Southern Steel Berhad

A Member of the Hong Leong Group

Annual Report **2019**

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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 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, steel pipes, steel wires 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 Ang Kong Hua

Mr Seow Yoo Lin

Dr Kwa Lay Keng

YBhg Dato' Ahmad Johari bin Abdul Razak

COMPANY SECRETARY

Ms Joanne Leong Wei Yin

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 25, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2088 8818
Fax : 03-2088 8990

REGISTERED OFFICE

Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2080 9200
Fax : 03-2080 9238

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-seventh Annual General Meeting of Southern Steel Berhad ("the Company") will be held at Training Room C, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Thursday, 21 November 2019 at 12.00 noon 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 2019.

2. To approve the payment of Director fees of RM650,000/- (2018: RM586,658/-) for the financial year ended 30 June 2019 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM40,000 from the Fifty-seventh Annual General Meeting ("AGM") to the Fifty-eighth AGM of the Company. **Resolution 1**

3. To re-elect the following Directors:

   (a) YBhg Datuk Kwek Leng San **Resolution 2**
   (b) Mr Chow Chong Long **Resolution 3**
   (c) Dr Kwa Lay Keng. **Resolution 4**

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

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 6**

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 23 October 2019 with HLCM and persons connected with HLCM ("Hong Leong Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Leong Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

NOTICE OF ANNUAL GENERAL MEETING
cont'd

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

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

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 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

7. **Ordinary Resolution**
- Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Su Hock Company Sdn Berhad ("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 23 October 2019 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;

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 8

NOTICE OF ANNUAL GENERAL MEETING
cont'd

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") 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 23 October 2019 with Hong Bee Hardware and its subsidiary ("Hong Bee Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Bee 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 9

9. **Ordinary Resolution**
- Proposed New Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Leong Investment Holdings Pte. Ltd. ("HLIH") And Persons Connected With HLIH

"**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 23 October 2019 with HLIH and persons connected with HLIH ("HLIH Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the HLIH 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 10**

10. **Special Resolution**
- Proposed Adoption of New Constitution

"**THAT** the proposed Constitution as set out in Appendix A be approved and adopted as the new Constitution of the Company in substitution for and to the exclusion of the existing Constitution thereof;

AND THAT the Directors of the Company be and are hereby authorised to assent to any modification, variation and/or amendment as may be required and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing." **Resolution 11**

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

By Order of the Board

Joanne Leong Wei Yin
Company Secretary

Kuala Lumpur
23 October 2019

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 13 November 2019 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 (1) 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 proportion 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 31, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding of the meeting or adjourned meeting.*

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

NOTICE OF ANNUAL GENERAL MEETING
cont'd

Explanatory Notes:

1. Resolution 1 - Director Fees And Other Benefits

   Director Fees of RM650,000/- 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 an amount of RM40,000/-.

2. Resolution 6 - 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 Annual General Meeting ("AGM") of the Company.

   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 29 November 2018 and which will lapse at the conclusion of the Fifty-seventh 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.

3. Resolutions 7 to 10 - Proposed Renewal Of And New 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 Shareholders' Mandate").

   Detailed information on the Proposed Shareholders' Mandate is set out in the Circular to Shareholders dated 23 October 2019 which is despatched together with the Company's Annual Report.

4. Resolution 11 - Proposed Adoption Of New Constitution

   The proposed special resolution, if passed, will bring the Company's Constitution in line with the provisions of the Companies Act 2016 and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad as well as to enhance administrative efficiency.

   The proposed new Consitution of the Company is set out in Appendix A 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-seventh 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 2 of the Notice of the Fifty-seventh Annual General Meeting.

BOARD OF DIRECTORS

YBHG DATUK KWEK LENG SAN
Chairman; Non-Executive/Non-Independent
Age 64, Male, Singaporean

Datuk Kwek Leng San graduated from University of London with a Bachelor of Science (Engineering). He also holds a Master of Science (Finance) 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 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, both public companies.

MR CHOW CHONG LONG
Group Managing Director/Non-independent
Age 67, Male, Malaysian

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

Mr Chow has extensive working experience in management of engineering and project works, and general management. He joined the 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 and is a member of the Research & Development Committee of SSB.

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

YBHG DATO' DR TAN TAT WAI
Non-Executive Director/Non-Independent
Age 72, Male, Malaysian

Dato' Dr Tan Tat Wai holds a Bachelor of Science in Electrical Engineering and Economics from the Massachusetts Institute of Technology, a Master of Economics 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, the 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 Research & Development Committee of SSB.

Dato' Dr Tan is a Director of NSL Ltd ("NSL"), a public company listed on the Singapore Stock Exchange.

Previously, he was the Chairman of Maybank Philippines Inc. and a director of Maybank Trustees Berhad, Malayan Banking Bhd, Shangri-La Hotels (M) Bhd and Titan Chemicals Corp. Bhd. He was the President of the Board of Lam Wah Ee Hospital, Penang from 2009 until 2012. He remained as a member of the Board after leaving the presidency. He is also a Vice-President of Phor Tay Schools, Penang Chinese Girls' Schools and the Penang Home For The Infirm And Aged.

BOARD OF DIRECTORS
cont'd

MR ANG KONG HUA
Non-Executive Director/Independent
Age 75, Male, Singaporean

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

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

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

MR SEOW YOO LIN
Non-Executive Director/Independent
Age 63, 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, UK. He is a Member of the Malaysian Institute of Certified Public Accountant ("MICPA"), a Member of the Malaysian Institute of Accountants ("MIA") and a Member of the Malaysian Institute of Management.

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 MICPA from 2009 to 2011 and was a Council member of the MIA 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 Remuneration Committee of SSB.

Mr Seow is a Director of HIB and AMMB Holdings Berhad, companies listed on the Main Market of Bursa Securities. He is also a Director of AmInvestment Bank Berhad, a public company.

BOARD OF DIRECTORS
cont'd

DR KWA LAY KENG
Non-Executive Director/Independent
Age 60, Female, Singaporean

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

Dr Kwa currently serves as a Director on the Board of Barghest Building Performance Pte Ltd and Sembcorp. She is also the Board member of Management Board of Energy Studies Institute in Singapore, Science and Engineering Research Council, A*Star, Singapore and Agency for Science, Technology and Research (A*Star), Singapore. 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.

YBHG DATO' AHMAD JOHARI BIN ABDUL RAZAK
Non-Executive Director/Independent
Age 64, Male, Malaysian

Dato' Ahmad Johari bin Abdul Razak graduated from University of Kent, UK with a Bachelor of Law and is qualified as a Barrister-at-Law, Lincoln's Inn.

Dato' Ahmad Johari started his career as a Chambering Student/Legal Assistant with Rithaudeen & Aziz in January 1977 before joining Shearn Delamore & Co in 1979. Prior to his retirement from Shearn Delamore & Co on 31 December 2017, he was a Partner in the Corporate Department handling legal matters related to listing/restructuring/acquisition of companies, joint ventures, loans as well as company secretarial matters. Presently, he is the Executive Director of Ancom Berhad, an investment holding company listed on the Main Market of Bursa Securities and involved in the provision of management services to subsidiary companies.

Dato' Ahmad Johari was appointed to the Board of SSB on 16 April 2018 and is a member of the Nominating Committee of SSB.

He is also a Director of Daiman Development Berhad and Daiman Golf Berhad, both public companies.

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 five (5) years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2019.

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

KEY SENIOR MANAGEMENT

MR ANG MENG CHUAN
Chief Financial Officer, Southern Steel Berhad
Age 57, Male, Malaysian

Mr Ang Meng Chuan holds a professional accountancy qualification and is 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 CHEONG KHAI KONG
Managing Director, Southern Steel Rod Sdn Bhd
Age 56, 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 the 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 until 1 April 2017 when he was re-designated as Managing Director.

MR YEOH CHOON KWEE
Managing Director, Reinforcing Steel Business
Age 51, Male, Singaporean

Mr Yeoh Choon Kwee graduated from Nanyang Technological University with a Bachelor of Electrical and Electronics Engineering (Honours). He also holds a Master of Business Administration from the Nanyang Business School, Singapore.

Mr Yeoh has over 25 years of experience in the steel industry, starting as an Applied Research & Development engineer in NatSteel Limited ("NatSteel"), Singapore, in 1993. He subsequently held various operational and management roles in Singapore and overseas. In 2005, Mr Yeoh served as the Managing Director of a leading pre-stressed concrete wires company in Thailand. Concurrently, he was also the Managing Director of a new start-up joint-venture company with a Japanese public listed company in the steel wire business. In 2013, Mr Yeoh returned to Singapore to head the Building Solutions business of NatSteel.

Mr Yeoh joined SSB in December 2017 and holds the position of Managing Director of the Reinforcing Steel Business. He is responsible for the construction steel business of the SSB Group which includes reinforcing steel bars, fabricated cut-and-bend bars, welded steel mesh and pre-stressed concrete wire and strands. He is also a Director of the Malaysian Iron & Steel Federation.

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 five (5) years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF GROUP'S BUSINESS AND OPERATIONS

Southern Steel Berhad Group of Companies ("the Group") is an established producer of a wide range of high quality steel products which are broadly categorised under the following segments:

- Reinforcing Steel Business: includes billets, steel bars, cut and bend bars, wire mesh and pre-stressed concrete steel products
- Wire Rod Business: includes wire rod for the construction sector and industrial wire rod used in a wide range of industrial applications
- Flat Steel Business: steel welded pipes.

The main contributor to the Group's revenue is the upstream long products business. The main manufacturing operations of the Group's upstream businesses are located in Prai, while the main downstream businesses are in the Central region of Peninsular Malaysia. However, the Group's markets cover the whole of Malaysia and export.

To remain competitive, the management continues to focus on the importance of quality and productivity, operational 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 for our customers.

GROUP'S FINANCIAL PERFORMANCE

The Group recorded a lower revenue of RM3,135 million for the financial year ended 30 June 2019 ("FY 2019") as compared with RM3,698 million for the previous financial year ended 30 June 2018 ("FY 2018"). The reduction in revenue was mainly due to the decrease in selling prices and lower sales volume as a result of the softer market condition and increased competition.

In terms of financial performance, the Group's loss before taxation was RM158 million as compared with last year's profit before taxation of RM224 million. The adverse performance was attributable to the erosion in profit margin consequent to the drop in selling prices from increased competition.

Review of Operations

Reinforcing Steel Business

The Group's reinforcing steel business ("RSB") was under pressure from the impact of lower local demand and increased competition. Bar price continued to drop since the beginning of FY 2019 and hit its lowest level during the financial year, while material cost remained high which further eroded the margin. The downstream mesh business had manage to reduce its losses during the financial year, whilst pre-stressed concrete steel business remained profitable.

Wire Rod Business

Wire Rod business also turned a loss, although to a lesser extent as compared with RSB due to the resilience of industrial grade rod. Continuous cost down efforts and improved productivity will help to lift performance of the rod business in both the domestic and regional markets.

Flat Steel Business

In the downstream pipe business, profit before tax had slightly improved as compared with FY 2018 as a result of higher production yield, which led to better production cost. The pipe business will continue to look for cost saving opportunities to improve its performance.

MANAGEMENT DISCUSSION AND ANALYSIS
cont'd

FINANCIAL CONDITION OF THE GROUP

Financial condition of the Group remained healthy with gearing at 1.05 times in FY 2019 despite suffering losses for the financial year. Turnover days for both inventories and trade receivables remained healthy at 80 days (FY 2018: 94 days) and 21 days (FY 2018: 24 days) respectively. In line with the softer market condition, inventory level had reduced to RM673 million in FY 2019 from RM842 million in FY 2018. The Group will continue to be prudent in terms of inventory level and credit control, and remain focused in our core business of steel manufacturing.

As part of our financial management discipline, we had set a prudent level of capital to debt ratio with borrowing limits for each of the operating companies within the Group. We will continue to closely manage the businesses to ensure optimal use of the assets towards profitable growth.

No dividend was paid during FY 2019. Although we believe dividend payout is one of the important elements to enhance shareholders' value, we will continue to monitor the situation before paying any dividend, after taking into consideration earnings, capital expenditure requirements, borrowing repayment, capital adequacy, dividend yield and other relevant factors.

KNOWN TREND AND EVENTS WHICH HAVE SIGNIFICANT IMPACT ON OPERATION

In comparison to previous years, the threat from China is no longer from the direct dumping of steel products at below cost into the country. Instead, the Chinese production capacity is now onshore in ASEAN. The safeguard duties imposed since April 2017 will soon end by April 2020. However, as domestic selling prices are currently comparable with those at international level, the safeguard duties are less relevant now, especially since the existing safeguard duties had failed to stop imports from other countries like Turkey and Singapore which are not in the list of restricted countries. The government has since September 2017 imposed preliminary determination duties on import of steel bar from these two countries.

PROSPECTS AND OUTLOOK

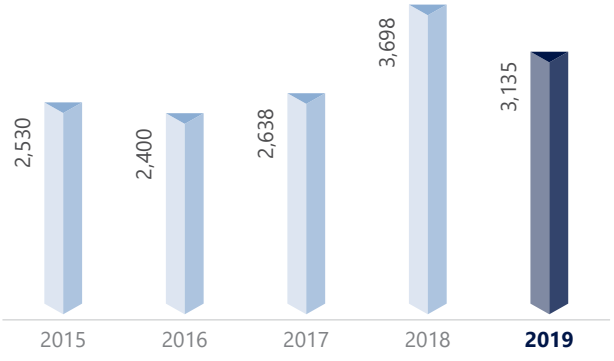
Steel growth is linked to national and economic development, particularly to construction sectors. Several mega projects such as the East Coast Rail Line (ECRL), the East Klang Valley Expressway, the Penang Light Rail Transit (LRT) & Monorail, the Sarawak Coastal and the Second Trunk Road, Bandar Malaysia that are expected to be rolled out will have positive impact on the construction market. However, their impact and timing are still uncertain. The Group will continue to adopt measures to address cost and ensure its market position is not compromised.

The Group is pleased to announce that on the 7 October 2019, that it has entered into a Memorandum of Understanding for the formation of a strategic alliance with Ann Joo Resources Berhad in relation to their long products steel manufacturing businesses. It is envisage that this strategic alliance will further promote business efficacy and realise meaningful synergistic benefits.

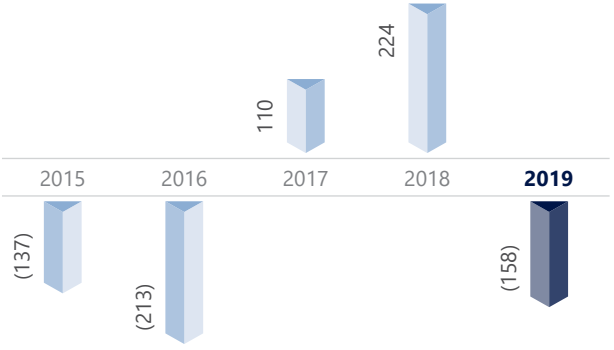
GROUP FINANCIAL HIGHLIGHTS

RM'Million	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenue	2,530	2,400	2,638	3,698	3,135
Profit/(Loss) before taxation	(137)	(213)	110	224	(158)
Profit/(Loss) attributable to owners of the Company	(118)	(221)	93	211	(119)
Net earnings/(loss) per share (sen)	(28)	(53)	22	49	(27)
Net dividend per share (sen)	0	0	3	3.5	0
Total equity	913	688	770	972	860
Total assets	2,584	2,116	2,286	2,489	2,228
Capital expenditure	122	71	11	11	11

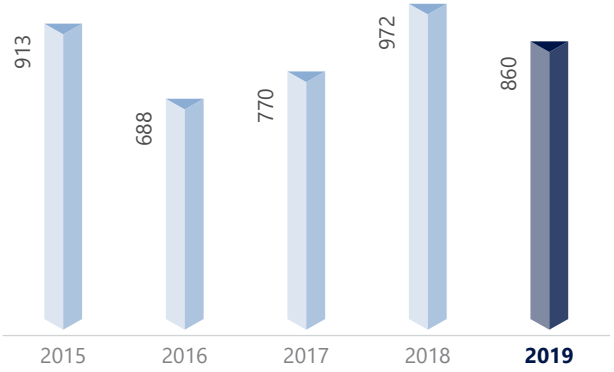
REVENUE
(RM'Million)



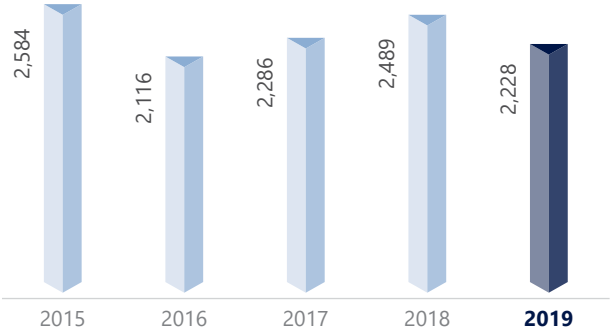
PROFIT/(LOSS) BEFORE TAXATION
(RM'Million)



TOTAL EQUITY
(RM'Million)



TOTAL ASSETS
(RM'Million)



SUSTAINABILITY STATEMENT

This report has been prepared by reference to Practice Note 9 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), in particular, Part III on Sustainability Statement. To maintain the trust of our people, business patrons and stakeholders, this report serves to provide a clear overview of what sustainability means to our Group, with details of managing significant sustainability matters.

ABOUT US

Founded in 1963, Southern Steel Berhad Group of Companies ("Group") has grown from a small galvanised iron sheet plant to a major steel manufacturing group. Today, we are an established producer of a wide range of high quality steel products and the biggest producer of wire products including wire mesh in Southeast Asia.

The Group strongly believes in being innovative, technology-driven and environmentally friendly. In addition to our drive for technological advancement, we place great emphasis on consistency in supply of quality products to our business patrons. We provide value and services to customers through a network of processing plants and warehouses throughout Malaysia.

Moving forward, the Group will continue its journey towards achieving world-class standard and ensuring continuous customer satisfaction.

Your satisfaction is our success.

Guided by the mission and philosophy set out in the Hong Leong Manufacturing Group Code of Conduct and Ethics, we aim to ensure the health and safety of our employees and all who are affected by our business operations as well as protecting the environment. We are committed as a Group and as individuals to comply with the laws, respect the cultures and to have a positive impact on the lives of the people in the communities where we conduct our businesses.

The Hong Leong Group is built on the strong heritage of value creation for our stakeholders and communities within which we operate in. 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.

SUSTAINABILITY STATEMENT
cont'd

We believe that our core values build our strong foundation and framework. The following core values continue to serve as our compass in all that we do:

Quality

To consistently provide goods and services of the highest quality at affordable prices

Entrepreneurship

To pursue management vision and foster entrepreneurship

Innnovation

To nurture and be committed to innovation

Honour

To conduct business with honour

Human Resource

To enhance the quality of human resources as the essense of management excellence

Unity

To ensure oneness in purpose, harmony and friendship in the pursuit of prosperity for all

Progress

To improve existing operations and to position for expansion and new opportunities

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 and 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 on 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.

The SS Committee is supported by a 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 the SW Committee members' information at the department and stakeholder levels. 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.

REFERENCE AND GUIDELINES

This report reflects the Group'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.

In addition, the Group operates its businesses in a responsible and fair manner with adherence to the corporate values as defined in the Hong Leong Manufacturing Group Code of Conduct and Ethics.

SUSTAINABILITY STATEMENT
cont'd

SCOPE AND BOUNDARY

This report focuses only on major key operating operations (i.e. Bar, Rod, and Billet operations at the Prai area) as the other subsidiaries' operations do not have significant impact on the Group's operations in terms of environment, economic and social aspects.

REPORTING PERIOD

This report, which is prepared annually, covers the period from 1 July 2018 to 30 June 2019 [Financial Year 2019 ("FY 2019")]. For selected indicators that have only been tracked recently, the reporting duration would be mentioned within the report. There are no significant restatements of data compared to prior years.

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. 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 Meetings	Annually	• Industry environment • Profitability
Government & Regulators	Regulatory requirements	Periodically	• Environmental issues • Occupational Safety & Health
Customers	Customer Feedback	As needed	• Product Quality
Employees	• Management meetings • Staff appraisals • Training Need Analysis • Union/Dialogue sessions	• Monthly • Half yearly • Annually • As needed	• Learning & Development • Occupational Safety & Health
Local communities	Community programmes	As needed	• Social & Environmental issues

MATERIAL SUSTAINABILITY MATTERS IDENTIFIED

The main impact during the steel manufacturing process comes from the use of raw materials, energy and water. As our Electric Arc Furnace ("EAF") uses 100% scrap metal, we recycle nearly 1.5 million Mt of scrap metal every year and effectively 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 relies heavily on electrical energy and emits Green House Gases ("GHG"), we also emphasise on operating in an environmentally responsible manner. We recognise the importance of having a competent workforce to carry 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 and create awareness on safety.

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

SUSTAINABILITY STATEMENT
cont'd

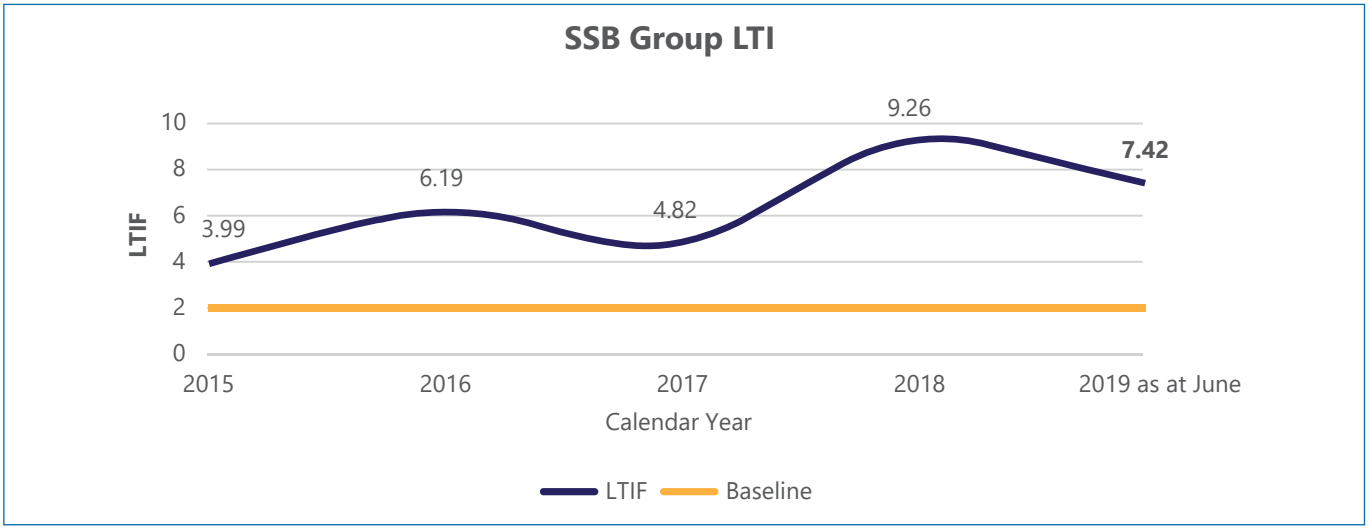
Occupational Health and Safety - Lost Time Injury ("LTI") Frequency ("LTIF")

Workplace safety is essential to the sustainability of any corporation. At the Group level, our value proposition starts, first and foremost, with an unrelenting commitment to employee safety. We aim to ensure that the health, safety and welfare of our employees are well taken care of at all times. Therefore, safety is one of the key agenda items discussed in our monthly management meetings.

Continuous improvement efforts have been put in place to ensure a sustainable safe workplace environment. Various safety trainings, programmes and campaigns have been organised and held throughout the year to emphasise the importance of safety in our industry. We also have an Occupational Safety & Health Management System set up based on the occupational health and safety risk of our Group, and have considered the requirements of relevant Environment, Health & Safety ("EHS") legislations.

SUSTAINABILITY STATEMENT
cont'd

The following chart shows our LTIF rate, which indicates the number of accident cases resulting in a 1-day medical leave against the number of employees in the factory:



We have set a maximum target of 10 accident cases per year with 2 cases as the LTIF baseline. Although the LTI had shown an increase in recent years, we have put in place considerable efforts to reduce the LTI to our targeted level. These efforts include the following:

- Safety audits are carried out more frequently.
- Numerous safety trainings are conducted in the plant itself to encourage higher employee participation.
- Strong emphasis placed on Safety Observation Request programme to boost employees' involvement in self-identifying and resolving unsafe conditions identified in the plant.

We anticipate that the accident cases will progressively show a reduction in the coming years with the necessary remedial actions.

Learning & Development – Uncovering Young Talent

"We are always on the lookout for exceptional, talented people and high achievers committed to excellence to grow with us"

Since its founding, the Group has demonstrated an on-going commitment to its people and recognises that development opportunities are the fundamentals of creating a great organisation. Our Graduate Development Programme ("GDP"), under the same umbrella of our holding company, Hong Leong Manufacturing Group Sdn Bhd, is designed to offer ample learning opportunities for talented graduates to expedite their adaptation and dynamic contribution to the Group.

The programme is an 18-month journey, which provides specifically structured development courses through various meaningful and operations-centric learning pathways. Each graduate-mentee ("GM") 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 progress under this guided programme.

SUSTAINABILITY STATEMENT
cont'd

Aside from actual experiential learnings provided to the GM, the GDP also allows real-life job exposure when each GM is assigned with different roles under their guided job rotation. Every role assigned provides them with the platform to exercise their tertiary knowledge and hands-on experience to initiate 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 for their contributions.

At the Group level, we place great importance on identifying, hiring, growing and retaining talents in the steel industry as a way to contribute to society. Our focus and goal are 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.

The following shows our programme's success-rate versus employment absorption statistics:

	1st batch - July 2016	2nd batch - July 2017	3rd batch - August 2018
No. of GM at intake	9	12	9
No. of GM as at Aug 2019	8*	10*	7*
GDP success rate	89%	83%	78%
Employment absorption rate	88%	67%	N/A

As updated on 27/08/2019
** 1st Batch – one dropped out due to family issue. 2nd and 3rd Batch – two dropped out due to resignation*

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 are committed to promote the 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, which contributes to a reduction in utility costs, and to optimise capital expenditure. The following are the key energy-related initiatives taken by us:

SSB - Energy Saving Activities

Lighting

- Replace T8 with LED tube
- 400W spotlight is replaced by 60W LED spotlight for certain area
- Timer control for lighting

Motor

- Inverter control for motor >75hp
- Timer control for blower fan

Air Cond

- Control plant & office A/C temp to 24 degree Celsius
- Weekly service indoor/outdoor filter by electrical crew

Crane-Inverter

- Install VSD for crane motor
- Control speed for crane hoisting system

Process Optimisation

- Stop plant machine based on operation requirement
- Control process flow
- Install EMS for monitoring

Awareness

- Conduct energy efficiency awareness briefing to all staff
- Daily monitoring for aux. energy consumption

Renewable Energy

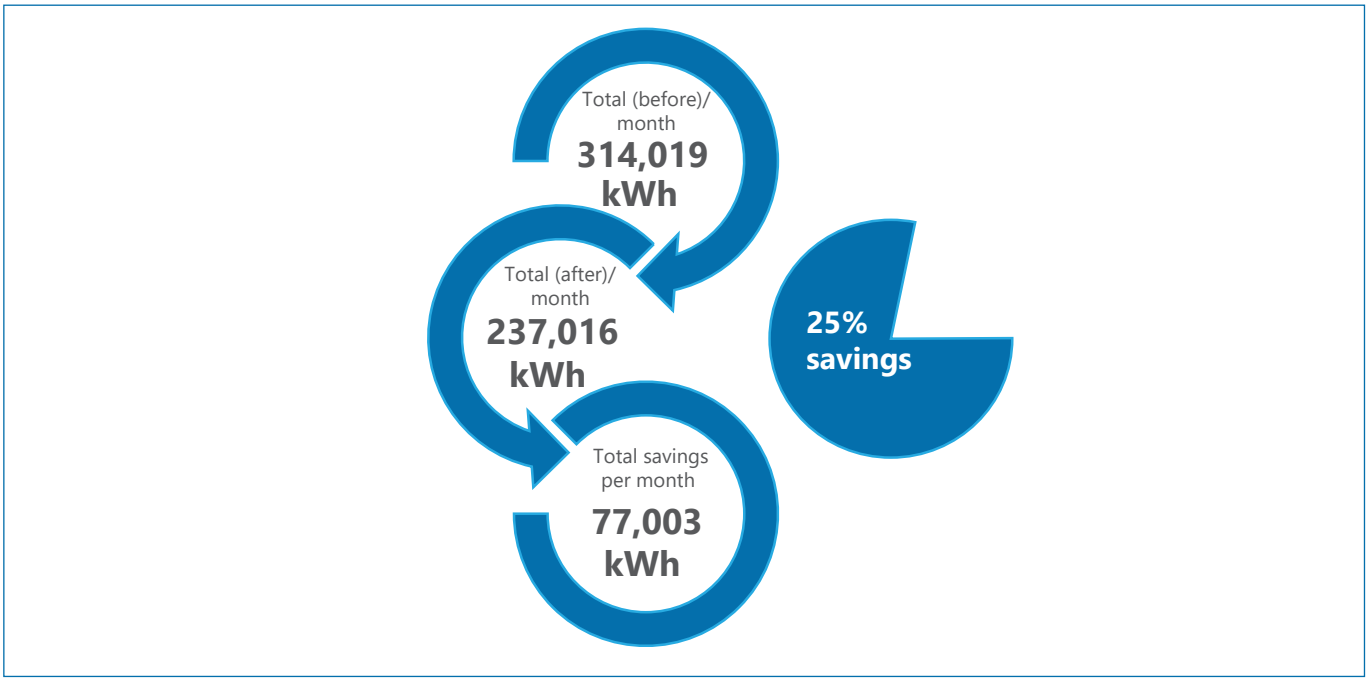
- Using transparent roofing at production area

Air Compressor

- Leaking improvement
- Auto sequencing control
- Daily flow & consumption monitoring

SUSTAINABILITY STATEMENT
cont'd

We have implemented 12 new projects in FY 2019 with attributable total energy savings of approximately 0.924 million kWh as compared with 14 new projects in the financial year ended 30 June 2018 ("FY 2018") with attributable total energy savings of 1.465 million kWh.



Significant savings achieved in FY 2019 were mainly contributed by the following projects/activities:

Projects	Activities	Estimated savings in kWh per month
Process optimisation	Reduced energy consumption by automation of switching off the shear pump and auxiliary pump	23,286
Process optimisation	Reduced water pressure and cooling section pump without interrupting process operation	14,976
Process optimisation	Alternative combustion of fan system	12,000
Energy saving LED spotlight	Conversion of lights to LED light in factories and offices	15,526

Solid Particle discharged/processed

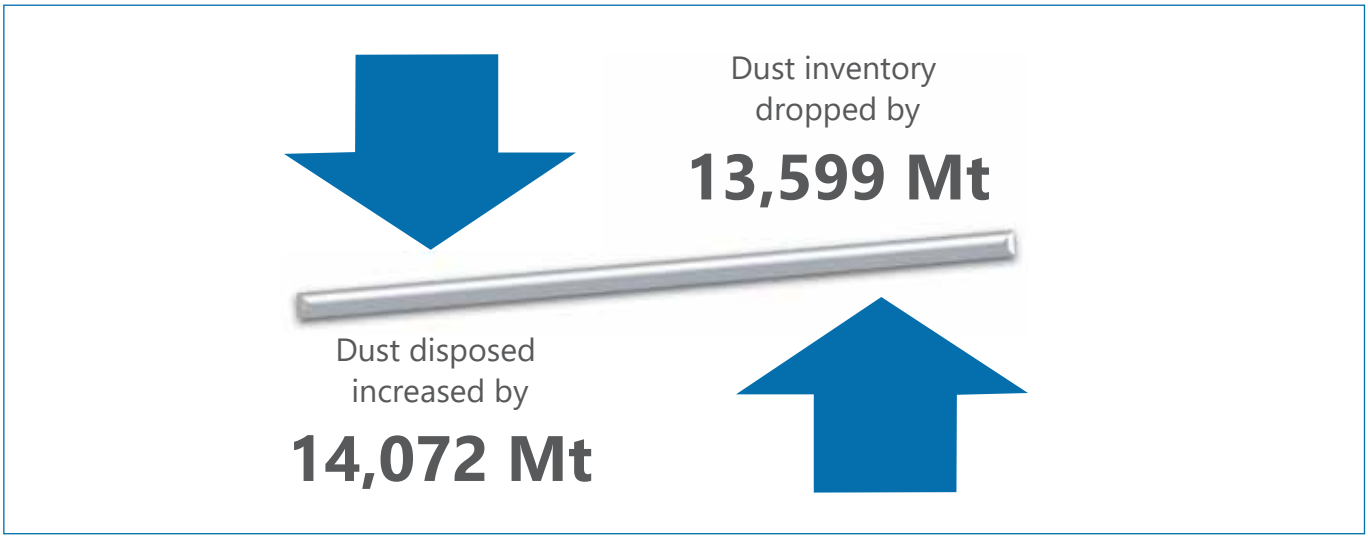
The Department of Environment has imposed stringent emission and discharge requirements on companies operating in Malaysia. As one of the affected companies, we have been strictly complying with these requirements.

Apart from this, our objective is to achieve high standards in environmental management and preservation. Each year, the Group continues to improve on initiatives to minimise its operational impact on the environment. We have been careful with the 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).

SUSTAINABILITY STATEMENT
cont'd

We dispose of our EAF dust (SW104) to a licensed waste processor for further recycling to extract zinc oxide. The licensed waste processor has expanded its processing capacity since financial year 2017 onwards, which helped to reduce the tonnage stored in our plant which is subject to the approval of the Department of Environment every 6 months.

For FY 2019, a total of 37,075 Mt of EAF dust was disposed of, a 61% increase as compared with FY 2018. Accordingly, our dust inventory level for FY 2019 had significantly dropped as compared with FY 2018. We expect to reduce this waste gradually by improving the quality of incoming scrap materials and target to reduce our dust inventory level to a minimal level in the near future.



Water Management/Waste Water Recycled

Did you know? While nearly 70% of the world is covered by water, only 2.5% of it is fresh. Even then, just 1% of our freshwater is easily accessible.

We are passionate about the environment and are committed to reducing the carbon footprint of our business. As water is a precious resource which is becoming scarce, we have taken active measures to conserve water.

Our operations use a significant volume of water, which is recycled in a closed loop system to reduce water consumption and the risk of environmental impact. Water treatment facilities have been installed in some of the manufacturing plants for waste water to be treated and returned to the system with zero discharge. There are also plans to install the same in the other manufacturing plants within the coming years. By recycling the processed water, we are able to conserve water and believe that we will be able to reduce our operational costs consequently.

An estimated quantity of 3,000m³ water is recycled every month from one treatment plant. This estimated measurement is based on the waste water treatment tank capacity level or treatment cycle. There are plans to purchase and install flow meters to measure the actual amount of water recycled.

SUSTAINABILITY STATEMENT
cont'd

Community

The Group is committed to strive for the betterment of the society through our contribution to the development and progress of the communities where we operate. We therefore consciously work towards making a difference, however small it may be, to the communities we operate in. Most of our concerted efforts that channel direct help to our communities to address their needs are carried out through Hong Leong Foundation, the charitable arm of the Hong Leong Group.

The Group also has a small group of enthusiastic employees who undertakes various types of voluntary initiatives under the Heart to Heart Club ("H2H"). H2H's activities are partly supported by the sale of old newspapers in addition to a budget allocated by the Company each year. Programmes that have been carried out during the year, include the following:

DEEPAVALI EVENT at Batu Maung, Penang – *October 2018*

Rumah Kanak-Kanak Seri Cahaya is a registered charity welfare home formed and operated by two compassionate individuals. The house provides shelter for orphans, abandoned children, single mothers and homeless senior citizens. They also provide assistance to single mothers in search for job opportunities. Its daily expenses are funded through generous donations from the public and corporates.

A gift of the heart is a mountain of joy. H2H donated groceries, clothes, books including cash donation during their visit. Our stopover has certainly brought smiles and hope to all.

YEAR END PROJECT with Orang Asli – *December 2018*

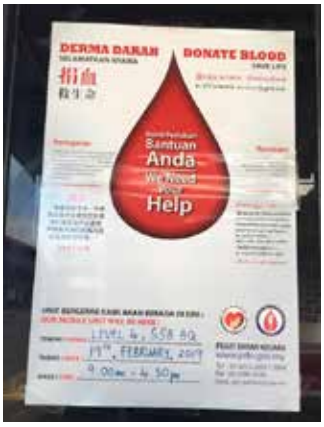
H2H visited the Orang Asli Village at Ulu Legong, Baling, Kedah, with the intention of providing them with basic necessities. Our H2H also donated items for their Surau and contributed tables, fans, chairs and cabinets for the children. A simple lunch was also served to the villagers while the team mingled with them.

CHINESE NEW YEAR at Fishermen's Village – *February 2019*

Members of H2H spent their Chinese New Year meaningfully with 10 families at Kampung Tanjung Piandang, Perak. Most of them are fishermen. Groceries such as rice, Chinese festive biscuits as well as "red packets" were given to the families in conjunction with the festive season celebration.

SUSTAINABILITY STATEMENT
cont'd

BLOOD DONATION DRIVES – *February and August 2019*



Blood is the most precious gift that anyone can give. Twice a year, we will hold blood donation drives at our premises. The successful campaign is held in collaboration with Hospital Seberang Jaya.

Successful donors:	No. of donors:
154	184

Feb 2019

Successful donors:	No. of donors:
135	169

Aug 2019

HARI RAYA with the adorable kids – *July 2019*

Around the world, many children begin their lives at a disadvantage, simply because of who they are and where they are from.

Pusat Jagaan Kasih Abadi located at Pongsu Seribu, Kepala Batas, is a wellness and education centre that provides care and support for orphans and helps the poor and needy families. The home, housing children aged from 3 to 6 years old, is operated by a caring individual. Its operations are entirely funded by the public. H2H donated a television, iron, milk, diapers and other necessities as well as showering the kids with love and affection during their visit.

LOOKING FORWARD

We believe that serving the community is not only integral to running a business successfully, it is also part of our individual responsibility as citizens of the world. Though we have taken the essential steps to integrate sustainable practices into the core of the Group's businesses, we will continue to build upon and learn from our past initiatives, contributions and activities to create a change for the better. This will naturally lead to greater expectations of ourselves as an accountable corporate citizen, while we continue to explore new ideas and innovative ways of increasing actual and tangible improvements to our community.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, 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") is pleased to present this statement with an overview of the corporate governance ("CG") practices of the Group which supports the three key principles of the Malaysian Code on Corporate Governance ("MCCG"), namely board leadership and effectiveness, effective audit and risk management, and integrity in corporate reporting and meaningful relationship with stakeholders.

The CG Report 2019 of the Company in relation to this statement is published on the Company's website, www.southsteel.com ("Website").

BOARD LEADERSHIP AND EFFECTIVENESS

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 has 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 Website. 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.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions, internal controls and risk management to the Board Audit & Risk Management Committee ("BARMC"). The Nominating Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and chief executive appointments and/or re-elections, and assess and evaluate the performance of the Board, Board Committees and Chief Financial Officer ("CFO"). The Remuneration Committee ("RC") assists the Board in reviewing and recommending matters relating to the remuneration of directors and key senior management ("SM") while the Research and Development ("R&D") Committee reviews and advises the Board on technological aspects of investments or initiatives of the Group. 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. This division of responsibilities between the Chairman and the GMD ensures an appropriate balance of roles, responsibilities and accountability.

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

A. Roles And Responsibilities Of The Board *cont'd*

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 IDs' independent judgment or their ability to act in the best interest of the Company and its shareholders.

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, which has been adopted by the Board and published on the Website.

B. Board Composition

The Board currently comprises seven (7) Directors, four (4) of whom are IDs. The profiles of the members of the Board are set out in the Annual Report.

The Company is guided by the Policy on Board Composition adopted by the Company and the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa") 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 to 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 include a balanced composition of executive and non-executive directors.
- Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Company 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. Currently, there is one (1) woman director on 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 2019, 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 strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees

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

- BARMC

  The composition of the BARMC and a summary of its activities in the discharge of its functions and duties for the financial year ("FY") are set out in the Board Audit & Risk Management Committee Report in this Annual Report.

  The TOR of the BARMC are published on the Website.

- NC

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

  The composition of the NC is as follows:

  Mr Ang Kong Hua
  Chairman, Independent Non-Executive Director

  YBhg Dato' Ahmad Johari bin Abdul Razak
  Independent Non-Executive Director

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

  (i) New Appointments

  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 maintains a pool of potential Board candidates from internal and external introductions, recommendations and independent sources with director databases in its search for suitable Board candidates.

  In evaluating any new appointment of SM, the Company is guided by the Hong Leong Group Recruitment Policy where all potential candidates are given equal opportunity regardless of gender, race, and religion and/or whether or not one has disability. SM positions are awarded based on qualifications, experience and potential.

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- NC *cont'd*

(ii) Re-election/Retention

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

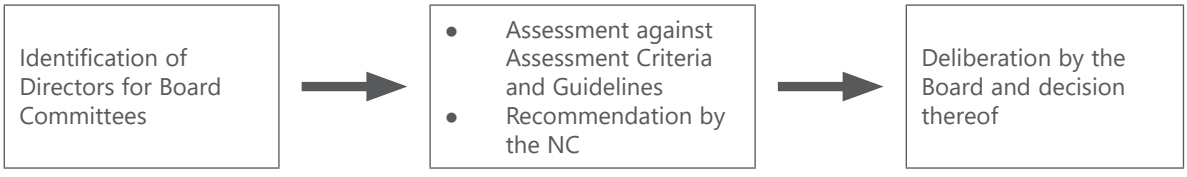
The Chairman, Directors and chief executive will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions during the term of office, attendance at Board meetings, and for IDs, their continued independence.

(iii) Removal

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.

(iv) Board Committee Appointments

The nomination, assessment and approval process for appointments to Board Committees ("Board Committee Appointments") is as follows:



The assessment for Board Committee Appointments 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 chief financial officer on an annual basis ("Annual Board Assessment"). For newly appointed chairman, directors, chief executive and CFO, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one (1) year of service.

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 FY and additional meetings may be called at any time as and when necessary. Recommendations and decisions may also be taken by way of Circular Resolutions.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- NC *cont'd*

The NC met once during the FY ended 30 June 2019 ("FY 2019") where all the NC members attended.

The NC discharged its duties in accordance with its TOR during FY 2019. The NC considered and reviewed the following:

- NC Charter and 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 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 gender, ethnicity and age balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

The NC has also evaluated the performance of the Board, Board Committees, each individual director, each Board Committee member and the CFO, benchmarking their respective TOR and assessment criteria, and through the annual assessment conducted during FY 2019. 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.

- RC

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

The composition of the RC is as follows:

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

Mr Ang Kong Hua
Independent Non-Executive Director

Mr Seow Yoo Lin
Independent Non-Executive Director

The RC meets at least once in each FY and additional meetings may be called at any time as and when necessary. Recommendations and decisions may also be taken by way of Circular Resolutions.

The RC met once during the FY 2019 where all the RC members attended.

The RC discharged its duties in accordance with its TOR during FY 2019. The RC considered and reviewed the RC Charter and remuneration packages (including salary and bonus) of the GMD and SM.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- RC *cont'd*

  The Group's remuneration scheme for executive directors ("EDs") 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 RC, in assessing and reviewing the remuneration packages of EDs, 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 Annual General Meeting ("AGM").

  The detailed remuneration of each director is set out in the CG Report which is published on the Website.

- R&D Committee

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

  The composition of the R&D Committee is as follows:

  Dr Kwa Lay Keng
  Chairman, Independent Non-Executive Director

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

  Mr Ang Kong Hua
  Independent Non-Executive Director

  Mr Chow Chong Long
  Group Managing Director

  The R&D Committee meets at least twice in each FY and additional meetings may be called at any time as and when necessary. Recommendations and decisions may also be taken by way of Circular Resolutions.

  The R&D Committee met twice during FY 2019. All the R&D Committee members (save for one member) attended the R&D Committee meetings held during FY 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- R&D Committee *cont'd*

  The R&D Committee discharged its duties in accordance with its TOR during FY 2019. The R&D Committee considered and reviewed, amongst others, the following:

  - Performed research and trials in the commercialised coating of electrode to reduce electrode consumption. Reduction in electrode consumption was achieved in production operations.
  - Reviewed and conducted trials to utilise alternative sources of carbon for use in steel production.
  - Completed the work with designated licensed processor to reuse the waste generated and reduce disposal cost.
  - Initiated project to further utilise non-scheduled waste to formulate higher value-added products for the construction market.
  - Evaluated and in discussion with the government appointed digitalisation consultant on a pilot visualisation project for the manufacturing plant.
  - Continuing focus on energy, with the identification and implementation of energy efficiency projects and solutions within the Group and opportunities in renewable energy.

  The following initiatives were launched during the FY 2019 to seed and cultivate a Technology Culture throughout the Group:

  - Training in Intellectual Property for personnel at all levels in plant operation and identification of Intellectual Property assets within the Group.
  - Energy Management Committee for the Group to drive energy efficiency efforts and reduce energy cost.

D. Independence

The Board takes cognisance of the provisions of the MCCG, which states that the tenure of an ID should not exceed a cumulative term of nine (9) years and upon completion of the nine (9) years, an ID may continue to serve on the Board subject to the director's re-designation as a non-independent director. It further states that in the event the Board wishes to retain an ID who has served a cumulative term of nine (9) years and above, shareholders' approval shall be annually sought with justification. In the event the Board wishes to retain an ID who has served a cumulative term of twelve (12) years and above, shareholders' approval shall be annually sought through a two-tier voting process.

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 nine (9) years continuously or more as IDs, with justifications and subject to favourable assessment of the NC and the Board.

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

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

Currently, the tenure of all the IDs on the Board does not exceed nine (9) years.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

E. Commitment

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, Directors are required to comply with the restrictions on the number of directorships in public listed companies. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. The Board meets quarterly with timely notices of issues to be discussed. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 50% of Board meetings held in each FY pursuant to the MMLR.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to 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 a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016 and she is an Associate Member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The Company Secretary supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and SM. The Company Secretary attends programmes and seminars to keep abreast with, inter alia, regulatory requirements, company law and CG.

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 Secretary 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 four (4) times for FY 2019 with timely notices of issues to be discussed. Details of attendance of each Director are as follows:

Directors	Attendance
YBhg Datuk Kwek Leng San	4/4
Mr Chow Chong Long	4/4
YBhg Dato' Dr Tan Tat Wai	4/4
Mr Ang Kong Hua	3/4
Mr Seow Yoo Lin	4/4
Dr Kwa Lay Keng	4/4
YBhg Dato' Ahmad Johari bin Abdul Razak	3/4

The Company recognises the importance of continuous professional development and training for its 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 SM, 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 business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT,
RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

E. Commitment *cont'd*

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 CG, finance, legal, risk management, information technology, cyber security, internal control and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During FY 2019, the Directors received regular briefings and updates on the Group's businesses, strategies, operations, risk management and compliance, internal controls, CG, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and SM.

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

During FY 2019, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Capital Market Development Program
- CG Watchdog: How Does Malaysia Rank
- Directors' Duties & Powers – Recent Developments in the Law and How it Affects You
- Identifying Your Next Board Talent
- Independent Directors' Programme – The Essence of Independence
- Integrated Reporting Briefing
- Malaysian Anti-Corruption Commission (Amendment) Act 2018
- PWC Talk on Financial Regulations
- Singapore Code of Corporate Governance 2018
- The Global Trade System in Disarray: Fixing Design Flaws and Adjusting to a Multi-Polar War
- The Malaysian Anti-Corruption Commission Act 2009 & Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001
- Understanding Liquidity Risk Management.

F. Strengthening CG Culture

- **Code of Conduct and Ethics**

  The Group is committed to good business ethics and integrity as set out in the Hong Leong Manufacturing Group Code of Conduct and Ethics ("Code"). To this, the Group commits to a high standard of professionalism and ethics in the conduct of our business and professional activities.

  The Code is applicable to:

  - all employees who work in the Group across the jurisdictions in which we operate – including but not limited to permanent, part-time and temporary employees; and
  - any other persons permitted to perform duties or functions within the Group – including but not limited to vendors, service providers, contractors, secondees, interns, industrial attachment and agency staff.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

F. Strengthening CG Culture *cont'd*

- **Whistleblowing Policy**

  The Company has a Whistleblowing Policy and it provides a structured channel for all employees of the Group to report any concern on any improper conduct or wrongful act committed within the Group. The Whistleblowing Policy is published on the Website.

  The Board has identified the Chairman of the BARMC to whom reports of any such concerns may be conveyed.

EFFECTIVE AUDIT AND RISK MANAGEMENT

Accountability And Audit

The financial reporting and internal control system of the Group is overseen by the BARMC which comprises all IDs. 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 ("IAD") 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 SM 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 has a fiduciary responsibility to ensure 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 integrity of financial statements with the assistance of the external auditors.

II. Directors' Responsibility In Financial Reporting

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

The Directors of the Company are satisfied that the financial statements of the Group and of the Company for FY 2019 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.

III. Risk Management and Internal Control

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

- 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 IAD in this role.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

III. Risk Management and Internal Control *cont'd*

- Risk Management Framework

  For FY 2019, management has structured the risk management framework using MS ISO 31000:2010. Based on the framework, management has carried out the following:

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

  Further, on an on-going basis, each operating company'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.

- 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 and 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 IAD 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 2019 covered tender and procurement, feed material procurement, inventory management and logistic operation, production management, and production information management system.
  - Quarterly reporting to the BARMC on the results of control assurance and audit activities, and also the management of risks throughout the Group.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

III. Risk Management and Internal Control *cont'd*

- Management and Decision-Making Processes

  The internal control and risk management processes of the Group are in place for FY 2019 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.

- 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 Audit and Assurance Practice Guide ("AAPG") 3, *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the 2019 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. AAPG 3 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.

- 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.

IV. Relationship with Auditors

The Board, through the BARMC, maintains a formal and transparent professional relationship with the external auditors, 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 MIA, KPMG PLT rotates its Engagement Partner and Concurring Partner once every seven (7) years to ensure objectivity, independence and integrity of the audit opinions.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

IV. Relationship with Auditors *cont'd*

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 SM.

For FY 2019, 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.

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

A. 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 Website after release to Bursa.

B. Shareholders

I. Dialogue between Companies 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 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 the Company's information at the Website which includes the Board Charter, TORs of Board Committees, corporate information, announcements/press releases/briefings, financial information, products information and investor relations. A summary of the key pertinent matters discussed at the AGM is published on the Website.

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS *cont'd*

B. Shareholders *cont'd*

I. Dialogue between Companies and Investors *cont'd*

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. SM and the external auditors are also available to respond to shareholders' queries during the AGM. All Directors (save for one Director) attended the last AGM held on 29 November 2018.

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.

The Company has adopted electronic voting for the conduct of poll on all resolutions at the AGM.

This Corporate Governance Overview Statement, 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

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 four (4) times a year and additional meetings may be called at any time as and when necessary. Recommendations and decisions may also be taken by way of Circular Resolutions. 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.

Two (2) members of the Committee, who shall be independent, shall constitute a quorum and the majority of members present must be independent directors.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
cont'd

MEETINGS *cont'd*

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 2019 ("FY 2019") 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 2019, four (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	3/4
Dr Kwa Lay Keng	4/4

The Committee carried out the following key activities during FY 2019:

- Reviewed and made recommendations to the Board for approval, the quarterly reports focusing on any changes in accounting policies and practices, significant adjustments arising from the audits and the going concern assumptions to ensure compliance with relevant accounting standards, laws and regulations.
- Reviewed and made recommendations to the Board for approval, the annual financial statements of the Group and to ensure that it was drawn up in accordance with the relevant accounting standards, laws and regulations so as to give a true and fair view of the financial position of the Company and of the Group.
- Reviewed bank covenants compliance and various banking facilities of the Group.
- Reviewed existing/additional controls on cyber risk and the Cybersecurity Framework of the Group.
- Reviewed and recommended to the Board for approval, the Board Audit & Risk Management Committee Charter and Internal Audit Charter.
- Held two (2) separate sessions with the external auditors without the presence of senior management. During the separate sessions, no critical issues were raised.
- Met with the external auditors and discussed the audit plan 2019 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 potential key audit matters and other significant 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. Further 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 2019 are stated in the Notes to the financial statements.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
cont'd

ACTIVITIES *cont'd*

- 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 covering areas on strategic, compliance, operational and financial, 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. Also reviewed the status updates of the outstanding management's corrective action plans on internal audit's findings and recommendations.

- 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 ("Procedure") and various recurrent related party transactions ("RRPT") carried out by the Group to ensure that the Procedure are adequate to monitor, track and identify RRPT in a timely and orderly manner, and are sufficient to ensure that the RRPT are conducted on commercial terms consistent with the Group's usual business practice and policies and on terms not more favourable to the related parties than those generally available to and/or from the public.

- 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.

- Reviewed and recommended to the Board for approval, the Whistleblowing Policy together with the Whistleblowing Communications Plan and Investigation Procedures.

- Reviewed and recommended to the Board for approval, the adoption of MS ISO 37001 as the Group's Anti-Bribery Management System.

INTERNAL AUDIT ("IA")

The IA function is carried out in-house by the IA Department ("IAD"). There were five (5) staff in the IAD during FY 2019 and the total cost incurred by the IAD amounted to RM741,158.

The purpose, authority, scope, independence and responsibilities of IA function is provided in the Internal Audit Charter, which is approved by the Committee.

The IAD, led by the Head of IA, reports to the Committee which has the authority to decide, among others, the appointment and removal, scope of work, and performance evaluation of the IA function. Mr Teh Boon Ang (Head of IA, Hong Leong Manufacturing Group) has been assigned to oversee the IA function of SSB on 5 March 2018. Mr Teh holds the qualifications of Master of Criminal Justice from the University of Malaya, Advanced Diploma in Commerce, and is a Certified Internal Auditor (CIA) from the Institute of Internal Auditors, the United States of America ("USA"), Certified Fraud Examiner (CFE) from the Association of Certified Fraud Examiners, USA, Professional Member of the Institute of Internal Auditors Malaysia and Associate Member of the Malaysian Institute of Chartered Secretaries & Administrators. 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.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
cont'd

INTERNAL AUDIT ("IA") *cont'd*

The IAD 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 IAD 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 IAD for FY 2019 whereby it is satisfied with the performance of the IAD. The Committee had also reviewed the IAD'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 IAD and that it has adequate resources to carry out its functions.

The annual audit plan prepared by the IAD 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 2019 are described in the SORMIC.

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

The IAD 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 2019

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, manufacturing, sale and trading in steel bars and related products whilst the principal activities of the significant subsidiaries consist of investment holding, manufacturing, sale and trading in billets, steel bars, wire rods, wire mesh, pre-stressed concrete strands, bars and wires, steel pipes, steel wires and other related products as disclosed in Note 3 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year except as disclosed 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
(Loss)/Profit for the year attributable to:		
Owners of the Company	(119,048)	(64,218)
Non-controlling interests	139	-
	(118,909)	(64,218)

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

No dividend was paid during the financial year and the Directors do not recommend a final dividend for the financial year ended 30 June 2019.

DIRECTORS' REPORT
for the financial year ended 30 June 2019
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
YBhg Dato' Ahmad Johari bin Abdul Razak

The names of directors of subsidiaries and their remuneration details are set out in the subsidiaries' financial statements and the said names and details are deemed incorporated herein by such reference and made a part thereof.

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 and/or options over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2019 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 to be issued arising from the conversion of redeemable convertible unsecured loan stocks*/ordinary shares to be acquired arising from the exercise of options^			
	Nominal value per share RM	At 1.7.2018	Acquired	Sold	At 30.6.2019
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	US$0.50	209,120	-	-	209,120
Hume Industries Berhad	(1)	3,921,600	-	-	3,921,600
	(1)	-	2,017,142*	-	2,017,142*
Interest of YBhg Dato' Dr Tan Tat Wai in:					
Southern Steel Berhad	(1)	14,854	-	-	14,854
	(1)	7,073*	-	-	7,073*

DIRECTORS' REPORT
for the financial year ended 30 June 2019
cont'd

DIRECTORS' INTERESTS *cont'd*

		Number of ordinary shares/ ordinary shares to be issued arising from the conversion of redeemable convertible unsecured loan stocks*/ordinary shares to be acquired arising from the exercise of options^			
	Nominal value per share RM	At 1.7.2018	Acquired	Sold	At 30.6.2019
Shareholdings in which Directors have direct interests cont'd					
Interest of Mr Chow Chong Long in:					
Southern Steel Berhad	(1)	95,563	-	-	95,563
	(1)	45,505*	-	-	45,505*
	(1)	7,500,000^	-	-	7,500,000^
Interest of Mr Ang Kong Hua in:					
Southern Steel Berhad	(1)	1,476,190	-	-	1,476,190
Interests of YBhg Dato' Ahmad Johari bin Abdul Razak in:					
Hong Leong Industries Berhad	(1)	17,600	-	-	17,600
Hume Industries Berhad	(1)	19,008	-	-	19,008
	(1)	-	9,774*	-	9,774*
Malaysian Pacific Industries Berhad	(1)	6,600	-	-	6,600
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 (2)	-	-	10,661 (2)
Interest of YBhg Dato' Dr Tan Tat Wai in:					
Southern Steel Berhad	(1)	31,242,238 (3)	-	-	31,242,238 (3)
	(1)	13,390,093* (3)	-	-	13,390,093* (3)
Interest of Mr Chow Chong Long in:					
Southern Steel Berhad	(1)	5,000 (2)	-	-	5,000 (2)
	(1)	2,380* (2)	-	-	2,380* (2)

Legend:
(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016.
(2) Interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by a family member.
(3) Inclusive of an 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 2019
cont'd

DIRECTORS' BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive any benefit (other than fees, remunerations, other benefits and benefit-in-kind included in the aggregate amount of remuneration received or due and receivable by Directors as shown in Note 29.2 to 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 related corporations and companies in which YBhg Dato' Dr Tan Tat Wai has interests.

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

ISSUE OF SHARES AND DEBENTURES

There were no issue of shares and debentures of the Company 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 (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 RM17,859.

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

DIRECTORS' REPORT
for the financial year ended 30 June 2019
cont'd

OTHER STATUTORY INFORMATION *cont'd*

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

(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 and 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 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT, 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

26 August 2019

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	4	**1,117,399**	1,156,271	**138,735**	147,842
Goodwill on consolidation	5	**30,256**	30,256	**-**	-
Investments in subsidiary companies	6	**-**	-	**1,157,597**	1,034,317
Investments in associated companies	7	**13,851**	15,216	**5,500**	5,500
Other investments	8	**630**	1,023	**630**	1,023
Deferred tax assets	9	**106,151**	69,427	**74,032**	40,856
Tax credit receivable	10	**19,941**	20,890	**12,161**	12,161
Total non-current assets		**1,288,228**	1,293,083	**1,388,655**	1,241,699
Inventories	11	**672,589**	842,202	**288,995**	444,082
Trade and other receivables, including derivatives	12	**208,528**	288,562	**96,706**	148,417
Current tax assets		**14,559**	10,687	**2,783**	5,023
Cash and cash equivalents	13	**43,938**	54,550	**14,569**	22,368
Total current assets		**939,614**	1,196,001	**403,053**	619,890
Total assets		**2,227,842**	2,489,084	**1,791,708**	1,861,589

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2019
cont'd

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Equity					
Share capital	14	**470,205**	469,494	**470,205**	469,494
Reserves	15	**242,610**	355,495	**316,609**	379,853
RCULS - equity portion	16	**141,524**	141,524	**141,524**	141,524
Total equity attributable to owners of the Company		**854,339**	966,513	**928,338**	990,871
Non-controlling interests		**5,584**	5,574	**-**	-
Total equity		**859,923**	972,087	**928,338**	990,871
Liabilities					
Deferred tax liabilities	9	**8,852**	15,163	**-**	-
RCULS - liability portion	16	**-**	8,205	**-**	8,205
Deferred income	17	**9,158**	10,682	**7,199**	8,610
Employee benefits	18	**29,293**	31,632	**14,326**	14,785
Borrowings	21	**85,000**	189,958	**-**	-
Total non-current liabilities		**132,303**	255,640	**21,525**	31,600
RCULS - liability portion	16	**4,789**	4,665	**4,789**	4,665
Employee benefits	18	**1,107**	534	**393**	274
Provisions	19	**11,081**	21,945	**6,000**	12,000
Trade and other payables, including derivatives	20	**359,323**	374,079	**229,013**	227,419
Borrowings	21	**858,970**	860,108	**601,650**	594,760
Current tax liabilities		**346**	26	**-**	-
Total current liabilities		**1,235,616**	1,261,357	**841,845**	839,118
Total liabilities		**1,367,919**	1,516,997	**863,370**	870,718
Total equity and liabilities		**2,227,842**	2,489,084	**1,791,708**	1,861,589

The notes on pages 63 to 149 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Revenue	22	**3,135,484**	3,698,191	**2,882,952**	3,638,213
Cost of sales		**(3,082,161)**	(3,253,538)	**(2,902,975)**	(3,509,686)
Gross profit/(loss)		**53,323**	444,653	**(20,023)**	128,527
Distribution expenses		**(79,507)**	(88,353)	**(34,210)**	(42,718)
Administrative expenses		**(74,020)**	(87,498)	**(35,709)**	(40,141)
Other operating expenses		**(23,619)**	(10,660)	**(8,799)**	(4,783)
Other operating income		**13,423**	11,898	**27,997**	24,281
Results from operations		**(110,400)**	270,040	**(70,744)**	65,166
Interest income		**1,382**	2,052	**326**	553
Finance costs	23	**(48,076)**	(48,594)	**(26,590)**	(23,738)
Share of (loss)/profit in associated companies, net of tax		**(1,090)**	361	**-**	-
(Loss)/Profit before taxation	24	**(158,184)**	223,859	**(97,008)**	41,981
Taxation	25	**39,275**	(12,614)	**32,790**	(5,827)
(Loss)/Profit for the year		**(118,909)**	211,245	**(64,218)**	36,154
(Loss)/Profit attributable to:					
Owners of the Company		**(119,048)**	210,847	**(64,218)**	36,154
Non-controlling interests		**139**	398	**-**	-
		(118,909)	211,245	**(64,218)**	36,154
Basic (loss)/earnings per ordinary share (sen)	26	**(27.45)**	48.78		
Diluted (loss)/earnings per ordinary share (sen)	26	**(27.45)**	35.50		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019
cont'd

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
(Loss)/Profit for the year		**(118,909)**	211,245	**(64,218)**	36,154
Other comprehensive (expense)/income, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Loss on fair value of equity instrument at fair value through other comprehensive income		**(393)**	(404)	**(393)**	(404)
Re-measurement of defined benefit liability		**2,579**	-	**199**	-
		2,186	(404)	**(194)**	(404)
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operation		**93**	(52)	**-**	-
Cash flow hedge		**(304)**	900	**(766)**	852
		(211)	848	**(766)**	852
Total other comprehensive income/(expense) for the year	27	**1,975**	444	**(960)**	448
Total comprehensive (expense)/income for the year		**(116,934)**	211,689	**(65,178)**	36,602
Total comprehensive (expense)/income attributable to:					
Owners of the Company		**(117,060)**	211,263	**(65,178)**	36,602
Non-controlling interests		**126**	426	**-**	-
		(116,934)	211,689	**(65,178)**	36,602

The notes on pages 63 to 149 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2019

	← Attributable to owners of the Company →										
	← Non-distributable →							Distributable			
	Share capital	Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion	Merger reserve	Other reserve	Foreign currency translation reserve	Hedging reserve	Executive share scheme reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group											
At 1 July 2017	464,874	145,544	30,000	140	1,782	(651)	1,015	122,406	765,110	5,148	770,258
Profit for the year	-	-	-	-	-	-	-	210,847	210,847	398	211,245
Other comprehensive (expense)/income:											
- Loss on fair value of equity investments	-	-	-	-	-	-	-	(404)	(404)	-	(404)
- Foreign currency translation differences	-	-	-	-	(52)	-	-	-	(52)	-	(52)
- Cash flow hedge	-	-	-	-	-	872	-	-	872	28	900
Total comprehensive (expense)/income for the year	-	-	-	-	(52)	872	-	210,443	211,263	426	211,689
Contribution by and distribution to owners of the Company											
- Conversion of RCULS	4,620	(4,020)	-	-	-	-	-	(166)	434	-	434
- Share-based payments **(Note 18 (b))**	-	-	-	-	-	-	4,883	-	4,883	-	4,883
- Dividend **(Note 28)**	-	-	-	-	-	-	-	(15,177)	(15,177)	-	(15,177)
- Others	-	-	-	10	-	-	-	(10)	-	-	-
Total transactions with owners of the Company	4,620	(4,020)	-	10	-	-	4,883	(15,353)	(9,860)	-	(9,860)
At 30 June 2018	469,494	141,524	30,000	150	1,730	221	5,898	317,496	966,513	5,574	972,087
	Note 14										

	← Attributable to owners of the Company →										
	← Non-distributable →							Distributable			
	Share capital RM'000	Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion RM'000	Merger reserve RM'000	Other 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
Group											
At 1 July 2018	469,494	141,524	30,000	150	1,730	221	5,898	317,496	966,513	5,574	972,087
(Loss)/Profit for the year	-	-	-	-	-	-	-	(119,048)	(119,048)	139	(118,909)
Other comprehensive income/(expense):											
- Loss on fair value of equity investments	-	-	-	-	-	-	-	(393)	(393)	-	(393)
- Foreign currency translation differences	-	-	-	-	93	-	-	-	93	-	93
- Cash flow hedge	-	-	-	-	-	(279)	-	-	(279)	(25)	(304)
- Remeasurement of defined benefit liability	-	-	-	-	-	-	-	2,567	2,567	12	2,579
Total comprehensive income/(expense) for the year	-	-	-	-	93	(279)	-	(116,874)	(117,060)	126	(116,934)
Contribution by and distribution to owners of the Company											
- Share-based payments **(Note 18 (b))**	-	-	-	-	-	-	4,886	-	4,886	-	4,886
- Dividend paid to non-controlling interest by a subsidiary	-	-	-	-	-	-	-	-	-	(116)	(116)
- Others	711	-	-	(150)	-	-	-	(561)	-	-	-
Total transactions with owners of the Company	711	-	-	(150)	-	-	4,886	(561)	4,886	(116)	4,770
At 30 June 2019	**470,205**	**141,524**	**30,000**	**-**	**1,823**	**(58)**	**10,784**	**200,061**	**854,339**	**5,584**	**859,923**
	Note 14										

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2019
cont'd

	Attributable to owners of the Company						
	Non-distributable					*Distributable*	
	Share capital	Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion	Merger reserve	Hedging reserve	Executive share scheme reserve	Retained earnings	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company							
At 1 July 2017	464,874	145,544	33,600	(260)	604	322,153	966,515
Profit for the year	-	-	-	-	-	36,154	36,154
Other comprehensive (expense)/income:							
- Loss on fair value of equity investments	-	-	-	-	-	(404)	(404)
- Cash flow hedge	-	-	-	852	-	-	852
Total comprehensive income for the year	-	-	-	852	-	35,750	36,602
Contributions by and distribution to owners of the Company							
Share-based payments **(Note 18 (b))**	-	-	-	-	2,497	-	2,497
Conversion of RCULS	4,620	(4,020)	-	-	-	(166)	434
Dividend **(Note 28)**	-	-	-	-	-	(15,177)	(15,177)
Total transactions with owners of the Company	4,620	(4,020)	-	-	2,497	(15,343)	(12,246)
At 30 June 2018	469,494	141,524	33,600	592	3,101	342,560	990,871
	Note 14						

	Attributable to owners of the Company						
	Non-distributable					*Distributable*	
	Share capital	**Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion**	**Merger reserve**	**Hedging reserve**	**Executive share scheme reserve**	**Retained earnings**	**Total equity**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Company							
At 1 July 2018	469,494	141,524	33,600	592	3,101	342,560	990,871
Loss for the year	-	-	-	-	-	(64,218)	(64,218)
Other comprehensive (expense)/income:							
- Loss on fair value of equity investments	-	-	-	-	-	(393)	(393)
- Cash flow hedge	-	-	-	(766)	-	-	(766)
- Re-measurement of defined benefit liability	-	-	-	-	-	199	199
Total comprehensive expense for the year	-	-	-	(766)	-	(64,412)	(65,178)
Contributions by and distribution to owners of the Company							
Share-based payments **(Note 18 (b))**	-	-	-	-	2,645	-	2,645
Others	711	-	-	-	-	(711)	-
Total transactions with owners of the Company	711	-	-	-	2,645	(711)	2,645
At 30 June 2019	**470,205**	**141,524**	**33,600**	**(174)**	**5,746**	**277,437**	**928,338**
	Note 14						

The notes on pages 63 to 149 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
(Loss)/Profit before taxation	**(158,184)**	223,859	**(97,008)**	41,981
Adjustments for:				
Property, plant and equipment:				
- depreciation	**46,148**	52,791	**13,031**	15,166
- gain on disposal	**(40)**	-	**-**	-
- write-off	**17**	18	**-**	2
Fair value (gain)/loss on derivative instruments	**(45)**	94	**(25)**	(22)
Fair value loss/(gain) on financial instruments designated as hedge instruments	**1,857**	(555)	**401**	195
Provision for retirement benefits	**2,867**	3,393	**982**	1,109
Dividend income:				
- Subsidiary companies	**-**	-	**(12,937)**	(19,822)
- Associated companies	**-**	-	**(275)**	(550)
Interest income	**(1,382)**	(2,052)	**(326)**	(553)
Share of loss/(profit) in associated companies	**1,090**	(361)	**-**	-
Finance costs	**48,076**	48,594	**26,590**	23,738
Amortisation of deferred income	**(1,524)**	(1,622)	**(1,411)**	(1,411)
Unrealised loss/(gain) on foreign exchange	**600**	(3,690)	**32**	13
Share-based payments	**4,886**	4,883	**2,645**	2,497
Provision for legal cost	**10,500**	8,191	**-**	-
Reversal of provision for environmental cost	**(6,000)**	-	**(6,000)**	-
Operating (loss)/profit before working capital changes	**(51,134)**	333,543	**(74,301)**	62,343
Inventories	**169,613**	(153,636)	**155,087**	(28,559)
Trade and other receivables	**78,748**	(102,491)	**51,119**	(28,754)
Trade and other payables	**(12,849)**	26,396	**1,012**	(4,245)
Cash generated from operations	**184,378**	103,812	**132,917**	785
Retirement benefits paid	**(2,054)**	(902)	**(1,123)**	(606)
Finance costs paid	**(47,616)**	(47,735)	**(26,130)**	(22,879)
Dividend income received	**275**	550	**13,212**	20,372
Interest income received	**1,382**	2,052	**326**	553
Tax (paid)/refund, net	**(6,363)**	(30,020)	**1,854**	(2,036)
Legal costs paid	**(15,364)**	(12,293)	**-**	-
Net cash generated from/(used in) operating activities	**114,638**	15,464	**121,056**	(3,811)

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

cont'd

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash flows from investing activities				
Advances to a subsidiary	**-**	-	**(103,280)**	-
Acquisition of property, plant and equipment	**(10,630)**	(11,474)	**(3,924)**	(2,454)
Additional investments in subsidiary companies, net	**-**	-	**(20,000)**	(3,023)
Proceeds from disposal of plant and equipment	**40**	-	**-**	-
Proceeds from redemption of capital in subsidiary companies	**-**	-	**-**	10,000
Net cash (used in)/generated from investing activities	**(10,590)**	(11,474)	**(127,204)**	4,523
Cash flows from financing activities				
Dividend paid to owners of the Company	**-**	(15,177)	**-**	(15,177)
Dividend paid to non-controlling interests by a subsidiary	**(116)**	-	**-**	-
Drawdown of trade borrowings, net	**1,671**	65,615	**23,816**	60,500
Repayment of term loan	**(106,979)**	(78,454)	**(16,921)**	(33,842)
RCULS coupon payment	**(8,541)**	(8,680)	**(8,541)**	(8,680)
Net cash (used in)/generated from financing activities	**(113,965)**	(36,696)	**(1,646)**	2,801
Net change in cash and cash equivalents	**(9,917)**	(32,706)	**(7,794)**	3,513
Effect of exchange rate fluctuations on cash held	**93**	(52)	**-**	-
Cash and cash equivalents at 1 July 2018/1 July 2017	**53,762**	86,520	**22,363**	18,850
Cash and cash equivalents at 30 June	**43,938**	53,762	**14,569**	22,363

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

cont'd

NOTES

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	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits with licensed banks	**20,300**	35,556	**4,700**	13,620
Cash and bank balances	**23,638**	18,994	**9,869**	8,748
Bank overdrafts	**-**	(788)	**-**	(5)
	43,938	53,762	**14,569**	22,363

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 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 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 2019 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 2019 do not include other entities.

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

The financial statements were approved and authorised for issue by the Board of Directors on 26 August 2019.

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 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 4 - Impairment of property, plant and equipment ("PPE")

The management tests for PPE impairment 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 PPE is derived based on value in use of the PPE. Significant assumptions used to derive the value in use is as shown in Note 4.

ii) Note 5 - Impairment of goodwill

The management 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.

iii) Note 6 - Investments in subsidiary companies

Significant judgements are required when identifying impairment indicators. Where impairment indicators exist, judgements and assumptions are required to determine the recoverable amount of the investment in the subsidiaries.

iv) Note 9 - Deferred tax assets/(liabilities)

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.

v) Note 11 - Inventories

The management reviews for obsolescence and decline in net realisable value to below cost. This review requires judgements and estimates. Possible changes in these estimates could result in revision to the valuation of inventories.

vi) Note 12 - Trade and other receivables, including derivatives

The management applied judgements to determine that financial instruments of the Group and the Company are recognised and measured in accordance to accounting standard, MFRS 9 as described in Note 2.2(e).

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

Financial instrument (loans or advances) which, in substance, provides current access to the returns associated with an underlying ownership interest; or substantially all of the instrument's returns are driven by the financial performance of the subsidiaries such that the instrument provides an exposure similar to an investment in ordinary shares of the subsidiaries are also accounted for as investment in subsidiaries.

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.

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*

(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.

(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 Trust set up as mentioned in Note 2.2(r)(iii) is amalgamated in the financial statements of the Company for the portion related to the Company and also consolidated in the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(vi) 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 a financial asset categorised at fair value through other comprehensive income (in the previous financial year, it is accounted 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.

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 the 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.

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*

(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.

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 after making proper marketing 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.

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 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 10

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Leased assets

(i) Finance lease

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a financial lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

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

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) Recognition and initial 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.

Financial asset (unless it is a trade receivable without significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a financing component is initially measured at the transaction price.

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*

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

An embedded derivative is recognised separately from the host contract if the host contract is not a financial asset and certain criteria are met and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Group and the Company categorise financial instruments as follows:

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(b) Fair value through other comprehensive income

I. Debt investments

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to 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*

(e) Financial instruments *cont'd*

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

Financial assets *cont'd*

(b) Fair value through other comprehensive income *cont'd*

II. Equity investments

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

(c) Fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss and equity instruments measured at fair value through comprehensive income, are subject to impairment assessment (see Note 2.2 (f)(i)).

Financial liabilities

At initial recognition, all financial liabilities are measured at cost and subsequently measured at fair value through profit or loss or at amortised cost.

(a) Fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the 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*

(e) Financial instruments *cont'd*

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

Financial liabilities *cont'd*

(a) Fair value through profit or loss *cont'd*

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognised the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch, and remaining amount of the change in fair value in the profit or loss.

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses are also recognised in the 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.

Financial guarantees issued are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. Subsequently, they are amortised to profit or loss using straight line method over the contractual period, or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee.

Where the loss allowance determined in accordance with the impairment model as described in Note 2.2(f)(i) is higher than the amortised amount, the carrying amount of the financial guarantee is adjusted to the loss allowance amount.

Liabilities arising from financial guarantees are included with provisions.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting or settlement date in current date.

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*

(iv) Regular way purchase or sale of financial assets *cont'd*

Settlement date accounting refers to:

(a) the recognition of an asset on the day it is received by the entity, and
(b) derecognition of an asset and recognition of any gain or loss on disposal on the day that is delivered by the entity.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is accounted in the same way as it accounts for the acquired assets.

Generally, the Group or the Company applies settlement date accounting unless otherwise stated for the specific class of asset.

(v) Hedge accounting

At inception of a designated hedging relationship, the Group and the Company document the risk management objective and strategy for undertaking the hedge. The Group and the Company also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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 all, or a component of, 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 accumulated in equity and the ineffective portion is recognised in profit or loss. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

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.

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 *cont'd*

Cash flow hedge *cont'd*

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 hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to 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 on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument which the Group or the Company has elected to present the subsequent changes in fair value of the investment in equity in other comprehensive income).

The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

(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 asset 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Financial instruments *cont'd*

(vi) Derecognition *cont'd*

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. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. 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.

(vii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(f) Impairment

(i) Financial assets

The Group and the Company recognise loss allowances for expected credit losses on financial assets and financial guarantees measured at amortised cost or fair value through comprehensive income, except for investments in equity instruments and interests in subsidiaries and associates.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured as 12 month expected credit loss.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12 months expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

Loss allowances for trade receivable are always measured at an amount equal to lifetime expected credit loss.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

Expected credit losses are a probability-weighted estimate of credit losses. The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

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*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery amounts due.

(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.

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*

(ii) Other assets *cont'd*

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 (or a group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (or a 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.

(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 with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitment. 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 or the Company 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) 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.

(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 redeemed at the option of the Company and 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(m) Foreign currency

(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.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of financial assets categorised as equity instruments designated upon initial recognition (available-for-sale equity instruments in the previous financial year) 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.

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

During the year, the Group and the Company adopted MFRS 15, Revenue from contracts with customers, which replaces MFRS 118 Revenue.

Unless specifically disclosed below, the Group and the Company generally applied the requirements of this accounting standards as allowed by MFRS 15.

(i) Revenue from contract with customers

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;
(b) the Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
(c) the Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

(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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(o) Borrowing costs *cont'd*

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 or receivable on the taxable income or loss 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.

Deferred taxation 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 (other than investment tax credits) 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 reinvestment allowance ("RA") and investment tax allowance ("ITA") as investment tax credits ("ITCs") and these ITCs are recognised as deferred income. Unutilised RA and ITA to the extent that they are probable that the future taxable profit will be available against which the unutilised RA and ITA can be utilised are recognised as a tax credit receivable.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(p) Taxation *cont'd*

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 to the profit or loss or other income.

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

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

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 weighted average number of ordinary shares outstanding, adjusted to assume full conversion of all dilutive potential ordinary shares, which comprise convertible loan stocks and share options granted to employees.

(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 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 November 2018.

When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(r) Employee benefits *cont'd*

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

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

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

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

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 November 2018, 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(r) Employee benefits *cont'd*

(iii) Share-based payments *cont'd*

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 shares 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.

(s) Operating segments

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

(t) Fair value measurement

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with MFRSs, IFRSs and the requirements of the Companies Act 2016 in Malaysia.

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 2019
- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits - Plan Amendments, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020
- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

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 plan to apply the abovementioned accounting standards, amendments and interpretations where applicable in the respective financial years when the abovementioned standards, amendments or interpretations become effective as applicable.

With effect during the year, the Group and the Company adopted MFRS 15, Revenue from contracts with customers. The adoption of the MFRS 15 did not have any significant impact to the financial statements of the Group and the Company.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company except as mentioned below:

(i) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group and the Company are assessing the financial impact that may arise from the adoption of MFRS 16.

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 2019 %	Effective interest 2018 %	Principal activities
Subsidiary Companies				
Southern Steel Rod Sdn Bhd	Malaysia	**100.0**	100.0	Manufacture, sale and trading of billets, wire rods, deformed bar in coils and other related products
Southern HRC Sdn Bhd	Malaysia	**100.0**	100.0	Manufacture, sale and marketing of steel billets and 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, cut and bend bars and other related products
• E-Tatt Steel Wires Sdn Bhd	Malaysia	**100.0**	100.0	In members' voluntary liquidation
Southern Pipe Industry (Malaysia) Sdn Bhd	Malaysia	**96.1**	96.1	Manufacture, sale and processing of steel pipes and other related products
• Southern Steel Pipe Sdn Bhd	Malaysia	**96.1**	96.1	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
• Starglow Investments Ltd[#]	Malaysia	**100.0**	100.0	Investment holding

NOTES TO THE FINANCIAL STATEMENTS
cont'd

3. COMPANIES IN THE GROUP *cont'd*

Name of Company	Country of incorporation	Effective interest 2019 %	Effective interest 2018 %	Principal activities
Associated Companies				
Super Othello Sdn Bhd#	Malaysia	-	50.0	Dissolved in December 2018
Steel Industries (Sabah) Sdn Bhd	Malaysia	**27.5**	27.5	Manufacture and trading of steel bars

The financial year end of all the subsidiary 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 and associated company are not audited by KPMG PLT.*

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 2017	25,331	158,900	454,735	1,439,747	67,786	13,274	605,331	2,765,104
Additions	-	-	181	6,484	878	2,451	1,480	11,474
Write-off	-	-	-	(512)	(1,009)	-	-	(1,521)
Reclassification	-	-	-	808	-	-	(808)	-
At 30 June 2018/1 July 2018	25,331	158,900	454,916	1,446,527	67,655	15,725	606,003	2,775,057
Additions	-	-	376	7,986	605	181	1,482	10,630
Disposals	-	-	-	(38)	-	-	-	(38)
Write-off	-	-	-	(1,858)	(433)	(165)	-	(2,456)
Reclassification	-	-	(15)	1,048	15	-	(1,048)	-
Other	-	-	(1,534)	-	-	-	(1,803)	(3,337)
At 30 June 2019	**25,331**	**158,900**	**453,743**	**1,453,665**	**67,842**	**15,741**	**604,634**	**2,779,856**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Freehold land	Leasehold land	Buildings	Plant and machinery	Office equipment	Motor vehicles	Capital work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group *cont'd*								
Accumulated depreciation and impairment loss								
At 1 July 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
Charge for the year	-	3,374	11,059	35,943	1,808	607	-	52,791
Write-off	-	-	-	(499)	(1,004)	-	-	(1,503)
At 30 June 2018/ 1 July 2018								
- Accumulated depreciation	-	41,722	225,874	1,248,025	63,957	11,490	-	1,591,068
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	41,722	230,829	1,270,788	63,957	11,490	-	1,618,786
Charge for the year	-	3,372	10,083	30,530	1,514	649	-	46,148
Disposals	-	-	-	(38)	-	-	-	(38)
Write-off	-	-	-	(1,841)	(433)	(165)	-	(2,439)
At 30 June 2019								
- Accumulated depreciation	**-**	**45,094**	**235,957**	**1,276,676**	**65,038**	**11,974**	**-**	**1,634,739**
- Accumulated impairment loss	**-**	**-**	**4,955**	**22,763**	**-**	**-**	**-**	**27,718**
	-	**45,094**	**240,912**	**1,299,439**	**65,038**	**11,974**	**-**	**1,662,457**
Carrying amounts								
At 1 July 2017	25,331	120,552	234,965	204,403	4,633	2,391	605,331	1,197,606
At 30 June 2018/ 1 July 2018	25,331	117,178	224,087	175,739	3,698	4,235	606,003	1,156,271
At 30 June 2019	**25,331**	**113,806**	**212,831**	**154,226**	**2,804**	**3,767**	**604,634**	**1,117,399**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Freehold land	Leasehold land	Buildings	Plant and machinery	Office equipment	Motor vehicles	Capital work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company								
Cost								
At 1 July 2017	6,997	138,403	211,552	163,435	47,595	8,450	-	576,432
Additions	-	-	181	1,320	332	346	275	2,454
Write-off	-	-	-	(53)	(925)	-	-	(978)
Reclassification	-	-	-	275	-	-	(275)	-
At 30 June 2018/1 July 2018	6,997	138,403	211,733	164,977	47,002	8,796	-	577,908
Additions	-	-	176	3,227	347	-	174	3,924
Write-off	-	-	-	-	(10)	-	-	(10)
At 30 June 2019	**6,997**	**138,403**	**211,909**	**168,204**	**47,339**	**8,796**	**174**	**581,822**
Accumulated depreciation and impairment loss								
At 1 July 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
Charge for the year	-	3,062	5,903	4,947	971	283	-	15,166
Write-off	-	-	-	(51)	(925)	-	-	(976)
At 30 June 2018								
- Accumulated depreciation	-	37,205	188,095	124,981	44,441	7,626	-	402,348
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	37,205	193,050	147,744	44,441	7,626	-	430,066

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Freehold land	Leasehold land	Buildings	Plant and machinery	Office equipment	Motor vehicles	Capital work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company *cont'd*								
Accumulated depreciation and impairment loss *cont'd*								
At 1 July 2018								
- Accumulated depreciation	-	37,205	188,095	124,981	44,441	7,626	-	402,348
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	37,205	193,050	147,744	44,441	7,626	-	430,066
Charge for the year	-	3,061	5,150	3,630	916	274	-	13,031
Write-off	-	-	-	-	(10)	-	-	(10)
At 30 June 2019								
- Accumulated depreciation	**-**	**40,266**	**193,245**	**128,611**	**45,347**	**7,900**	**-**	**415,369**
- Accumulated impairment loss	**-**	**-**	**4,955**	**22,763**	**-**	**-**	**-**	**27,718**
	-	**40,266**	**198,200**	**151,374**	**45,347**	**7,900**	**-**	**443,087**
Carrying amounts								
At 1 July 2017	6,997	104,260	24,405	20,587	3,200	1,107	-	160,556
At 30 June 2018/1 July 2018	6,997	101,198	18,683	17,233	2,561	1,170	-	147,842
At 30 June 2019	**6,997**	**98,137**	**13,709**	**16,830**	**1,992**	**896**	**174**	**138,735**

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

The Group's carrying amount of RM603,714,000 (2018 : RM605,108,000) 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, comprising RM95,795,000 direct attributable costs in testing the HRC plant and RM45,078,000 borrowing costs capitalised.

Although the HRC plant has not been used throughout the year, management continues to maintain the plant. The ultimate outcome of the arbitrations as disclosed in Note 34 to the financial statements may have an impact on the carrying amount of this plant.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

4.2 Impairment assessment - Group

The Management is assessing the recoverable amount for cash generating units having impairment indicators based on value in use calculations. These calculations use pre-tax cash flow projections that have been projected to the useful life of property, plant and equipment 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 ranging from 7.5% to 10% (2018 : 7.5%) after tax rate that is applied to the cash flow projections and represents the industry's estimated weighted average cost of capital used.

5. GOODWILL ON CONSOLIDATION

	Group	
	2019	**2018**
	RM'000	**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:-

	2019	**2018**
	RM'000	**RM'000**
Southern Steel Mesh Sdn Bhd and Southern Steel Rod 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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 are 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 7.5% (2018 : 7.5%) after 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 analyses performed, management has concluded that no reasonable change in the key assumptions would cause the carrying amounts of the cash-generating units to exceed their recoverable amounts.

6. INVESTMENTS IN SUBSIDIARY COMPANIES

		Company	
	Note	2019	2018
		RM'000	RM'000
At cost:			
Unquoted shares		**928,703**	908,703
Redeemable Preference Shares		**70,000**	70,000
Less : Impairment loss		**(130,475)**	(130,475)
		868,228	848,228
Amount due from a subsidiary	6.1	**289,369**	186,089
		1,157,597	1,034,317

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

6.1 The amount due is unsecured, interest free and with no fixed term of repayment. After considering the capital structure of the subsidiary, the Management is of the view that, in substance, the advances provided an exposure similar to an interest in equity shares of the subsidiary.

6.2 The Group's plan for the affected hot rolled coil business after the outcome of the arbitration case referred to in Note 34 of financial statements may have an impact on the total cost of investment in and advances provided to the affected subsidiary of RM731 million (2018: RM628 million).

NOTES TO THE FINANCIAL STATEMENTS
cont'd

7. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At cost:				
Unquoted shares	**15,635**	15,635	**5,500**	15,635
Less : Impairment losses	**-**	-	**-**	(10,135)
	15,635	15,635	**5,500**	5,500
Share of post-acquisition reserves	**(1,784)**	(419)	**-**	-
	13,851	15,216	**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 is as follows:

	Steel Industries (Sabah) Sdn Bhd	
	2019	2018
	RM'000	RM'000
Group		
As at 30 June		
Statement of financial position		
Non-current assets	**28,926**	29,248
Current assets	**51,507**	51,535
Current liabilities	**(30,066)**	(25,452)
Net assets	**50,367**	55,331
Year ended 30 June		
Statement of profit or loss and other comprehensive income for the year		
(Loss)/Profit for the year representing total comprehensive (expense)/income	**(3,963)**	1,313
Included in the total comprehensive (expense)/income is:		
Revenue	**158,748**	146,827
Reconciliation of net assets to carrying amount		
As at 30 June		
Group's share of net assets representing carrying amount in the statement of financial position	**13,851**	15,216

NOTES TO THE FINANCIAL STATEMENTS
cont'd

7. INVESTMENTS IN ASSOCIATED COMPANIES *cont'd*

	Steel Industries (Sabah) Sdn Bhd	
	2019	2018
	RM'000	RM'000
Year ended 30 June		
Group's share of results		
Group's share of (loss)/profit for the year	**(1,090)**	361
Other information		
Dividend received	**275**	550

8. OTHER INVESTMENTS

	Group/Company	
	2019	2018
	RM'000	RM'000
Fair value through other comprehensive income		
Shares quoted in Malaysia	**630**	1,023

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	
	2019	2018	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
Property, plant and equipment	**8,825**	-	**(163,286)**	(121,167)	**(154,461)**	(121,167)
Unabsorbed capital allowances	**119,412**	100,224	**-**	-	**119,412**	100,224
Unutilised tax losses	**82,651**	33,459	**-**	-	**82,651**	33,459
Employee benefits	**7,297**	7,720	**-**	-	**7,297**	7,720
Trade and other payables	**8,623**	7,545	**-**	-	**8,623**	7,545
Provisions	**2,712**	2,880	**-**	-	**2,712**	2,880
Unutilised increased export allowance	**29,975**	19,714	**-**	-	**29,975**	19,714
RCULS	**1,144**	3,083	**-**	-	**1,144**	3,083
Others	**63**	975	**(117)**	(169)	**(54)**	806
Deferred tax assets/(liabilities)	**260,702**	175,600	**(163,403)**	(121,336)	**97,299**	54,264
Set off of tax	**(154,551)**	(106,173)	**154,551**	106,173	**-**	-
Net deferred tax assets/(liabilities)	**106,151**	69,427	**(8,852)**	(15,163)	**97,299**	54,264
Company						
Property, plant and equipment	**8,826**	8,833	**-**	-	**8,826**	8,833
Unabsorbed capital allowances	**2,309**	-	**-**	-	**2,309**	-
Unutilised increased export allowance	**29,975**	19,714	**-**	-	**29,975**	19,714
Unutilised tax losses	**25,225**	-	**-**	-	**25,225**	-
Employee benefits	**3,533**	3,614	**-**	-	**3,533**	3,614
Trade and other payables	**1,580**	2,732	**-**	-	**1,580**	2,732
Provisions	**1,440**	2,880	**-**	-	**1,440**	2,880
RCULS	**1,144**	3,083	**-**	-	**1,144**	3,083
Deferred tax assets	**74,032**	40,856	**-**	-	**74,032**	40,856

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

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

	At 1.7.2017	Recognised in profit or loss (Note 25)	Recognised directly in equity	At 30.6.2018/ 1.7.2018	Recognised in profit or loss (Note 25)	Recognised directly in equity	At 30.6.2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Property, plant and equipment	(121,145)	(22)	-	(121,167)	(33,294)	-	**(154,461)**
Unabsorbed capital allowances	97,597	2,627	-	100,224	19,188	-	**119,412**
Unutilised tax losses	23,205	10,254	-	33,459	49,192	-	**82,651**
Employee benefits	7,122	598	-	7,720	(423)	-	**7,297**
Trade and other payables	7,319	226	-	7,545	1,078	-	**8,623**
Provisions	2,880	-	-	2,880	(168)	-	**2,712**
Unutilised increased export allowance	21,432	(1,718)	-	19,714	10,261	-	**29,975**
RCULS	5,069	(1,863)	(123)	3,083	(1,939)	-	**1,144**
Others	(139)	945	-	806	(860)	-	**(54)**
	43,340	11,047	(123)	54,264	43,035	-	**97,299**
Company							
Property, plant and equipment	8,575	258	-	8,833	(7)	-	**8,826**
Unabsorbed capital allowances	-	-	-	-	2,309	-	**2,309**
Unutilised increased export allowance	21,432	(1,718)	-	19,714	10,261	-	**29,975**
Unutilised tax losses	1,045	(1,045)	-	-	25,225	-	**25,225**
Employee benefits	3,493	121	-	3,614	(81)	-	**3,533**
Trade and other payables	1,915	817	-	2,732	(1,152)	-	**1,580**
Provisions	2,880	-	-	2,880	(1,440)	-	**1,440**
RCULS	5,069	(1,863)	(123)	3,083	(1,939)	-	**1,144**
	44,409	(3,430)	(123)	40,856	33,176	-	**74,032**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

Included in the deferred tax assets as at 30 June 2019 were unused tax credits which arose from tax losses and tax incentives enjoyed by the Company and certain subsidiaries. The recognition of these deferred tax assets is dependent on whether it is probable that sufficient taxable profit is available.

In the recognition of deferred tax asset, the management considered the following key assumptions:

- The sales tonnage and selling price of products, purchase price of raw materials and the production of the Group and the Company based on past business performance and management's expectations on market development;
- Potential streamlining opportunities of operations for business efficiency;
- Equal chance of winning and losing the arbitration case referred to in Note 34; and
- No changes in the existing tax legislation.

During the year, the Government announced that unutilised tax losses shall be deductible against statutory income for a maximum period of 7 years only. Unutilised tax losses amounting to RM292 million, of which partially has been recognised as deferred tax assets amounting to RM29 million (2018: RM29 million) may be affected by the Group's plan for the affected hot rolled coil business after the outcome of the arbitration case referred to in Note 34 of financial statements is known.

Unrecognised deferred tax assets/tax credit receivable

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

	Group	
	2019	**2018**
	RM'000	**RM'000**
Unutilised tax losses	**195,319**	164,978
Unabsorbed capital allowances	**1,444**	1,444
Unabsorbed investment tax allowances	**740,269**	740,269
Unutilised increased export allowance	**30,346**	-
	967,378	906,691

	Company	
	2019	**2018**
	RM'000	**RM'000**
Unutilised tax losses	**10,368**	-

Under the Finance Act 2018, the unutilised tax losses up to year of assessment 2019 shall be deductible against aggregate of statutory income until year of assessment 2026. Any amount not deducted at the end of year of assessment 2026 shall be disregarded. The unabsorbed capital allowance 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 Group entities can utilise the benefits therefrom.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

10. TAX CREDIT RECEIVABLE

Tax credit receivable is attributable to the following:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Unutilised reinvestment allowances	**19,941**	20,890	**12,161**	12,161

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 1.7.2017	Recognised in profit or loss (Note 25)	Recognition of unutilised reinvestment allowance	At 30.6.2018/ 1.7.2018	Recognised in profit or loss (Note 25)	Recognition of unutilised reinvestment allowance	At 30.6.2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Unutilised reinvestment allowances	22,716	(2,409)	583	20,890	(949)	-	**19,941**
Company							
Unutilised reinvestment allowances	13,221	(1,060)	-	12,161	-	-	**12,161**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

11. INVENTORIES

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Raw materials	**358,358**	552,615	**198,389**	372,497
Work-in-progress	**15,972**	14,835	**-**	-
Finished goods	**152,920**	137,394	**82,373**	63,212
General consumables and other stores	**145,339**	137,358	**8,233**	8,373
	672,589	842,202	**288,995**	444,082
Recognised in profit or loss:				
Inventories recognised as cost of sales	**3,082,161**	3,253,538	**2,902,975**	3,509,686
Provision/(Reversal) for write down of inventories	**14,998**	(3,262)	**7,117**	394

12. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Trade					
Trade receivables					
- Third parties		**176,552**	234,170	**38,352**	71,900
- Subsidiaries		**-**	-	**24,068**	31,518
- Related parties		**6,335**	11,140	**4,441**	6,729
		182,887	245,310	**66,861**	110,147
Non-trade					
Amounts due from:					
- Subsidiaries	12.1	**-**	-	**12,565**	9,224
- Related parties	12.2	**33**	24	**1**	12
- Associated companies	12.2	**-**	1	**-**	1
Other receivables		**17,216**	18,438	**11,645**	12,243
Deposits		**1,289**	1,090	**659**	669
Prepayments		**2,086**	2,883	**553**	678

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Derivative financial assets					
- Forward exchange contracts		**68**	52	**-**	-
- Forward exchange contracts designated as hedge instruments		**16**	1,318	**-**	592
		20,708	23,806	**25,423**	23,419
Less: Impairment losses					
- trade		**(4,422)**	(6,241)	**(199)**	(199)
		199,173	262,875	**92,085**	133,367
Goods and services tax receivables		**9,355**	25,687	**4,621**	15,050
		208,528	288,562	**96,706**	148,417

12.1 The non-trade amounts due from subsidiaries are unsecured interest-free and with no fixed term of repayment.

12.2 The non-trade amounts due from related parties and associated companies are unsecured, interest-free and repayable on demand.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Deposits with licensed banks	**20,300**	35,556	**4,700**	13,620
Cash and bank balances	**23,638**	18,994	**9,869**	8,748
	43,938	54,550	**14,569**	22,368

NOTES TO THE FINANCIAL STATEMENTS
cont'd

14. SHARE CAPITAL

	Group and Company			
	2019		2018	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued ordinary shares:				
At 1 July	**433,642**	**469,494**	429,022	464,874
Conversion of RCULS	**-**	**-**	4,620	4,620
Others	**-**	**711**	-	-
At 30 June	**433,642**	**470,205**	433,642	469,494

15. RESERVES

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Reserves consist of:					
Merger reserve	15.1	**30,000**	30,000	**33,600**	33,600
Other reserve	15.2	**-**	150	**-**	-
Foreign currency translation reserve	15.3	**1,823**	1,730	**-**	-
Hedging reserve	15.4	**(58)**	221	**(174)**	592
Executive share scheme reserve	15.5	**10,784**	5,898	**5,746**	3,101
Retained earnings		**200,061**	317,496	**277,437**	342,560
		242,610	355,495	**316,609**	379,853

15.1 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.

15.2 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.

15.3 Foreign currency translation reserve represents all foreign currency differences arising from the translation of the financial statements of foreign operations.

15.4 Hedging reserve represents 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.

15.5 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) and Note 18(b).

NOTES TO THE FINANCIAL STATEMENTS
cont'd

16. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS

	Group/Company	
	2019	2018
	RM'000	RM'000
RCULS - Equity portion	**141,524**	141,524
RCULS - Liability portion		
- Non-current	**-**	8,205
- Current	**4,789**	4,665
	4,789	12,870
	146,313	154,394

On 27 January 2015 ("Issue Date"), 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 officially listed on Bursa Malaysia Securities Berhad on 30 January 2015.

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

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

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

At the end of the reporting period RM170,805,000 (2018 : RM170,805,000) nominal value of RCULS remained unconverted.

	Group/Company	
	2019	2018
	RM'000	RM'000
RCULS - equity portion at 1 July	**141,524**	145,544
Conversion of RCULS to share capital	**-**	(4,020)
At 30 June	**141,524**	141,524

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

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

	Group/Company	
	2019	**2018**
	RM'000	**RM'000**
RCULS - liability portion at 1 July	**12,870**	21,143
Coupon payment	**(8,541)**	(8,680)
Interest accreted **(Note 23)**	**460**	859
Conversion of RCULS to share capital	**-**	(557)
Others	**-**	105
At 30 June	**4,789**	12,870

17. DEFERRED INCOME

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current				
Reinvestment allowance	**9,158**	10,682	**7,199**	8,610

The tax benefits arising from reinvestment allowance are being amortised over the estimated useful lives of the underlying plant and equipment for which reinvestment allowances were claimed. During the financial year, a total of RM1,524,000 (2018 : RM1,622,000) and RM1,411,000 (2018 : 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 RM Nil (2018 : RM583,000) of unutilised reinvestment allowance from a subsidiary.

18. EMPLOYEE BENEFITS

(a) Unfunded retirement benefits

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current	**29,293**	31,632	**14,326**	14,785
Current	**1,107**	534	**393**	274
	30,400	32,166	**14,719**	15,059

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. EMPLOYEE BENEFITS *cont'd*

(a) Unfunded retirement benefits *cont'd*

Movements in net defined benefit liability

	Defined benefit liability	
	2019	**2018**
	RM'000	**RM'000**
Group		
At 1 July	**32,166**	29,675
Included in profit or loss		
Current service cost	**1,359**	2,001
Interest cost	**1,508**	1,392
	2,867	3,393
Included in other comprehensive income		
Actuarial (gain)/loss arising from:		
- Demographic assumptions	**(1,639)**	-
- Financial assumptions	**1,269**	-
- Experience adjustments	**(2,209)**	-
	(2,579)	-
Others		
Benefits paid	**(2,054)**	(902)
At 30 June	**30,400**	32,166

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. EMPLOYEE BENEFITS *cont'd*

(a) Unfunded retirement benefits *cont'd*

Movements in net defined benefit liability *cont'd*

	Defined benefit liability	
	2019	**2018**
	RM'000	**RM'000**
Company		
At 1 July	**15,059**	14,556
Included in profit or loss		
Current service cost	**220**	245
Interest cost	**762**	864
	982	1,109
Included in other comprehensive income		
Actuarial (gain)/loss arising from :		
- Demographic assumptions	**(928)**	-
- Financial assumptions	**809**	-
- Experience adjustments	**(80)**	-
	(199)	-
Others		
Benefits paid	**(1,123)**	(606)
At 30 June	**14,719**	15,059

Actuarial assumptions

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
	%	**%**	**%**	**%**
Discount rate	**5.20**	5.75	**5.20**	5.75
Expected rates of salary increases	**5.00**	5.00	**5.00**	5.00
Weighted-average duration	**6.6 - 14.4 years**	10 - 13 years	**10.8 years**	13 years

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. EMPLOYEE BENEFITS *cont'd*

(a) Unfunded retirement benefits *cont'd*

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
2019				
Discount rate (1% movement)	**(2,767)**	**3,199**	**(1,396)**	**1,613**
Future salary growth (1% movement)	**3,165**	**(2,762)**	**1,481**	**(1,289)**
2018				
Discount rate (1% movement)	(3,230)	2,993	(1,452)	1,671
Future salary growth (1% movement)	3,689	(3,809)	1,860	(1,603)

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.

(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 total number of issued ordinary shares 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. EMPLOYEE BENEFITS *cont'd*

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

The main features of the ESS are, inter alia, as follows: *cont'd*

(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 total number of issued ordinary shares (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 total number of issued ordinary shares (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 By-Laws of the ESS.

During the financial year ended 30 June 2017, the Group granted conditional incentive share options ("Options") over 22,250,000 ordinary shares in SSB ("SSB Shares") at an exercise price of RM1.40 per SSB Share to certain eligible executives of the Group, subject to the achievement of certain performance criteria by the Option holders over the option performance period. During the financial year ended 30 June 2019, none of the Options had been vested or exercised. Options over 18,000,000 SSB Shares remain outstanding as at 30 June 2019.

During the current financial year ended 30 June 2019, there were no Options granted to eligible executives of the Group. There were also no grant or vesting of Options to directors and chief executives of the Group.

Since the commencement of the ESS, the Group had granted a total of 22,250,000 Options, out of which, no Options had been vested and exercised, with 18,000,000 Options remaining outstanding as at 30 June 2019. The aggregate Options granted to directors/chief executives (including a past chief executive) of the Group amounted to 18,250,000 Options, out of which, 15,250,000 Options remain outstanding as at 30 June 2019. The actual percentage of total Options granted to directors and senior management (including a past senior management) of the Group was 3.40% based on the total number of issued ordinary shares of the Company as at 30 June 2019.

The aggregate allocation of Options and SSB Shares 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. EMPLOYEE BENEFITS *cont'd*

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

The number of share options are as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	'000	**'000**	**'000**	**'000**
Outstanding at 1 July	**19,250**	22,250	**10,125**	13,125
Forfeited during the year	**(1,250)**	(3,000)	**-**	(3,000)
Outstanding at 30 June	**18,000**	19,250	**10,125**	10,125

Weighted average fair value of share options and assumptions

	Group/ Company 2019/2018
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%

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. EMPLOYEE BENEFITS *cont'd*

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

Value of employee services received for issue of share options

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At 1 July	**5,898**	1,015	**3,101**	604
Share options granted	**4,999**	5,519	**2,645**	3,133
Share options forfeited	**(113)**	(636)	**-**	(636)
	4,886	4,883	**2,645**	2,497
At 30 June	**10,784**	5,898	**5,746**	3,101

19. PROVISIONS

	Legal	Environmental	Total
	RM'000	RM'000	RM'000
Group			
At 1 July 2018	9,945	12,000	21,945
Provisions made during the year	10,500	-	10,500
Paid during the year	(15,364)	-	(15,364)
Reversal during the year	-	(6,000)	(6,000)
At 30 June 2019	**5,081**	**6,000**	**11,081**

Legal - Group

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

Environmental – Group and Company

The provision for environmental cost is related to costs to treat industrial waste of the Group and of the Company.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

20. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Trade					
Trade payables					
- Third parties		**181,537**	169,662	**113,204**	100,473
- Subsidiaries		**-**	-	**1,468**	4,829
- Related parties		**273**	232	**145**	136
		181,810	169,894	**114,817**	105,438
Non-trade					
Amount due to:					
- Subsidiaries	20.2	**-**	-	**65,390**	65,260
- Related parties	20.2	**164**	2,220	**34**	688
Other payables	20.1	**104,603**	110,862	**6,636**	6,954
Accrued expenses		**71,871**	91,058	**41,561**	49,054
Derivative financial liabilities					
- Forward exchange contracts		**16**	45	**-**	25
- Forward exchange contracts designated as hedge instruments		**859**	-	**575**	-
		177,513	204,185	**114,196**	121,981
		359,323	374,079	**229,013**	227,419

20.1 Included in other payables of the Group is an amount to a supplier of plant and machinery by a subsidiary company of RM86,547,000 (2018 : RM85,713,000), of which RM73,331,000 (2018 : RM72,525,000) is bearing interest at 1% (2018 : 1%) per annum. This amount is also part of the arbitration proceedings mentioned in Note 34.

20.2 The non-trade amounts due to subsidiaries and related parties are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

21. BORROWINGS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Non-current (Unsecured)				
Term loans	**85,000**	189,958	**-**	-
Current (Unsecured)				
Bank overdrafts	**-**	788	**-**	5
Bankers' acceptances	**704,070**	676,399	**536,650**	489,834
Revolving credits	**75,000**	101,000	**65,000**	88,000
Term loans	**79,900**	81,921	**-**	16,921
	858,970	860,108	**601,650**	594,760
	943,970	1,050,066	**601,650**	594,760

21.1 Reconciliation of movements of liabilities to cash flows arising from financing activities

	At 1 July 2017	Net change from financing cash flows	At 1 July 2018	Net change from financing cash flows	At 30 June 2019
	RM'000	RM'000	RM'000	RM'000	RM'000
Group					
Bankers' acceptances	603,784	72,615	676,399	27,671	**704,070**
Revolving credits	108,000	(7,000)	101,000	(26,000)	**75,000**
Term loans	350,333	(78,454)	271,879	(106,979)	**164,900**
	1,062,117	(12,839)	1,049,278	(105,308)	**943,970**
Company					
Bankers' acceptances	429,334	60,500	489,834	46,816	**536,650**
Revolving credits	88,000	-	88,000	(23,000)	**65,000**
Term loans	50,763	(33,842)	16,921	(16,921)	**-**
	568,097	26,658	594,755	6,895	**601,650**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

21. BORROWINGS *cont'd*

21.2 Term loans

Term loans of the Group and the Company are payable as follows:

	Total	Within 1 year	Within 1 - 2 years	Within 2 - 3 years	Within 3 - 4 years	More than 5 years
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
At 30 June 2019	**164,900**	**79,900**	**85,000**	**-**	**-**	**-**
At 30 June 2018	271,879	81,921	105,000	84,958	-	-
Company						
At 30 June 2019	**-**	**-**	**-**	**-**	**-**	**-**
At 30 June 2018	16,921	16,921	-	-	-	-

21.3 Interest rates

	Group		Company	
	2019	2018	2019	2018
	%	%	%	%
	Per annum	Per annum	Per annum	Per annum
Bank overdrafts	**7.65**	7.90	**7.65**	7.90
Bankers' acceptances/Revolving credits	**3.49 - 5.01**	3.72 - 5.30	**3.49 - 4.96**	3.72 - 5.20
Term loans	**5.58**	5.37 - 5.58	**-**	5.37

22. REVENUE

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Revenue from contracts with customers					
- sale of goods	22.1	**3,135,484**	3,698,191	**2,869,740**	3,617,841
Other revenue:					
Dividend income		**-**	-	**13,212**	20,372
Total revenue	22.1	**3,135,484**	3,698,191	**2,882,952**	3,638,213

NOTES TO THE FINANCIAL STATEMENTS
cont'd

22. REVENUE *cont'd*

22.1 Disaggregation of revenue

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Primary geographical markets				
Malaysia	**2,631,042**	3,201,000	**2,785,285**	3,465,435
Singapore	**28,749**	45,864	**-**	-
Indonesia	**137,190**	60,890	**-**	-
The United States of America	**69,697**	75,710	**-**	-
Australia	**49,774**	54,386	**47,337**	39,113
Canada	**117,119**	159,281	**18,329**	102,724
Others	**101,913**	101,060	**18,789**	10,569
	3,135,484	3,698,191	**2,869,740**	3,617,841
Major products				
Bars, wire mesh, cut and bend and pre-stressed concrete wire	**1,807,747**	2,381,991	**1,409,812**	1,890,263
Wire rod	**1,040,438**	1,009,288	**-**	-
Flat steel	**281,028**	301,444	**-**	-
Scrap	**-**	-	**1,459,928**	1,727,578
Others	**6,271**	5,468	**-**	-
	3,135,484	3,698,191	**2,869,740**	3,617,841
Timing and recognition				
At a point in time	**3,135,484**	3,698,191	**2,869,740**	3,617,841
Revenue from contracts with customers	**3,135,484**	3,698,191	**2,869,740**	3,617,841
Other revenue	**-**	-	**13,212**	20,372
Total revenue	**3,135,484**	3,698,191	**2,882,952**	3,638,213

NOTES TO THE FINANCIAL STATEMENTS
cont'd

22. REVENUE *cont'd*

22.2 Nature of goods and services

The following information reflects the typical transactions of the Group and of Company:

Nature of goods or services	Timing of recognition or method used to recognise revenue	Significant payment terms	Variable element in consideration	Obligation for returns or refunds	Warranty
Bars, wire mesh, cut and bend and pre-stressed concrete wire	Revenue for local sales is recognised at a point in time when the goods are delivered and accepted by the customers. Revenue for export sales is recognised in accordance with international shipping terms.	Credit period of 14 to 60 days from invoice date/end of month for local sales. Letter of credit terms for export sales.	Volume incentives/early payment rebates are given to customers, where applicable.	Credit notes issued for defect items/ allow returns for exchange with new goods, where applicable.	Not applicable.
Wire rod	Revenue is recognised at a point in time when the goods are delivered and accepted by the customers. Revenue for export sales is recognised in accordance with international shipping terms.	Credit period of 14 days from invoice date for local sales. Letter of credit terms for export sales.	Export rebates are given to customers, where applicable.	Credit notes issued for defect items, where applicable.	Not applicable.
Flat steel	Revenue is recognised at a point in time when the goods are delivered and accepted by the customers. Revenue for export sales is recognised in accordance with international shipping terms.	Credit period of 14 to 90 days from invoice date for local sales. Letter of credit terms for export sales.	Early payment rebates are given to customers, where applicable.	Credit notes issued for defect items, where applicable.	Not applicable.
Scraps	Revenue is recognised at a point in time when the goods are delivered and accepted by the subsidiaries companies.	Credit period of 14 days from invoice date.	Not applicable.	Not applicable.	Not applicable.

The Group and the Company applies the practical expedient on the exemption on disclosure of information on remaining performance obligations that have original expected durations of one year or less.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

23. FINANCE COSTS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
Borrowings	**47,616**	46,462	**26,130**	22,862
RCULS	**460**	859	**460**	859
Others	**-**	1,273	**-**	17
	48,076	48,594	**26,590**	23,738

24. (LOSS)/PROFIT BEFORE TAXATION

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration				
Statutory audits				
- KPMG PLT				
- current year	**329**	317	**135**	130
- prior year	**5**	-	**5**	-
Other services				
- KPMG PLT	**3**	3	**3**	3
Amortisation of deferred income	**(1,524)**	(1,622)	**(1,411)**	(1,411)
Dividend income				
- Subsidiary companies	**-**	-	**(12,937)**	(19,822)
- Associate	**-**	-	**(275)**	(550)
Personnel expenses (including Directors' remuneration)				
- Salaries and other expenses	**125,902**	134,533	**31,966**	41,614
- Contribution to Employees Provident Fund	**12,263**	12,922	**3,194**	3,731
- Retirement benefits	**2,867**	3,393	**982**	1,109
- Share-based payments	**4,886**	4,883	**2,645**	2,497
	145,918	155,731	**38,787**	48,951

NOTES TO THE FINANCIAL STATEMENTS
cont'd

24. (LOSS)/PROFIT BEFORE TAXATION *cont'd*

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
(Gain)/Loss on foreign exchange				
- realised	**(2,193)**	3,754	**(72)**	2,286
- unrealised	**600**	(3,690)	**32**	13
Property, plant and equipment				
- Gain on disposal	**(40)**	-	**-**	-
- Write-off	**17**	18	**-**	2
Rental expense	**922**	1,522	**682**	926
Rental income	**(17)**	(52)	**(7,393)**	(7,642)
Provision/(Reversal) for write-down of inventories	**14,998**	(3,262)	**7,117**	394
Management fee income	**-**	-	**(12,402)**	(14,749)
Sundry income	**(8,128)**	(1,934)	**(6,533)**	(478)

25. TAXATION

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Current taxation				
- Current year	**2,616**	23,081	**-**	1,384
- Prior year	**195**	(1,829)	**386**	(47)
	2,811	21,252	**386**	1,337
Deferred taxation				
- Current year	**(32,758)**	(10,628)	**(23,267)**	3,427
- Prior year	**(10,277)**	(419)	**(9,909)**	3
	(43,035)	(11,047)	**(33,176)**	3,430
Utilisation of tax credit receivable arising from unutilised reinvestment allowances (Note 10)				
- Current year	**949**	2,312	**-**	963
- Prior year	**-**	97	**-**	97
	949	2,409	**-**	1,060
	(39,275)	12,614	**(32,790)**	5,827

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(Loss)/Profit before taxation	**(158,184)**	223,859	**(97,008)**	41,981
Taxation at Malaysian statutory tax rates of 24%	**(37,964)**	53,726	**(23,282)**	10,075
Non-deductible expenses	**2,105**	2,402	**1,040**	940
Non-taxable income	**(388)**	(348)	**(3,509)**	(5,228)
Effect of tax incentive	**-**	(9,865)	**-**	-
Difference attributable to associated companies	**262**	(87)	**-**	-
Previously unrecognised deferred tax assets utilised	**(7,283)**	(31,240)	**-**	-
Deferred tax assets not recognised	**14,565**	-	**2,488**	-
Others	**(490)**	177	**(4)**	(13)
	(29,193)	14,765	**(23,267)**	5,774
(Over)/Under provision in prior years	**(10,082)**	(2,151)	**(9,523)**	53
	(39,275)	12,614	**(32,790)**	5,827

26. (LOSS)/EARNINGS PER ORDINARY SHARE

Basic (loss)/earnings per ordinary share

The basic (loss)/earnings per ordinary share is calculated by dividing the Group's loss attributable to owners of the Company of RM119,048,000 (2018 : profit attributable to owners of the Company of RM210,847,000) by the weighted average number of ordinary shares outstanding during the financial year of 433,642,000 (2018 : 432,241,000).

Weighted average number of ordinary shares (basic)

	2019	**2018**
	'000	**'000**
Number of ordinary shares at 1 July	**433,642**	429,022
Effect of conversion of RCULS	**-**	3,219
Weighted average number of ordinary shares at 30 June	**433,642**	432,241
Basic (loss)/earnings per ordinary share (sen)	**(27.45)**	48.78

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

Diluted (loss)/earnings per ordinary share

The Group's diluted loss per ordinary shares for the financial year ended 30 June 2019 is as the basic loss per ordinary share as the assumed potential new ordinary shares are anti-dilutive.

The calculation of diluted earnings per ordinary share for the financial year ended 30 June 2018 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:

Profit attributable to owners of the Company (diluted)

	2018 RM'000
Profit attributable to owners of the Company (basic)	210,847
Interest expense on RCULS	859
Profit attributable to owners of the Company (diluted)	211,706

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

	'000
Weighted average number of ordinary shares at 30 June (basic)	432,241
Effect of conversion of RCULS	164,073
Weighted average number of ordinary shares at 30 June (diluted)	596,314
Diluted earnings per ordinary share (sen)	35.50

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Before tax	Tax (expense) /benefit	Net of tax
	RM'000	RM'000	RM'000
Group			
2019			
Items that will not be reclassified subsequently to profit or loss			
Loss on fair value of equity investments at fair value through other comprehensive income	**(393)**	**-**	**(393)**
Re-measurement of defined benefit liability	**2,579**	**-**	**2,579**
	2,186	**-**	**2,186**
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations			
- Gain arising during the year	**93**	**-**	**93**
Cash flow hedge			
- Loss arising during the year	**(2,161)**	**-**	**(2,161)**
- Reclassification adjustment for loss included in profit or loss	**1,857**	**-**	**1,857**
	(304)	**-**	**(304)**
	1,975	**-**	**1,975**
2018			
Items that will not be reclassified subsequently to profit or loss			
Loss on fair value of equity investments at fair value through other comprehensive income	(404)	-	(404)
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations			
- Loss arising during the year	(52)	-	(52)
Cash flow hedge			
- Gain arising during the year	1,455	-	1,455
- Reclassification adjustment for gain included in profit or loss	(555)	-	(555)
	900	-	900
	444	-	444

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Before tax	Tax (expense) /benefit	Net of tax
	RM'000	RM'000	RM'000
Company			
2019			
Items that will not be reclassified subsequently to profit or loss			
Loss on fair value of equity investments at fair value through other comprehensive income	**(393)**	**-**	**(393)**
Re-measurement of defined benefit liability	**199**	**-**	**199**
	(194)	**-**	**(194)**
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- Loss arising during the year	**(1,167)**	**-**	**(1,167)**
- Reclassification adjustment for loss included in profit or loss	**401**	**-**	**401**
	(766)	**-**	**(766)**
	(960)	**-**	**(960)**
2018			
Items that will not be reclassified subsequently to profit or loss			
Loss on fair value of equity investments at fair value through other comprehensive income	(404)	-	(404)
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- Gain arising during the year	657	-	657
- Reclassification adjustment for loss included in profit or loss	195	-	195
	852	-	852
	448	-	448

NOTES TO THE FINANCIAL STATEMENTS
cont'd

28. DIVIDEND

	Group and Company	
	2019	2018
	RM'000	RM'000
Interim single tier		
Nil (2018 : 3.5 sen per share)	-	15,177

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. YBhg Tan Sri Quek Leng Chan and YBhg Datuk Kwek Leng San 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 Bhd ("HBH") and Hong Bee Engineering Sdn Bhd ("HBE") are companies connected with Mr Kwek Leng Kee and Mr Kwek Leng Beng, both major shareholders of the Company; and

(iii) 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	
		2019	2018
		RM'000	RM'000
Transactions			
(a)	Sale of goods	**1,698,549**	1,989,447
(b)	Purchase of goods	**1,206,226**	1,484,027
(c)	Rental expenses	**269**	324
(d)	Rental income	**20,818**	7,592
(e)	Interest income	**-**	54
(f)	Management fees income	**12,402**	14,749
(g)	Management fees expenses	**4,845**	2,148
(h)	Cut and bend related charges	**-**	5,018
(i)	Dividend income	**12,937**	19,822

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

		Related party	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Transactions						
(a)	Receipt of Group management and/or support services	Subsidiary of HLCM	**4,177**	10,663	**3,009**	3,690
(b)	Sale of goods	HBH & HBE	**76,935**	87,681	**52,362**	58,949
		Subsidiary of HLCM	**58,869**	107,532	**40,001**	65,838
(c)	Purchase of goods	HBH	**22**	1,321	**-**	-
		Subsidiary of HLCM	**3**	47	**-**	-
(d)	Purchase of insurance	Subsidiary of HLCM	**6,066**	4,461	**1,230**	1,507
(e)	Rental expense	Subsidiary of HLCM	**192**	-	**192**	-
(f)	Freight charges	SHG	**31**	44	**31**	28
(g)	Transportation and related services	Subsidiary of HLCM	**150**	-	**75**	-

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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 either directly or indirectly. The key management personnel includes all the Directors of the Group.

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

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Executive Directors					
Remuneration and other benefits	29.2.1	**7,200**	7,078	**5,028**	4,938
Non-Executive Directors					
Fees	29.2.2	**650**	587	**650**	587

29.2.1 The estimated monetary value of benefit-in-kind of the Directors of the Group and of the Company is RM81,087 (2018 : RM51,650) and RM53,687 (2018 : RM31,750) respectively.

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 profit before interest income, finance costs, share of profit 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

	Steel Products	Investment holding and others	Total
	RM'000	RM'000	RM'000
2019			
Segment Loss	**(110,214)**	**(186)**	**(110,400)**
Interest income			**1,382**
Finance costs			**(48,076)**
Share of loss in associated companies, net of tax			**(1,090)**
Consolidated loss before taxation			**(158,184)**
Included in the measure of segment loss are:			
Revenue from external customers	**3,135,484**	**-**	**3,135,484**
Provision for write down of inventories	**14,998**	**-**	**14,998**
Depreciation	**46,124**	**24**	**46,148**
Share based payments	**4,886**	**-**	**4,886**
Amortisation of deferred income	**(1,524)**	**-**	**(1,524)**
2018			
Segment Profit	269,821	219	270,040
Interest income			2,052
Finance costs			(48,594)
Share of profit in associated companies, net of tax			361
Consolidated profit before taxation			223,859
Included in the measure of segment profit are:			
Revenue from external customers	3,698,191	-	3,698,191
Reversal of write down of inventories	(3,262)	-	(3,262)
Depreciation	52,767	24	52,791
Share based payments	4,833	-	4,833
Amortisation of deferred income	(1,622)	-	(1,622)

Major customer

During the financial year, there were no revenue from one single customer that contributed to more than 10% of the Group's revenue.

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	
	2019	**2018**
	RM'000	**RM'000**
Malaysia	**2,631,042**	3,201,000
Singapore	**28,749**	45,864
Indonesia	**137,190**	60,890
The United States of America	**69,697**	75,710
Australia	**49,774**	54,386
Canada	**117,119**	159,281
Others	**101,913**	101,060
	3,135,484	3,698,191

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	
	2019	**2018**
	RM'000	**RM'000**
Malaysia	**1,147,655**	1,186,527

31. CAPITAL COMMITMENTS

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment				
- Contracted but not provided for	**14,423**	8,061	**2,424**	170

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) Financial assets measured at amortised cost ("FAAC");
(b) Fair value through profit or loss ("FVTPL") - Designated upon initial recognition ("DUIR");
(c) Fair value through other comprehensive income ("FVOCI") - Equity instrument designated upon initial recognition ("EIDUIR"); and
(d) Financial liabilities measured at amortised cost ("FLAC")

2019	Carrying amount RM'000	FAAC RM'000	FVTPL RM'000	FVOCI - EIDUIR RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	**630**	**-**	**-**	**630**	**-**
Trade and other receivables, including derivatives (excluding deposits, prepayments and goods and services tax receivables)	**195,798**	**195,714**	**68**	**-**	**16**
Cash and cash equivalents	**43,938**	**43,938**	**-**	**-**	**-**
	240,366	**239,652**	**68**	**630**	**16**
Company					
Other investments	**630**	**-**	**-**	**630**	**-**
Trade and other receivables, including derivatives (excluding deposits, prepayments and goods and services tax receivables)	**90,873**	**90,873**	**-**	**-**	**-**
Cash and cash equivalents	**14,569**	**14,569**	**-**	**-**	**-**
	106,072	**105,442**	**-**	**630**	**-**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.1 Categories of financial instruments *cont'd*

2019	Carrying amount RM'000	FLAC RM'000	FVTPL RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
RCULS - liability portion	**4,789**	**4,789**	**-**	**-**
Borrowings	**943,970**	**943,970**	**-**	**-**
Trade and other payables, including derivatives (excluding goods and service tax payables)	**359,323**	**358,448**	**16**	**859**
	1,308,082	**1,307,207**	**16**	**859**
Company				
RCULS - liability portion	**4,789**	**4,789**	**-**	**-**
Borrowings	**601,650**	**601,650**	**-**	**-**
Trade and other payables, including derivatives (excluding goods and services tax payables)	**229,013**	**228,438**	**-**	**575**
	835,452	**834,877**	**-**	**575**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.1 Categories of financial instruments *cont'd*

2018	Carrying amount RM'000	FAAC RM'000	FVTPL RM'000	FVOCI - EIDUIR RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	1,023	-	-	1,023	-
Trade and other receivables, including derivatives (excluding deposits, prepayments and goods and services tax receivables)	258,902	257,532	52	-	1,318
Cash and cash equivalents	54,550	54,550	-	-	-
	314,475	312,082	52	1,023	1,318
Company					
Other investments	1,023	-	-	1,023	-
Trade and other receivables, including derivatives (excluding deposits, prepayments and goods and services tax receivables)	132,020	131,428	-	-	592
Cash and cash equivalents	22,368	22,368	-	-	-
	155,411	153,796	-	1,023	592

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.1 Categories of financial instruments *cont'd*

2018	Carrying amount RM'000	FLAC RM'000	FVTPL RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
RCULS - liability portion	12,870	12,870	-	-
Borrowings	1,050,066	1,050,066	-	-
Trade and other payables, including derivatives (excluding goods and service tax payables)	374,079	374,034	45	-
	1,437,015	1,436,970	45	-
Company				
RCULS - liability portion	12,870	12,870	-	-
Borrowings	594,760	594,760	-	-
Trade and other payables, including derivatives (excluding goods and services tax payables)	227,419	227,394	25	-
	835,049	835,024	25	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.2 Net gains and losses arising from financial instruments

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Net gains/(losses) arising on:				
Financial assets measured at amortised cost	**2,264**	2,025	**326**	553
Financial liabilities measured at amortised cost	**(48,146)**	(48,658)	**(26,550)**	(26,037)
Fair value through profit or loss:				
- (Loss)/Gain on financial instruments designated as hedge instruments	**(2,161)**	1,455	**(1,167)**	657
- Gain/(Loss) on fair value of derivative instruments	**45**	(94)	**25**	22
Fair value through other comprehensive income:				
- Fair value loss on equity investment	**(393)**	(404)	**(393)**	(404)
	(48,391)	(45,676)	**(27,759)**	(25,209)

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 exposure to credit risk arises principally from its receivables from customers and bank balances. The Company's exposure to credit risk arises principally from advances to subsidiaries and bank balances.

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 customers requiring credit over a certain amount.

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*

Exposure to credit risk and credit quality

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 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 impairment loss, as at the end of the reporting period by geographic region was:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Malaysia	**140,308**	187,158	**65,012**	108,365
Singapore	**4,873**	7,975	**-**	-
Indonesia	**8,132**	2,267	**-**	-
The United States of America	**3,435**	4,571	**-**	-
Canada	**14,221**	25,795	**-**	-
Others	**7,496**	11,303	**1,650**	1,583
	178,465	239,069	**66,662**	109,948

Expected credit loss ("ECL") assessment for trade receivables as at 30 June

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of insignificant balances outstanding.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and days past due.

Where a trade receivable has a low credit risk, it is excluded from the allowance matrix and its ECL is assessed individually by considering historical payment trends and financial strength of the receivable.

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*

Expected credit loss ("ECL") assessment for trade receivables as at 30 June *cont'd*

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June.

	Gross carrying amount	Loss allowance	Net carrying amount
	RM'000	RM'000	RM'000
2019			
Group			
Not past due	**138,752**	**-**	**138,752**
Past due 1 - 30 days	**36,297**	**-**	**36,297**
Past due 31 - 60 days	**2,632**	**-**	**2,632**
Past due 61 - 90 days	**673**	**-**	**673**
Past due 91 - 120 days	**76**	**-**	**76**
Past due more than 120 days	**4,457**	**(4,422)**	**35**
	182,887	**(4,422)**	**178,465**
Company			
Not past due	**48,613**	**-**	**48,613**
Past due 1 - 30 days	**16,644**	**-**	**16,644**
Past due 31 - 60 days	**1,405**	**-**	**1,405**
Past due 61 - 90 days	**-**	**-**	**-**
Past due 91 - 120 days	**-**	**-**	**-**
Past due more than 120 days	**199**	**(199)**	**-**
	66,861	**(199)**	**66,662**

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*

Expected credit loss ("ECL") assessment for trade receivables as at 30 June *cont'd*

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June. *cont'd*

	Gross carrying amount	Loss allowance	Net carrying amount
	RM'000	RM'000	RM'000
2018			
Group			
Not past due	204,190	-	204,190
Past due 1 - 30 days	31,712	-	31,712
Past due 31 - 60 days	2,083	-	2,083
Past due 61 - 90 days	588	-	588
Past due 91 - 120 days	95	-	95
Past due more than 120 days	6,642	(6,241)	401
	245,310	(6,241)	239,069
Company			
Not past due	106,883	-	106,883
Past due 1 - 30 days	2,998	-	2,998
Past due 31 - 60 days	67	-	67
Past due 61 - 90 days	-	-	-
Past due 91 - 120 days	-	-	-
Past due more than 120 days	199	(199)	-
	110,147	(199)	109,948

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*

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Balance at 1 July	6,241	6,213	199	199
Impairment loss recognised	35	187	-	-
Impairment loss reversed	(404)	(159)	-	-
Impairment loss written off	(1,450)	-	-	-
Net measurement of loss allowance	(1,819)	28	-	-
Balance at 30 June	4,422	6,241	199	199

The allowance account in respect of trade receivable 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 trade receivables directly.

Expected credit loss of other receivables

Expected credit loss of other receivable is determined individually after considering the financial strength of the other receivable. Based on management's assessment, the probability of the default of these receivables is low and hence, no loss allowance has been made.

Intercompany balances

Risk management objectives, policies and processes for managing the risk

The Group or the Company provide unsecured advances to subsidiaries. The Group or the Company monitor 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 their carrying amounts in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Intercompany balances *cont'd*

Impairment losses

As at the end of the reporting period, there was no indication that the advances to the subsidiaries were not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries.

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

The Group's and the 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 of the Group and the Company are placed with licensed financial institutions which are mainly placed with a related company licensed financial institutions as disclosed in Note 13 to the financial statements.

Exposure to credit risk and credit quality

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

The Group and the Company consider that their cash and cash equivalents have low credit risk.

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 RM165 million (2018 : RM255 million) representing the outstanding banking facilities of the subsidiary covered by the financial guarantee as at the end of the reporting period.

Impairment losses

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 arise principally from their various payables, loans and borrowings.

The Group and the Company actively manage their operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Group and the Company maintain sufficient levels of cash to meet their working capital requirements.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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

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	Contractual interest rates	Contractual cash flows	Under 1 year	1-2 years	2-5 years
	RM'000	%	RM'000	RM'000	RM'000	RM'000
Group						
2019						
Non-derivative financial liabilities						
RCULS - liability portion	**4,789**	**5.00**	**4,865**	**4,865**	**-**	**-**
Borrowings	**943,970**	**3.49 - 7.65**	**953,105**	**866,315**	**86,790**	**-**
Trade and other payables	**287,648**	**-**	**287,648**	**287,648**	**-**	**-**
Other payables	**70,800**	**1.00**	**71,508**	**71,508**	**-**	**-**
	1,307,207		**1,317,126**	**1,230,336**	**86,790**	**-**
Derivative financial liabilities/(assets)						
Forward exchange contracts:						
- outflow	**875**	**-**	**145,760**	**145,760**	**-**	**-**
- inflow	**(84)**	**-**	**(144,969)**	**(144,969)**	**-**	**-**
	1,307,998		**1,317,917**	**1,231,127**	**86,790**	**-**

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	Contractual interest rates	Contractual cash flows	Under 1 year	1-2 years	2-5 years
	RM'000	%	RM'000	RM'000	RM'000	RM'000
Group						
2018						
Non-derivative financial liabilities						
RCULS - liability portion	12,870	5.00	13,405	4,982	8,423	-
Borrowings	1,050,066	3.72 - 7.90	1,072,533	873,280	112,463	86,790
Trade and other payables	301,509	-	301,509	301,509	-	-
Other payables	72,525	1.00	72,525	72,525	-	-
	1,436,970		1,459,972	1,252,296	120,886	86,790
Derivative financial liabilities/(assets)						
Forward exchange contracts:						
- outflow	45	-	164,837	164,837	-	-
- inflow	(1,370)	-	(166,162)	(166,162)	-	-
	1,435,645		1,458,647	1,250,971	120,886	86,790

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	Contractual interest rates	Contractual cash flows	Under 1 year	1-2 years	2-5 years
	RM'000	%	RM'000	RM'000	RM'000	RM'000
Company						
2019						
Non-derivative financial liabilities						
RCULS – liability portion	**4,789**	**5.00**	**4,865**	**4,865**	**-**	**-**
Borrowings	**601,650**	**3.49 - 7.65**	**601,650**	**601,650**	**-**	**-**
Trade and other payables	**228,438**	**-**	**228,438**	**228,438**	**-**	**-**
Financial guarantees	**-**	**-**	**164,900**	**164,900**	**-**	**-**
	834,877		**999,853**	**999,853**	**-**	**-**
Derivative financial liabilities/(assets)						
Forward exchange contracts:						
- outflow	**575**	**-**	**83,084**	**83,084**	**-**	**-**
- inflow	**-**	**-**	**(82,509)**	**(82,509)**	**-**	**-**
	835,452		**1,000,428**	**1,000,428**	**-**	**-**

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	Contractual interest rates	Contractual cash flows	Under 1 year	1-2 years	2-5 years
	RM'000	%	RM'000	RM'000	RM'000	RM'000
Company						
2018						
Non-derivative financial liabilities						
RCULS – liability portion	12,870	5.00	13,405	4,982	8,423	-
Borrowings	594,760	3.72 - 7.90	595,214	595,214	-	-
Trade and other payables	227,394	-	227,394	227,394	-	-
Financial guarantees	-	-	254,958	254,958	-	-
	835,024		1,090,971	1,082,548	8,423	-
Derivative financial liabilities/(assets)						
Forward exchange contracts:						
- outflow	25	-	62,513	62,513	-	-
- inflow	(592)	-	(63,080)	(63,080)	-	-
	834,457		1,090,404	1,081,981	8,423	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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 that 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, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency giving rise to this risk is primarily U.S. Dollar ("USD"), Singapore Dollar ("SGD"), European Dollar ("EURO") and Japanese Yen ("JPY").

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 and the Company's exposure to foreign currency (a currency 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	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amount denominated in USD:				
Trade and other receivables	**33,705**	44,803	**2,071**	1,667
Trade and other payables	**(208)**	(2,146)	**-**	(1,647)
Cash and bank balances	**7,755**	4,354	**1,332**	1,600
Forward exchange contracts	**(782)**	1,300	**(575)**	567
Net exposure	**40,470**	48,311	**2,828**	2,187

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	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amount denominated in SGD:				
Trade and other receivables	**4,770**	7,915	**-**	-
Trade and other payables	**-**	(14)	**-**	(14)
Cash and bank balances	**74**	2,299	**-**	-
Forward exchange contracts	**(8)**	25	**-**	-
Net exposure	**4,836**	10,225	**-**	(14)
Amount denominated in EURO:				
Trade and other payables	**(73,389)**	(85,940)	**(15)**	(85)
Net exposure	**(73,389)**	(85,940)	**(15)**	(85)
Amount denominated in JPY :				
Trade and other payables	**-**	(267)	**-**	(267)
Net exposure	**-**	(267)	**-**	(267)

Currency risk sensitivity analysis

A 5% (2018 : 5%) strengthening of the RM against the following currency 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 purchases.

NOTES TO THE FINANCIAL STATEMENTS
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32. FINANCIAL INSTRUMENTS *cont'd*

32.3 Financial risk management *cont'd*

(c) Market risk *cont'd*

(i) Currency risk *cont'd*

Currency risk sensitivity analysis *cont'd*

	Profit or loss			
	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
USD	**(2,024)**	(2,416)	**(141)**	(109)
SGD	**(242)**	(511)	**-**	1
EURO	**3,669**	4,297	**1**	4
JPY	**-**	13	**-**	13

A 5% (2018 : 5%) weakening of the RM against the above currency at the end of the reporting period would have had equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remained constant.

(ii) Interest rate risk

Risk management objectives, policies and processes for managing the risk

The Group and the Company manage their interest rate exposure by maintaining available lines of fixed and floating rate borrowings. Investments in deposits with licensed banks are not significantly exposed to interest rate risk.

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 was:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Fixed rate instruments				
Financial assets	**20,300**	35,556	**4,700**	13,620
Financial liabilities	**(783,859)**	(790,269)	**(606,439)**	(590,704)
	(763,559)	(754,713)	**(601,739)**	(577,084)
Floating rate instrument				
Financial liabilities	**(238,231)**	(345,192)	**-**	(16,926)

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.3 Financial risk management *cont'd*

(c) Market risk *cont'd*

(ii) Interest rate risk *cont'd*

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Group or the Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group or the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. 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 the profit before tax and equity of the Group and the Company by RM1,179,000 and RM Nil respectively (2018 : RM1,726,000 and RM85,000 repectively). This analysis assumes that all other variables remain constant.

(iii) Other price risk

Equity price risk arises from the Group's and the Company's investment in equity securities.

Risk management objectives, policies and processes for managing securities

Management of the Group monitors the equity investments on an individual basis and 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.

32.4 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate 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.

NOTES TO THE FINANCIAL STATEMENTS
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32. FINANCIAL INSTRUMENTS *cont'd*

32.4 Fair value information *cont'd*

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				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2019										
Financial assets										
Investment in quoted shares	**630**	**-**	**-**	**630**	**-**	**-**	**-**	**-**	**630**	**630**
Forward exchange contracts	**-**	**84**	**-**	**84**	**-**	**-**	**-**	**-**	**84**	**84**
Financial liabilities										
RCULS - liability portion	**-**	**-**	**-**	**-**	**-**	**-**	**4,865**	**4,865**	**4,865**	**4,789**
Forward exchange contracts	**-**	**875**	**-**	**875**	**-**	**-**	**-**	**-**	**875**	**875**
Term loans	**-**	**-**	**-**	**-**	**-**	**-**	**164,900**	**164,900**	**164,900**	**164,900**
2018										
Financial assets										
Investment in quoted shares	1,023	-	-	1,023	-	-	-	-	1,023	1,023
Forward exchange contracts	-	1,370	-	1,370	-	-	-	-	1,370	1,370
Financial liabilities										
RCULS - liability portion	-	-	-	-	-	-	13,405	13,405	13,405	12,870
Forward exchange contracts	-	45	-	45	-	-	-	-	45	45
Term loans	-	-	-	-	-	-	271,879	271,879	271,879	271,879

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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 fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Company	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2019										
Financial assets										
Investment in quoted shares	**630**	**-**	**-**	**630**	**-**	**-**	**-**	**-**	**630**	**630**
Financial liabilities										
RCULS - liability portion	**-**	**-**	**-**	**-**	**-**	**-**	**4,865**	**4,865**	**4,865**	**4,789**
Forward exchange contracts	**-**	**575**	**-**	**575**	**-**	**-**	**-**	**-**	**575**	**575**
2018										
Financial assets										
Investment in quoted shares	1,023	-	-	1,023	-	-	-	-	1,023	1,023
Forward exchange contracts	-	592	-	592	-	-	-	-	592	592
Financial liabilities										
RCULS - liability portion	-	-	-	-	-	-	13,405	13,405	13,405	12,870
Forward exchange contracts	-	25	-	25	-	-	-	-	25	25
Term loan	-	-	-	-	-	-	16,921	16,921	16,921	16,921

Derivatives

The fair value of derivatives are obtained from observable market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

33. CAPITAL MANAGEMENT

The Group's objectives when managing capital is 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 are determined to maintain an optimal debt-to-equity ratio.

The debt-to-equity ratios are as follows:

	Group	
	2019	**2018**
	RM'000	**RM'000**
Total borrowings (including RCULS - liability portion)	**948,759**	1,062,936
Less: Cash and cash equivalents	**(43,938)**	(54,550)
Net debt	**904,821**	1,008,386
Total equity	**859,923**	972,087
Debt-to-equity ratio	**1.05**	1.04

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

34. MATERIAL LITIGATION *cont'd*

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 35(i) above, SHRC is disputing and claiming several reliefs against Danieli and DMSB.

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.

The Tribunal fixed 30 October 2018 to 9 November 2018 for oral hearing of the arbitration.

The Tribunal completed hearing of the arbitration after a total of 9 days' hearing, i.e. from 30 October to 9 November 2018.

At the end of the hearing, the Tribunal directed the parties to file and exchange post-hearing submission by 28 February 2019.

The Tribunal further fixed 15 March 2019 for oral closing submissions in Singapore.

The Tribunal completed hearing of the oral closing submissions on 15 March 2019.

Parties are awaiting the Tribunal's decision.

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 52 to 149 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 2019 and of their financial performance and cash flows for the financial year then ended.

On behalf of the Board,

Chow Chong Long

Seow Yoo Lin

26 August 2019

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 52 to 149 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, MIA CA6084, at Kuala Lumpur in the Federal Territory on 26 August 2019.

Ang Meng Chuan

Before me

Mohan A.S. Maniam
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(Company No. 5283-X) (Incorporated In Malaysia)

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 2019 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 52 to 149.

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 2019, 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.

Emphasis of Matters

Uncertainty of the outcome of the arbitration process

Without qualifying our opinion, we draw attention to Note 4, 6, 9 and 34 which describes the significant uncertainties 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.

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.

INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(Company No. 5283-X) (Incorporated In Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *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 property, plant and equipment – Group and Company	
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 4 – property, plant and equipment (PPE), 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 carrying amount of property, plant and equipment ("PPE") for cash generating units having impairment indicators. For cash generating units having impairment indicators, 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. This is one of the key audit matters because it required significant judgements and involvement of our more experience personnel in assessing the assumptions and judgements applied by the Group to determine the recoverable amounts.	Our audit procedures, amongst others, include: • Evaluated historical forecasting accuracy by comparing the prior year's projected cash flows to actual results reported; • Assessed the impairment test model by comparing it with the requirements of the relevant accounting standard; • 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 • Challenged the discount rate applied in the model by comparing it with weighted average cost of capital of other entities in the similar industry.

INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(Company No. 5283-X) (Incorporated In Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

Valuation of inventories - Group and Company	
Refer to the accounting policy 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. This is one of the key audit matters because the carrying amount of inventories contributes approximately 34% and 24% of the total assets of the Group and the Company respectively and the determination of the NRV is complex, in particular, for RM and WIP.	Our procedures, amongst others, include: ● Evaluated the process in calculating 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; ● Assessed the accuracy of information used in determining the NRV of inventories by verifying to the source of the information; and ● Selected sample of inventory items to determine that they were carried at the lower of cost and net realisable value.

Assessment on recognition of deferred tax assets - Group and Company	
Refer to the accounting policy on Note 2.1 Basis of preparation - use of estimates and judgements, Note 2.2(p) Taxation and Note 9 – Deferred Tax Assets/(Liabilities), to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In the current year, the Group and the Company will no longer be able to recognise deferred tax assets on any unutilised reinvestment allowance and tax losses which are not utilised within seven years. Hence, the Group and the Company performed assessments by forecasting seven years of taxable profits to determine the appropriate amounts of deferred tax assets to be recognised. This is one of the key audit matters because it required significant judgements and involvement of our more experience personnel in assessing the assumptions and judgements applied by the Group to determine the recognition of the deferred tax assets.	Our audit procedures, amongst others include: ● Evaluated historical forecasting accuracy by comparing the prior year's projected profits to actual results reported; ● Evaluated the key assumptions adopted, in particular, those relating to sales growth and gross profit margin, to determine reasonableness by comparing them with historical performance, and internal and external sources of information; and ● Determined that the Group or the Company recognised the carrying amount of deferred tax asset to the extent that it becomes probable that sufficient taxable profits would be available to utilise reinvestment allowance and tax losses before they expire.

INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(Company No. 5283-X) (Incorporated In Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

Impairment assessment of cost of investment in subsidiaries – Company	
Refer to the accounting policy on Note 2.1 Basis of preparation – use of estimate 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. It is approximately 56% of the total assets of the Company. Where there are indicators of impairment, the Company will perform impairment tests which will require the Company to estimate their recoverable amounts. This is one of the key audit matters because it required involvement of our more experience personnel as assessment of indicator of impairments and recoverable values are complex.	Our audit procedures, amongst others include: • 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; • Evaluated the Company's historical forecasting accuracy by comparing the prior year's projected cash flows to actual results reported; • Assessed the impairment test model by comparing it with the requirements of the relevant accounting standard; • 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 • 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 on the other information that we obtained prior to the date of this auditors' report, 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
(Company No. 5283-X) (Incorporated In Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

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

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicated the matter to the directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

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.

INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(Company No. 5283-X) (Incorporated In Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

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

- 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.

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 MATTER

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 : 02867/08/2020 J
Chartered Accountant

Penang

26 August 2019

OTHER INFORMATION

1. PROPERTIES HELB BY THE GROUP AS AT 30 JUNE 2019

	Location	Tenure	Existing Use	Acquisition Date	Approximate Area	Approximate Age of Building (Year)	Net Book Value as at 30 June 2019 (RM'000)
1	No PT 3057 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 21 Mar 2050	Office and factory building	08 Jun 1990	2.53 acres	5	170,762
	No PT 3982 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 13 Jan 2059	Office and factory building	03 Jun 1997	1.11 acres	5	
	No PT 3039 Lorong Perusahaan 10 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 07 Nov 2049	Office and factory building	31 Dec 2007	1.15 acres	5	
	No PT 2996 Lorong Perusahaan 10 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 18 Sep 2049	Office and factory building	19 Mar 2012	10,170.08 sq m	5	
	No PT 2992 Lorong Perusahaan 10 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 18 Sep 2049	Office and factory building	16 Jun 2011	13,126.38 sq m	5	
	Plot 524(c), Prai Industrial Park	Leasehold expiring on 24 Oct 2073	Office and factory building	04 Apr 2012	1.41 acres	5	
2	PMT 3016 Tingkat Perusahaan 6 Kawasan Perusahaan Perai 13600 Seberang Perai Tengah Penang	Leasehold expiring on 03 Oct 2042	Warehouse	11 Oct 2011	61,271.77 sq m	16-17	23,777

OTHER INFORMATION
cont'd

1. PROPERTIES HELB BY THE GROUP AS AT 30 JUNE 2019 *cont'd*

	Location	Tenure	Existing Use	Acquisition Date	Approximate Area	Approximate Age of Building (Year)	Net Book Value as at 30 June 2019 (RM'000)
3	No PT 3171 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 21 Mar 2050	Factories	19 Oct 1990	4.78 acres	21-23	
	No PT 3178 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 09 Apr 2050	Factories	19 Oct 1990	2.60 acres	21	
	2595 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 09 Apr 2050	Factories	07 Oct 1991	2.60 acres	21	
	2613 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 21 Mar 2050	Factories	23 Sep 1991	5.10 acres	21	11,636
	No PT 3831 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 21 Oct 2054	Factories	25 May 1993	1.31 acres	21	
	No PT 3980 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 25 Jan 2059	Drains	12 Aug 1996	2.13 acres	-	
	No PT 4271 (formerly Plot 596) Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 04 Nov 2064	Vacant Land	18 Mar 1998	0.12 hectares	-	
4	4457 Mukim 15 Jalan Chain Ferry 12100 Butterworth Penang	Freehold	Factory Godown	12 Jun 1989	413,427 sq ft	23-50	24,670
5	PLO No 129 Tanjung Langsat Industrial Complex Johor Darul Takzim	Leasehold expiring on 28 Dec 2069	Office and factory building	18 Sep 2008	8.09 hectares	9	22,122
6	PT 4639, Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 01 Jul 2112	Vacant Land	25 Mar 2013	7.25 hectares	-	18,348

OTHER INFORMATION
cont'd

1. PROPERTIES HELB BY THE GROUP AS AT 30 JUNE 2019 *cont'd*

	Location	Tenure	Existing Use	Acquisition Date	Approximate Area	Approximate Age of Building (Year)	Net Book Value as at 30 June 2019 (RM'000)
7	5 1/2 Mile, Jalan Kapar 42100 Klang Selangor Darul Ehsan	Freehold	Office and factory building	03 Feb 1981	31,180 sq m	23-38	12,733
8	Rawang Integrated Industrial Park	Freehold	Office and factory building	20 Apr 1994	4.63 hectares	22	10,650
9	3081 Jalan Besar Nibong Tebal, Penang	Freehold	Office and factory building	22 Jun 1998	304,210 sq ft	23-55	10,372
10	Lot 77A, Jalan Gebeng 1/6 Gebeng Industrial Estate 26080 Kuantan Pahang Darul Makmur	Leasehold expiring on 05 Feb 2052	Office and factory building	05 Jul 2010	40,468.60 sq m	19	7,217

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 SEPTEMBER 2019

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

Distribution Schedule Of Shareholders As At 30 September 2019

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	53	1.32	1,957	0.00
100 – 1,000	1,178	29.45	1,079,066	0.25
1,001 – 10,000	1,949	48.73	8,765,280	2.02
10,001 – 100,000	682	17.05	21,462,502	4.95
100,001 – less than 5% of issued shares	135	3.38	82,902,964	19.12
5% and above of issued shares	3	0.07	319,430,532	73.66
	4,000	100.00	433,642,301	100.00

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 SEPTEMBER 2019 *cont'd*

List Of Thirty Largest Shareholders As At 30 September 2019

	Name of Shareholders	No. of Shares	%
1.	Hong Leong Manufacturing Group Sdn Bhd	204,728,115	47.21
2.	Signaland Sdn Bhd	87,432,194	20.16
3.	Southern Amalgamated Co Sdn Bhd	27,270,223	6.29
4.	Southern Properties Sdn Bhd	14,380,399	3.32
5.	Hong Bee Hardware Company, Sdn. Berhad	7,371,493	1.70
6.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for John Devaraj Solomon (8103033)*	4,295,200	0.99
7.	Hock Kheng Industries Sdn Bhd	3,500,000	0.81
8.	Ooi Chieng Sim	2,552,500	0.59
9.	Leong Kok Tai	2,483,702	0.57
10.	UOBM Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Southern Amalgamated Co. Sdn Bhd (PGB)*	2,200,000	0.51
11.	Public Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Lai Siak Hwee (E-BPT)*	2,019,800	0.47
12.	Maybank Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Hwang Enterprises Sdn Bhd (507040214111)*	2,000,000	0.46
13.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Inbamanay A/P M J Arumanayagam (8061712)*	1,543,300	0.36
14.	HSBC Nominees (Asing) Sdn Bhd *- Exempt AN for Credit Suisse (HK BR-TST-Asing)*	1,476,190	0.34
15.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Helina Shanti Solomon (7001761)*	1,423,200	0.33
16.	Liao York	1,384,427	0.32
17.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Selina Sharmalar Solomon (8112136)*	1,252,100	0.29
18.	CGS-CIMB Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Deva Dassan Solomon (MY1091)*	1,094,300	0.25
19.	HLB Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Deva Dassan Solomon*	1,086,300	0.25
20.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Deva Dassan Solomon (8041850)*	1,056,600	0.24
21.	Choong Cheow Sai	1,050,944	0.24
22.	Lim Ting Yie (Lam Tin Yie)	1,000,000	0.23
23.	Southgroup Holdings Sdn. Bhd.	972,815	0.22
24.	Chua Holdings Sdn Bhd	921,795	0.21
25.	Public Invest Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Deva Dassan Solomon (M)*	847,700	0.20

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 SEPTEMBER 2019 *cont'd*

List Of Thirty Largest Shareholders As At 30 September 2019 *cont'd*

	Name of Shareholders	No. of Shares	%
26.	Maybank Nominees (Tempatan) Sdn Bhd - *Chua Eng Ho Wa'a @ Chua Eng Wah*	817,300	0.19
27.	Chong Chiew Tshung	790,000	0.18
28.	Seri Pinang Sdn. Bhd.	781,200	0.18
29.	Kim Poh Sitt Tat Feedmill Sendirian Berhad	700,000	0.16
30.	Charley Wong	672,000	0.15
		379,103,797	87.42

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 September 2019 are as follows:

		Direct Interest		Indirect Interest	
	Name of Shareholders	No. of Shares	%	No. of Shares	%
1.	Hong Leong Manufacturing Group Sdn Bhd	204,728,115	47.21	87,432,194	20.16 *
2.	Signaland Sdn Bhd	87,432,194	20.16	-	-
3.	Hong Leong Company (Malaysia) Berhad ("HLCM")	-	-	292,160,309	67.37 *
4.	YBhg Tan Sri Quek Leng Chan	-	-	292,169,709	67.38 ^
5.	HL Holdings Sdn Bhd	-	-	292,160,309	67.37 ®
6.	Hong Realty (Private) Limited	-	-	299,531,802	69.07 ^
7.	Hong Leong Investment Holdings Pte. Ltd.	-	-	299,541,202	69.08 ^
8.	Kwek Holdings Pte Ltd	-	-	299,541,202	69.08 ^
9.	Mr Kwek Leng Beng	-	-	299,541,202	69.08 ^
10.	Mr Kwek Leng Kee	-	-	299,541,202	69.08 ^
11.	Davos Investment Holdings Private Limited	-	-	299,541,202	69.08 ^
12.	Southern Amalgamated Co Sdn Bhd	29,470,223	6.80	-	-
13.	Su Hock Company Sdn Bhd	-	-	29,470,223	6.80 #
14.	Hock Kheng Industries Sendirian Berhad	3,500,000	0.81	29,470,223	6.80 #
15.	YBhg Dato' Dr Tan Tat Wai	14,854	0.00	31,242,238	7.20 @

Notes:

* *Held through subsidiary*
^ *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 companies in which the substantial shareholder has interest and a family member*

OTHER INFORMATION
cont'd

3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (RCULS) HOLDINGS AS AT 30 SEPTEMBER 2019

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

Distribution Schedule Of RCULS Holders As At 30 September 2019

Size of Holdings	No. of RCULS Holders	%	No. of RCULS	%
Less than 100	11	2.86	311	0.00
100 – 1,000	110	28.65	84,785	0.05
1,001 – 10,000	189	49.22	728,863	0.43
10,001 – 100,000	53	13.80	1,528,200	0.89
100,001 – less than 5% of outstanding RCULS	20	5.21	21,382,572	12.52
5% and above of outstanding RCULS	1	0.26	147,080,154	86.11
	384	100.00	170,804,885	100.00

List Of Thirty Largest RCULS Holders As At 30 September 2019

	Name of RCULS Holders	No. of RCULS	%
1.	HLMG Capital Sdn Bhd	147,080,154	86.11
2.	Southern Amalgamated Co Sdn Bhd	6,000,000	3.51
3.	Southern Consortium Sdn Bhd	3,600,000	2.11
4.	Hock Kheng Industries Sdn Bhd	2,600,000	1.52
5.	Kheng Lip Company Sdn. Berhad	1,500,000	0.88
6.	Southern Properties Sdn Bhd	1,500,000	0.88
7.	Su Hock Company Sdn Bhd	1,500,000	0.88
8.	Wang Hui Tzu	1,069,000	0.63
9.	Cheong Chen Yue	700,000	0.41
10.	Choong Cheow Sai	525,472	0.31
11.	Maybank Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Tye Terk Soon*	395,700	0.23
12.	Seri Pinang Sdn. Bhd.	390,600	0.23
13.	Chua Holdings Sdn Bhd	300,000	0.18
14.	Santomi Sdn Bhd	300,000	0.18
15.	Ong Yih Yeong	230,500	0.13
16.	Kenanga Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Cheong Chen Yue*	187,900	0.11
17.	Ong Chin Hong	129,300	0.07
18.	Kuan Bee Yoong @ Kuan Mee Yoong	120,000	0.07

OTHER INFORMATION
cont'd

3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (RCULS) HOLDINGS AS AT 30 SEPTEMBER 2019 *cont'd*

List Of Thirty Largest RCULS Holders As At 30 September 2019 *cont'd*

	Name of RCULS Holders	No. of RCULS	%
19.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Cheong Chen Yue*	114,800	0.07
20.	Ta Kin Yan	114,300	0.07
21.	Junie Ong Fu Tze	105,000	0.06
22.	Chim Luang Eng	92,700	0.05
23.	Ong Guat Li	85,000	0.05
24.	TA Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chia Tuan Sia*	70,200	0.04
25.	Lee Joo Ping	69,400	0.04
26.	HLB Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for See Ean Seng*	55,000	0.03
27.	TA Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Ng Bee Hong*	53,350	0.03
28.	Lim Kian Wat	50,150	0.03
29.	Grandeur Holdings Sdn Bhd	50,000	0.03
30.	Yeap Chor Beng & Sons Sdn Bhd	49,000	0.03
		169,037,526	98.97

4. DIRECTORS' INTERESTS AS AT 30 SEPTEMBER 2019

Subsequent to the financial year end, there was no change, as at 30 September 2019, to the Directors' interests in the ordinary shares and/or options/RCULS over ordinary shares of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 48 to 49 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016.

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 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-seventh Annual General Meeting of the Company to be held at Training Room C, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Thursday, 21 November 2019 at 12.00 noon 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-elect YBhg Datuk Kwek Leng San as a Director		
3.	To re-elect Mr Chow Chong Long as a Director		
4.	To re-elect Dr Kwa Lay Keng as a Director		
5.	To re-appoint KPMG PLT as Auditors and to authorise the Directors to fix their remuneration		
	Special Business		
6.	To approve the ordinary resolution on authority to Directors to allot shares		
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 Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
8.	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 Berhad and its subsidiary		
9.	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Bee Hardware Company, Sdn Berhad and its subsidiary		
10.	To approve the ordinary resolution on the proposed new shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Investment Holdings Pte. Ltd. ("HLIH") and persons connected with HLIH		
11.	To approve the special resolution on the proposed adoption of new Constitution of the Company		

Dated this _____ day of _____ 2019

_____ _____

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 13 November 2019 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 (1) 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 proportion 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 31, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur not less than forty-eight (48) 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-seventh Annual General Meeting will be put to a vote by way of a poll.*

Fold this flap for sealing

Then fold here

Affix
Stamp

The Company Secretary
Southern Steel Berhad (5283-X)
Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Malaysia

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Southern Steel Berhad (5283-X)

Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2080 9200
Fax : 03-2080 9238

www.southsteel.com