deferred tax liabilities | 9 | **9,339** | 14,987 | **–** | – |
| RCULS - liability portion | 16 | **16,579** | 25,715 | **16,579** | 25,715 |
| Deferred income | 17 | **11,721** | 13,246 | **10,021** | 11,432 |
| Employee benefits | 18 | **28,880** | 26,821 | **14,282** | 13,730 |
| Trade and other payables, including derivatives | 20 | **–** | 67,912 | **–** | – |
| Borrowings | 21 | **286,491** | 221,137 | **16,921** | 50,763 |
| **Total non-current liabilities** | | **353,010** | 369,818 | **57,803** | 101,640 |
| RCULS - liability portion | 16 | **4,564** | 4,591 | **4,564** | 4,591 |
| Employee benefits | 18 | **795** | 441 | **274** | 120 |
| Provisions | 19 | **26,047** | 13,652 | **12,000** | 12,000 |
| Trade and other payables, including derivatives | 20 | **351,638** | 413,095 | **231,843** | 209,232 |
| Borrowings | 21 | **775,648** | 621,196 | **551,198** | 489,001 |
| Current tax liabilities | | **4,261** | 5,490 | **–** | – |
| **Total current liabilities** | | **1,162,953** | 1,058,465 | **799,879** | 714,944 |
| **Total liabilities** | | **1,515,963** | 1,428,283 | **857,682** | 816,584 |
| **Total equity and liabilities** | | **2,286,221** | 2,116,418 | **1,824,197** | 1,753,803 |

The notes on pages 59 to 143 are an integral part of these financial statements.

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2017

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Revenue | 22 | **2,638,142** | 2,400,495 | **2,134,145** | 1,823,508 |
| Cost of sales | | **(2,318,143)** | (2,284,469) | **(2,014,367)** | (1,701,897) |
| **Gross profit** | | **319,999** | 116,026 | **119,778** | 121,611 |
| Distribution expenses | | **(71,651)** | (73,956) | **(37,140)** | (38,967) |
| Administrative expenses | | **(101,369)** | (79,369) | **(37,067)** | (31,857) |
| Other operating expenses | | **(18,320)** | (176,518) | **(1,959)** | (138,475) |
| Other operating income | | **26,977** | 44,985 | **25,150** | 45,948 |
| **Results from operations** | | **155,636** | (168,832) | **68,762** | (41,740) |
| Interest income | | **1,397** | 1,621 | **394** | 10,216 |
| Finance costs | 23 | **(48,464)** | (44,222) | **(24,670)** | (30,599) |
| Share of profit/(loss) in associated companies, net of tax | | **1,553** | (1,696) | **–** | – |
| **Profit/(Loss) before taxation** | 24 | **110,122** | (213,129) | **44,486** | (62,123) |
| Taxation | 25 | **(14,929)** | (6,754) | **(6,480)** | 1,175 |
| **Profit/(Loss) for the year** | | **95,193** | (219,883) | **38,006** | (60,948) |
| **Profit/(Loss) attributable to:** | | | | | |
| Owners of the Company | | **93,295** | (221,153) | **38,006** | (60,948) |
| Non-controlling interests | | **1,898** | 1,270 | **–** | – |
| | | **95,193** | (219,883) | **38,006** | (60,948) |
| **Basic earnings/(loss) per ordinary share (sen)** | 26 | **22.07** | (52.73) | | |
| **Diluted earnings per ordinary share (sen)** | 26 | **16.04** | N/A | | |

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2017
(cont'd)

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Profit/(Loss) for the year** | | **95,193** | (219,883) | **38,006** | (60,948) |
| **Other comprehensive income/ (expense), net of tax** | | | | | |
| *Items that are or may be reclassified subsequently to profit or loss* | | | | | |
| Gain/(Loss) on fair value of available-for-sale financial assets | | **1,046** | (10) | **1,046** | (35) |
| Reversal of fair value reserve upon disposal of available -for-sale financial assets | | **–** | (42) | **–** | – |
| Foreign currency translation differences for foreign operation | | **58** | (3,743) | **–** | – |
| Cash flow hedge | | **417** | (1,111) | **1,350** | (1,610) |
| **Total other comprehensive income/ (expense) for the year** | 27 | **1,521** | (4,906) | **2,396** | (1,645) |
| **Total comprehensive income/ (expense) for the year** | | **96,714** | (224,789) | **40,402** | (62,593) |
| **Total comprehensive income/ (expense) attributable to:** | | | | | |
| Owners of the Company | | **94,859** | (226,059) | **40,402** | (62,593) |
| Non-controlling interests | | **1,855** | 1,270 | **–** | – |
| | | **96,714** | (224,789) | **40,402** | (62,593) |

The notes on pages 59 to 143 are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2017

| | *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** | **Hedging 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) | (3,743) | (1,111) | (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 | 1,724 | (1,111) | 39,926 | 679,819 | 8,316 | 688,135 |
| | Note 14 | | | | | | | | | | | |

# STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2017 (cont'd)

| | ← 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 | Hedging reserve RM'000 | Executive share scheme reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| **At 1 July 2016** | 419,417 | 153,900 | 35,852 | 30,000 | 100 | 11 | 1,724 | (1,111) | – | 39,926 | 679,819 | 8,316 | 688,135 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 93,295 | 93,295 | 1,898 | 95,193 |
| *Other comprehensive income/ (expense):* | | | | | | | | | | | | | |
| - Loss on fair value of available-for-sale financial assets | – | – | – | – | – | 1,046 | – | – | – | – | 1,046 | – | 1,046 |
| - Foreign currency translation differences | – | – | – | – | – | – | 58 | – | – | – | 58 | – | 58 |
| - Cash flow hedge | – | – | – | – | – | – | – | 460 | – | – | 460 | (43) | 417 |
| **Total comprehensive income for the year** | – | – | – | – | – | 1,046 | 58 | 460 | – | 93,295 | 94,859 | 1,855 | 96,714 |
| *Contribution by and distribution to owners of the Company* | | | | | | | | | | | | | |
| - Conversion of RCULS | 9,605 | (8,356) | – | – | – | – | – | – | – | (95) | 1,154 | – | 1,154 |
| - Share-based payments (Note 18 (b)) | – | – | – | – | – | – | – | – | 1,015 | – | 1,015 | – | 1,015 |
| - Acquisition from non-controlling interests | – | – | – | – | – | – | – | – | – | 1,127 | 1,127 | (5,023) | (3,896) |
| - Dividend (Note 28) | – | – | – | – | – | – | – | – | – | (12,864) | (12,864) | – | (12,864) |
| - Others | – | – | – | – | 40 | – | – | – | – | (40) | – | – | – |
| **Total transactions with owners of the Company** | 9,605 | (8,356) | – | – | 40 | – | – | – | 1,015 | (11,872) | (9,568) | (5,023) | (14,591) |
| Transfer in accordance with to Section 618(2) of the Companies Act 2016* | 35,852 | – | (35,852) | – | – | – | – | – | – | – | – | – | – |
| **At 30 June 2017** | **464,874** | **145,544** | **–** | **30,000** | **140** | **1,057** | **1,782** | **(651)** | **1,015** | **121,349** | **765,110** | **5,148** | **770,258** |
| | Note 14 | | | | | | | | | | | | |

* Pursuant to Section 618(2) of the Companies Act 2016, any outstanding share premium shall became part of share capital.

# STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2017
(cont'd)

| | *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 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 |
| | Note 14 | | | | | | | |

| | *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** | **Executive share scheme reserve RM'000** | **Retained earnings RM'000** | **Total equity RM'000** |
| **At 1 July 2016** | 419,417 | 153,900 | 35,852 | 33,600 | (9) | (1,610) | – | 296,069 | 937,219 |
| Profit for the year | – | – | – | – | – | – | – | 38,006 | 38,006 |
| *Other comprehensive income:* | | | | | | | | | |
| - Gain on fair value of available-for-sale financial assets | – | – | – | – | 1,046 | – | – | – | 1,046 |
| - Cash flow hedge | – | – | – | – | – | 1,350 | – | – | 1,350 |
| **Total comprehensive income for the year** | – | – | – | – | 1,046 | 1,350 | – | 38,006 | 40,402 |
| *Contributions by and distribution to owners of the Company* | | | | | | | | | |
| Share-based payments (Note 18 (b)) | – | – | – | – | – | – | 604 | – | 604 |
| Conversion of RCULS | 9,605 | (8,356) | – | – | – | – | – | (95) | 1,154 |
| Dividend (Note 28) | – | – | – | – | – | – | – | (12,864) | (12,864) |
| **Total transactions with owners of the Company** | 9,605 | (8,356) | – | – | – | – | 604 | (12,959) | (11,106) |
| Transfer in accordance with Section 618(2) of the Companies Act 2016* | 35,852 | – | (35,852) | – | – | – | – | – | – |
| **At 30 June 2017** | **464,874** | **145,544** | **–** | **33,600** | **1,037** | **(260)** | **604** | **321,116** | **966,515** |
| | Note 14 | | | | | | | | |

* Pursuant to Section 618(2) of the Companies Act 2016, any outstanding share premium shall became part of share capital.

The notes on pages 59 to 143 are an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2017

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Cash flows from operating activities** | | | | |
| Profit/(Loss) before taxation | **110,122** | (213,129) | **44,486** | (62,123) |
| Adjustments for: | | | | |
| Property, plant and equipment: | | | | |
| - depreciation | **61,140** | 63,440 | **17,065** | 17,495 |
| - gain on disposal | **(44)** | (125) | **(44)** | (95) |
| - write-off | **1,131** | 140,900 | **–** | – |
| - others | **(1,324)** | – | **–** | – |
| (Gain)/Loss on disposal of | | | | |
| - Quoted investment in Malaysia | **–** | (52) | **–** | 2 |
| - Unquoted shares | **(2,993)** | – | **–** | – |
| - Associate companies | **–** | (25,039) | **–** | (25,039) |
| Fair value gain/(loss) on derivative instruments | **(356)** | 634 | **(23)** | (129) |
| Fair value (gain)/loss on financial instruments designated as hedge instruments | **(678)** | 121 | **(824)** | 629 |
| Provision for retirement benefits | **3,031** | 2,604 | **1,053** | 989 |
| Dividend income: | | | | |
| - Subsidiary companies | **–** | – | **(8,102)** | (58,996) |
| - Associate companies | **–** | – | **(275)** | – |
| - Quoted investment in Malaysia | **–** | (4) | **–** | (1) |
| Interest income | **(1,397)** | (1,621) | **(394)** | (10,216) |
| Share of (profit)/loss in associated companies | **(1,553)** | 1,696 | **–** | – |
| Finance costs | **48,464** | 44,222 | **24,670** | 30,599 |
| Amortisation of deferred income | **(6,036)** | (1,525) | **(1,411)** | (1,411) |
| Unrealised loss/(gain) on foreign exchange | **8,209** | 12,419 | **(21)** | (61) |
| Share based payments | **1,015** | – | **604** | – |
| Impairment loss on investment in a subsidiary company | **–** | – | **–** | 130,475 |
| **Operating profit before working capital changes** | **218,731** | 24,541 | **76,784** | 22,118 |
| Inventories | **(169,929)** | 265,229 | **(138,401)** | 126,718 |
| Trade and other receivables | **3,333** | 65,549 | **52,578** | (53,777) |
| Trade and other payables | **(135,020)** | 890 | **22,032** | (13,529) |
| Provisions | **12,395** | 1,652 | **–** | – |
| **Cash (used in)/generated from operations** | **(70,490)** | 357,861 | **12,993** | 81,530 |
| Retirement benefits paid | **(618)** | (941) | **(347)** | (454) |
| Finance costs paid | **(47,146)** | (45,572) | **(23,352)** | (28,875) |
| Dividend income received | **275** | 4 | **8,377** | 58,997 |
| Interest income received | **1,397** | 1,621 | **394** | 10,216 |
| Tax paid (net) | **(29,511)** | (9,770) | **(2,051)** | (1,566) |
| **Net cash (used in)/generated from operating activities** | **(146,093)** | 303,203 | **(3,986)** | 119,848 |

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2017
(cont'd)

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | A | **(11,499)** | (71,449) | **(4,905)** | (2,426) |
| Additional investments in subsidiary companies, net | | **–** | – | **(50,903)** | – |
| Accretion of interest in an existing subsidiary | | **(903)** | – | **–** | – |
| Proceeds from disposal of plant and equipment | | **311** | 125 | **311** | 113 |
| Proceeds from disposal of investment in associated companies | | **–** | 25,039 | **–** | 25,039 |
| Proceeds from disposal of other investment | | **–** | 144 | **–** | 9 |
| Proceeds from redemption of capital in subsidiary companies | | **–** | – | **60,000** | 50,000 |
| **Net cash (used in)/generated from investing activities** | | **(12,091)** | (46,141) | **4,503** | 72,735 |
| **Cash flows from financing activities** | | | | | |
| Dividend paid to owners of company | | **(12,864)** | – | **(12,864)** | – |
| Draw-down/(Repayment) of trade borrowings, net | | **182,487** | (80,675) | **98,899** | (96,994) |
| Repayment of term loan | | **(90,449)** | (202,414) | **(70,449)** | (92,413) |
| Draw-down of term loan | | **129,196** | 32,641 | **–** | – |
| RCULS coupon payment | | **(9,223)** | (9,287) | **(9,223)** | (9,287) |
| **Net cash generated from/(used in) financing activities** | | **199,147** | (259,735) | **6,363** | (198,694) |
| Net change in cash and cash equivalents | | **40,963** | (2,673) | **6,880** | (6,111) |
| Effect of exchange rate fluctuations on cash held | | **58** | 40 | **–** | – |
| Cash and cash equivalents at 1 July 2016/1 July 2015 | | **45,499** | 48,132 | **11,970** | 18,081 |
| **Cash and cash equivalents at 30 June** | B | **86,520** | 45,499 | **18,850** | 11,970 |

# STATEMENTS OF CASH FLOWS
for the year ended 30 June 2017
(cont'd)

NOTES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Additions of property, plant and equipment | **(11,499)** | (74,523) | **(4,905)** | (2,426) |
| Interest capitalised in property, plant and equipment shown as finance cost | **–** | 3,074 | **–** | – |
| | **(11,499)** | (71,449) | **(4,905)** | (2,426) |

B. 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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Deposits with licensed banks | **32,244** | 18,575 | **11,435** | 5,385 |
| Cash and bank balances | **54,298** | 28,374 | **7,437** | 6,702 |
| Bank overdrafts | **(22)** | (1,450) | **(22)** | (117) |
| | **86,520** | 45,499 | **18,850** | 11,970 |

# 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 2017 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 2017 do not include other entities.

The Company is principally engaged in investment holding, manufacturing, sale and trading in steel bars, wire rods and 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 24 August 2017.

## 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 requirements of the Companies Act, 2016 in Malaysia.

The preparation of the financial statements in conformity with MFRSs 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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 5 - Impairment of goodwill

The Group tests goodwill for impairment annually in accordance with the accounting policy stated in Note 2.2(f)(ii) to the financial statements. More regular reviews are performed if events indicate that this is necessary.

Measurement of recoverable amounts of cash generating units is derived based on value in use of the cash generating unit. Significant assumptions used to derive the value in use is as shown in Note 5.

ii) Note 9 - Income taxes

Estimating the deferred tax assets to be recognised requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. The actual utilisation of tax benefit may be different from expected.

iii) Note 11 - Net realisable value of inventories

The management reviews for obsolescence and decline in net realisable value below cost. This review requires judgement and estimates. Possible changes in these estimates could result in revision to the valuation of inventories. The carrying amounts of inventories are discussed in Note 11.

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.

## 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*

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 MFRS adoption using the merger method of accounting. The Group has applied MFRS 3 *Business Combination* prospectively.

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.

# 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*

**(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) Special purpose entities**

Special purpose entities ("SPE") are entities defined in MFRS 10 *Consolidated Financial Statements*, which may constitute a corporation, trust, partnership or unincorporated entity created to accomplish a narrow and well defined objective with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Accordingly, the ESS Trusts set up as mentioned in Note 2.2(r)(iii) is consolidated in the consolidated financial statements of the Group.

**(vi) 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.

**(vii) 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.

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

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

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

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

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.

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.

##### (viii) 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.

##### (ix) 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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:

| | Years |
|---|---|
| Leasehold land | 30 to 99 |
| Buildings | 8 to 50 |
| Plant and machinery | 2 to 20 |
| Office equipment | 2 to 20 |
| Motor vehicles | 4 to 5 |

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

## 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.

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 of 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.

# 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

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)).

## 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.

# 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*

##### (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.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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.

## 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**

**(i) 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.

**(ii) 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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.

## 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 ("RM")

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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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.

## 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.

# 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

##### (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.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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.

### 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 2017***

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

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

***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*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021***

- MFRS 17, *Insurance Contracts*

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

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

- from the annual period beginning on 1 July 2017 for those amendments 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 and interpretation 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 standard and interpretation that are effective for annual periods beginning on or after 1 January 2019.

- from the annual period beginning on 1 July 2021 for accounting standard that is effective for annual periods beginning on or after 1 January 2021.

The Group and the Company is currently assessing the financial impact that may arise from the adoption of the aforesaid accounting standards, amendments and interpretations.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 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 2017 % | Effective interest 2016 % | 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, hot rolled steel coils and other related products |
| Southern PC Steel Sdn Bhd | Malaysia | 100.0 | 100.0 | Manufacture and sale of pre-stressed concrete strands, wires, bars and other related products |
| Southern Steel Mesh Sdn Bhd | Malaysia | 100.0 | 100.0 | Manufacture, sale and marketing of steel wire mesh, concrete wires, fencing panels, cut and bend bars and other related products |
| • E-Tatt Steel Wires Sdn Bhd | Malaysia | 100.0 | 100.0 | Trading in steel wire mesh and temporary ceased operations since the preceding financial year |
| • Smart Motive Sdn Bhd # | Malaysia | – | 100.0 | Dissolved in May 2017 |

## NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

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

| Name of Company | Country of incorporation | Effective interest 2017 % | Effective interest 2016 % | Principal activities |
|---|---|---|---|---|
| **Subsidiary Companies** | | | | |
| Southern Pipe Industry (Malaysia) Sdn Bhd | Malaysia | 96.1 | 91.4 | Manufacture, sale and processing of steel pipes and other related products |
| • Southern Steel Pipe Sdn Bhd | Malaysia | 96.1 | 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 | Dissolved in July 2016 |
| • Starglow Investments Ltd #* | Malaysia | 100.0 | 100.0 | Investment holding |
| Solid Samphire Motif Sdn Bhd # | Malaysia | 100.0 | 100.0 | Dissolved in July 2017 |
| **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 |

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.
- # The financial statements of this subsidiary or associated company are not audited by KPMG PLT.
- * 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 ended 30 June 2016.

## 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 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 2016/1 July 2016** | 25,331 | 157,547 | 435,125 | 1,398,575 | 64,951 | 12,845 | 660,007 | 2,754,381 |
| Additions | – | 29 | 185 | 1,612 | 824 | 572 | 8,277 | 11,499 |
| Write-off | – | – | – | (377) | (222) | (4) | (1,039) | (1,642) |
| Disposals | – | – | – | – | – | (458) | – | (458) |
| Reclassification | – | – | 19,425 | 39,937 | 2,233 | 319 | (61,914) | – |
| Others | – | 1,324 | – | – | – | – | – | 1,324 |
| **At 30 June 2017** | **25,331** | **158,900** | **454,735** | **1,439,747** | **67,786** | **13,274** | **605,331** | **2,765,104** |

## 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 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** | | | | | | | | |
| **At 1 July 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 |
| Charge for the year | – | 3,374 | 11,864 | 43,407 | 2,038 | 457 | – | 61,140 |
| Write-off | – | – | – | (286) | (221) | (4) | – | (511) |
| Disposals | – | – | – | – | – | (191) | – | (191) |
| **At 30 June 2017** | | | | | | | | |
| - Accumulated depreciation | – | 38,348 | 214,815 | 1,212,581 | 63,153 | 10,883 | – | 1,539,780 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | **–** | **38,348** | **219,770** | **1,235,344** | **63,153** | **10,883** | **–** | **1,567,498** |
| **Carrying amounts** | | | | | | | | |
| At 1 July 2015 | 25,331 | 125,914 | 237,658 | 244,268 | 4,922 | 1,260 | 737,785 | 1,377,138 |
| At 30 June 2016/1 July 2016 | 25,331 | 122,573 | 227,219 | 206,352 | 3,615 | 2,224 | 660,007 | 1,247,321 |
| **At 30 June 2017** | **25,331** | **120,552** | **234,965** | **204,403** | **4,633** | **2,391** | **605,331** | **1,197,606** |

## 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** | | | | | | | | |
| **Cost** | | | | | | | | |
| **At 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 2016/1 July 2016** | 6,997 | 138,374 | 209,544 | 163,266 | 45,182 | 8,622 | – | 571,985 |
| Additions | – | 29 | 159 | 169 | 262 | 286 | 4,000 | 4,905 |
| Disposals | – | – | – | – | – | (458) | – | (458) |
| Reclassification | – | – | 1,849 | – | 2,151 | – | (4,000) | – |
| **At 30 June 2017** | **6,997** | **138,403** | **211,552** | **163,435** | **47,595** | **8,450** | **–** | **576,432** |

## 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 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** | | | | | | | | |
| **At 1 July 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 |
| Charge for the year | – | 3,061 | 6,471 | 6,166 | 1,085 | 282 | – | 17,065 |
| Disposals | – | – | – | – | – | (191) | – | (191) |
| **At 30 June 2017** | | | | | | | | |
| - Accumulated depreciation | – | 34,143 | 182,192 | 120,085 | 44,395 | 7,343 | – | 388,158 |
| - Accumulated impairment loss | – | – | 4,955 | 22,763 | – | – | – | 27,718 |
| | **–** | **34,143** | **187,147** | **142,848** | **44,395** | **7,343** | **–** | **415,876** |
| **Carrying amounts** | | | | | | | | |
| At 1 July 2015 | 6,997 | 110,353 | 35,304 | 31,607 | 2,835 | 974 | – | 188,070 |
| At 30 June 2016/1 July 2016 | 6,997 | 107,292 | 28,868 | 26,584 | 1,872 | 1,370 | – | 172,983 |
| **At 30 June 2017** | **6,997** | **104,260** | **24,405** | **20,587** | **3,200** | **1,107** | **–** | **160,556** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

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

### 4.1 Capital work-in-progress ("CWIP")

The carrying amount of RM605,108,000 (2016 : RM650,536,000) for capital work-in-progress as at the financial year end was in respect of the construction cost of a "Thin Slab Casting Unit feeding directly a twin Steckel Mill" for the production of hot rolled coil ("the HRC plant") in a wholly-owned subsidiary, Southern HRC Sdn Bhd ("SHRC"). The carrying amount was arrived at after the write off of RM140,873,000 during the previous financial year, comprising RM95,795,000 direct attributable costs in testing the HRC plant and RM45,078,000 borrowing costs capitalised.

In the previous financial year, the carrying amount of the HRC plant (after the aforesaid write off) had been evaluated for impairment and assessed based on fair value less cost of disposal method in which uncertainty existsed because the ultimate outcome of any arbitration cannot be predicted.

## 5. GOODWILL ON CONSOLIDATION

| | Group | |
|---|---|---|
| | **2017 RM'000** | **2016 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:-

| | **2017 RM'000** | **2016 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.

## 5. GOODWILL ON CONSOLIDATION *cont'd*

***(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 price gap 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 9.4% (2016: 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, an impairment loss of RM5,000,000 will arise from the following changes of the key assumptions in isolation:

(i) an increase of 3% in the discount rate; or

(ii) a 4% decrease in the price gap; or

(iii) a 13% decrease in the sales tonnage.

## 6. INVESTMENTS IN SUBSIDIARY COMPANIES

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **At cost:** | | |
| Unquoted shares | **905,680** | 901,784 |
| Redeemable Preference Shares | **80,000** | 70,000 |
| Redeemable Convertible Cumulative Preference Shares | **–** | 20,000 |
| | **985,680** | 991,784 |
| Less : Impairment loss | **(130,475)** | (130,475) |
| | **855,205** | 861,309 |

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

In prior 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 7. INVESTMENTS IN ASSOCIATED COMPANIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **At cost:** | | | | |
| Unquoted shares | **15,635** | 15,635 | **15,635** | 15,635 |
| Less : Impairment losses | **–** | – | **(10,135)** | (10,135) |
| | **15,635** | 15,635 | **5,500** | 5,500 |
| Share of post-acquisition reserves | **(230)** | (1,508) | **–** | – |
| | **15,405** | 14,127 | **5,500** | 5,500 |

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

Summary financial information of a material associate, not adjusted for the percentage ownership held by the Group:

| Group | Steel Industries (Sabah) Sdn Bhd RM'000 |
|---|---|
| **2017** | |
| **Summarised financial information** | |
| **As at 30 June 2017** | |
| Non-current assets | **32,661** |
| Current assets | **43,410** |
| Current liabilities | **(20,358)** |
| Net assets | **55,713** |
| **Year ended 30 June 2017** | |
| Profit for the year representing total comprehensive income | **5,647** |
| **Included in the total comprehensive income is:** | |
| Revenue | **105,991** |
| **Reconciliation of net assets to carrying amount** | |
| **As at 30 June 2017** | |
| Group's share of net assets | **15,321** |
| Elimination of unrealised loss | **84** |
| Carrying amount in the statement of financial position | **15,405** |
| **Group's share of results** | |
| **Year ended 30 June 2017** | |
| Group's share of profit for the year representing total comprehensive income | **1,553** |
| **Other information** | |
| Dividend received | **275** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

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

| Group | Steel Industries (Sabah) Sdn Bhd RM'000 |
|---|---|
| **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) |

## 8. OTHER INVESTMENTS

| | Group/Company | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| *Available-for-sale financial assets* | | |
| Shares quoted in Malaysia | **1,427** | 381 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 9. DEFERRED TAX ASSETS/(LIABILITIES)

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

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Group** | | | | | | |
| Property, plant and equipment | **–** | – | **(121,145)** | (106,343) | **(121,145)** | (106,343) |
| Unabsorbed capital allowances | **97,597** | 81,357 | **–** | – | **97,597** | 81,357 |
| Unutilised tax losses | **23,205** | 14,622 | **–** | – | **23,205** | 14,622 |
| Employee benefits | **7,122** | 6,543 | **–** | – | **7,122** | 6,543 |
| Trade and other payables | **7,319** | 5,391 | **–** | – | **7,319** | 5,391 |
| Provisions | **2,880** | 2,880 | **–** | – | **2,880** | 2,880 |
| Unutilised increased export allowance | **21,432** | 21,652 | **–** | – | **21,432** | 21,652 |
| RCULS | **5,069** | 7,276 | **–** | – | **5,069** | 7,276 |
| Others | **635** | 2,091 | **(774)** | (792) | **(139)** | 1,299 |
| Deferred tax assets/(liabilities) | **165,259** | 141,812 | **(121,919)** | (107,135) | **43,340** | 34,677 |
| Set off of tax | **(112,580)** | (92,148) | **112,580** | 92,148 | **–** | – |
| Net tax assets/(liabilities) | **52,679** | 49,664 | **(9,339)** | (14,987) | **43,340** | 34,677 |
| **Company** | | | | | | |
| Property, plant and equipment | **8,575** | 8,089 | **–** | – | **8,575** | 8,089 |
| Unabsorbed capital allowances | **–** | 6,523 | **–** | – | **–** | 6,523 |
| Unutilised tax losses | **1,045** | – | **–** | – | **1,045** | – |
| Employee benefits | **3,493** | 3,324 | **–** | – | **3,493** | 3,324 |
| Trade and other payables | **1,915** | 1,962 | **–** | – | **1,915** | 1,962 |
| Provisions | **2,880** | 2,880 | **–** | – | **2,880** | 2,880 |
| Unutilised increased export allowance | **21,432** | 21,652 | **–** | – | **21,432** | 21,652 |
| RCULS | **5,069** | 7,276 | **–** | – | **5,069** | 7,276 |
| Deferred tax assets | **44,409** | 51,706 | **–** | – | **44,409** | 51,706 |

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

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

| | At 1.7.2015 RM'000 | Recognised in profit or loss (Note 25) RM'000 | At 30.6.2016/ 1.7.2016 RM'000 | Recognised in profit or loss (Note 25) RM'000 | Recognised directly in equity RM'000 | At 30.6.2017 RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Property, plant and equipment | (65,516) | (40,827) | (106,343) | (14,802) | – | **(121,145)** |
| Unabsorbed capital allowances | 5,011 | 76,346 | 81,357 | 16,240 | – | **97,597** |
| Unutilised tax losses | 41,655 | (27,033) | 14,622 | 8,583 | – | **23,205** |
| Employee benefits | 6,144 | 399 | 6,543 | 579 | – | **7,122** |
| Trade and other payables | 3,737 | 1,654 | 5,391 | 1,928 | – | **7,319** |
| Provisions | 2,880 | – | 2,880 | – | – | **2,880** |
| Unutilised increased export allowance | 22,122 | (470) | 21,652 | (220) | – | **21,432** |
| RCULS | 9,089 | (1,813) | 7,276 | (1,886) | (321) | **5,069** |
| Others | 881 | 418 | 1,299 | (1,438) | – | **(139)** |
| | 26,003 | 8,674 | 34,677 | 8,984 | (321) | **43,340** |
| **Company** | | | | | | |
| Property, plant and equipment | 7,428 | 661 | 8,089 | 486 | – | **8,575** |
| Unabsorbed capital allowances | 3,600 | 2,923 | 6,523 | (6,523) | – | **–** |
| Unutilised tax losses | – | – | – | 1,045 | – | **1,045** |
| Employee benefits | 3,196 | 128 | 3,324 | 169 | – | **3,493** |
| Trade and other payables | 2,162 | (200) | 1,962 | (47) | – | **1,915** |
| Provisions | 2,880 | – | 2,880 | – | – | **2,880** |
| Unutilised increased export allowance | 22,122 | (470) | 21,652 | (220) | – | **21,432** |
| RCULS | 9,089 | (1,813) | 7,276 | (1,886) | (321) | **5,069** |
| | 50,477 | 1,229 | 51,706 | (6,976) | (321) | **44,409** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

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

**Unrecognised deferred tax assets**

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

| | Group | |
|---|---|---|
| | **2017 RM'000** | **2016 RM'000** |
| Unutilised tax losses | **272,987** | 310,816 |
| Unabsorbed capital allowances | **1,444** | 1,444 |
| Unabsorbed investment tax allowances | **1,297** | 1,297 |
| | **275,728** | 313,557 |

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.

## 10. TAX CREDIT RECEIVABLE

Tax credit receivable is attributable to the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Unutilised reinvestment allowances | **22,716** | 18,341 | **13,221** | 13,357 |

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 1.7.2015 RM'000** | **Recognised in profit or loss (Note 25) RM'000** | **At 30.6.2016/ 1.7.2016 RM'000** | **Recognised in profit or loss (Note 25) RM'000** | **Recognition of unutilised reinvestment allowance RM'000** | **At 30.6.2017 RM'000** |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Unutilised reinvestment allowances | 18,351 | (10) | 18,341 | (136) | 4,511 | **22,716** |
| **Company** | | | | | | |
| Unutilised reinvestment allowances | 13,367 | (10) | 13,357 | (136) | – | **13,221** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 11. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Raw materials | **430,372** | 293,336 | **326,664** | 222,991 |
| Work-in-progress | **19,351** | 17,802 | **–** | 455 |
| Finished goods | **155,139** | 108,916 | **80,169** | 45,700 |
| General consumables and other stores | **83,704** | 98,583 | **8,690** | 7,976 |
| | **688,566** | 518,637 | **415,523** | 277,122 |
| Recognised in profit or loss: | | | | |
| Inventories recognised as cost of sales | **2,333,060** | 2,253,955 | **2,039,909** | 1,670,503 |
| (Reversal)/Write-off of inventories | **(14,917)** | 30,514 | **(25,542)** | 31,394 |

## 12. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Trade** | | | | | |
| Trade receivables | | | | | |
| - Third parties | | **154,534** | 161,370 | **37,683** | 52,536 |
| - Subsidiaries | 12.1 | **–** | – | **1,849** | 40,220 |
| - Related parties | 12.1 | **6,421** | 8,642 | **2,940** | 5,219 |
| - Associated companies | 12.1 | **6,137** | – | **6,137** | – |
| | | **167,092** | 170,012 | **48,609** | 97,975 |
| **Non-trade** | | | | | |
| Amounts due from: | | | | | |
| - Subsidiaries | 12.2 | **–** | – | **243,990** | 248,097 |
| - Associated companies | 12.2 | **6** | 56 | **6** | 56 |
| Other receivables | | **19,918** | 17,827 | **10,907** | 9,580 |
| Deposits | | **1,253** | 1,286 | **805** | 816 |
| Prepayments | | **10,490** | 12,785 | **8,887** | 9,237 |
| Derivative financial assets | | | | | |
| - Interest rate swap contracts | | **91** | – | **–** | – |
| - Forward exchange contracts | | **66** | – | **–** | – |
| - Forward exchange contracts designated as hedge instruments | | **12** | 1,059 | **–** | – |
| | | **31,836** | 33,013 | **264,595** | 267,786 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 12. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES *cont'd*

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| Less: Impairment losses | | | | | |
| - trade | | **(6,213)** | (6,087) | **(199)** | (199) |
| - non-trade | | **(7,845)** | (7,845) | **(7,845)** | (7,845) |
| | | **(14,058)** | (13,932) | **(8,044)** | (8,044) |
| | | **184,870** | 189,093 | **305,160** | 357,717 |

**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 RM3,002,000 (2016: RM2,316,000) at the reporting date carried an interest rate ranging from 5.37% to 5.46% (2016: 5.35% to 5.96%) 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.

## 13. CASH AND CASH EQUIVALENTS

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Deposits with licensed banks | **32,244** | 18,575 | **11,435** | 5,385 |
| Cash and bank balances | **54,298** | 28,374 | **7,437** | 6,702 |
| | **86,542** | 46,949 | **18,872** | 12,087 |

## 14. SHARE CAPITAL

| | Group and Company 2017 Number of shares '000 | Group and Company 2017 Amount RM'000 | Group and Company 2016 Number of shares '000 | Group and Company 2016 Amount RM'000 |
|---|---|---|---|---|
| *Issued ordinary shares:* | | | | |
| At 1 July | **419,417** | **419,417** | 419,417 | 419,417 |
| Conversion of RCULS | **9,605** | **9,605** | – | – |
| Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note 14.1) | **–** | **35,852** | – | – |
| At 30 June | **429,022** | **464,874** | 419,417 | 419,417 |

(Note 14.2)

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 14. SHARE CAPITAL *cont'd*

14.1 In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has 24 months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

14.2 Included in share capital is share premium amounting to RM35,852,000 (2016 : RM35,852,000) that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74).

## 15. RESERVES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Reserves consist of: | | | | | |
| Share premium | 15.1 | **–** | 35,852 | **–** | 35,852 |
| Merger reserve | 15.2 | **30,000** | 30,000 | **33,600** | 33,600 |
| Other reserve | 15.3 | **140** | 100 | **–** | – |
| Fair value reserve | 15.4 | **1,057** | 11 | **1,037** | (9) |
| Foreign currency translation reserve | 15.5 | **1,782** | 1,724 | **–** | – |
| Hedging reserve | 15.6 | **(651)** | (1,111) | **(260)** | (1,610) |
| Executive share scheme reserve | 15.7 | **1,015** | – | **604** | – |
| Retained earnings | | **121,349** | 39,926 | **321,116** | 296,069 |
| | | **154,692** | 106,502 | **356,097** | 363,902 |

**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. As disclosed in Note 14 and the statements of changes in equity, share premium has become part of the Company's share capital.

**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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 15. RESERVES *cont'd*

**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.

**Note 15.7**
Executive share scheme reserve represents fair value of the share option and grant offers granted to employees as disclosed in Note 2.2(r)(iii).

## 16. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS

| | Group/Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| RCULS - Equity portion | **145,544** | 153,900 |
| RCULS - Liability portion | | |
| - Non-current | **16,579** | 25,715 |
| - Current | **4,564** | 4,591 |
| | **21,143** | 30,306 |
| | **166,687** | 184,206 |

In the financial year ended 30 June 2015, the Company issued RM185,741,000 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.

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

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.

At the end of the reporting period RM175,656,000 (2016 : RM185,741,000) nominal value of RCULS remained unconverted.

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| RCULS - equity portion at 1 July | **153,900** | 153,900 |
| Conversation of RCULS to share capital | **(8,356)** | – |
| At 30 June | **145,544** | 153,900 |

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

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| RCULS - liability portion at 1 July | **30,306** | 37,869 |
| Coupon payment | **(9,142)** | (9,287) |
| Interest accreted (Note 23) | **1,318** | 1,724 |
| Conversion of RCULS to share capital | **(1,339)** | – |
| At 30 June | **21,143** | 30,306 |

## 17. DEFERRED INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Non-current** | | | | |
| Reinvestment allowance | **11,721** | 13,246 | **10,021** | 11,432 |

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 RM6,036,000 (2016: RM1,525,000) and RM1,411,000 (2016: RM1,411,000) have been amortised and recognised as other operating income in profit or loss of the Group and of the Company respectively. During the financial year, the Group further recognised RM4,511,000 (2016: Nil) of unutilised reinvestment allowance from a subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 18. EMPLOYEE BENEFITS

### (a) Unfunded retirement benefits

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Non-current | **28,880** | 26,821 | **14,282** | 13,730 |
| Current | **795** | 441 | **274** | 120 |
| | **29,675** | 27,262 | **14,556** | 13,850 |

**Movements in net defined benefit liability**

| | Defined benefit obligations | | Others | | Net defined benefit liability | |
|---|---|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Group** | | | | | | |
| At 1 July | **27,262** | 25,959 | **–** | (360) | **27,262** | 25,599 |
| **Included in profit or loss** | | | | | | |
| Current service cost | **1,801** | 1,471 | **–** | – | **1,801** | 1,471 |
| Interest cost | **1,230** | 1,133 | **–** | – | **1,230** | 1,133 |
| | **3,031** | 2,604 | **–** | – | **3,031** | 2,604 |
| **Others** | | | | | | |
| Benefits (paid)/received | **(618)** | (1,301) | **–** | 360 | **(618)** | (941) |
| At 30 June | **29,675** | 27,262 | **–** | – | **29,675** | 27,262 |

| | Defined benefit liability | |
|---|---|---|
| | **2017 RM'000** | **2016 RM'000** |
| **Company** | | |
| At 1 July | **13,850** | 13,315 |
| **Included in profit or loss** | | |
| Current service cost | **238** | 226 |
| Interest cost | **815** | 763 |
| | **1,053** | 989 |
| **Others** | | |
| Benefits paid | **(347)** | (454) |
| At 30 June | **14,556** | 13,850 |

## 18. EMPLOYEE BENEFITS *cont'd*

### (a) Unfunded retirement benefits *cont'd*

**Actuarial assumptions**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **%** | **%** | **%** | **%** |
| Discount rate | **5.75** | 5.75 | **5.75** | 5.75 |
| Expected rates of salary increases | **5.00** | 5.00 | **5.00** | 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** |
| **2017** | | | | |
| Discount rate (1% movement) | **(3,214)** | **2,875** | **(1,603)** | **1,705** |
| Future salary growth (1% movement) | **3,170** | **(3,337)** | **1,722** | **(1,486)** |
| **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) |

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)

## 18. EMPLOYEE BENEFITS *cont'd*

### (b) 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 ordinary share capital of the Company, comprising an ESOS and an executive share grant scheme ("ESGS") for the benefit of eligible executives. The ESS will 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 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 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 ordinary share capital (excluding treasury shares) of the Company, must not exceed 10% of the Maximum Aggregate.

(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.

During the financial year, the Group granted conditional incentive share options ("Options") over 22,250,000 ordinary shares in the Company at an exercise price of RM1.40 per share to its eligible executives. The Options granted are subject to the achievement of certain performance criteria by the option holders over the option performance period and the exercise period of the vested options will be up to the 30th month from the vesting date to be determined.

## 18. EMPLOYEE BENEFITS *cont'd*

### (b) Executive Share Scheme ("ESS") *cont'd*

Since the commencement of the ESS, a total of 22,250,000 Options have been granted and all the Options remained outstanding. None of the Options granted has been vested. The aggregate Options granted to directors and chief executives of the Group was 18,250,00. The actual percentage of total Options granted to directors and senior management of the Group was 3.44% based on the issued ordinary share capital of the Company as at 30 June 2017.

The aggregate allocation of Option to directors and senior management of the Group pursuant to the ESS is at the discretion of the Board provided that such allocation does not exceed the Maximum Aggregate.

There were no shares granted or options over shares vested under the ESS of the Company during the financial year ended 30 June 2017.

**Weighted average fair value of share options and assumptions**

| | Group/ Company 2017 |
|---|---|
| Weighted average fair value at grant date | **RM0.75** |
| **At grant date:** | |
| Weighted average share price | **RM1.58** |
| Weighted average exercise price | **RM1.40** |
| Expected volatility (weighted average volatility) | **49.50%** |
| Option life (expected weighted average life) | **5 years** |
| Weighted average expected dividends | **0.58%** |
| Weighted average risk-free interest rate (based on Malaysian government bonds) | **3.71%** |

**Value of employee services received for issue of share options**

| | Group 2017 RM'000 | Company 2017 RM'000 |
|---|---|---|
| Share options granted in 2017 | **1,015** | **604** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 19. PROVISIONS

| | Legal RM'000 | Environmental RM'000 | Total RM'000 |
|---|---|---|---|
| **Group** | | | |
| At 1 July 2016 | 1,652 | 12,000 | 13,652 |
| Provisions made during the year | 18,573 | – | 18,573 |
| Paid during the year | (6,178) | – | (6,178) |
| At 30 June 2017 | **14,047** | **12,000** | **26,047** |

**Legal**

The provision for legal costs is related to the arbitration as disclosed in Note 34 to the financial statements.

**Environmental**

It is related to cleaning of industrial waste of RM12,000,000 (2016 : RM12,000,000) of the Group and of the Company.

## 20. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Non-Current** | | | | | |
| Other payables | 20.1 | **–** | 67,912 | **–** | – |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade payables | | | | | |
| - Third parties | | **119,229** | 128,387 | **80,594** | 97,064 |
| - Subsidiaries | 20.2 | **–** | – | **27,599** | 433 |
| - Related parties | | **341** | – | **–** | – |
| | | **119,570** | 128,387 | **108,193** | 97,497 |

## 20. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES *cont'd*

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **Non-trade** | | | | | |
| Amount due to a subsidiary | 20.3 | **–** | – | **65,139** | 61,346 |
| Other payables | 20.1 | **135,680** | 196,103 | **6,654** | 6,545 |
| Accrued expenses | | **96,184** | 86,060 | **51,746** | 41,536 |
| Derivative financial liabilities | | | | | |
| - Forward exchange contracts | | **9** | – | **–** | – |
| - Forward exchange contracts designated as hedge instruments | | **149** | 2,291 | **65** | 2,239 |
| - Interest rate swap contracts | | **46** | 254 | **46** | 69 |
| | | **232,068** | 284,708 | **123,650** | 111,735 |
| | | **351,638** | 413,095 | **231,843** | 209,232 |

**Note 20.1**
Included in other payables is an amount owing to a supplier of plant and machinery by a subsidiary company of RM88,737,000 (2016 : RM199,448,000), of which RM74,719,000 (2016 : RM67,912,000) is bearing interest at 1% (2016 : 1%) per annum. RM Nil (2016 : RM67,912,000) is not due and not payable within a year. This amount is also part of the arbitration proceedings mentioned in Note 34.

**Note 20.2**
The trade amounts due to subsidiaries are subject to normal trade terms.

**Note 20.3**
The non-trade amount due to a subsidiary is unsecured, interest free and repayable on demand.

## 21. BORROWINGS

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **Non-current (Unsecured)** | | | | |
| Term loan | **286,491** | 221,137 | **16,921** | 50,763 |
| **Current (Unsecured)** | | | | |
| Bank overdrafts | **22** | 1,450 | **22** | 117 |
| Bankers' acceptances | **603,784** | 433,497 | **429,334** | 330,435 |
| Revolving credit | **108,000** | 95,800 | **88,000** | 88,000 |
| Term loan | **63,842** | 90,449 | **33,842** | 70,449 |
| | **775,648** | 621,196 | **551,198** | 489,001 |
| | **1,062,139** | 842,333 | **568,119** | 539,764 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 22. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Sales of goods | **2,638,142** | 2,400,495 | **2,125,768** | 1,764,511 |
| Dividend income | **–** | – | **8,377** | 58,997 |
| | **2,638,142** | 2,400,495 | **2,134,145** | 1,823,508 |

## 23. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Interest expense on: | | | | |
| Borrowings | **47,076** | 45,550 | **23,282** | 28,853 |
| RCULS | **1,318** | 1,724 | **1,318** | 1,724 |
| Others | **70** | 22 | **70** | 22 |
| | **48,464** | 47,296 | **24,670** | 30,599 |
| Recognised in profit or loss | **48,464** | 44,222 | **24,670** | 30,599 |
| Capitalised on qualifying assets: | | | | |
| Capital work-in-progress | **–** | 3,074 | **–** | – |
| | **48,464** | 47,296 | **24,670** | 30,599 |

## 24. PROFIT/(LOSS) BEFORE TAXATION

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Auditors' remuneration | | | | |
| Statutory audits | | | | |
| - Holding company's auditors | | | | |
| - current year | **319** | 285 | **130** | 116 |
| - prior year | **26** | 6 | **14** | 6 |
| - Other auditors | **–** | 8 | **–** | – |
| Other services | | | | |
| - Holding company's auditors | **6** | 6 | **6** | 6 |
| Amortisation of deferred income | **(6,036)** | (1,525) | **(1,411)** | (1,411) |
| Dividend income | | | | |
| - Subsidiary companies | **–** | – | **(8,102)** | (58,996) |
| - Associate | **–** | – | **(275)** | – |
| - Quoted investment in Malaysia | **–** | (4) | **–** | (1) |
| (Gain)/Loss on disposal of | | | | |
| - Quoted investment in Malaysia | **–** | (52) | **–** | 2 |
| - Unquoted investment in Malaysia | **(2,993)** | – | **–** | – |
| - Associated companies | **–** | (25,039) | **–** | (25,039) |
| Personnel expenses | | | | |
| - Salaries and other expenses | **127,648** | 128,080 | **39,550** | 28,674 |
| - Contribution to Employees Provident Fund | **12,742** | 12,285 | **3,533** | 2,834 |
| - Retirement benefits | **3,031** | 2,604 | **1,053** | 989 |
| - Share-based payments | **676** | – | **265** | – |
| | **144,097** | 142,969 | **44,401** | 32,497 |
| Fair value (gain)/loss on derivative instruments | **(356)** | 634 | **(23)** | (129) |
| Fair value (gain)/loss on financial instruments designated as hedge instruments | **(678)** | 121 | **(824)** | 629 |
| (Gain)/Loss on foreign exchange | | | | |
| - realised | **(2,401)** | (5,687) | **(492)** | (4,173) |
| - unrealised | **8,209** | 12,419 | **(21)** | (61) |
| Impairment loss | | | | |
| - investment in a subsidiary company | **–** | – | **–** | 130,475 |
| - trade receivables | **193** | 117 | **53** | – |
| Property, plant and equipment | | | | |
| - Gain on disposal | **(44)** | (125) | **(44)** | (95) |
| - Write-off | **1,131** | 140,900 | **–** | – |
| Rental expense | **2,367** | 2,263 | **725** | 1,433 |
| Rental income | **(84)** | (66) | **(3,633)** | (3,630) |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 25. TAXATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Current taxation | | | | |
| - Current year | **30,505** | 16,324 | **965** | 1,597 |
| - Prior year | **(6,728)** | (906) | **(1,597)** | (1,553) |
| | **23,777** | 15,418 | **(632)** | 44 |
| Deferred taxation | | | | |
| - Current year | **(7,187)** | (8,475) | **8,195** | (2,104) |
| - Prior year | **(1,797)** | (199) | **(1,219)** | 875 |
| | **(8,984)** | (8,674) | **6,976** | (1,229) |
| Utilisation of tax credit receivable arising from unutilised reinvestment allowances (Note 10) | | | | |
| - Current year | **136** | – | **136** | – |
| - Prior year | **–** | 10 | **–** | 10 |
| | **14,929** | 6,754 | **6,480** | (1,175) |

## 25. 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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Profit/(Loss) before taxation | **110,122** | (213,129) | **44,486** | (62,123) |
| Taxation at Malaysian statutory tax rates of 24% | **26,429** | (51,151) | **10,677** | (14,910) |
| Non-deductible expenses | **8,561** | 6,394 | **996** | 34,622 |
| Non-taxable income | **(2,150)** | (5,385) | **(2,349)** | (20,169) |
| Effect of tax incentive | **(9)** | (321) | **–** | – |
| Difference attributable to associated companies | **(373)** | 407 | **–** | – |
| Deferred tax assets not recognised | **–** | 58,751 | **–** | – |
| Previously unrecognised deferred tax assets utilised | **(9,079)** | – | **–** | – |
| Others | **75** | (846) | **(28)** | (50) |
| | **23,454** | 7,849 | **9,296** | (507) |
| Over provision in prior years | **(8,525)** | (1,095) | **(2,816)** | (668) |
| | **14,929** | 6,754 | **6,480** | (1,175) |

## 26. EARNINGS/(LOSS) PER ORDINARY SHARE

**Basic earnings/(loss) per ordinary share**

The basic earnings/(loss) per ordinary share is calculated by dividing the Group's profit attributable to owners of the Company of RM93,295,000 (2016: loss attributable to owners of the Company of RM221,153,000) by the weighted average number of ordinary shares outstanding during the financial year of 422,669,327 (2016: 419,417,208).

*Weighted average number of ordinary shares (basic)*

| | **2017 '000** | **2016 '000** |
|---|---|---|
| Number of ordinary shares at 1 July | **419,417** | 419,417 |
| Effect of conversion of RCULS | **3,252** | – |
| Weighted average number of ordinary shares at 30 June | **422,669** | 419,417 |
| Basic earnings/(loss) per ordinary share (sen) | **22.07** | (52.73) |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 26. EARNINGS/(LOSS) PER ORDINARY SHARE *cont'd*

**Diluted earnings/(loss) per ordinary share**

The calculation of diluted earnings per ordinary share for the financial year ended 30 June 2017 was based on profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

**2017**

*Profit/(Loss) attributable to owners of the Company (diluted)*

| | **RM'000** |
|---|---|
| Profit attributable to owners of the Company (basic) | **93,295** |
| Interest expense on RCULS, net of tax | **1,318** |
| Profit attributable to owners of the Company (diluted) | **94,613** |

*Weighted average number of ordinary shares at 30 June (diluted)*

| | **'000** |
|---|---|
| Weighted average number of ordinary shares at 30 June (basic) | **422,669** |
| Effect of conversion of RCULS | **167,292** |
| Weighted average number of ordinary shares at 30 June (diluted) | **589,961** |
| Diluted earnings per ordinary share (sen) | **16.04** |

**2016**

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)

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

| | Before tax RM'000 | Tax (expense)/ benefit RM'000 | Net of tax RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2017** | | | |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Gain on fair value of available-for-sale financial assets | **1,046** | **–** | **1,046** |
| Foreign currency translation differences for foreign operations | | | |
| - Gain arising during the year | **58** | **–** | **58** |
| Cash flow hedge | | | |
| - Gain arising during the year | **1,095** | **–** | **1,095** |
| - Reclassification adjustment for gain included in profit or loss | **(678)** | **–** | **(678)** |
| | **417** | **–** | **417** |
| | **1,521** | **–** | **1,521** |
| **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) |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

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

| | Before tax RM'000 | Tax (expense)/ benefit RM'000 | Net of tax RM'000 |
|---|---|---|---|
| **Company** | | | |
| **2017** | | | |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Gain on fair value of available-for-sale financial assets | **1,046** | **–** | **1,046** |
| Cash flow hedge | | | |
| - Gain arising during the year | **2,174** | **–** | **2,174** |
| - Reclassification adjustment for gain included in profit or loss | **(824)** | **–** | **(824)** |
| | **1,350** | **–** | **1,350** |
| | **2,396** | **–** | **2,396** |
| **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) |

## 28. DIVIDEND

| | Group and Company | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| **Interim single tier** | | |
| 3.0 sen per share (2016: Nil) | **12,864** | – |

## 29. RELATED PARTIES

29.1 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:

(i) 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 the Company and HLCM. Mr Kwek Leng Kee is a major shareholder of the Company and HLCM. Mr Quek Leng Chye is a past major shareholder 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 Kwek Leng Kee and Mr Kwek Leng Beng;

(ii) 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, Mr Kwek Leng Kee and Mr Kwek Leng Beng. YBhg Tan Sri Quek Leng Chan is a major shareholder of the Company and a past major shareholder of HBH and HBE. Mr Quek Leng Chye is a past major shareholder of the Company, HBH and HBE;

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

(iv) 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

(v) 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.

**Significant transactions with related parties are as follows:**

**(i) Transactions with subsidiary companies**

| | | Company | |
|---|---|---|---|
| | **Transaction** | **2017 RM'000** | **2016 RM'000** |
| (a) | Sale of goods | **999,751** | 739,943 |
| (b) | Purchase of goods | **754,732** | 366,769 |
| (c) | Rental expenses | **313** | 269 |
| (d) | Rental income | **7,598** | 7,592 |
| (e) | Interest income | **115** | 9,803 |
| (f) | Management fees income | **15,948** | 8,966 |
| (g) | Management fees expenses | **780** | 933 |
| (h) | Cut and bend related charges | **3,922** | 4,372 |
| (i) | Dividend income | **8,102** | 58,996 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 29. RELATED PARTIES *cont'd*

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

**(ii) Transactions with related parties**

| Transaction | Related party | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| (a) Receipt of Group management and/or support services | Subsidiary of HLCM | **7,546** | 2,188 | **4,188** | 2,188 |
| (b) Sale of goods | HBH & HBE | **60,337** | 69,787 | **41,788** | 38,936 |
| | Subsidiary of HLCM | **108,586** | 116,506 | **75,037** | 83,125 |
| | CHI | **–** | 29,951 | **–** | – |
| | Kim Co | **–** | 14,877 | **–** | 241 |
| | Associated company of SSB | **30,020** | – | **30,020** | – |
| (c) Purchase of goods | HBH | **1,041** | 715 | **–** | – |
| | Subsidiary of HLCM | **42** | 7 | **14** | 7 |
| (d) Purchase of insurance | Subsidiary of HLCM | **456** | 101 | **69** | – |
| (e) Freight charges | SHG | **16** | 12 | **16** | 12 |

Significant balances with related parties of the Group and of the Company at the reporting date are disclosed in Note 12 and Note 20.

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.

## 29. RELATED PARTIES *cont'd*

29.2 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 comprise all the Directors of the Group.

The fees, remuneration and other benefits of the Directors of the Company are as follows:

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| *Executive Directors* | | | | | |
| Remuneration and other benefits | 29.2.1 | **2,584** | 2,174 | **2,564** | 2,155 |
| *Non-Executive Directors* | | | | | |
| Fees | 29.2.2 | **531** | 471 | **530** | 471 |

29.2.1 The estimated monetary value of Executive Directors' benefit-in-kind of the Company is RM31,000 (2016: RM24,000).

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

## 30. 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 30. OPERATING SEGMENTS *cont'd*

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

| | Steel Products RM'000 | Investment holding and others RM'000 | Total RM'000 |
|---|---|---|---|
| **2017** | | | |
| **Segment Profit** | **152,488** | **3,148** | **155,636** |
| Interest income | | | **1,397** |
| Finance costs | | | **(48,464)** |
| Share of profit in associated companies, net of tax | | | **1,553** |
| Consolidated profit before taxation | | | **110,122** |
| Included in the measure of segment profit are: | | | |
| Revenue from external customers | **2,638,142** | **–** | **2,638,142** |
| Reversal of inventories | **(14,917)** | **–** | **(14,917)** |
| Property, plant and equipment written off | **1,131** | **–** | **1,131** |
| Depreciation | **61,116** | **24** | **61,140** |
| **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)

### 30. OPERATING SEGMENTS *cont'd*

**Geographical information**

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

| | Revenue | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Malaysia | **2,418,398** | 2,177,974 |
| ASEAN countries | **127,286** | 105,180 |
| Others | **92,458** | 117,341 |
| | **2,638,142** | 2,400,495 |

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 | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Malaysia | **1,227,862** | 1,277,577 |
| ASEAN countries | **–** | – |
| Others | **–** | – |
| | **1,227,862** | 1,277,577 |

### 31. CAPITAL COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Property, plant and equipment | | | | |
| - Authorised and contracted for | **5,529** | 1,458 | **245** | 330 |
| - Authorised but not contracted for | **6,830** | 10,910 | **298** | 6,485 |
| | **12,359** | 12,368 | **543** | 6,815 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS

### 32.1 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) Financial liabilities measured at amortised cost ("FL").

| | Carrying amount RM'000 | L&R RM'000 | AFS RM'000 | FVTPL - HFT RM'000 | Derivatives used for hedging RM'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| **Financial assets** | | | | | |
| **Group** | | | | | |
| Other investments | **1,427** | **–** | **1,427** | **–** | **–** |
| Trade and other receivables, including derivatives (excluding deposits and prepayments) | **180,972** | **180,803** | **–** | **157** | **12** |
| Cash and cash equivalents | **86,542** | **86,542** | **–** | **–** | **–** |
| | **268,941** | **267,345** | **1,427** | **157** | **12** |
| **Company** | | | | | |
| Other investments | **1,427** | **–** | **1,427** | **–** | **–** |
| Trade and other receivables, including derivatives (excluding deposits and prepayments) | **303,313** | **303,313** | **–** | **–** | **–** |
| Cash and cash equivalents | **18,872** | **18,872** | **–** | **–** | **–** |
| | **323,612** | **322,185** | **1,427** | **–** | **–** |

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

| | Carrying amount RM'000 | FL RM'000 | FVTPL - HFT RM'000 | Derivatives used for hedging RM'000 |
|---|---|---|---|---|
| **2017** | | | | |
| **Financial liabilities** | | | | |
| **Group** | | | | |
| RCULS - liability portion | **21,143** | **21,143** | **–** | **–** |
| Borrowings | **1,062,139** | **1,062,139** | **–** | **–** |
| Trade and other payables, including derivatives | **351,638** | **351,434** | **55** | **149** |
| | **1,434,920** | **1,434,716** | **55** | **149** |
| **Company** | | | | |
| RCULS - liability portion | **21,143** | **21,143** | **–** | **–** |
| Borrowings | **568,119** | **568,119** | **–** | **–** |
| Trade and other payables, including derivatives | **231,843** | **231,732** | **46** | **65** |
| | **821,105** | **820,994** | **46** | **65** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

| | 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 | – |

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

| | Carrying amount RM'000 | FL 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 | 481,007 | 478,462 | 254 | 2,291 |
| | 1,353,646 | 1,351,101 | 254 | 2,291 |
| **Company** | | | | |
| RCULS - liability portion | 30,306 | 30,306 | – | – |
| Borrowings | 539,764 | 539,764 | – | – |
| Trade and other payables, including derivatives | 209,232 | 206,924 | 69 | 2,239 |
| | 779,302 | 776,994 | 69 | 2,239 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Net (losses)/gains arising on: | | | | |
| Loans and receivables | **1,204** | 6,059 | **341** | 14,771 |
| Other liabilities | **(54,272)** | (58,583) | **(24,157)** | (30,920) |
| Fair value through profit or loss | | | | |
| - Gain/(Loss) on financial instruments designated as hedge instruments | **1,095** | (1,232) | **2,174** | (2,239) |
| - Gain/(Loss) on fair value of derivative instruments | **356** | (634) | **23** | 129 |
| Available-for-sale financial assets | | | | |
| - recognised in profit or loss | **–** | 56 | **–** | (1) |
| - recognised in other comprehensive income | **1,046** | (52) | **1,046** | (35) |
| | **(50,571)** | (54,386) | **(20,573)** | (18,295) |

### 32.3 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.

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

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

**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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Malaysia | **132,355** | 146,710 | **48,410** | 97,776 |
| Singapore | **11,548** | 10,014 | **–** | – |
| Philippines | **5,656** | 4,036 | **–** | – |
| The United Sates of America | **4,660** | 2,741 | **–** | – |
| India | **2,325** | – | **–** | – |
| Others | **4,335** | 424 | **–** | – |
| | **160,879** | 163,925 | **48,410** | 97,776 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 |
|---|---|---|---|
| **2017** | | | |
| **Group** | | | |
| Not past due | **146,586** | **–** | **146,586** |
| Past due 1 - 30 days | **11,959** | **–** | **11,959** |
| Past due 31 - 120 days | **2,048** | **(5)** | **2,043** |
| Past due more than 120 days | **6,499** | **(6,208)** | **291** |
| | **167,092** | **(6,213)** | **160,879** |
| **Company** | | | |
| Not past due | **47,262** | **–** | **47,262** |
| Past due 1 - 30 days | **1,148** | **–** | **1,148** |
| Past due 31 - 120 days | **–** | **–** | **–** |
| Past due more than 120 days | **199** | **(199)** | **–** |
| | **48,609** | **(199)** | **48,410** |

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

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

**Receivables** *cont'd*

***Impairment losses*** *cont'd*

The ageing of trade receivables as at end of the reporting period was: *cont'd*

| | 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 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| At 1 July 2016/2015 | **6,087** | 5,970 | **199** | 199 |
| Impairment loss recognised | **511** | 174 | **53** | – |
| Impairment loss reversal | **(318)** | (57) | **–** | – |
| Impairment loss written off | **(67)** | – | **(53)** | – |
| At 30 June | **6,213** | 6,087 | **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.

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 RM300 million (2016 : RM320 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.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 and the Company maintain sufficient levels of cash or cash convertible investments as well as sufficient undrawn lines of banking facilities to meet its working capital requirements.

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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** | | | | | | |
| **2017** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS – liability portion | **21,143** | **5.00** | **22,569** | **5,123** | **8,783** | **8,663** |
| Borrowings | **1,062,139** | **3.44 - 7.65** | **1,100,998** | **792,829** | **109,430** | **198,739** |
| Trade and other payables | **276,715** | **–** | **276,715** | **276,715** | **–** | **–** |
| Other payables | **74,719** | **1.00** | **74,719** | **74,719** | **–** | **–** |
| | **1,434,716** | | **1,475,001** | **1,149,386** | **118,213** | **207,402** |
| *Derivative financial liabilities* | | | | | | |
| Interest rate swap contracts | **46** | | **46** | **46** | **–** | **–** |
| Forward exchange contracts: | | | | | | |
| - outflow | **158** | **–** | **42,977** | **42,977** | **–** | **–** |
| - inflow | **–** | **–** | **(42,819)** | **(42,819)** | **–** | **–** |
| | **1,434,920** | | **1,475,205** | **1,149,590** | **118,213** | **207,402** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2016** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS – liability portion | 30,306 | 5.00 | 33,151 | 5,417 | 9,287 | 18,447 |
| Borrowings | 842,333 | 3.65 - 7.85 | 874,282 | 635,751 | 74,464 | 164,067 |
| Trade and other payables | 410,550 | – | 410,550 | 410,550 | – | – |
| Other payables | 67,912 | 1.00 | 67,912 | – | 67,912 | – |
| | 1,351,101 | | 1,385,895 | 1,051,718 | 151,663 | 182,514 |
| *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) | – | – |
| | 1,353,646 | | 1,388,440 | 1,054,263 | 151,663 | 182,514 |

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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** | | | | | | |
| **2017** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| RCULS – liability portion | **21,143** | **5.00** | **22,569** | **5,123** | **8,783** | **8,663** |
| Borrowings | **568,119** | **3.44 - 7.65** | **570,712** | **553,359** | **17,353** | **–** |
| Trade and other payables | **231,732** | **–** | **231,732** | **231,732** | **–** | **–** |
| Financial guarantees | **–** | **–** | **299,570** | **299,570** | **–** | **–** |
| | **820,994** | | **1,124,583** | **1,089,784** | **26,136** | **8,663** |
| *Derivative financial liabilities* | | | | | | |
| Interest rate swap contracts | **46** | | **46** | **46** | **–** | **–** |
| Forward exchange contracts: | | | | | | |
| - outflow | **65** | | **31,799** | **31,799** | **–** | **–** |
| - inflow | **–** | | **(31,734)** | **(31,734)** | **–** | **–** |
| | **821,105** | | **1,124,694** | **1,089,895** | **26,136** | **8,663** |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 | 5,417 | 9,287 | 18,447 |
| Borrowings | 539,764 | 3.65 - 7.35 | 547,047 | 493,735 | 35,965 | 17,347 |
| Trade and other payables | 206,924 | – | 206,924 | 206,924 | – | – |
| Financial guarantees | – | – | 190,000 | 190,000 | – | – |
| | 776,994 | | 977,122 | 896,076 | 45,252 | 35,794 |
| *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) | – | – |
| | 779,302 | | 979,430 | 898,384 | 45,252 | 35,794 |

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Amount denominated in USD:** | | | | |
| Trade and other receivables | **19,300** | 6,085 | **–** | – |
| Trade and other payables | **(10,359)** | (332) | **(9,309)** | (124) |
| Cash and bank balances | **19,450** | 9,426 | **1,641** | 3 |
| Forward exchange contracts | **(149)** | (2,239) | **(65)** | (2,239) |
| Net exposure | **28,242** | 12,940 | **(7,733)** | (2,360) |
| **Amount denominated in SGD:** | | | | |
| Trade and other receivables | **9,464** | 9,824 | **–** | – |
| Trade and other payables | **–** | (16) | **–** | (16) |
| Cash and bank balances | **318** | 1,287 | **–** | – |
| Forward exchange contracts | **(9)** | – | **–** | – |
| Net exposure | **9,773** | 11,095 | **–** | (16) |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

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

#### (c) Market risk *cont'd*

##### (i) Currency risk *cont'd*

***Exposure to foreign currency risk** cont'd*

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Amount denominated in EURO:** | | | | |
| Trade and other payables | **(88,897)** | (199,475) | **(75)** | (4) |
| Net exposure | **(88,897)** | (199,475) | **(75)** | (4) |

***Currency risk sensitivity analysis***

A 5% (2016: 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 | |
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| USD | **(1,412)** | (647) | **387** | 118 |
| SGD | **(489)** | (555) | **–** | 1 |
| EURO | **4,449** | 9,974 | **4** | – |

A 5% (2016: 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.

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| **Fixed rate instruments** | | | | |
| Financial assets | **32,244** | 18,575 | **14,437** | 7,701 |
| Financial liabilities | **(732,927)** | (559,603) | **(538,477)** | (448,741) |
| | **(700,683)** | (541,028) | **(524,040)** | (441,040) |
| **Floating rate instrument** | | | | |
| Financial liabilities | **(425,074)** | (380,948) | **(50,785)** | (121,329) |

***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 RM2,125,000 (2016: RM1,905,000) and RM254,000 (2016: RM607,000) respectively. This analysis assumes that all other variables remain constant.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.3 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***

No sensitivity analysis is performed on equity price risk as the Directors are of the view that the risk is not significant.

#### (d) Hedging activities

**Cash flow hedge**

No sensitivity analysis is performed on the cash flow hedge as the Directors are of the view that the risk is not significant.

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.4 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** | | | | | | | | | | |
| **2017** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | **1,427** | **–** | **–** | **1,427** | **–** | **–** | **–** | **–** | **1,427** | **1,427** |
| Interest rate swap | **–** | **91** | **–** | **91** | **–** | **–** | **–** | **–** | **91** | **91** |
| Forward exchange contracts | **–** | **78** | **–** | **78** | **–** | **–** | **–** | **–** | **78** | **78** |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | **–** | **–** | **–** | **–** | **–** | **–** | **22,569** | **22,569** | **22,569** | **21,143** |
| Interest rate swap | **–** | **46** | **–** | **46** | **–** | **–** | **–** | **–** | **46** | **46** |
| Forward exchange contracts | **–** | **158** | **–** | **158** | **–** | **–** | **–** | **–** | **158** | **158** |
| Term loan | **–** | **–** | **–** | **–** | **–** | **–** | **350,333** | **350,333** | **350,333** | **350,333** |

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.4 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 |
| **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 | – | – | – | – | – | – | 33,151 | 33,151 | 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 |

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.4 Fair value information *cont'd*

| | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value | | | | Total | Carrying |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | fair value RM'000 | amount RM'000 |
| **Company** | | | | | | | | | | |
| **2017** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | **1,427** | **–** | **–** | **1,427** | **–** | **–** | **–** | **–** | **1,427** | **1,427** |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | **–** | **–** | **–** | **–** | **–** | **–** | **22,569** | **22,569** | **22,569** | **21,143** |
| Forward exchange contracts | **–** | **65** | **–** | **65** | **–** | **–** | **–** | **–** | **65** | **65** |
| Interest rate swap | **–** | **46** | **–** | **46** | **–** | **–** | **–** | **–** | **46** | **46** |
| Term loans | **–** | **–** | **–** | **–** | **–** | **–** | **50,763** | **50,763** | **50,763** | **50,763** |
| **2016** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Investment in quoted shares | 381 | – | – | 381 | – | – | – | – | 381 | 381 |
| **Financial liabilities** | | | | | | | | | | |
| RCULS - liability portion | – | – | – | – | – | – | 33,151 | 33,151 | 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 |

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 32. FINANCIAL INSTRUMENTS *cont'd*

### 32.4 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. (2016: 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% (2016: 5%).

## 33. 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 | |
|---|---|---|
| | **2017 RM'000** | **2016 RM'000** |
| Total borrowings (including RCULS - liability portion) | **1,083,282** | 872,639 |
| Less: Cash and cash equivalents | **(86,542)** | (46,949) |
| Net debt | **996,740** | 825,690 |
| Total equity | **770,258** | 688,135 |
| Debt-to-equity ratio | **1.29** | 1.20 |

## 34. MATERIAL LITIGATION

Southern HRC Sdn Bhd ("SHRC"), a wholly-owned subsidiary of Southern Steel Berhad, has on 7 July 2016 and 11 July 2016 terminated the contract between SHRC and Danieli & C. Officine Meccaniche S.p.A. ("Danieli") dated 16 June 2011 for the design, manufacture and supply of a "Thin Slab Casting Unit feeding directly a twin Steckel Mill" ("Plant") for the production of hot rolled coils ("Contract") and the Service Agreement No. 1 between SHRC, Danieli and Danieli Malaysia Sdn Bhd ("DMSB") dated 10 May 2014 ("Service Agreement") respectively.

Danieli Co. Ltd (a wholly-owned subsidiary of Danieli) ("Danieli Thailand") has demanded payment of €2,843,650.90 being the balance purchase price of the spare parts sold and delivered. SHRC is disputing Danieli's aforesaid claims.

i. Commencement of Arbitration Proceedings by SHRC

Following the termination of the Contract and Service Agreement as mentioned above, SHRC has commenced arbitration proceedings against Danieli and DMSB by way of a Request for Arbitration dated 29 August 2016 under the Arbitration Rules of the International Chamber of Commerce ("ICC Rules") arising out of the Contract and Service Agreement.

SHRC is claiming several reliefs against Danieli and DMSB, including repayment of contract sum and damages for misrepresentation and breach of contract.

ii. Commencement of Arbitration Proceedings against SHRC by Danieli and DMSB

Danieli and DMSB have also commenced arbitration proceedings against SHRC by way of a Request for Arbitration under the ICC Rules and the Request came to the attention of SHRC's management on 25 August 2016.

Danieli and DMSB are seeking several declarations in relation to the Contract and the Service Agreement and claiming damages, interest and costs as well as payment of €34,908,670,70. As mentioned in Note 34(i) above, SHRC is disputing and claiming several reliefs against Danieli and DMSB.

# NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

## 34. MATERIAL LITIGATION *cont'd*

Both arbitration proceedings in sub-paragraphs (i) and (ii) above have been consolidated ("First Arbitration") and will be heard together by an arbitral tribunal in Singapore.

iii. Commencement of Arbitration Proceedings against SHRC by Danieli Thailand

Danieli Thailand has commenced arbitration proceedings against SHRC by way of a Request for Arbitration under the ICC Rules and the Request came to the attention of SHRC's management on 24 November 2016 ("Second Arbitration").

Danieli Thailand is claiming the sum of €2,800,000.00, being the balance purchase price of spare parts under a sale contract dated 24 December 2013 between SHRC and Danieli Thailand ("Sale Contract") plus interest and general damages.

SHRC is disputing and will be challenging the claim by Danieli Thailand in the arbitration proceedings.

The same arbitral tribunal for the First Arbitration had been constituted to hear this Second Arbitration. The arbitral tribunal has directed that the Second Arbitration shall be heard jointly with the First Arbitration.

iv. Commencement of Court Proceeding against SHRC by Danieli Thailand

Danieli Thailand has commenced a court proceeding against SHRC at the Kuala Lumpur Sessions Court for payment of a further €115,067.10 plus interest and costs for certain goods and services provided to SHRC in respect of the Plant ("Court Proceeding").

SHRC is disputing and will be challenging the claim by Danieli Thailand.

SHRC is seeking to stay the Court Proceeding until a final award is issued by the arbitral tribunal for both the First Arbitration and Second Arbitration ("SHRC's Application").

The Kuala Lumpur Sessions Court dismissed SHRC's Application. SHRC has filed an appeal to the Kuala Lumpur High Court against the Sessions Court's decision.

## 35. 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 | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Total retained earnings of the Company and its subsidiaries: | | | | |
| - Realised | **190,645** | 120,904 | **413,421** | 385,675 |
| - Unrealised | **18,332** | 14,044 | **(92,305)** | (89,606) |
| | **208,977** | 134,948 | **321,116** | 296,069 |
| Total share of accumulated losses from associated companies | | | | |
| - Realised | **45** | (1,508) | **–** | – |
| Less : Consolidation adjustments | **(87,673)** | (93,514) | **–** | – |
| Total retained earnings | **121,349** | 39,926 | **321,116** | 296,069 |

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 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 48 to 142 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act 2016 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 2017 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 35 on page 143 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,

**Chow Chong Long**

**Seow Yoo Lin**

24 August 2017

# STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

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 48 to 143 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, Ang Meng Chuan, at Kuala Lumpur in the Federal Territory on 24 August 2017.

**Ang Meng Chuan**

Before me:

**Mohan A.S. Maniam**
Commissioner for Oaths
Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Southern Steel Berhad, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 48 to 142.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017, and of their financial performance and their 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 2016 in Malaysia.

### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Emphasis of Matters

### Uncertainty of the outcome of the arbitration process

Without qualifying our opinion, we draw attention to Note 34 which describes the uncertainty in respect of the outcome of the arbitrations among the Group, Danieli & C. Officine Meccaniche S.p.A, Danieli Malaysia Sdn Bhd and Danieli Co. Ltd.

# INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(cont'd)

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Assessing recoverable value of cash generating units – Group** | |
|---|---|
| Refer to the accounting policy on Note 2.1 Basis of preparation - use of estimates and judgements, Note 2.2(f)(ii) – Impairment of other assets and Note 5 – Goodwill on consolidation to the financial statements. | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The Group is required to carry out impairment test on the amount of goodwill annually.<br><br>Goodwill is allocated to cash generating units. The Group determined the recoverable amounts of the cash generating units by estimating their values-in-use, of which, were derived by discounting their projected cash flows. In the process of arriving at the projected cash flows of the cash generating units, management was required to determine certain key assumptions which were not observable or subjective. The management also exercised significant judgement to determine an appropriate discount rate to present value the projected cash flows.<br><br>The projected future cash flows may be affected by external economic and future market conditions. Errors in the estimates can impact the assessment of the carrying value of the goodwill.<br><br>This is one of the key audit matters because it required significant judgement and involvement of more experience personnel in assessing the recoverable values. | Our audit procedures, amongst others, include:<br>• Evaluated the Group's historical forecasting accuracy by comparing the prior year's projected cash flows to actual results reported;<br>• Assessed the impairment test model by comparing it with the requirements of the relevant accounting standard;<br>• Evaluated the key assumptions adopted, in particular, those relating to sales growth, gross profit margin and terminal growth rates, to determine reasonableness by comparing them with historical performance, and internal and external sources of information;<br>• Challenge the discount rate applied in the model by comparing it with weighted average cost of capital of other entities in the similar industry; and<br>• Assessed and determined that disclosures were made to reflect the risks inherent in the impairment tests. |

| **Valuation of inventories-Group and Company** | |
|---|---|
| Refer to the accounting policy in Note 2.1 Basis of preparation - use of estimates and judgements, Note 2.2(g) - Inventories and Note 11 - Inventories to the financial statements. | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Raw materials ("RM"), work-in-progress ("WIP") and finished goods ("FG") are required to be stated at the lower of cost and net realisable value ("NRV"). The NRV of these inventories are susceptible to steel price fluctuations.<br><br>Identifying and determining the appropriate write down amounts for RM, WIP and FG to net realisable value require the use of judgment.<br><br>This is one of the key audit matters because it required significant judgement to evaluate the process in determining the net realisable values of the inventories. | Our procedures, amongst others, include:<br>• Evaluated the process in determining the NRV of inventories by determining whether the process considered relevant factors and information, such as costs of conversion, prices of sale contracts, market prices of steel, and general selling prices of the finished goods;<br>• Assessed the accuracy of information used in determining the NRV of inventories by verifying to the source of the information; and<br>• Selected sample of inventory items to determine that they were carried at the lower of cost and net realisable value. |

# INDEPENDENT AUDITORS' REPORT
to the members of Southern Steel Berhad
(cont'd)

**Key Audit Matters** *cont'd*

| **Investment in subsidiaries – Company** | |
|---|---|
| Refer to the accounting policy in Note 2.1 - Basis of preparation - use of estimates and judgements, Note 2.2(f)(ii) Impairment of other assets and Note 6 – Investments in subsidiary companies to the financial statements. | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| As disclosed in Note 6 to the financial statements, the Company has material interests in subsidiaries.<br><br>Where there are indicators of impairment, the Company will perform impairment tests which will require the Company to estimate their recoverable values.<br><br>This is one of the key audit matters because it required us to exercise significant judgment to evaluate the key assumptions applied in determining the recoverable values. | Our audit procedures, amongst others include:<br>• In the assessment of impairment indicators, we challenged whether internal and external factors, and in particular, the opinion from the Company's external legal counsel were considered;<br>• Evaluated the Company's historical forecasting accuracy by comparing the prior year's projected cash flows to actual results reported;<br>• Assessed the impairment test model by comparing it with the requirements of the relevant accounting standard;<br>• Evaluated the key assumptions adopted, in particular, those relating to sales growth, gross profit margin and terminal growth rates, to determine reasonableness by comparing them with historical performance, and internal and external sources of information; and<br>• Challenged the discount rate applied in the model by comparing it with weighted average cost of capital of other entities in the similar industry. |

**Information Other than the Financial Statements and Auditors' Report Thereon**

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report, Statement on Risk Management and Internal Control, Chairman's Statement and Management Discussion and Analysis but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(cont'd)

**Responsibilities of the Directors for the Financial Statements**

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Group and of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITORS' REPORT
to the members of Southern Steel Berhad
(cont'd)

**Auditors' Responsibilities for the Audit of the Financial Statements** *cont'd*

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 3 to the financial statements.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 35 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**KPMG PLT**
LLP0010081-LCA & AF 0758
Chartered Accountants

**Thong Foo Vung**
Approval Number : 02867/08/2018 J
Chartered Accountant

24 August 2017

Penang

# OTHER INFORMATION

## 1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2017

| Location | Tenure | Existing Use | Acquisition Date | Approximate Area | Approximate Age of Building (Year) | Net Book Value as at 30 June 2017 (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 | 3 | |
| 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 | 3 | |
| 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 | 3 | 178,445 |
| 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 | 3 | |
| 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 | 3 | |
| Plot 524(c)<br>Prai Industrial Park | Leasehold expiring on 24 Oct 2073 | Office and factory building | 04 Apr 2012 | 1.41 acres | 3 | |
| 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 | 14-15 | 25,875 |

# OTHER INFORMATION
(cont'd)

## 1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2017 *cont'd*

| Location | Tenure | Existing Use | Acquisition Date | Approximate Area | Approximate Age of Building (Year) | Net Book Value as at 30 June 2017 (RM'000) |
|---|---|---|---|---|---|---|
| No PT 3171 Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 21 Mar 2050 | Factories | 19 Oct 1990 | 4.78 acres | 19-21 | |
| No PT 3178 Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 09 Apr 2050 | Factories | 19 Oct 1990 | 2.60 acres | 19 | |
| 2595<br>Lorong Perusahaan 12<br>Prai Industrial Estate<br>13600 Prai, Penang | Leasehold expiring on 09 Apr 2050 | Factories | 07 Oct 1991 | 2.60 acres | 19 | |
| 2613<br>Lorong Perusahaan 12<br>Prai Industrial Estate<br>13600 Prai, Penang | Leasehold expiring on 21 Mar 2050 | Factories | 23 Sep 1991 | 5.10 acres | 19 | 21,314 |
| No PT 3831 Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 21 Oct 2054 | Factories | 25 May 1993 | 1.31 acres | 21 | |
| No PT 3980 Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 25 Jan 2059 | Drains | 12 Aug 1996 | 2.13 acres | – | |
| No PT 4271<br>(formerly Plot 596)<br>Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 04 Nov 2064 | Vacant Land | 18 Mar 1998 | 0.12 hectares | – | |
| 4457 Mukim 15<br>Jalan Chain Ferry<br>12100 Butterworth<br>Penang | Freehold | Factory Godown | 12 Jun 1989 | 413,427 sq ft | 21-48 | 25,354 |

# OTHER INFORMATION
(cont'd)

## 1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2017 *cont'd*

| Location | Tenure | Existing Use | Acquisition Date | Approximate Area | Approximate Age of Building (Year) | Net Book Value as at 30 June 2017 (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 | 7 | 23,005 |
| PT 4639, Mukim 1<br>Seberang Perai Tengah<br>Penang | Leasehold expiring on 01 Jul 2112 | Vacant Land | 25 Mar 2013 | 7.25 hectares | – | 18,742 |
| 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 | 21-36 | 13,322 |
| Rawang Integrated<br>Industrial Park | Freehold | Office and factory building | 20 Apr 1994 | 4.63 hectares | 20 | 11,178 |
| 3081 Jalan Besar<br>Nibong Tebal, Penang | Freehold | Office and factory building | 22 Jun 1998 | 304,210 sq ft | 21-53 | 10,698 |
| 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 | 17 | 7,486 |

# OTHER INFORMATION
(cont'd)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 29 SEPTEMBER 2017

Class of Shares : Ordinary shares
Voting Rights : 1 vote for each share held

**Distribution Schedule Of Shareholders As At 29 September 2017**

| Size of Holdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| Less than 100 | 53 | 1.34 | 1,934 | 0.00 |
| 100 – 1,000 | 1,131 | 28.66 | 1,076,894 | 0.25 |
| 1,001 – 10,000 | 1,934 | 49.01 | 8,836,759 | 2.05 |
| 10,001 – 100,000 | 704 | 17.84 | 23,624,852 | 5.47 |
| 100,001 – less than 5% of issued shares | 121 | 3.07 | 80,382,386 | 18.60 |
| 5% and above of issued shares | 3 | 0.08 | 318,130,532 | 73.63 |
| | 3,946 | 100.00 | 432,053,357 | 100.00 |

**List Of Thirty Largest Shareholders As At 29 September 2017**

| | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1. | Assets Nominees (Tempatan) Sdn Bhd<br>- Hong Leong Manufacturing Group Sdn Bhd | 188,045,115 | 43.52 |
| 2. | Assets Nominees (Tempatan) Sdn Bhd<br>- Signaland Sdn Bhd | 104,115,194 | 24.10 |
| 3. | Southern Amalgamated Co Sdn Bhd | 25,970,223 | 6.01 |
| 4. | Southern Properties Sdn Bhd | 14,550,399 | 3.37 |
| 5. | Hong Bee Hardware Company, Sdn. Berhad | 7,371,493 | 1.71 |
| 6. | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Malayan Banking Berhad (MBB2 SWAP-M) | 4,450,000 | 1.03 |
| 7. | Hock Kheng Industries Sdn Bhd | 3,500,000 | 0.81 |
| 8. | UOBM Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Southern Amalgamated Co Sdn Bhd (PGB) | 3,500,000 | 0.81 |
| 9. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for John Devaraj Solomon (8103033) | 3,300,100 | 0.77 |
| 10. | Hwang Enterprises Sdn Bhd | 2,900,000 | 0.67 |
| 11. | Malaysia Nominees (Tempatan) Sendirian Berhad<br>- Great Eastern Life Assurance (Malaysia) Berhad (Par 1) | 2,662,344 | 0.62 |
| 12. | Lim Seow Chin | 2,200,000 | 0.51 |

# OTHER INFORMATION
(cont'd)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 29 SEPTEMBER 2017 *cont'd*

**List Of Thirty Largest Shareholders As At 29 September 2017** *cont'd*

| | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 13. | HSBC Nominees (Asing) Sdn Bhd<br>- Exempt AN for Credit Suisse (HK BR-TST-Asing) | 1,476,190 | 0.34 |
| 14. | Liao York | 1,384,427 | 0.32 |
| 15. | CIMSEC Nominees (Tempatan) Sdn Bhd<br>- CIMB Bank for Ng Kok Weng (MY2166) | 1,300,000 | 0.30 |
| 16. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Helina Shanti Solomon (7001761) | 1,172,700 | 0.27 |
| 17. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Inbamanay A/P M J Arumanayagam (8061712) | 1,104,000 | 0.26 |
| 18. | Choong Cheow Sai | 1,050,944 | 0.24 |
| 19. | Tan Liew Cheun | 981,320 | 0.23 |
| 20. | Southgroup Holdings Sdn Bhd | 972,815 | 0.23 |
| 21. | CIMSEC Nominees (Tempatan) Sdn Bhd<br>- CIMB Bank for Deva Dassan Solomon (MY1091) | 964,300 | 0.22 |
| 22. | Chua Holdings Sdn Bhd | 921,795 | 0.21 |
| 23. | Seri Pinang Sdn Bhd | 781,200 | 0.18 |
| 24. | Public Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tan Yok Son @ Tan Siew Tuan (E-BPT) | 744,200 | 0.17 |
| 25. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Deva Dassan Solomon (8041850) | 720,500 | 0.17 |
| 26. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Selina Sharmalar Solomon (8112136) | 703,000 | 0.16 |
| 27. | Kim Poh Sitt Tat Feedmill Sendirian Berhad | 700,000 | 0.16 |
| 28. | Chin Seen Choon | 650,000 | 0.15 |
| 29. | Maybank Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Ong Eng Moo | 617,100 | 0.14 |
| 30. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Siau Teck Shian (8077288) | 525,400 | 0.12 |
| | | 379,334,759 | 87.80 |

## OTHER INFORMATION
(cont'd)

### 2. ANALYSIS OF SHAREHOLDINGS AS AT 29 SEPTEMBER 2017 *cont'd*

**Substantial Shareholders**

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 29 September 2017 are as follows:

| | | Direct Interest | | Indirect Interest | | |
|---|---|---|---|---|---|---|
| | **Name of Shareholders** | **No. of shares** | **%** | **No. of shares** | **%** | |
| 1. | Hong Leong Manufacturing Group Sdn Bhd | 188,045,115 | 43.52 | 104,115,194 | 24.10 | * |
| 2. | Signaland Sdn Bhd | 104,115,194 | 24.10 | – | – | |
| 3. | Hong Leong Company (Malaysia) Berhad ("HLCM") | – | – | 292,160,309 | 67.62 | * |
| 4. | YBhg Tan Sri Quek Leng Chan | – | – | 292,169,709 | 67.62 | ^ |
| 5. | HL Holdings Sdn Bhd | – | – | 292,160,309 | 67.62 | ® |
| 6. | Hong Realty (Private) Limited | – | – | 299,531,802 | 69.33 | ^ |
| 7. | Hong Leong Investment Holdings Pte. Ltd. | – | – | 299,541,202 | 69.33 | ^ |
| 8. | Kwek Holdings Pte Ltd | – | – | 299,541,202 | 69.33 | ^ |
| 9. | Mr Kwek Leng Beng | – | – | 299,541,202 | 69.33 | ^ |
| 10. | Mr Kwek Leng Kee | – | – | 299,541,202 | 69.33 | ^ |
| 11. | Davos Investment Holdings Private Limited | – | – | 299,541,202 | 69.33 | ^ |
| 12. | Southern Amalgamated Co Sdn Bhd | 29,470,223 | 6.82 | – | – | |
| 13. | Su Hock Company Sdn Bhd | – | – | 29,470,223 | 6.82 | # |
| 14. | Hock Kheng Industries Sendirian Berhad | 3,500,000 | 0.81 | 29,470,223 | 6.82 | # |
| 15. | YBhg Dato' Dr Tan Tat Wai | 14,854 | 0.00 | 34,742,238 | 8.04 | @ |

***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 29 SEPTEMBER 2017

Voting Rights : 1 vote for each RM1.00 amount of RCULS held

**Distribution Schedule Of RCULS Holders As At 29 September 2017**

| **Size of Holdings** | **No. of RCULS Holders** | **%** | **No. of RCULS** | **%** |
|---|---|---|---|---|
| Less than 100 | 11 | 2.54 | 250 | 0.00 |
| 100 – 1,000 | 116 | 26.79 | 90,785 | 0.05 |
| 1,001 – 10,000 | 207 | 47.81 | 816,394 | 0.47 |
| 10,001 – 100,000 | 76 | 17.55 | 2,344,127 | 1.36 |
| 100,001 – less than 5% RCULS outstanding | 22 | 5.08 | 22,141,572 | 12.84 |
| 5% and above of RCULS outstanding | 1 | 0.23 | 147,080,154 | 85.28 |
| | 433 | 100.00 | 172,473,282 | 100.00 |

# OTHER INFORMATION
(cont'd)

## 3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("RCULS") HOLDINGS AS AT 29 SEPTEMBER 2017 *cont'd*

**List Of Thirty Largest RCULS Holders As At 29 September 2017**

| | Name of RCULS holders | No. of RCULS | % |
|---|---|---|---|
| 1. | Assets Nominees (Tempatan) Sdn Bhd<br>- HLMG Capital Sdn Bhd | 147,080,154 | 85.28 |
| 2. | Southern Amalgamated Co Sdn Bhd | 6,000,000 | 3.48 |
| 3. | Southern Consortium Sdn Bhd | 3,600,000 | 2.09 |
| 4. | Hock Kheng Industries Sdn Bhd | 2,600,000 | 1.51 |
| 5. | Kheng Lip Company Sdn. Berhad | 1,500,000 | 0.87 |
| 6. | Southern Properties Sdn Bhd | 1,500,000 | 0.87 |
| 7. | Su Hock Company Sdn Bhd | 1,500,000 | 0.87 |
| 8. | Wang Hui Tzu | 1,069,000 | 0.62 |
| 9. | Cheong Chen Yue | 700,000 | 0.40 |
| 10. | Leong Kok Tai | 540,900 | 0.31 |
| 11. | Choong Cheow Sai | 525,472 | 0.30 |
| 12. | Maybank Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tye Terk Soon | 395,700 | 0.23 |
| 13. | Seri Pinang Sdn Bhd | 390,600 | 0.23 |
| 14. | Chua Holdings Sdn Bhd | 300,000 | 0.17 |
| 15. | Santomi Sdn Bhd | 300,000 | 0.17 |
| 16. | HLB Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tan Soo Sie | 223,600 | 0.13 |
| 17. | Ong Yih Yeong | 192,500 | 0.11 |
| 18. | Kenanga Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Cheong Chen Yue | 177,900 | 0.10 |
| 19. | Tan Soo Sie | 148,800 | 0.09 |
| 20. | Huang Phang Lye | 128,000 | 0.07 |
| 21. | Kuan Bee Yoong @ Kuan Mee Yoong | 120,000 | 0.07 |
| 22. | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Cheong Chen Yue | 114,800 | 0.07 |

## 3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("RCULS") HOLDINGS AS AT 29 SEPTEMBER 2017 *cont'd*

**List Of Thirty Largest RCULS Holders As At 29 September 2017** *cont'd*

| | Name of RCULS holders | No. of RCULS | % |
|---|---|---|---|
| 23. | Ta Kin Yan | 114,300 | 0.07 |
| 24. | Junie Ong Fu Tze | 100,000 | 0.06 |
| 25. | Ong Guat Li | 85,000 | 0.05 |
| 26. | Chim Luang Eng | 83,700 | 0.05 |
| 27. | Teo Chee Hoon | 83,000 | 0.05 |
| 28. | Public Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Tan Tian Sang @ Tan Tian Song (E-PPG) | 81,000 | 0.05 |
| 29. | TA Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account for Chia Tuan Sia | 70,200 | 0.04 |
| 30. | Yap Koon Chai | 57,917 | 0.03 |
| | | 169,782,543 | 98.44 |

## 4. DIRECTORS' INTERESTS AS AT 29 SEPTEMBER 2017

Subsequent to the financial year end, there was no change, as at 29 September 2017, to the Directors' interests in the ordinary shares and/or options/RCULS over ordinary shares of the Company and/or its related corporations, appearing in the Directors' Report on pages 43 to 44 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 except for the changes set out below:

| Direct Interests | No. of ordinary shares/ @ ordinary shares to be acquired arising from the exercise of options | % |
|---|---|---|
| **Mr Soon Seong Keat in:** | | |
| Hume Industries Berhad | 436,500 | 0.091 |
| **Mr Chow Chong Long in:** | | |
| Southern Steel Berhad | 7,500,000 @ | 1.736 |

## 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 executives 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-fifth 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 Tuesday, 28 November 2017 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 and Directors' Other Benefits | | |
| 2. | To re-appoint Mr Ang Kong Hua as a Director | | |
| 3. | To re-appoint Messrs KPMG PLT as Auditors and to authorise the Directors to fix their remuneration | | |
| | **Special Business** | | |
| 4. | To approve the ordinary resolution on authority to Directors to allot shares | | |
| 5. | 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 | | |
| 6. | 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 | | |
| 7. | 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 _____ 2017

_____ _____

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 of Depositors as at 22 November 2017 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.*
5. *Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend, participate, speak 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 (2) 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 (2) 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 twenty-four (24) hours before the time appointed for holding of the meeting or adjourned meeting.*
9. *In the event two (2) 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-fifth Annual General Meeting will be put to a vote by way of a poll.*

*Please fold here*

Affix
Stamp

The Company Secretaries
**Southern Steel Berhad** (5283-X)
Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

*Please fold here*

**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**