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Southern Steel Berhad

A Member of the Hong Leong Group

ANNUAL REPORT **2018**

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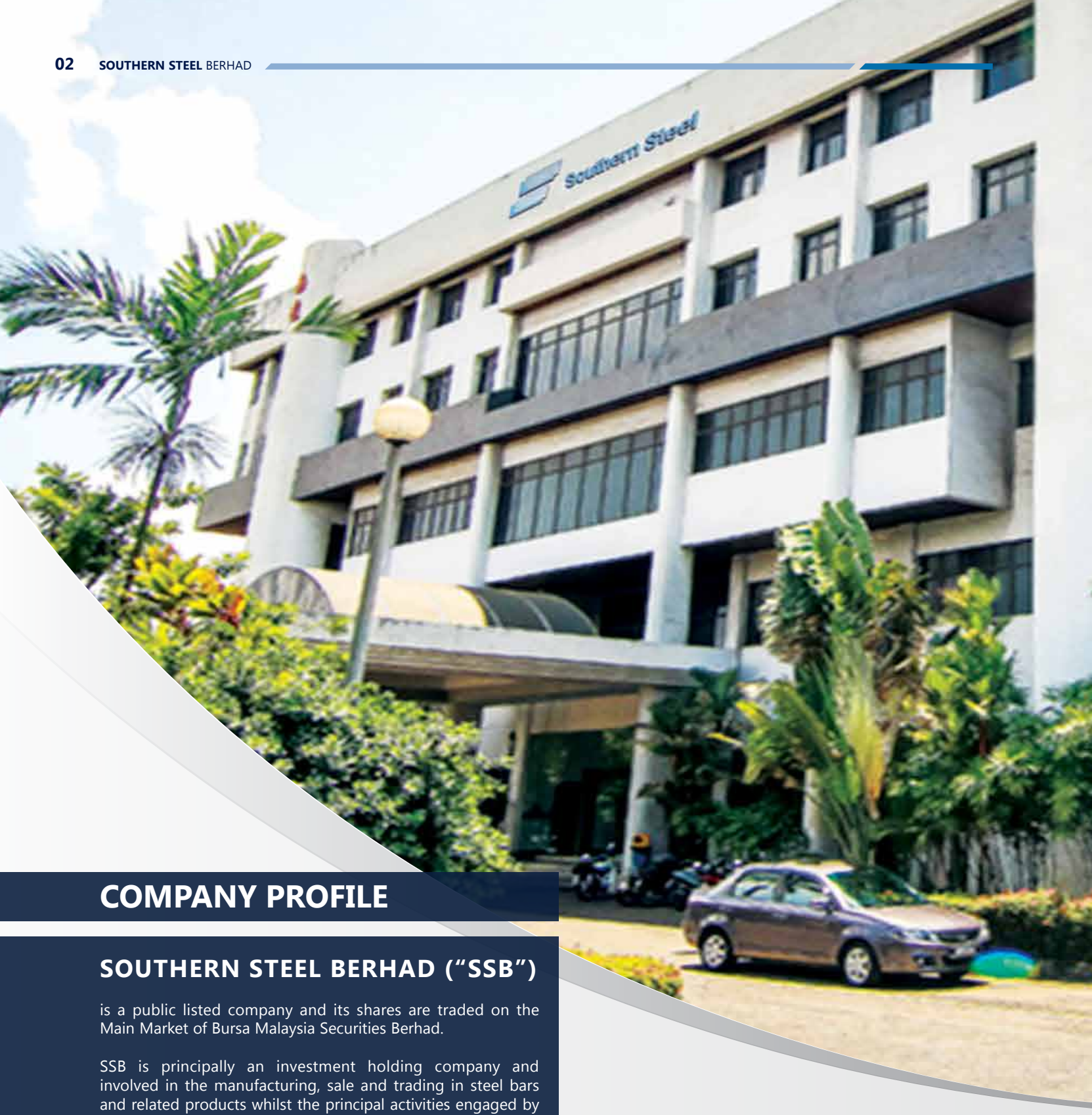
Form of Proxy



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 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.

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 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 1818
Fax: 03-2164 3703

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-sixth 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, 29 November 2018 at 2.00 p.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2018.

2. To approve the payment of Director fees of RM586,658/- (2017: RM530,000/-) for the financial year ended 30 June 2018 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM51,000 from the Fifty-sixth Annual General Meeting ("AGM") to the Fifty-seventh AGM of the Company. **Resolution 1**

3. To re-elect the following Directors:

   (a) YBhg Dato' Dr Tan Tat Wai **Resolution 2**
   (b) Mr Seow Yoo Lin **Resolution 3**
   (c) YBhg Dato' Ahmad Johari Bin Abdul Razak. **Resolution 4**

4. To re-appoint Messrs 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**

NOTICE OF ANNUAL GENERAL MEETING
cont'd

6. **Ordinary Resolution**
- Proposed Renewal Of And New 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 29 October 2018 with HLCM and persons connected with HLCM ("Hong Leong Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Leong Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

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

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

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

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

whichever is the earlier;

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

Resolution 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 29 October 2018 with Su Hock and its subsidiary ("Su Hock Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Su Hock Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

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

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

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

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

whichever is the earlier;

NOTICE OF ANNUAL GENERAL MEETING
cont'd

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

Resolution 8

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 29 October 2018 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. 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
29 October 2018

NOTICE OF ANNUAL GENERAL MEETING
cont'd

Notes:

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 21 November 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*

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

3. *Where two (2) or more proxies are appointed, the 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.*

Explanatory Notes:

1. Resolution 1 - Director Fees And Other Benefits

   Director Fees of RM586,658/- are inclusive of Board Committees 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 RM51,000/-.

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 28 November 2017 and which will lapse at the conclusion of the Fifty-sixth 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.

NOTICE OF ANNUAL GENERAL MEETING
cont'd

3. Resolutions 7 to 9 - Proposed 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 29 October 2018 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-sixth 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-sixth Annual General Meeting.

BOARD OF DIRECTORS

YBHG DATUK KWEK LENG SAN

Chairman; Non-Executive/Non-Independent
Age 63, Male, Singaporean

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

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

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

MR CHOW CHONG LONG

Group Managing Director/Non-Independent
Age 66, Male, Malaysian

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

Mr Chow has over 27 years of working experience in management of engineering and project works, and general management. He joined SSB Group in 1990 as Deputy General Manager. He was appointed as Chief Operating Officer in 2001, a position he held until 2009. On 1 January 2010, he assumed the position of Group Chief Operating Officer until 2012 when he became the Deputy Group Managing Director of SSB. Mr Chow was appointed as the Group Managing Director of SSB on 1 January 2014 and is a member of the Research & Development Committee of SSB.

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

BOARD OF DIRECTORS
cont'd

YBHG DATO' DR TAN TAT WAI
Non-Executive Director/Non-Independent
Age 71, Male, Malaysian

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

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

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

Presently, Dato' Dr Tan is the Chairman of Maybank Philippines Inc. and sits on the board of directors of Maybank Trustees Bhd and NSL Ltd ("NSL"), Singapore. He previously sat on the Board of 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 since 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.

MR ANG KONG HUA
Non-Executive Director/Independent
Age 74, Male, Singaporean

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

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

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

BOARD OF DIRECTORS
cont'd

MR SEOW YOO LIN
Non-Executive Director/Independent
Aged 62, Male, Malaysian

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

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

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

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

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

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

DR KWA LAY KENG
Non-Executive Director/Independent
Age 59, Female, Singaporean

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

Dr Kwa currently serves as a Director on the Board of Barghest Building Performance Pte Ltd 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.

BOARD OF DIRECTORS
cont'd

YBHG DATO' AHMAD JOHARI BIN ABDUL RAZAK

Non-Executive Director/Independent
Age 63, Male, Malaysian

Dato' Ahmad Johari Bin Abdul Razak graduated from University of Kent, United Kingdom with a Bachelor of Law and qualified as a Barrister-at-Law from 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 ("Shearn Delamore") in 1979. Prior to his retirement from Shearn Delamore 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 ("Ancom"), 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 also a member of the Nominating Committee of SSB.

He is also a Director of Daiman Development Berhad, a company listed on the Main Market of Bursa Securities and Daiman Golf Berhad, a public company.

Notes:

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

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

3. ***Conviction of Offences***
   None of the Directors has been convicted of any offences (excluding traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2018.

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 56, Male, Malaysian

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

Mr Ang started his career in a public accounting firm in 1986 before joining the Hong Leong Group in 1989 where he has served in various capacities ranging from finance to projects and operations. In 2001, Mr Ang was transferred to Southern Steel Berhad ("SSB") as Financial Controller and subsequently held various senior management positions in several subsidiaries of SSB. He assumed the position of Group Financial Controller of SSB on 3 August 2016 until 1 January 2017 when he was re-designated as Chief Financial Officer.

MR CHEONG KHAI KONG

Managing Director, Southern Steel Rod Sdn Bhd
Age 55, Male, Malaysian

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

Mr Cheong started his career in Carsem (M) Sdn Bhd, a related company, as Production Supervisor before he joined SSB Group as Management Trainee in 1987. He held various senior management positions within the SSB Group before assuming the position of Chief Operating Officer of Rod Division in June 2012. Mr Cheong moved on to Southern Steel Rod Sdn Bhd, a wholly-owned subsidiary of SSB, on 1 June 2015, to assume the position of Chief Operating Officer until 1 April 2017 when he was re-designated as Managing Director.

MR YEOH CHOON KWEE

Managing Director, Reinforcing Steel Business
Age 50, Male, Singaporean

Mr Yeoh Choon Kwee graduated from the 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 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.

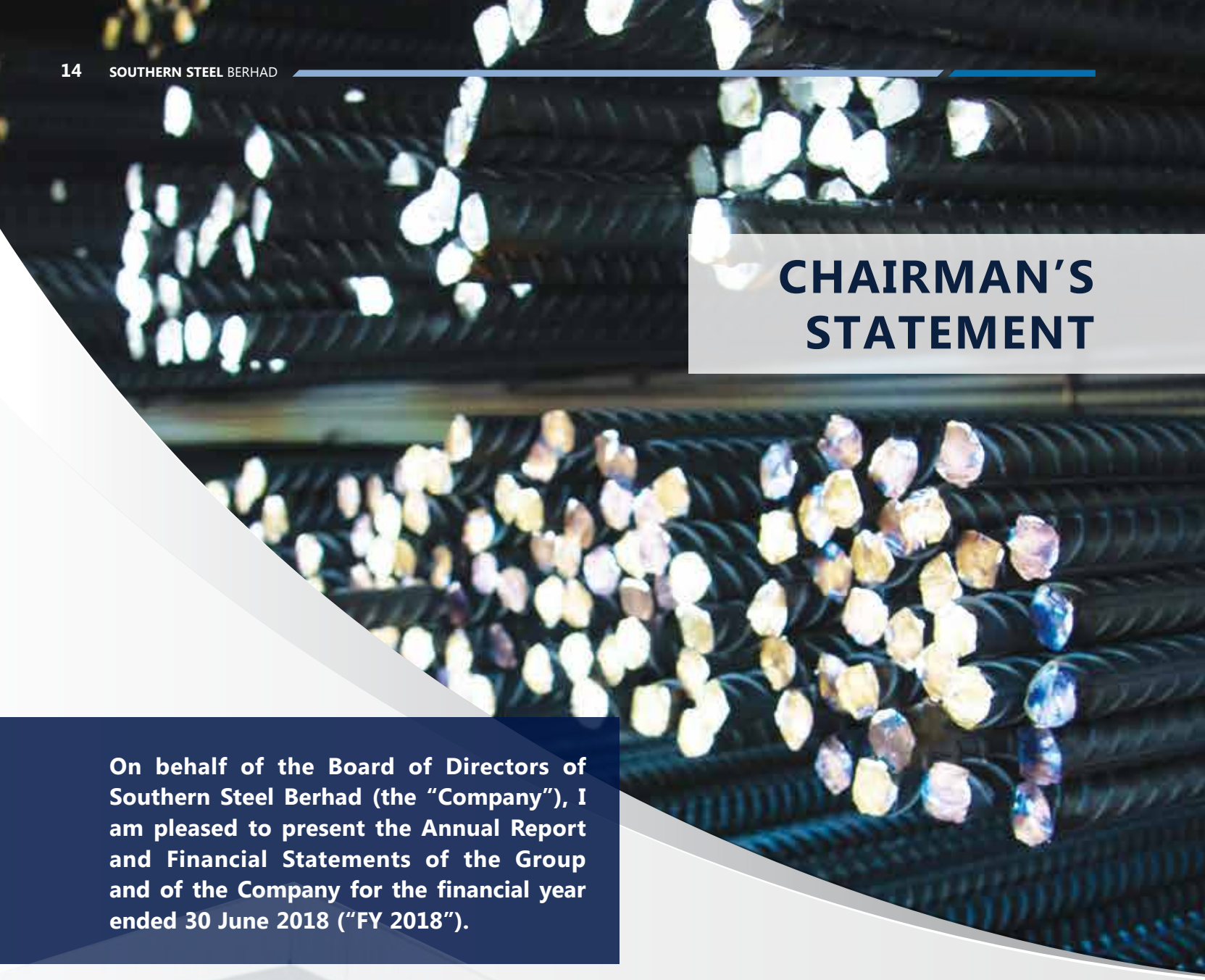
Mr Yeoh joined SSB in December 2017 and holds the position of Managing Director of the Reinforcing Steel Business. He is responsible for the construction steel business of the SSB Group which includes reinforcing steel bars, fabricated cut-and-bend bars, welded steel mesh and pre-stressed concrete wire 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 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2018.



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Southern Steel Berhad (the "Company"), I am pleased to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ended 30 June 2018 ("FY 2018").

With improved pricing and volume during FY 2018, the Group recorded an increase in revenue to RM3,698 million against the previous financial year ended 30 June 2017 ("FY 2017") of RM2,638 million. The Group recorded a profit before taxation ("PBT") of RM224 million in FY 2018, a significant improvement over the PBT of RM110 million recorded for FY 2017.

On behalf of the Board, I would like to place on record our appreciation to Mr Soon Seong Keat for his past guidance and contributions to the Group. On the same note, I am delighted to welcome on board, our newly appointed Independent Non-Executive Director, YBhg Dato' Ahmad Johari bin Tun Abdul Razak, who brings with him a depth and breadth of experience, and I look forward to his contribution.

Last but not least, I would like to extend my sincere appreciation to the Board of Directors, our management team and all our employees for their contribution, dedication and commitment to the Group. Our appreciation goes also to our valued customers, business associates, vendors, financiers, shareholders and the Government for their continuous support and confidence in the Group.

DATUK KWEK LENG SAN
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF GROUP'S BUSINESS AND OPERATIONS

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

- Reinforcing Steel Business : includes steel bars and 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.

A majority of the Group's business is generated by upstream long products. The operations of the Group are well spread throughout Malaysia, with offices from the northern region of Malaysia down to Tanjung Langsat in the South. This multi-location strategy enables the Group to serve our customer base throughout Malaysia, including East Malaysia, much more effectively.

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

GROUP'S FINANCIAL PERFORMANCE

The Group's revenue increased from RM2,638 million to RM3,698 million during the financial year ended 30 June 2018 ("FY 2018"), which represented a 40% increase over that of the previous financial year ended 30 June 2017 ("FY 2017"). The higher revenue was mainly due to the increase in sales volume and higher selling price.

In terms of financial performance, the Group's profit before taxation ("PBT") improved to RM224 million in FY 2018, a significant improvement over the PBT of RM110 million recorded in FY 2017. The improvement came from improved net margin and volume.

REVIEW OF OPERATIONS

Reinforcing Steel Business

Although the Group's reinforcing steel business remained robust, bar price was under pressure due to the soft market condition. Furthermore, the increase in material cost had further squeezed margin. Downstream mesh business continued to incur losses during the year due to intense competition, whilst pre-stressed concrete steel business remained profitable.

Wire Rod Business

Wire Rod business continued to be profitable due to better selling prices. Continuous cost down effort and improved productivity also ensure our business remained competitive in the domestic and regional markets.

Flat Steel Business

As previously reported, the venture into a new technology of thin strip casting in the Hot Rolled Coil ("HRC") business was ceased temporarily, pending the outcome of the arbitration proceedings to resolve the dispute with the machine supplier. Meanwhile, PBT for the downstream pipe business for FY 2018 declined despite maintaining its sales volume if compared with FY 2017, mainly due to unfavorable market price movement.

MANAGEMENT DISCUSSION AND ANALYSIS
cont'd

FINANCIAL CONDITION OF THE GROUP

Financial condition of the Group remained healthy. Gearing decreased from 1.29 times to 1.04 times in FY 2018 as a result of the strong performance. Despite the increase in inventory to RM842 million in FY 2018 from RM689 million in FY 2017 to support the higher level of volumes transacted, turnover days for both inventories and trade receivables remained healthy at 94 days (FY 2017: 108 days) and 24 days (FY 2017: 23 days) respectively. The Group would continue to be prudent in terms of inventory level and credit control and remain focus in our core business in steel manufacturing.

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

SSB declared and paid an interim single tier dividend of 3.5 sen per share for FY 2018 (FY 2017: 3.0 sen). Dividend payout is one of the important elements considered by SSB in enhancing its shareholder value. Earnings, capital expenditure requirements, borrowings repayment, capital adequacy, dividend yield and other relevant factors are considered by the Board in determining the actual dividend payout.

KNOWN TREND AND EVENTS WHICH HAVE SIGNIFICANT IMPACT ON OPERATION

Since the affirmative final safeguard duties imposed in April 2017, the local industry managed to stop the influx of cheap dumping imports into Malaysia. Furthermore, China is on track in its 5-year plan to cut steel capacity by 100 million Mt to 150 million Mt between the period 2016 and 2020. Based on published information, China has already cut down 115 million Mt of crude steel capacity in 2017, and target to cut another 30 million Mt in 2018. This will help to stabilise steel prices in the region.

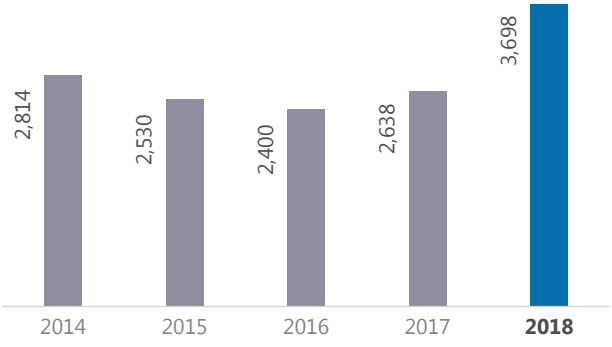
PROSPECTS AND OUTLOOK

On the demand side, although there is a slowdown in the construction and mega infra-structure projects in Malaysia, we believe this will only be temporary. Construction projects in Malaysia are estimated to be worth RM350 billion over the next 2 to 3 years. As such, the Group is optimistic that with the roll out of construction and infrastructure projects progressively, the performance of the Group will remain positive.

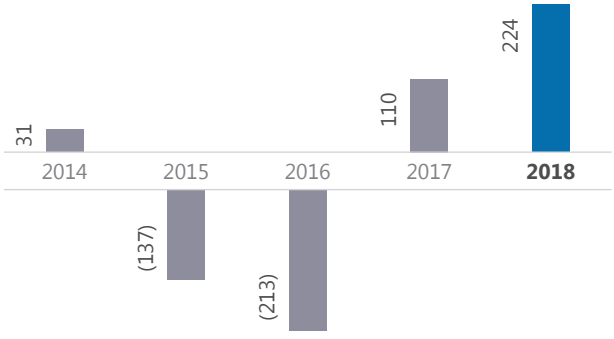
GROUP FINANCIAL HIGHLIGHTS

RM'Million	FY 2014	FY 2015	FY 2016	FY 2017	**FY 2018**
Revenue	2,814	2,530	2,400	2,638	**3,698**
Profit/(Loss) before taxation	31	(137)	(213)	110	**224**
Profit/(Loss) attributable to owners of the Company	19	(118)	(221)	93	**211**
Net earnings/(loss) per share (sen)	5	(28)	(53)	22	**49**
Net dividend per share (sen)	4	0	0	3	**3.5**
Total equity	871	913	688	770	**972**
Total assets	2,405	2,584	2,116	2,286	**2,489**
Capital expenditure	389	122	71	11	**11**

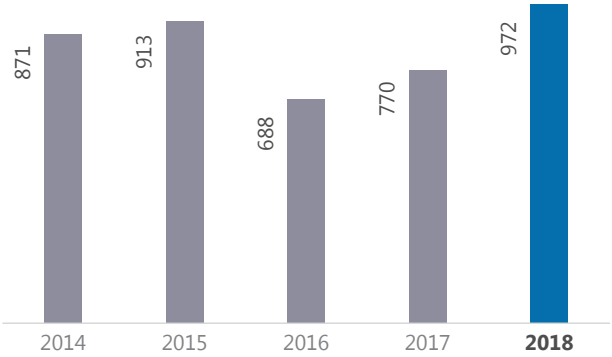
REVENUE
(RM'Million)



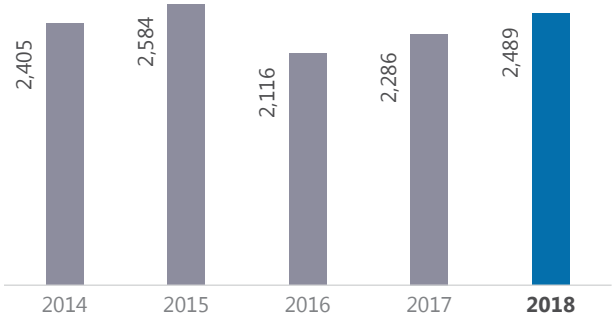
PROFIT(LOSS) BEFORE TAXATION
(RM'Million)



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.

Our report enunciates what sustainability means to our Group with details of managing those significant sustainability matters. 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 company 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 following Mission Statement has been adopted by the Group:

MISSION STATEMENT

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

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

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

GOVERNANCE STRUCTURE

We do not have a Sustainability Committee at the Board level. However, there is a Sustainability Steering ("SS") Committee made up of senior Heads of Department of relevant operations 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 of any sustainability matters from time to time. The SS Committee oversees the implementation of the organisation's sustainability approach and ensures that key targets are monitored.

The SS Committee is assisted 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 departmental access to information and specific stakeholders. The SW Committee's reporting duties include provision of information, collection of feedback from stakeholders as well as addressing material issues and driving initiatives approved by the SS Committee.

SUSTAINABILITY STATEMENT
cont'd

REFERENCE AND GUIDELINES

This report reflects 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 business 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.

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 to the Group's operation in terms of environment, economic and social aspects.

REPORTING PERIOD

This report, which will be produced annually, covers the period from 1 July 2017 to 30 June 2018 (Financial Year 2018). For any 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 Meeting	Annually	• Industry environment • Profitability
Government & Regulators	Regulatory requirement	Periodically	• Environmental issues • Occupational Safety & Health
Customers	Customer Feedback	As needed	• Product Quality
Employees	• Management meeting • Staff appraisals • Training Need analysis • Union/ Dialogue session	• Monthly • Half yearly • Annually • As needed	• Learning & Development • Occupational Safety & Health
Local communities	Community programme	As needed	• Social & Environmental issues

MATERIAL SUSTAINABILITY MATTERS IDENTIFIED

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

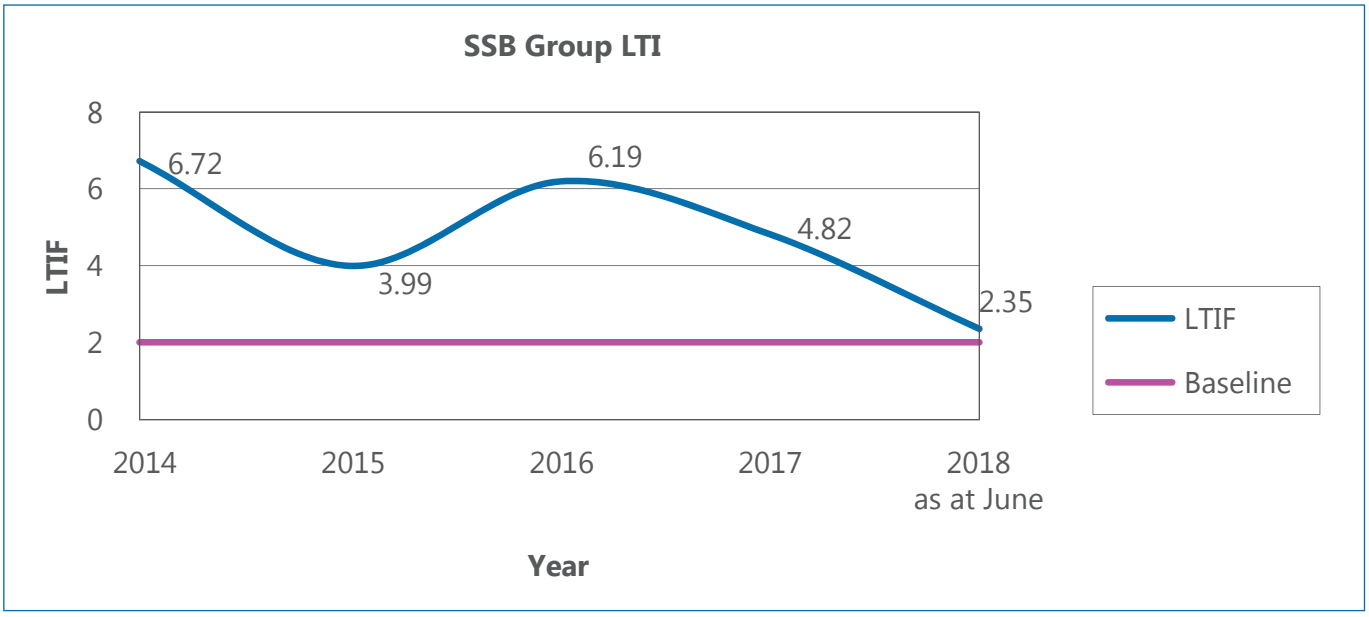
We have reviewed various sources from which relevant sustainability issues can be identified. These include internal management committee reports, internal analysis, stakeholder feedback and complaints, regulatory requirements and enterprise risk management assessment. From the review, we have identified 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 - LOSS TIME INJURY 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.

The following chart shows our LTIF rate, which indicates the number of accident cases resulting in 2 days medical leaves against the number of employees in the factory:



We have set a target of maximum accident cases per year of 10 with LTIF baseline of 2. Whilst the lost time injuries have not come down to our targeted level, it has shown a down trend especially if compared to the accident cases in the earlier years.

Nevertheless, continuous efforts have been put in place to ensure a sustainable safe work place environment. Various safety trainings, programmes and campaigns have been organised and held throughout the year to emphasise the importance of safety in our industry.

Besides, we also have an Occupational Safety & Health Management System set up based on occupational health and safety risk of our Group, and have considered the requirements of relevant Environment, Health & Safety ("EHS") legislations. In particular, we have:

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

SUSTAINABILITY STATEMENT
cont'd

LEARNING & DEVELOPMENT – UNCOVERING YOUNG TALENT

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

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

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

GDP Programme Success-Rate Vs Employment Absorption Statistics

Graduate Intake Batch & Time	No. of Graduate-Mentee at Intake	No. of Graduate-Mentee as at August 2018	Overall GDP Success Rate	No. of GDP Considered for Employment
1st Batch – July 2016	9	8*	89%	87.5%
2nd Batch – July 2017	12	10*	83%	N/A
3rd Batch – August 2018	6	6	100%	N/A

As updated on 09/08/2018

* *1st Batch – one dropped out due to family issue. 2nd 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 therefore promote efficient use of energy. Guided by our Energy Policy, we have formed an Energy Management Programme Committee to oversee efficient use of energy. Our objective is to improve efficiency in energy consumption, which contributes to a reduction in utility costs, and to optimise capital expenditure. The following are the key energy related initiatives undertaken 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

We have implemented 14 new projects in FY 2018 with attributable total energy savings of approximately 1.465 million kWh as compared with 12 new projects in FY 2017 with attributable total energy savings of 4.358 million kWh. Significant savings for the financial year are mainly contributed by the following projects/activities:

Projects	Activities	Savings in kWh
Inverter control	Upgrade soft/fan starter to inverter control system	830,215
Inverter control	Upgrade crane motor/hoisting system to inverter control system	337,680

SUSTAINABILITY STATEMENT
cont'd

SOLID PARTICLE DISCHARGED/PROCESSED

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 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).

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

For FY 2018, a total of 23,003 Mt of EAF dust was dispose of, a drop of 14% as compared with FY 2017. With better control in the quality of incoming scrap material, we envisage to reduce this waste gradually in the future.

WATER MANAGEMENT/WASTE WATER RECYCLED

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

We have yet to install any flow meter to measure the total amount of water recycled. Currently, our measurement is only estimated based on the waste water treatment tank level or treatment cycle. An estimated amount of 3,000 m^3 water is recycled every month from one treatment plant. There are plans in place to purchase flow meters for the measurement and are in the process of obtaining quotation and specification from the vendors.

COMMUNITY

We consciously work towards making a difference, however small, to the communities we operate in. A voluntary initiative has been undertaken by a small group of enthusiastic employees under the name of Heart to Heart Club ("H2H"). They have been actively participating and organising various programmes throughout the year, which includes the following:

- Visit to Children Cancer Unit at Hospital Pulau Pinang as part of the year end activity in December 2017 with the participation of 10 members from H2H. During the visit, the children shared their stories whilst H2H members provided moral support in return. Hampers were donated and red packets were given to the children.

- Blood donation campaign in collaboration with Hospital Pulau Pinang. The campaign was held in February 2018 at Southern Steel Berhad's Headquarter with 161 success donors out of 196 participants. As usual, one 5-kg bag of rice was given to each donor as a token of appreciation.

SUSTAINABILITY STATEMENT
cont'd

- Visit to Pertubuhan Hemodialysis Seberang Prai Selatan, a charity centre where minimum charges were imposed on patients who come for dialysis. The event was also held in February in conjunction with the Chinese New Year event. During the visit, hampers were given to the patients while the centre received a cash donation from H2H.

- Visit to Rumah Abu Nor, an orphanage home at Pengkalan Hulu, Grik during Hari Raya. The home is managed by a couple with their own expenses in addition to donations and supports from Non-Governmental Organisations and factories. H2H gave cash donation to the house as well as a small contribution to each of the children. A simple hi-tea has also been arranged as a token of appreciation.

The Club's activities were partly financed by the sale of old newspapers in addition to certain budget allocated by the Company each year. Nevertheless, most of its 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.

LOOKING FORWARD

Though we have taken the necessary 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. This will naturally lead to higher expectations of ourselves as a responsible corporate citizen, while we continue to explore new ideas and innovative ways of increasing actual and tangible improvements to our communities.

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 2018 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 executive directors ("EDs") and key senior management officers while the Research and Development ("R&D") Committee reviews and advise 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 2018, 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. The NC has been re-constituted as follows:

  Mr Ang Kong Hua
  Chairman, Independent Non-Executive Director

  YBhg Dato' Ahmad Johari bin Abdul Razak
  Independent Non-Executive Director
  (Appointed on 16 April 2018)

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

  Mr Seow Yoo Lin
  Independent Non-Executive Director
  (Resigned on 16 April 2018)

  The TOR of the NC are published on the Website.

  (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 senior management, 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, and senior management 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:

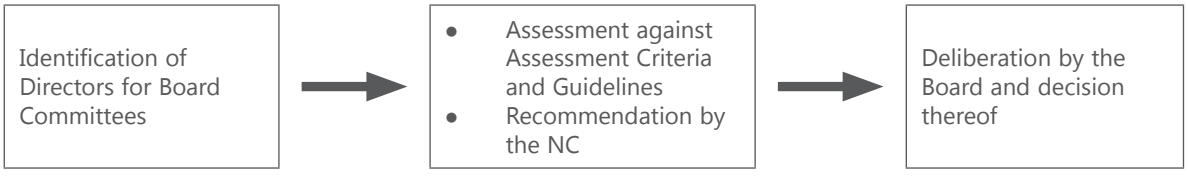
The Chairman, Directors and chief executive will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions 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 chief financial officer, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one 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.

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 meets at least once in each FY and additional meetings may be called at any time as and when necessary.

The NC met twice during the FY ended 30 June 2018 ("FY 2018") where all the NC members attended. Recommendations and decisions were also taken by way of Circular Resolutions.

The NC carried out its duties in accordance with its TOR during FY 2018. The NC considered and reviewed the following:

- revised NC Charter, revised Process and Procedure of Assessment for New Appointment, Re-Election or Retention of Directors or Chief Executive and Removal of Directors and revised 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
- appointment, re-appointment 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 2018. 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. The RC has been re-constituted 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
(Appointed on 28 November 2017)

YBhg Dato' Dr Tan Tat Wai
Independent Non-Executive Director
(Resigned on 28 November 2017)

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- RC Committee *cont'd*

The TOR of the RC are published on the Website.

The RC meets at least once in each FY and additional meetings may be called at any time as and when necessary.

The RC met once during the FY 2018 where all the RC members attended.

The RC carried out its duties in accordance with its TOR during FY 2018.

The Group's remuneration scheme for 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. The R&D Committee has been re-constituted 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
(Appointed on 16 April 2018)

YBhg Datuk Kwek Leng San
Non-Independent Non-Executive Director
(Resigned on 16 April 2018)

The TOR of the R&D Committee are published on the Website.

The R&D Committee meets at least twice in each FY and additional meetings may be called at any time as and when necessary.

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 met twice during FY 2018 where all the R&D Committee members attended except for Mr Chow Chong Long who was appointed during the FY and there was no meeting held during the period he held office. Recommendations and decisions were also taken by way of Circular Resolutions.

The R&D Committee carried out its duties in accordance with its TOR during FY 2018. The R&D Committee considered and reviewed, amongst others, the following:

- Performed research into newly commercialised wire rod mechanical descaling and mechanical cleaning technology for its application in Southern PC Steel Sdn Bhd. Process reviewed is more cost efficient without generating any effluent.
- Completed research on optimisation of fuel air ratio and implemented excess.
- Worked to reduce scheduled waste with designated license processor recycling the waste, towards a zero disposal cost and improving the environment.
- Worked with brick makers to utilise non-scheduled waste, as sand replacement to produce green bricks and eliminate the disposal cost.
- Surveyed the Group plants' digitalisation readiness with pilot visualisation project identified and in the progress.
- Embarking on a project with government appointed digitisation consultant to chart the Group's digital programme.
- Collaborate with a local university to develop new product using the Group's steel products.

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

- Training in Intellectual Property for personnel in R&D, Quality Assurance and plant operation.
- Industry 4.0 awareness programmes for R&D, Business Information System and Senior Management.

D. Independence

The Board takes cognisance of the provisions of the MCCG, which states that the tenure of an independent director should not exceed a cumulative term of 9 years and upon completion of the 9 years, an independent director 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 independent director who has served a cumulative term of 9 years and above, shareholders' approval shall be annually sought with justification. In the event the Board wishes to retain an independent director who has served a cumulative term of 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 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.

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

D. Independence *cont'd*

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 9 years.

E. Commitment

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, Directors are required to comply with the restrictions on the number of directorships in public listed companies. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. 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 qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016 and they are Associate Members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The Company Secretaries support the effective functioning of the Board, provide advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. The Company Secretaries attend 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 Secretaries accordingly. Any Director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

The Board met four (4) times for FY 2018 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	4/4
Mr Seow Yoo Lin	4/4
Dr Kwa Lay Keng	4/4
YBhg Dato Ahmad Johari bin Abdul Razak *(Appointed on 16 April 2018)*	1/1*
Mr Soon Seong Keat *(Resigned on 16 April 2018)*	2/3*

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

E. Commitment *cont'd*

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 senior management, is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Group's businesses. The CPD encompasses areas related to the industry or 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.

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 2018, 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 in-house programmes for its Directors and senior management.

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

During FY 2018, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- MCCG Update and Cyber Security Awareness Session
- Digital Transformation and Impact to Businesses
- Journey Toward Industry 4.0
- MCCG
- Business Continuity Management
- The Challenge of Building Cyber Resilience
- Mental Hygiene
- Fintech: Opportunities for the Financial Services Industry in Malaysia
- Fraud Risk Management Workshop
- Bitcoin and Cryptocurrency
- Integrating and Innovation Mindset with Effective Governance
- KPMG Tax Summit 2017
- Leveraging Technology for Growth
- The CG Breakfast Series for Directors – Leading Change @ The Brain
- Key Amendments to Listing Requirements Arising from Companies Act 2016.

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

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.

- **Whistleblowing Policy**

  A Whistleblowing Policy has also been established by the Company 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 senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC meetings where appropriate actions will be taken.

I. Financial Reporting

The Board 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

II. Directors' Responsibility In Financial Reporting *cont'd*

The Directors of the Company are satisfied that the financial statements of the Group and of the Company for FY 2018 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.

- The Responsibility of the Board

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

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

- The Risk Management Framework

  For FY 2018, 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.

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*

- System of Internal Controls

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

  - A management structure exists with clearly defined delegation of responsibilities to the management of the Group's operating companies, including authorisation levels for all aspects of the business and operations. The management of the Group's operating companies own and manage risks and they are responsible for implementing controls to mitigate the risks pertaining to all aspects of the business and operations.
  - Documented corporate policies and procedures covering various aspects of the business and operations of the Group.
  - Promotion of a strong internal control culture through the Group's values and ethics and also the "tone at the top".
  - Diligent review of the quarterly financial results and reports and identifying the reasons for any unusual variances.
  - Internal control assurance activities such as self-audits and completion of internal control questionnaires undertaken by management of the operating companies. These activities are part of the Group's risk & control assurance framework; provide the breadth in risk and control assurance; and demonstrate management's commitment to effective risk management.
  - Risk-based internal audits carried out by the Group's 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 2018 cover sales management; tender and procurement; production management; and supply chain management.
  - Quarterly reporting to the BARMC on the results of control assurance and audit activities and also the management of risks throughout the Group.

- Management and Decision-Making Processes

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

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

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

CORPORATE GOVERNANCE 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*

- 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, (previously Recommended Practice Guide 5 (Revised 2015)), *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 2018 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 of Directors and management thereon. The external auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

- The Board's Opinion

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

IV. Relationship with Auditors

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

The external auditors meet with the BARMC to:

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

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

For FY 2018, 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.

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

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 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.

Queries may be conveyed to the following person:

Name : Mr Ang Meng Chuan
Tel No. : 04-3906 540
Fax No. : 04-3908 060
Email address : IRelations@southsteel.com

II. AGM

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

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.

At the last AGM held on 28 November 2017 of which all Directors attended, the Company adopted electronic voting for the conduct of poll on all resolutions.

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

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

CONSTITUTION

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

COMPOSITION

Mr Seow Yoo Lin
Chairman, Independent Non-Executive Director

Mr Ang Kong Hua
Independent Non-Executive Director

Dr Kwa Lay Keng
Independent Non-Executive Director

Mr Soon Seong Keat
Non-Independent Non-Executive Director
(Resigned on 16 April 2018)

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. 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 AND 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 2018 ("FY 2018") 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 2018, 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	4/4
Dr Kwa Lay Keng	4/4
Mr Soon Seong Keat *(Resigned on 16 April 2018)*	2/3*

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

The Committee carried out the following key activities during FY 2018:

- Reviewed the quarterly reports and annual financial statements of the Group prior to submission to the Board for consideration and approval.
- 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 2018 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. It also reviewed the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the external auditor's independence or objectivity. Details of non-audit fees incurred by the Group for FY 2018 are stated in the Notes to the Financial Statements.

BOARD AUDIT AND 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 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.

- Reviewed and approved the Internal Audit Policy Mannual.

- Met with the internal auditors and approved the annual audit plan and also reviewed the internal audit 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 and various recurrent related party transactions ("RRPT") carried out by the Group.

- Reviewed the proposed mandate for RRPT with various related parties prior to Board's recommendation for shareholders' approval.

- Reviewed the Statement on Risk Management and Internal Control ("SORMIC") of the Group, and received the report of the external auditors in respect of their review on the SORMIC prior to Board's approval for inclusion in the Company's Annual Report.

- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Report for inclusion in the Company's Annual Report.

INTERNAL AUDIT ("IA")

The IA function is carried out in-house by the IA Department. There were five (5) staff in the IA Department during FY 2018 and the total cost incurred by the IA Department amounted to RM998,453.

The IA Department, 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 since the demise of the late Mr Lim Eng Kok on 5 March 2018. Mr Teh holds the qualifications of Master of Criminal Justice, Advanced Diploma in Commerce, and is a Professional Member of the Institute of Internal Auditors Malaysia, Associate Member of the Malaysian Institute of Chartered Secretaries and Administrators, and Certified Fraud Examiner from the Association of Certified Fraud Examiners, USA. The Committee is satisfied that Mr Teh has the relevant experience and sufficient standing and authority to discharge his duties.

The IA Department supports the Committee in the effective discharge of its responsibilities in respect of governance, internal controls and the risk management framework of the Group. The IA Department also challenges and adds value to the efficiency, effectiveness and economy of operating companies' operations; usage of assets and resources; and the integrity of management information systems. In doing so, the IA function is performed with impartiality, proficiency and due professional care.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT
cont'd

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

All the IA personnel had declared to the Committee that they are free from any relationships or conflicts of interest which would impair their impartiality or objectivity. The Committee had undertaken an assessment on the performance of the IA Department for FY 2018 whereby it is satisfied with the performance of the IA Department. The Committee had also reviewed the IA Department's resources, in particular the qualifications, experience and designations of all the IA personnel. As their continuous professional development, the IA personnel had kept abreast with developments in the profession, industry and regulations by attending internal and external training courses. The Committee is hence satisfied with the competency of the IA Department and that it has adequate resources to carry out its functions.

The annual audit plan prepared by the IA Department is submitted to the Committee for review and approval. Internal audits are carried out as per the approved annual audit plan. IA reports are discussed and issued to management for their feedback and to formulate action plans with target implementation dates for improvements. Any resulting salient control concerns are reviewed by the Committee, and the implementation status of audit recommendations are monitored and reported to the Committee on a quarterly basis. The areas of IA's review during FY 2018 are described in the SORMIC.

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

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

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

FINANCIAL STATEMENTS

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DIRECTORS' REPORT

for the financial year ended 30 June 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2018.

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
Profit for the year attributable to:		
Owners of the Company	210,847	36,154
Non-controlling interests	398	-
	211,245	36,154

RESERVES AND PROVISIONS

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

DIVIDENDS

Since the end of the previous financial year, the Company paid an interim single tier dividend of 3.5 sen per share amounting to RM15,177,481 in respect of the financial year ended 30 June 2018 on 13 June 2018.

The Directors do not recommend a final dividend for the financial year ended 30 June 2018.

DIRECTORS' REPORT

for the financial year ended 30 June 2018
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 *(Appointed on 16 April 2018)*
Mr Soon Seong Keat *(Resigned on 16 April 2018)*

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 hereof.

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who have beneficial interests in the ordinary shares and/or redeemable convertible unsecured loan stocks over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2018 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 1.7.2017/ Date of appointment**	**Acquired**	**Sold**	**At 30.6.2018**
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**

DIRECTORS' REPORT

for the financial year ended 30 June 2018
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 1.7.2017/ Date of appointment**	**Acquired**	**Sold**	**At 30.6.2018**
Shareholdings in which Directors have direct interests cont'd					
Interest of YBhg Dato' Dr Tan Tat Wai in:					
Southern Steel Berhad	(1)	14,854	-	-	**14,854**
	(1)	7,073 *	-	-	**7,073** *
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**
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)	34,742,238 (4)	-	3,500,000 (3)	**31,242,238** (4)
	(1)	15,866,283 *(4)	-	2,476,190 (3)	**13,390,093** *(4)
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) Cessation of deemed interest pursuant to Section 8(4) of the Companies Act 2016.
(4) Inclusive of 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 2018
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

During the financial year, the issued ordinary share capital of the Company was increased from 429,022,027 ordinary shares to 433,642,301 ordinary shares following the issue and allotment of 4,620,274 new ordinary shares arising from the conversion of RM4,851,297 nominal value of 5-year 5% Redeemable Convertible Unsecured Loan Stocks ("RCULS") at the conversion price of RM1.05 for every 1 new ordinary share in the Company. The conversion price is satisfied by surrendering for cancellation of the equivalent nominal value of RCULS.

There were no issue of 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 RM16,851.

DIRECTORS' REPORT

for the financial year ended 30 June 2018
cont'd

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT

for the financial year ended 30 June 2018
cont'd

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

24 August 2018

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2018

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	4	**1,156,271**	1,197,606	**147,842**	160,556
Goodwill on consolidation	5	**30,256**	30,256	**-**	-
Investments in subsidiary companies	6	**-**	-	**1,034,317**	855,205
Investments in associated companies	7	**15,216**	15,405	**5,500**	5,500
Other investments	8	**1,023**	1,427	**1,023**	1,427
Deferred tax assets	9	**69,427**	52,679	**40,856**	44,409
Tax credit receivable	10	**20,890**	22,716	**12,161**	13,221
Total non-current assets		**1,293,083**	1,320,089	**1,241,699**	1,080,318
Inventories	11	**842,202**	688,566	**444,082**	415,523
Trade and other receivables, including derivatives	12	**288,562**	184,870	**148,417**	305,160
Current tax assets		**10,687**	6,154	**5,023**	4,324
Cash and cash equivalents	13	**54,550**	86,542	**22,368**	18,872
Total current assets		**1,196,001**	966,132	**619,890**	743,879
Total assets		**2,489,084**	2,286,221	**1,861,589**	1,824,197

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2018
cont'd

	Note	Group		Company	
		2018	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Equity					
Share capital	14	**469,494**	464,874	**469,494**	464,874
Reserves	15	**355,495**	154,692	**379,853**	356,097
RCULS - equity portion	16	**141,524**	145,544	**141,524**	145,544
Total equity attributable to owners of the Company		**966,513**	765,110	**990,871**	966,515
Non-controlling interests		**5,574**	5,148	**-**	-
Total equity		**972,087**	770,258	**990,871**	966,515
Liabilities					
Deferred tax liabilities	9	**15,163**	9,339	**-**	-
RCULS - liability portion	16	**8,205**	16,579	**8,205**	16,579
Deferred income	17	**10,682**	11,721	**8,610**	10,021
Employee benefits	18	**31,632**	28,880	**14,785**	14,282
Borrowings	21	**189,958**	286,491	**-**	16,921
Total non-current liabilities		**255,640**	353,010	**31,600**	57,803
RCULS - liability portion	16	**4,665**	4,564	**4,665**	4,564
Employee benefits	18	**534**	795	**274**	274
Provisions	19	**21,945**	26,047	**12,000**	12,000
Trade and other payables, including derivatives	20	**374,079**	351,638	**227,419**	231,843
Borrowings	21	**860,108**	775,648	**594,760**	551,198
Current tax liabilities		**26**	4,261	**-**	-
Total current liabilities		**1,261,357**	1,162,953	**839,118**	799,879
Total liabilities		**1,516,997**	1,515,963	**870,718**	857,682
Total equity and liabilities		**2,489,084**	2,286,221	**1,861,589**	1,824,197

The notes on pages 61 to 147 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Revenue	22	**3,698,191**	2,638,142	**3,638,213**	2,134,145
Cost of sales		**(3,253,538)**	(2,333,060)	**(3,509,686)**	(2,039,909)
Gross profit		**444,653**	305,082	**128,527**	94,236
Distribution expenses		**(88,353)**	(82,236)	**(42,718)**	(39,133)
Administrative expenses		**(87,498)**	(93,449)	**(40,141)**	(35,074)
Other operating expenses		**(10,660)**	(15,655)	**(4,783)**	(1,959)
Other operating income		**11,898**	41,894	**24,281**	50,692
Results from operations		**270,040**	155,636	**65,166**	68,762
Interest income		**2,052**	1,397	**553**	394
Finance costs	23	**(48,594)**	(48,464)	**(23,738)**	(24,670)
Share of profit in associated companies, net of tax		**361**	1,553	**-**	-
Profit before taxation	24	**223,859**	110,122	**41,981**	44,486
Taxation	25	**(12,614)**	(14,929)	**(5,827)**	(6,480)
Profit for the year		**211,245**	95,193	**36,154**	38,006
Profit attributable to:					
Owners of the Company		**210,847**	93,295	**36,154**	38,006
Non-controlling interests		**398**	1,898	**-**	-
		211,245	95,193	**36,154**	38,006

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018
cont'd

	Note	Group		Company	
		2018	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Basic earnings per ordinary share (sen)	26	**48.78**	22.07		
Diluted earnings per ordinary share (sen)	26	**35.50**	16.04		
Profit for the year		**211,245**	95,193	**36,154**	38,006
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		**(404)**	-	**(404)**	-
Items that are or may be reclassified subsequently to profit or loss					
Gain on fair value of available-for-sale financial assets		**-**	1,046	**-**	1,046
Foreign currency translation differences for foreign operation		**(52)**	58	**-**	-
Cash flow hedge		**900**	417	**852**	1,350
		848	1,521	**852**	2,396
Total other comprehensive income for the year	27	**444**	1,521	**448**	2,396
Total comprehensive income for the year		**211,689**	96,714	**36,602**	40,402
Total comprehensive income attributable to:					
Owners of the Company		**211,263**	94,859	**36,602**	40,402
Non-controlling interests		**426**	1,855	**-**	-
		211,689	96,714	**36,602**	40,402

The notes on pages 61 to 147 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018

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

	← Attributable to owners of the Company →												
	← Non-distributable →									Distributable			
Group	Share capital RM'000	Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion RM'000	Share premium RM'000	Merger reserve RM'000	Other reserve RM'000	Fair value reserve RM'000	Foreign currency translation reserve RM'000	Hedging reserve RM'000	Executive share scheme reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 July 2017-as previously stated	464,874	145,544	-	30,000	140	1,057	1,782	(651)	1,015	121,349	765,110	5,148	770,258
Changes in accounting policy **(Note33)**	-	-	-	-	-	(1,057)	-	-	-	1,057	-	-	-
At 1 July 2017-as restated	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												

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018
cont'd

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

	← Attributable to owners of the Company →								
	← Non-distributable →							Distributable	
Company	**Share capital** RM'000	**Redeemable convertible unsecured loan stocks ("RCULS") - Equity portion** RM'000	**Share premium** RM'000	**Merger reserve** RM'000	**Fair value reserve** RM'000	**Hedging reserve** RM'000	**Executive share scheme reserve** RM'000	**Retained earnings** RM'000	**Total equity** RM'000
At 1 July 2017-as previously stated	464,874	145,544	-	33,600	1,037	(260)	604	321,116	966,515
Changes in accounting policy **(Note33)**	-	-	-	-	(1,037)	-	-	1,037	-
At 1 July 2017-as restated	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								

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

The notes on pages 61 to 147 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before taxation	**223,859**	110,122	**41,981**	44,486
Adjustments for:				
Property, plant and equipment:				
- depreciation	**52,791**	61,140	**15,166**	17,065
- gain on disposal	**-**	(44)	**-**	(44)
- write-off	**18**	1,131	**2**	-
- others	**-**	(1,324)	**-**	-
Gain on disposal of unquoted shares	**-**	(2,993)	**-**	-
Fair value loss/(gain) on derivative instruments	**94**	(356)	**(22)**	(23)
Fair value (gain)/loss on financial instruments designated as hedge instruments	**(555)**	(678)	**195**	(824)
Provision for retirement benefits	**3,393**	3,031	**1,109**	1,053
Dividend income:				
- Subsidiary companies	**-**	-	**(19,822)**	(8,102)
- Associate companies	**-**	-	**(550)**	(275)
Interest income	**(2,052)**	(1,397)	**(553)**	(394)
Share of profit in associated companies	**(361)**	(1,553)	**-**	-
Finance costs	**48,594**	48,464	**23,738**	24,670
Amortisation of deferred income	**(1,622)**	(6,036)	**(1,411)**	(1,411)
Unrealised (gain)/loss on foreign exchange	**(3,690)**	8,209	**13**	(21)
Share-based payments	**4,883**	1,015	**2,497**	604
Operating profit before working capital changes	**325,352**	218,731	**62,343**	76,784
Inventories	**(153,636)**	(169,929)	**(28,559)**	(138,401)
Trade and other receivables	**(102,491)**	3,333	**(28,754)**	52,578
Trade and other payables	**26,396**	(135,020)	**(4,245)**	22,032
Provisions	**(4,102)**	12,395	**-**	-
Cash generated from/(used in) operations	**91,519**	(70,490)	**785**	12,993
Retirement benefits paid	**(902)**	(618)	**(606)**	(347)
Finance costs paid	**(47,735)**	(47,146)	**(22,879)**	(23,352)
Dividend income received	**550**	275	**20,372**	8,377
Interest income received	**2,052**	1,397	**553**	394
Tax paid (net)	**(30,020)**	(29,511)	**(2,036)**	(2,051)
Net cash from/(used in) operating activities	**15,464**	(146,093)	**(3,811)**	(3,986)

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018
cont'd

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from investing activities				
Acquisition of property, plant and equipment	**(11,474)**	(11,499)	**(2,454)**	(4,905)
Additional investments in subsidiary companies, net	**-**	-	**(3,023)**	(50,903)
Accretion of interest in an existing subsidiary	**-**	(903)	**-**	-
Proceeds from disposal of plant and equipment	**-**	311	**-**	311
Proceeds from redemption of capital in subsidiary companies	**-**	-	**10,000**	60,000
Net cash (used in)/generated from investing activities	**(11,474)**	(12,091)	**4,523**	4,503
Cash flows from financing activities				
Dividend paid to owners of the Company	**(15,177)**	(12,864)	**(15,177)**	(12,864)
Drawdown of trade borrowings, net	**65,615**	182,487	**60,500**	98,899
Repayment of term loan	**(78,454)**	(90,449)	**(33,842)**	(70,449)
Drawdown of term loan	**-**	129,196	**-**	-
RCULS coupon payment	**(8,680)**	(9,223)	**(8,680)**	(9,223)
Net cash (used in)/generated from financing activities	**(36,696)**	199,147	**2,801**	6,363
Net change in cash and cash equivalents	**(32,706)**	40,963	**3,513**	6,880
Effect of exchange rate fluctuations on cash held	**(52)**	58	**-**	-
Cash and cash equivalents at 1 July 2017/1 July 2016	**86,520**	45,499	**18,850**	11,970
Cash and cash equivalents at 30 June	**53,762**	86,520	**22,363**	18,850

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018
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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits with licensed banks	**35,556**	32,244	**13,620**	11,435
Cash and bank balances	**18,994**	54,298	**8,748**	7,437
Bank overdrafts	**(788)**	(22)	**(5)**	(22)
	53,762	86,520	**22,363**	18,850

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 2018 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 2018 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 24 August 2018.

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 those disclosed in Note 2.2 to the financial statements.

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act 2016 in Malaysia.

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

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.1 Basis of preparation *cont'd*

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

i) Note 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 - Income taxes

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

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 and Note 33 - Changes in accounting policy

The management applied new judgements to determine that financial instruments of the Group and the Company are recognised and measured in accordance to the early adoption of accounting standard, MFRS 9 as described in Note 2.2(e). The carrying amounts of trade and other receivables, including derivatives are shown in Note 12. The new accounting policy is shown in Notes 2.2(e) and 2.2(f). The changes in accounting policy is shown in Note 33.

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.

Loans and advances to subsidiaries that do not have a fixed repayment term and used to fund a significant portion of the operations of the subsidiaries are classified as interest in the subsidiaries. The accounting of such loans and advances are consistent with the accounting for cost of investment in the 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 5

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

During the year, the Group and the Company early adopted MFRS 9, *Financial Instruments* which replaces MFRS 139, *Financial Instruments: Recognition and Measurement*.

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, the Group and the Company have elected not to restate the comparatives. The financial effect of the changes in accounting policy are disclosed in Note 33 to the financial statements.

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

Current financial year

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.

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.

Previous financial year

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

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

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

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.

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*

Current financial year *cont'd*

(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.

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.

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*

Current financial year *cont'd*

(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)).

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139 as follows:

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

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

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

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

(b) Loans and receivables

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

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

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*

Previous financial year *cont'd*

(c) Available-for-sale financial assets

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

Investments in equity instruments that did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost.

Other financial assets categorised as available-for-sale were subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which were recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method was recognised in profit or loss.

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

Financial liabilities

Current financial year

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.

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.

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*

Current financial year *cont'd*

(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.

Previous financial year

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

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

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

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

(iii) Financial guarantee contracts

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

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.

Current financial year

Where the loss allowance determined in accordance with the impairment model as described in Note 2.2(j)(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.

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*

(iii) Financial guarantee contracts *cont'd*

Previous financial year

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

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale 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.

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.

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*

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.

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).

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*

Fair value hedge *cont'd*

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.

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

During the year, the Group and the Company early adopted MFRS 9, *Financial Instruments* which replaces MFRS 139, *Financial Instruments: Recognition and Measurement*.

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*

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, the Group and the Company elected not to restate the comparatives. The financial effect of the changes in accounting policy are disclosed in Note 33 to the financial statements.

Current financial year

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.

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.

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*

Current financial year *cont'd*

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.

Previous financial year

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

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

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

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

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

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

(f) Impairment *cont'd*

(ii) Other assets

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

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

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(k) Compound financial instruments *cont'd*

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

(l) Equity instruments

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

(i) Issue expenses

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

(ii) Ordinary shares

Ordinary shares are classified as equity.

(m) Foreign currency

(i) Foreign currency transactions

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(m) Foreign currency *cont'd*

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

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

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

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

(n) Revenue and other income

(i) Goods sold

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

(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.

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

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

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

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

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

(p) Taxation

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

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

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

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

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

A tax incentives (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.

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 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.

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 Company and its subsidiary companies have 6 unfunded plans.

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

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

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*

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

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

The calculation of defined benefit obligations is performed in the interval of every 3 years by a qualified actuary using the projected unit credit method and the last actuarial valuation was carried out in June 2015.

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

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

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

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

(iii) Share-based payments

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

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

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

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 Group and the Company have early adopted MFRS 9, *Financial Instruments* for the financial year ended 30 June 2018. The standard replaces MFRS 139, *Financial Instruments: Recognition and Measurement*. The financial impacts of the early adoption of MFRS 9 during the current financial year ended are as disclosed in Note 33 to the financial statements.

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 2018

- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 Statement of compliance *cont'd*

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

- from the annual period beginning on 1 July 2018 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2018, except for amendments and interpretations which are not applicable to the Group and the Company; and

- from the annual period beginning on 1 July 2019 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2019, except for amendments and interpretations which are not applicable to the Group and the Company.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to 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.

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 2018 %	Effective interest 2017 %	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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

3. COMPANIES IN THE GROUP *cont'd*

Name of Company	Country of incorporation	Effective interest 2018 %	Effective interest 2017 %	Principal activities
Subsidiary Companies *cont'd*				
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
Associated Companies				
Super Othello Sdn Bhd#	Malaysia	**50.0**	50.0	In members' voluntary liquidation
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 or associated company are not audited by KPMG PLT.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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 2016	25,331	157,547	435,125	1,398,575	64,951	12,845	660,007	2,754,381
Additions	-	29	185	1,612	824	572	8,277	11,499
Write-off	-	-	-	(377)	(222)	(4)	(1,039)	(1,642)
Disposals	-	-	-	-	-	(458)	-	(458)
Reclassification	-	-	19,425	39,937	2,233	319	(61,914)	-
Others	-	1,324	-	-	-	-	-	1,324
At 30 June 2017/1 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	**25,331**	**158,900**	**454,916**	**1,446,527**	**67,655**	**15,725**	**606,003**	**2,775,057**
Accumulated depreciation and impairment loss								
At 1 July 2016								
- Accumulated depreciation	-	34,974	202,951	1,169,460	61,336	10,621	-	1,479,342
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	34,974	207,906	1,192,223	61,336	10,621	-	1,507,060
Charge for the year	-	3,374	11,864	43,407	2,038	457	-	61,140
Write-off	-	-	-	(286)	(221)	(4)	-	(511)
Disposals	-	-	-	-	-	(191)	-	(191)
At 30 June 2017								
- Accumulated depreciation	-	38,348	214,815	1,212,581	63,153	10,883	-	1,539,780
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	38,348	219,770	1,235,344	63,153	10,883	-	1,567,498

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Office equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Group *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								
- 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**
Carrying amounts								
At 1 July 2016	25,331	122,573	227,219	206,352	3,615	2,224	660,007	1,247,321
At 30 June 2017/1 July 2017	25,331	120,552	234,965	204,403	4,633	2,391	605,331	1,197,606
At 30 June 2018	**25,331**	**117,178**	**224,087**	**175,739**	**3,698**	**4,235**	**606,003**	**1,156,271**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Office equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Company								
Cost								
At 1 July 2016	6,997	138,374	209,544	163,266	45,182	8,622	-	571,985
Additions	-	29	159	169	262	286	4,000	4,905
Disposals	-	-	-	-	-	(458)	-	(458)
Reclassification	-	-	1,849	-	2,151	-	(4,000)	-
At 30 June 2017/1 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	**6,997**	**138,403**	**211,733**	**164,977**	**47,002**	**8,796**	**-**	**577,908**
Accumulated depreciation and impairment loss								
At 1 July 2016								
- Accumulated depreciation	-	31,082	175,721	113,919	43,310	7,252	-	371,284
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	31,082	180,676	136,682	43,310	7,252	-	399,002
Charge for the year	-	3,061	6,471	6,166	1,085	282	-	17,065
Disposals	-	-	-	-	-	(191)	-	(191)
At 30 June 2017								
- Accumulated depreciation	-	34,143	182,192	120,085	44,395	7,343	-	388,158
- Accumulated impairment loss	-	-	4,955	22,763	-	-	-	27,718
	-	34,143	187,147	142,848	44,395	7,343	-	415,876

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Office equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Company *cont'd*								
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**
Carrying amounts								
At 1 July 2016	6,997	107,292	28,868	26,584	1,872	1,370	-	172,983
At 30 June 2017/1 July 2017	6,997	104,260	24,405	20,587	3,200	1,107	-	160,556
At 30 June 2018	**6,997**	**101,198**	**18,683**	**17,233**	**2,561**	**1,170**	**-**	**147,842**

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

The Group's carrying amount of RM605,108,000 (2017 : 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.

This HRC plant has not been used throughout the year. The ultimate outcome of the arbitrations as disclosed in Note 35 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 used calculations. These calculations use pre-tax cash flow projections that have been projected to the useful life of PPE based on a five year financial budgets and projections prepared by the management and approved by the Board of Directors. The sales tonnage and price gap of the cash-generating units used in preparing the projected cash flows were determined based on past business performance and management's expectations on market development. The discount rate used of 9.4% (2017 : 9.4%) is a pre-tax rate that is applied to the cash flow projections and represents the industry's estimated weighted average cost of capital used.

5. GOODWILL ON CONSOLIDATION

	Group	
	2018	**2017**
	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:-

	2018	**2017**
	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.

(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 9.4% (2017 : 9.4%) is a pre-tax rate that is applied to the cash flow projections and represents the industry's estimated weighted average cost of capital used.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

5. GOODWILL ON CONSOLIDATION *cont'd*

(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	2018	2017
		RM'000	RM'000
At cost:			
Unquoted shares		**908,703**	905,680
Redeemable Preference Shares		**70,000**	80,000
Less : Impairment loss		**(130,475)**	(130,475)
		848,228	855,205
Amount due from a subsidiary	6.1	**186,089**	-
		1,034,317	855,205

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

6.1 This amount reclassified is regarded as net interest in a subsidiary. The amount due is unsecured, interest free and with no fixed term of repayment.

7. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At cost:				
Unquoted shares	**15,635**	15,635	**15,635**	15,635
Less : Impairment losses	**-**	-	**(10,135)**	(10,135)
	15,635	15,635	**5,500**	5,500
Share of post-acquisition reserves	**(419)**	(230)	**-**	-
	15,216	15,405	**5,500**	5,500

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

7. INVESTMENTS IN ASSOCIATED COMPANIES *cont'd*

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

	Steel Industries (Sabah) Sdn Bhd	
	2018	**2017**
	RM'000	**RM'000**
Group		
As at 30 June		
Statement of financial position		
Non-current assets	**29,248**	32,661
Current assets	**51,532**	43,410
Current liabilities	**(25,452)**	(20,358)
Net assets	**55,328**	55,713
Year ended 30 June		
Statement of profit or loss and other comprehensive income for the year		
Profit for the year representing total comprehensive income	**1,313**	5,647
Included in the total comprehensive income is:		
Revenue	**146,827**	105,991
Reconciliation of net assets to carrying amount		
As at 30 June		
Group's share of net assets	**15,216**	15,321
Elimination of unrealised loss	**-**	84
Carrying amount in the statement of financial position	**15,216**	15,405
Year ended 30 June		
Group's share of results		
Group's share of profit for the year	**361**	1,553
Other information		
Dividend received	**550**	275

NOTES TO THE FINANCIAL STATEMENTS
cont'd

8. OTHER INVESTMENTS

	Note	Group/Company 2018 RM'000	2017 RM'000
Fair Value through Other Comprehensive Income (2018) / Available-for-sale financial assets (2017)	8.1		
Shares quoted in Malaysia		**1,023**	1,427

8.1 At 1 July 2017, the Group and the Company designated the other investments as equity securities at fair value through other comprehensive income, on adoption of MFRS 9. The Group and the Company intend to hold these equity securities for long-term strategic purposes. In the previous financial year, these investments were classified as available for sale and financial assets at fair value through profit or loss respectively.

9. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group						
Property, plant and equipment	**-**	-	**(121,167)**	(121,145)	**(121,167)**	(121,145)
Unabsorbed capital allowances	**100,224**	97,597	**-**	-	**100,224**	97,597
Unutilised tax losses	**33,459**	23,205	**-**	-	**33,459**	23,205
Employee benefits	**7,720**	7,122	**-**	-	**7,720**	7,122
Trade and other payables	**7,545**	7,319	**-**	-	**7,545**	7,319
Provisions	**2,880**	2,880	**-**	-	**2,880**	2,880
Unutilised increased export allowance	**19,714**	21,432	**-**	-	**19,714**	21,432
RCULS	**3,083**	5,069	**-**	-	**3,083**	5,069
Others	**975**	635	**(169)**	(774)	**806**	(139)
Deferred tax assets/(liabilities)	**175,600**	165,259	**(121,336)**	(121,919)	**54,264**	43,340
Set off of tax	**(106,173)**	(112,580)	**106,173**	112,580	**-**	-
Net tax assets/(liabilities)	**69,427**	52,679	**(15,163)**	(9,339)	**54,264**	43,340
Company						
Property, plant and equipment	**8,833**	8,575	**-**	-	**8,833**	8,575
Unutilised tax losses	**-**	1,045	**-**	-	**-**	1,045
Employee benefits	**3,614**	3,493	**-**	-	**3,614**	3,493
Trade and other payables	**2,732**	1,915	**-**	-	**2,732**	1,915
Provisions	**2,880**	2,880	**-**	-	**2,880**	2,880
Unutilised increased export allowance	**19,714**	21,432	**-**	-	**19,714**	21,432
RCULS	**3,083**	5,069	**-**	-	**3,083**	5,069
Deferred tax assets	**40,856**	44,409	**-**	-	**40,856**	44,409

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 1.7.2016	Recognised in profit or loss (Note 25)	Recognised directly in equity	At 30.6.2017/ 1.7.2017	Recognised in profit or loss (Note 25)	Recognised directly in equity	At 30.6.2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Property, plant and equipment	(106,343)	(14,802)	-	(121,145)	(22)	-	**(121,167)**
Unabsorbed capital allowances	81,357	16,240	-	97,597	2,627	-	**100,224**
Unutilised tax losses	14,622	8,583	-	23,205	10,254	-	**33,459**
Employee benefits	6,543	579	-	7,122	598	-	**7,720**
Trade and other payables	5,391	1,928	-	7,319	226	-	**7,545**
Provisions	2,880	-	-	2,880	-	-	**2,880**
Unutilised increased export allowance	21,652	(220)	-	21,432	(1,718)	-	**19,714**
RCULS	7,276	(1,886)	(321)	5,069	(1,863)	(123)	**3,083**
Others	1,299	(1,438)	-	(139)	945	-	**806**
	34,677	8,984	(321)	43,340	11,047	(123)	**54,264**
Company							
Property, plant and equipment	8,089	486	-	8,575	258	-	**8,833**
Unabsorbed capital allowances	6,523	(6,523)	-	-	-	-	**-**
Unutilised tax losses	-	1,045	-	1,045	(1,045)	-	**-**
Employee benefits	3,324	169	-	3,493	121	-	**3,614**
Trade and other payables	1,962	(47)	-	1,915	817	-	**2,732**
Provisions	2,880	-	-	2,880	-	-	**2,880**
Unutilised increased export allowance	21,652	(220)	-	21,432	(1,718)	-	**19,714**
RCULS	7,276	(1,886)	(321)	5,069	(1,863)	(123)	**3,083**
	51,706	(6,976)	(321)	44,409	(3,430)	(123)	**40,856**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

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	
	2018	**2017**
	RM'000	**RM'000**
Unutilised tax losses	**164,978**	295,146
Unabsorbed capital allowances	**1,444**	1,444
Unabsorbed investment tax allowances	**741,566**	741,566
	907,988	1,038,156

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

10. TAX CREDIT RECEIVABLE

Tax credit receivable is attributable to the following:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unutilised reinvestment allowances	**20,890**	22,716	**12,161**	13,221

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 1.7.2016	Recognised in profit or loss (Note 25)	Recognition of unutilised reinvestment allowance	At 30.6.2017/ 1.7.2017	Recognised in profit or loss (Note 25)	Recognition of unutilised reinvestment allowance	At 30.6.2018
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group							
Unutilised reinvestment allowances	18,341	(136)	4,511	22,716	(2,409)	583	**20,890**
Company							
Unutilised reinvestment allowances	13,357	(136)	-	13,221	(1,060)	-	**12,161**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

11. INVENTORIES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Raw materials	**552,615**	430,372	**372,497**	326,664
Work-in-progress	**14,835**	19,351	**-**	-
Finished goods	**137,394**	155,139	**63,212**	80,169
General consumables and other stores	**137,358**	83,704	**8,373**	8,690
	842,202	688,566	**444,082**	415,523
Recognised in profit or loss:				
Inventories recognised as cost of sales	**3,253,538**	2,333,060	**3,509,686**	2,039,909
(Reversal)/Provision for write down of inventories	**(3,262)**	(14,917)	**394**	(25,542)

12. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Trade					
Trade receivables					
- Third parties		**234,170**	154,534	**71,900**	37,683
- Subsidiaries		**-**	-	**31,518**	1,849
- Related parties		**11,140**	6,421	**6,729**	2,940
- Associated companies		**-**	6,137	**-**	6,137
		245,310	167,092	**110,147**	48,609
Non-trade					
Amounts due from:					
- Subsidiaries	12.1	**-**	-	**9,224**	243,990
- Related parties	12.2	**24**	-	**12**	-
- Associated companies	12.2	**1**	6	**1**	6
Other receivables		**18,438**	10,145	**12,243**	4,692
Deposits		**1,090**	1,253	**669**	805
Prepayments		**2,883**	10,490	**678**	8,887

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

	Note	Group		Company	
		2018	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Derivative financial assets					
- Interest rate swap contracts	12.3	**-**	91	**-**	-
- Forward exchange contracts		**52**	66	**-**	-
- Forward exchange contracts designated as hedge instruments		**1,318**	12	**592**	-
		23,806	22,063	**23,419**	258,380
Less: Impairment losses					
- trade		**(6,241)**	(6,213)	**(199)**	(199)
- non-trade (prepayment)		**-**	(7,845)	**-**	(7,845)
		(6,241)	(14,058)	**(199)**	(8,044)
		262,875	175,097	**133,367**	298,945
Goods and services tax receivables		**25,687**	9,773	**15,050**	6,215
		288,562	184,870	**148,417**	305,160

12.1 The non-trade amounts due from subsidiaries are unsecured with no fixed term of repayment. An amount of RM3,002,000 at 30 June 2017 carried an interest rate ranging from 5.37% to 5.46% per annum.

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

12.3 Interest rate swap of the Group is used to achieve an appropriate mix of fixed and floating interest rate exposure. In the current financial year, the Group did not enter any interest rate swap to hedge the cash flow risk in relation to the floating interest rate of a bank loan. The previous financial year's interest rate swap with nominal value of RM55,000,000 matured during the financial year.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits with licensed banks	**35,556**	32,244	**13,620**	11,435
Cash and bank balances	**18,994**	54,298	**8,748**	7,437
	54,550	86,542	**22,368**	18,872

NOTES TO THE FINANCIAL STATEMENTS
cont'd

14. SHARE CAPITAL

	Group and Company			
	2018		2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued ordinary shares:				
At 1 July	**429,022**	**464,874**	419,417	419,417
Conversion of RCULS	**4,620**	**4,620**	9,605	9,605
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 **(Note 14.1)**	**-**	**-**	-	35,852
At 30 June	**433,642**	**469,494**	429,022	464,874
		(Note 14.2)		

14.1 In accordance with Section 618(2) of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has 24 months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

14.2 Included in share capital is share premium amounting to RM35,852,000 (2017 : RM35,852,000) that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74).

15. RESERVES

	Note	Group		Company	
		2018	2017	2018	2017
		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**	140	**-**	-
Fair value reserve	15.3	**-**	1,057	**-**	1,037
Foreign currency translation reserve	15.4	**1,730**	1,782	**-**	-
Hedging reserve	15.5	**221**	(651)	**592**	(260)
Executive share scheme reserve	15.6	**5,898**	1,015	**3,101**	604
Retained earnings		**317,496**	121,349	**342,560**	321,116
		355,495	154,692	**379,853**	356,097

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

15. RESERVES *cont'd*

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 Fair value reserve represents the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired under the MFRS 139.

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

15.5 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.

15.6 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).

16. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS

	Group/Company	
	2018	**2017**
	RM'000	**RM'000**
RCULS - Equity portion	**141,524**	145,544
RCULS - Liability portion		
- Non-current	**8,205**	16,579
- Current	**4,665**	4,564
	12,870	21,143
	154,394	166,687

In the financial year ended 30 June 2015, the Company issued RM185,741,000 nominal value of 5-year 5% Redeemable Convertible Unsecured Loan Stocks ("RCULS") at 100% of its nominal value by way of a renounceable rights issue to shareholders on the basis of RM1.00 nominal value of rights RCULS for every 2 existing ordinary shares of RM1.00 each held in the Company ("SSB Shares").

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

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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

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 (2017 : RM175,656,000) nominal value of RCULS remained unconverted.

	2018 RM'000	2017 RM'000
RCULS - equity portion at 1 July	**145,544**	153,900
Conversion of RCULS to share capital	**(4,020)**	(8,356)
At 30 June	**141,524**	145,544

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

	2018 RM'000	2017 RM'000
RCULS - liability portion at 1 July	**21,143**	30,306
Coupon payment	**(8,680)**	(9,223)
Interest accreted **(Note 23)**	**859**	1,318
Conversion of RCULS to share capital	**(557)**	(1,339)
Others	**105**	81
At 30 June	**12,870**	21,143

NOTES TO THE FINANCIAL STATEMENTS
cont'd

17. DEFERRED INCOME

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current				
Reinvestment allowance	**10,682**	11,721	**8,610**	10,021

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 RM1,622,000 (2017 : RM6,036,000) and RM1,411,000 (2017 : 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 RM583,000 (2017 : RM4,511,000) of unutilised reinvestment allowance from a subsidiary.

18. EMPLOYEE BENEFITS

(a) Unfunded retirement benefits

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current	**31,632**	28,880	**14,785**	14,282
Current	**534**	795	**274**	274
	32,166	29,675	**15,059**	14,556

Movements in net defined benefit liability

	Defined benefit obligations	
	2018	**2017**
	RM'000	**RM'000**
Group		
At 1 July	**29,675**	27,262
Included in profit or loss		
Current service cost	**2,001**	1,801
Interest cost	**1,392**	1,230
	3,393	3,031
Others		
Benefits paid	**(902)**	(618)
At 30 June	**32,166**	29,675

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	
	2018	**2017**
	RM'000	**RM'000**
Company		
At 1 July	**14,556**	13,850
Included in profit or loss		
Current service cost	**245**	238
Interest cost	**864**	815
	1,109	1,053
Others		
Benefits paid	**(606)**	(347)
At 30 June	**15,059**	14,556

Actuarial assumptions

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	%	**%**	**%**	**%**
Discount rate	**5.75**	5.75	**5.75**	5.75
Expected rates of salary increases	**5.00**	5.00	**5.00**	5.00
Weighted-average duration	**10 - 13 years**	10 - 13 years	**13 years**	13 years

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
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)**
2017				
Discount rate (1% movement)	(3,214)	2,875	(1,603)	1,705
Future salary growth (1% movement)	3,170	(3,337)	1,722	(1,486)

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.

(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").

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*

(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 last financial year, the Group granted conditional incentive share options ("Options") over 22,250,000 ordinary shares in the Company at an exercise price of RM1.40 per share to certain eligible executives subject to the achievement of certain performance criteria by the Option holders over the option performance period. None of the Options had been vested or exercised as at 30 June 2018. Options over 19,250,000 shares in the Company remain outstanding as at 30 June 2018.

Since the commencement of the ESS, the Group granted a total of 22,250,000 Options and 19,250,000 Options remain outstanding as at 30 June 2018. None of the Options had been vested or exercised during FY 2018. The aggregate Options granted to directors and chief executives (including a past chief executive) of the Group amounted to 18,250,000 Options and 15,250,000 Options remain outstanding as at 30 June 2018. 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 2018.

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.

There were no shares granted or Options over shares granted or vested to eligible executives, directors and chief executives of the Group during financial year 2018.

The number of share options are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	'000	**'000**	**'000**	**'000**
Outstanding at 1 July	**22,250**	-	**13,125**	-
Granted during the year	**-**	22,250	**-**	13,125
Forfeited during the year	**(3,000)**	-	**(3,000)**	-
Outstanding at 30 June	**19,250**	22,250	**10,125**	13,125

There were no shares granted or options over shares vested under the ESS of the Company during the financial year ended 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS
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18. EMPLOYEE BENEFITS *cont'd*

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

Weighted average fair value of share options and assumptions

	Group/ Company 2018/2017
Weighted average fair value at grant date	RM0.75
At grant date:	
Weighted average share price	RM1.58
Weighted average exercise price	RM1.40
Expected volatility (weighted average volatility)	49.50%
Option life (expected weighted average life)	5 years
Weighted average expected dividends	0.58%
Weighted average risk-free interest rate (based on Malaysian government bonds)	3.71%

Value of employee services received for issue of share options

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 July	**1,015**	-	**604**	-
Share options granted	**5,519**	1,015	**3,133**	604
Share options forfeited	**(636)**	-	**(636)**	-
	4,883	1,015	**2,497**	604
At 30 June	**5,898**	1,015	**3,101**	604

19. PROVISIONS

	Legal RM'000	Environmental RM'000	Total RM'000
Group			
At 1 July 2017	14,047	12,000	26,047
Provisions made during the year	8,191	-	8,191
Paid during the year	(12,293)	-	(12,293)
At 30 June 2018	**9,945**	**12,000**	**21,945**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

19. PROVISIONS *cont'd*

Legal - Group

The provision for legal costs is related to the arbitration as disclosed in Note 35 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.

20. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

		Group		Company	
	Note	2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Trade					
Trade payables					
- Third parties		**169,662**	119,229	**100,473**	80,594
- Subsidiaries		**-**	-	**4,829**	27,599
- Related parties		**232**	341	**136**	-
		169,894	119,570	**105,438**	108,193
Non-trade					
Amount due to:					
- Subsidiaries	20.2	**-**	-	**65,260**	65,139
- Related parties	20.2	**2,220**	-	**688**	-
Other payables	20.1	**110,862**	133,947	**6,954**	6,654
Accrued expenses		**91,058**	96,184	**49,054**	51,746
Derivative financial liabilities					
- Forward exchange contracts		**45**	9	**25**	-
- Forward exchange contracts designated as hedge instruments		**-**	149	**-**	65
- Interest rate swap contracts	20.3	**-**	46	**-**	46
		204,185	230,335	**121,981**	123,650
		374,079	349,905	**227,419**	231,843
Goods and services tax payables		**-**	1,733	**-**	-
		374,079	351,638	**227,419**	231,843

20.1 Included in other payables of the Group is an amount to a supplier of plant and machinery by a subsidiary company of RM85,713,000 (2017 : RM88,737,000), of which RM72,525,000 (2017 : RM74,719,000) is bearing interest at 1% (2017 : 1%) per annum. This amount is also part of the arbitration proceedings mentioned in Note 35.

NOTES TO THE FINANCIAL STATEMENTS
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20. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES *cont'd*

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

20.3 Interest rate swap of the Group and the Company is used to achieve an appropriate mix of fixed and floating interest rate exposure. In the current financial year, the Group did not enter any interest rate swap to hedge the cash flow risk in relation to the floating interest rate of a bank loan. The previous financial year's interest rate swap with nominal value of RM16,920,800 matured during the financial year.

21. BORROWINGS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current (Unsecured)				
Term loans	**189,958**	286,491	**-**	16,921
Current (Unsecured)				
Bank overdrafts	**788**	22	**5**	22
Bankers' acceptances	**676,399**	603,784	**489,834**	429,334
Revolving credits	**101,000**	108,000	**88,000**	88,000
Term loans	**81,921**	63,842	**16,921**	33,842
	860,108	775,648	**594,760**	551,198
	1,050,066	1,062,139	**594,760**	568,119

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 30 June 2018
	RM'000	**RM'000**	**RM'000**
Group			
Bankers' acceptances	603,784	72,615	**676,399**
Revolving credits	108,000	(7,000)	**101,000**
Term loans	350,333	(78,454)	**271,879**
	1,062,117	(12,839)	**1,049,278**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

21. BORROWINGS *cont'd*

21.1 Reconciliation of movements of liabilities to cash flows arising from financing activities *cont'd*

	At 1 July 2017	Net change from financing cash flows	At 30 June 2018
	RM'000	RM'000	RM'000
Company			
Bankers' acceptances	429,334	60,500	**489,834**
Revolving credits	88,000	-	**88,000**
Term loans	50,763	(33,842)	**16,921**
	568,097	26,658	**594,755**

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 2018	**271,879**	**81,921**	**105,000**	**84,958**	**-**	**-**
At 30 June 2017	350,333	63,842	96,921	105,000	84,570	-
Company						
At 30 June 2018	**16,921**	**16,921**	**-**	**-**	**-**	**-**
At 30 June 2017	50,763	33,842	16,921	-	-	-

21.3 Interest rates

	Group		Company	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
	%	%	%	%
	Per annum	Per annum	Per annum	Per annum
Bank overdrafts	**7.90**	7.65	**7.90**	7.65
Bankers' acceptances/Revolving credits	**3.72 - 5.30**	3.44 - 5.04	**3.72 - 5.20**	3.44 - 4.76
Term loans	**5.37 - 5.58**	5.11 - 5.27	**5.37**	5.11

NOTES TO THE FINANCIAL STATEMENTS
cont'd

22. REVENUE

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Sales of goods	**3,698,191**	2,638,142	**3,617,841**	2,125,768
Dividend income	**-**	-	**20,372**	8,377
	3,698,191	2,638,142	**3,638,213**	2,134,145

23. FINANCE COSTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest expense on:				
Borrowings	**46,462**	47,076	**22,862**	23,282
RCULS	**859**	1,318	**859**	1,318
Others	**1,273**	70	**17**	70
	48,594	48,464	**23,738**	24,670

24. PROFIT BEFORE TAXATION

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Auditors' remuneration				
Statutory audits				
- KPMG PLT				
- current year	**317**	319	**130**	130
- prior year	**-**	26	**-**	14
Other services				
- KPMG PLT	**3**	6	**3**	6
Amortisation of deferred income	**(1,622)**	(6,036)	**(1,411)**	(1,411)
Dividend income				
- Subsidiary companies	**-**	-	**(19,822)**	(8,102)
- Associate	**-**	-	**(550)**	(275)

NOTES TO THE FINANCIAL STATEMENTS
cont'd

24. PROFIT BEFORE TAXATION *cont'd*

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Gain on disposal of unquoted investment in Malaysia	**-**	(2,993)	**-**	-
Personnel expenses (including Directors' remuneration)				
- Salaries and other expenses	**134,533**	129,628	**41,614**	41,530
- Contribution to Employees Provident Fund	**12,922**	12,987	**3,731**	3,778
- Retirement benefits	**3,393**	3,031	**1,109**	1,053
- Share-based payments	**4,883**	1,015	**2,497**	604
	155,731	146,661	**48,951**	46,965
Loss/(Gain) on foreign exchange				
- realised	**3,754**	(2,401)	**2,286**	(492)
- unrealised	**(3,690)**	8,209	**13**	(21)
Property, plant and equipment				
- Gain on disposal	**-**	(44)	**-**	(44)
- Write-off	**18**	1,131	**2**	-
Rental expense	**1,522**	2,367	**926**	725
Rental income	**(52)**	(84)	**(7,642)**	(7,675)
(Reversal)/Provision for write-down of inventories	**(3,262)**	(14,917)	**394**	(25,542)
Reversal of provision for onerous contracts	**-**	(7,276)	**-**	(2,245)
Management fee income	**-**	-	**(14,749)**	(15,948)
Sundry income	**(3,556)**	(4,261)	**(1,889)**	(1,786)

NOTES TO THE FINANCIAL STATEMENTS
cont'd

25. TAXATION

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current taxation				
- Current year	**23,081**	30,505	**1,384**	965
- Prior year	**(1,829)**	(6,728)	**(47)**	(1,597)
	21,252	23,777	**1,337**	(632)
Deferred taxation				
- Current year	**(10,628)**	(7,187)	**3,427**	8,195
- Prior year	**(419)**	(1,797)	**3**	(1,219)
	(11,047)	(8,984)	**3,430**	6,976
Utilisation of tax credit receivable arising from unutilised reinvestment allowances (Note 10)				
- Current year	**2,312**	136	**963**	136
- Prior year	**97**	-	**97**	-
	2,409	136	**1,060**	136
	12,614	14,929	**5,827**	6,480

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit before taxation	**223,859**	110,122	**41,981**	44,486
Taxation at Malaysian statutory tax rates of 24%	**53,726**	26,429	**10,075**	10,677
Non-deductible expenses	**2,402**	8,561	**940**	996
Non-taxable income	**(348)**	(2,150)	**(5,228)**	(2,349)
Effect of tax incentive	**(9,865)**	(9)	**-**	-
Difference attributable to associated companies	**(87)**	(373)	**-**	-
Previously unrecognised deferred tax assets utilised	**(31,240)**	(9,079)	**-**	-
Others	**177**	75	**(13)**	(28)
	14,765	23,454	**5,774**	9,296
(Over)/Under provision in prior years	**(2,151)**	(8,525)	**53**	(2,816)
	12,614	14,929	**5,827**	6,480

NOTES TO THE FINANCIAL STATEMENTS
cont'd

26. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated by dividing the Group's profit attributable to owners of the Company of RM210,847,000 (2017 : RM93,295,000) by the weighted average number of ordinary shares outstanding during the financial year of 432,240,000 (2017 : 422,669,000).

Weighted average number of ordinary shares (basic)

	2018 '000	2017 '000
Number of ordinary shares at 1 July	429,022	419,417
Effect of conversion of RCULS	3,219	3,252
Weighted average number of ordinary shares at 30 June	432,241	422,669
Basic earnings per ordinary share (sen)	48.78	22.07

Diluted earnings per ordinary share

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	2017 RM'000
Profit attributable to owners of the Company (basic)	**210,847**	93,295
Interest expense on RCULS	**859**	1,318
Profit attributable to owners of the Company (diluted)	**211,706**	94,613

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

	'000	'000
Weighted average number of ordinary shares at 30 June (basic)	**432,241**	422,669
Effect of conversion of RCULS	**164,073**	167,292
Weighted average number of ordinary shares at 30 June (diluted)	**596,314**	589,961
Diluted earnings per ordinary share (sen)	**35.50**	16.04

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

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			
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**
2017			
Items that are or may be reclassified subsequently to profit or loss			
Gain on fair value of available-for-sale financial assets	1,046	-	1,046
Cash flow hedge			
- Gain arising during the year	2,174	-	2,174
- Reclassification adjustment for gain included in profit or loss	(824)	-	(824)
	1,350	-	1,350
	2,396	-	2,396

28. DIVIDEND

	Group and Company	
	2018	2017
	RM'000	RM'000
Interim single tier		
3.5 sen per share (2017 : 3.0 sen per share)	**15,177**	12,864

NOTES TO THE FINANCIAL STATEMENTS
cont'd

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	
		2018	**2017**
		RM'000	**RM'000**
Transactions			
(a)	Sale of goods	**1,989,447**	999,751
(b)	Purchase of goods	**1,484,027**	754,732
(c)	Rental expenses	**324**	313
(d)	Rental income	**7,592**	7,598
(e)	Interest income	**54**	115
(f)	Management fees income	**14,749**	15,948
(g)	Management fees expenses	**2,148**	780
(h)	Cut and bend related charges	**5,018**	3,922
(i)	Dividend income	**19,822**	8,102

NOTES TO THE FINANCIAL STATEMENTS
cont'd

29. RELATED PARTIES *cont'd*

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

(ii) Transactions with related parties

			Group		Company	
			2018	2017	2018	2017
		Related party	RM'000	RM'000	RM'000	RM'000
Transactions						
(a)	Receipt of Group management and/or support services	Subsidiary of HLCM	**10,618**	7,546	**3,690**	4,188
(b)	Sale of goods	HBH & HBE	**87,681**	60,337	**58,949**	41,788
		Subsidiary of HLCM	**107,532**	108,586	**65,838**	75,037
		Associated company of SSB	**-**	30,020	**-**	30,020
(c)	Purchase of goods	HBH	**1,321**	1,041	**-**	-
		Subsidiary of HLCM	**47**	42	**-**	14
(d)	Purchase of insurance	Subsidiary of HLCM	**77**	456	**77**	69
(e)	Freight charges	SHG	**44**	16	**28**	16

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 Company are as follows:

		Group		Company	
	Note	**2018**	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Executive Directors					
Remuneration and other benefits	29.2.1	**3,880**	2,584	**3,880**	2,564
Non-Executive Directors					
Fees	29.2.2	**587**	531	**587**	530

29.2.1 The estimated monetary value of benefit-in-kind of the Directors of the Company is RM31,750 (2017 : RM31,000).

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

30. OPERATING SEGMENTS

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

The Group comprises the following reportable segments:

a) Steel products
b) Investment holding and others

Segment profit

Performance is measured based on segment 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
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)**
2017			
Segment Profit	152,488	3,148	155,636
Interest income			1,397
Finance costs			(48,464)
Share of profit in associated companies, net of tax			1,553
Consolidated profit before taxation			110,122
Included in the measure of segment profit are:			
Revenue from external customers	2,638,142	-	2,638,142
Reversal of write down of inventories	(14,917)	-	(14,917)
Property, plant and equipment written off	1,131	-	1,131
Depreciation	61,116	24	61,140
Share based payments	1,015	-	1,015
Amortisation of deferred income	(6,036)	-	(6,036)

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	
	2018	**2017**
	RM'000	**RM'000**
Malaysia	**3,201,000**	2,418,398
Singapore	**45,864**	45,258
Indonesia	**60,890**	28,816
The United States of America	**75,710**	53,815
Australia	**54,386**	4,499
Canada	**159,281**	-
Others	**101,060**	87,356
	3,698,191	2,638,142

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	
	2018	**2017**
	RM'000	**RM'000**
Malaysia	1,186,527	1,227,862

31. CAPITAL COMMITMENTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment				
- Authorised but not contracted for	**24,892**	6,830	**170**	298

NOTES TO THE FINANCIAL STATEMENTS
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32. FINANCIAL INSTRUMENTS

32.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised under MFRS 9 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")

	Carrying amount	FAAC	FVTPL	FVOCI - EIDUIR	Derivatives used for hedging
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
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*

	Carrying amount	FLAC	FVTPL	Derivatives used for hedging
	RM'000	RM'000	RM'000	RM'000
2018				
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
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32. FINANCIAL INSTRUMENTS *cont'd*

32.1 Categories of financial instruments *cont'd*

The table below provides an analysis of financial instruments categorised under MFRS 139 as follows:

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

	Carrying amount	L&R/ FL	FVTPL - HFT	AFS	Derivatives used for hedging
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Financial assets					
Group					
Other investments	1,427	-	-	1,427	-
Trade and other receivables, including derivatives (excluding deposits, prepayments and goods and services tax receivables)	171,199	171,030	157	-	12
Cash and cash equivalents	86,542	86,542	-	-	-
	259,168	257,572	157	1,427	12
Company					
Other investments	1,427	-	-	1,427	-
Trade and other receivables, including derivatives (excluding deposits, prepayments and goods and services tax receivables)	297,098	297,098	-	-	-
Cash and cash equivalents	18,872	18,872	-	-	-
	317,397	315,970	-	1,427	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.1 Categories of financial instruments *cont'd*

	Carrying amount RM'000	L&R/ FL RM'000	FVTPL - HFT RM'000	Derivatives used for hedging RM'000
2017				
Financial liabilities				
Group				
RCULS - liability portion	21,143	21,143	-	-
Borrowings	1,062,139	1,062,139	-	-
Trade and other payables, including derivatives (excluding goods and services tax payables)	349,905	349,701	55	149
	1,433,187	1,432,983	55	149
Company				
RCULS - liability portion	21,143	21,143	-	-
Borrowings	568,119	568,119	-	-
Trade and other payables, including derivatives (excluding goods and services tax payables)	231,843	231,732	46	65
	821,105	820,994	46	65

32.2 Net gains and losses arising from financial instruments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net (losses)/gains arising on:				
Financial assets measured at amortised cost	**2,025**	-	**553**	-
Loans and receivables	**-**	1,204	**-**	341
Financial liabilities measured at amortised cost	**(48,658)**	(54,272)	**(26,037)**	(24,157)
Fair value through profit or loss:				
- Gain on financial instruments designated as hedge instruments	**1,455**	1,095	**657**	2,174
- (Loss)/Gain on fair value of derivative instruments	**(94)**	356	**22**	23
Fair value through other comprehensive income:				
- Gain on available-for-sale financial assets	**-**	1,046	**-**	1,046
- Fair value loss on equity investment	**(404)**	-	**(404)**	-
	(45,676)	(50,571)	**(25,209)**	(20,573)

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

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.

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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Malaysia	**187,158**	132,355	**108,365**	48,410
Singapore	**7,975**	11,548	**-**	-
Philippines	**1,487**	5,656	**-**	-
The United States of America	**4,571**	4,660	**-**	-
India	**2,089**	2,325	**-**	-
Canada	**25,795**	-	**-**	-
Others	**9,994**	4,335	**1,583**	-
	239,069	160,879	**109,948**	48,410

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 1 July 2017 and 30 June 2018

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.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June 2018.

	Gross carrying amount	Loss allowance	Net carrying amount
	RM'000	RM'000	RM'000
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
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32. FINANCIAL INSTRUMENTS *cont'd*

32.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Receivables *cont'd*

Comparative under MFRS 139 Financial Instruments

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the aging of trade receivables that were past due but not impaired as at 1 July 2017 is as follows:

	Gross	Individual impairment	Net
	RM'000	RM'000	RM'000
Group			
Not past due	146,586	-	146,586
Past due 1 - 30 days	11,959	-	11,959
Past due 31 - 120 days	2,048	(5)	2,043
Past due more than 120 days	6,499	(6,208)	291
	167,092	(6,213)	160,879
Company			
Not past due	47,262	-	47,262
Past due 1 - 30 days	1,148	-	1,148
Past due 31 - 120 days	-	-	-
Past due more than 120 days	199	(199)	-
	48,609	(199)	48,410

Movements in the allowance for impairment in respect of trade receivables

On the date of initial application of MFRS 9, there was no adjustments on the ending balance of the allowance for impairment reported under the previous MFRS 139 to derive the opening balance allowance for impairment loss determined in accordance with MFRS 9.

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 *cont'd*

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
		Individual impairment		**Individual impairment**
Balance at 1 July per MFRS 9	**6,213**	6,213	**199**	199
Net measurement of loss allowance	**28**	-	**-**	-
Balance at 30 June	**6,241**	6,213	**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.

Comparative amounts for 2017 represent the allowance account for impairment losses under MFRS 139, *Financial Instruments*.

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 its 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

The Group's and 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 RM255 million (2017 : RM300 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
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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						
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
Group						
2017						
Non-derivative financial liabilities						
RCULS – liability portion	21,143	5.00	22,569	5,123	8,783	8,663
Borrowings	1,062,139	3.44 - 7.65	1,100,998	792,829	109,430	198,739
Trade and other payables	274,982	-	274,982	274,982	-	-
Other payables	74,719	1.00	74,719	74,719	-	-
	1,432,983		1,473,268	1,147,653	118,213	207,402
Derivative financial liabilities						
Interest rate swap contracts	46	-	46	46	-	-
Forward exchange contracts:						
- outflow	158	-	42,977	42,977	-	-
- inflow	-	-	(42,819)	(42,819)	-	-
	1,433,187		1,473,472	1,147,857	118,213	207,402

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.3 Financial risk management *cont'd*

(b) Liquidity risk *cont'd*

Maturity analysis *cont'd*

	Carrying amount	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*

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

(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").

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*

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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amount denominated in USD:				
Trade and other receivables	**44,803**	19,300	**1,667**	-
Trade and other payables	**(2,146)**	(10,359)	**(1,647)**	(9,309)
Cash and bank balances	**4,354**	19,450	**1,600**	1,641
Forward exchange contracts	**1,300**	(149)	**567**	(65)
Net exposure	**48,311**	28,242	**2,187**	(7,733)
Amount denominated in SGD:				
Trade and other receivables	**7,915**	9,464	**-**	-
Trade and other payables	**(14)**	-	**(14)**	-
Cash and bank balances	**2,299**	318	**-**	-
Forward exchange contracts	**25**	(9)	**-**	-
Net exposure	**10,225**	9,773	**(14)**	-
Amount denominated in EURO:				
Trade and other payables	**(85,940)**	(88,897)	**(85)**	(75)
Net exposure	**(85,940)**	(88,897)	**(85)**	(75)
Amount denominated in JPY:				
Trade and other payables	**(267)**	-	**(267)**	-
Net exposure	**(267)**	-	**(267)**	-

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*

Currency risk sensitivity analysis

A 5% (2017 : 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.

	Profit or loss			
	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
USD	**(2,416)**	(1,412)	**(109)**	387
SGD	**(511)**	(489)	**1**	-
EURO	**4,297**	4,449	**4**	4
JPY	**13**	-	**13**	-

A 5% (2017 : 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.

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*

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	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Fixed rate instruments				
Financial assets	**35,556**	32,244	**13,620**	14,437
Financial liabilities	**(790,269)**	(732,927)	**(590,704)**	(538,477)
	(754,713)	(700,683)	**(577,084)**	(524,040)
Floating rate instrument				
Financial liabilities	**(345,192)**	(425,074)	**(16,926)**	(50,785)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Group and the Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group and 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 RM1,726,000 and RM85,000 respectively (2017 : RM2,125,000 and RM254,000 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. FINANCIAL INSTRUMENTS *cont'd*

32.4 Fair value information

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

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

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**
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**
2017										
Financial assets										
Investment in quoted shares	1,427	-	-	1,427	-	-	-	-	1,427	1,427
Financial liabilities										
RCULS - liability portion	-	-	-	-	-	-	22,569	22,569	22,569	21,143
Forward exchange contracts	-	65	-	65	-	-	-	-	65	65
Interest rate swap	-	46	-	46	-	-	-	-	46	46
Term loan	-	-	-	-	-	-	50,763	50,763	50,763	50,763

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. CHANGES IN ACCOUNTING POLICY

Classification of financial assets and financial liabilities upon early adoption of MFRS 9

The following table shows the initial measurement under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Group's and Company's financial assets and financial liabilities as at 1 July 2017 based on the business model assessment done.

Group

Notes	Financial assets	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139	Carrying amount under MFRS 9
				RM'000	RM'000
8	Quoted shares	Available-for-sale	FVOCI-EIDUIR	1,427	1,427
12	Trade and other receivables	Loans and receivables	Financial assets measured at amortised cost	171,030	171,030
	- Derivative financial assets				
	- Interest rate swap contracts	Fair value through profit or loss	Fair value through profit or loss	91	91
	- Forward exchange contracts	Fair value through profit or loss	Fair value through profit or loss	66	66
	- Forward exchange contracts designated as hedge instruments	Cash flow hedge	Cash flow hedge	12	12
13	Cash and cash equivalents	Loans and receivables	Financial assets measured at amortised cost	86,542	86,542
	Total financial assets			259,168	259,168

NOTES TO THE FINANCIAL STATEMENTS
cont'd

33. CHANGES IN ACCOUNTING POLICY *cont'd*

Classification of financial assets and financial liabilities upon early adoption of MFRS 9 *cont'd*

Company

Notes	Financial assets	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139 RM'000	Carrying amount under MFRS 9 RM'000
8	Quoted shares	Available-for-sale	FVOCI-EIDUIR	1,427	1,427
12	Trade and other receivables	Loans and receivables	Financial assets measured at amortised cost	297,098	297,098
13	Cash and cash equivalents	Loans and receivables	Financial assets measured at amortised cost	18,872	18,872
	Total financial assets			317,397	317,397

Group

Notes	Financial liabilities	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139 RM'000	Carrying amount under MFRS 9 RM'000
16	RCULS – liability portion	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	21,143	21,143
21	Loans and borrowings	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	1,062,139	1,062,139
20	Trade and other payables	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	349,701	349,701
	- Derivative financial assets				
	- Interest rate swap contracts	Fair value through profit or loss	Fair value through profit or loss	46	46
	- Forward exchange contracts	Fair value through profit or loss	Fair value through profit or loss	9	9
	- Forward exchange contracts designated as hedge instruments	Cash flow hedge	Cash flow hedge	149	149
	Total financial liabilities			1,433,187	1,433,187

NOTES TO THE FINANCIAL STATEMENTS
cont'd

33. CHANGES IN ACCOUNTING POLICY *cont'd*

Classification of financial assets and financial liabilities upon early adoption of MFRS 9 *cont'd*

Company

Notes	Financial liabilities	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139	Carrying amount under MFRS 9
				RM'000	RM'000
16	RCULS – liability portion	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	21,143	21,143
21	Loans and borrowings	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	568,119	568,119
20	Trade and other payables	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	231,732	231,732
	- Derivative financial assets				
	- Interest rate swap contracts	Fair value through profit or loss	Fair value through profit or loss	46	46
	- Forward exchange contracts designated as hedge instruments	Cash flow hedge	Cash flow hedge	65	65
	Total financial liabilities			821,105	821,105

(a) Reclassification from available-for-sale to FVOCI-EIDUIR

Investments in quoted shares are investments that the Group and the Company intend to hold for long term strategic purposes. As permitted by MFRS 9, the Group and the Company have designated these investments as measured at FVOCI at the date of initial application.

(b) Reclassification from loans and receivables to amortised cost

Trade and other receivables are reclassified from loan and receivables to amortised cost under MFRS 9. There are no changes in the allowance for impairment of trade receivables that was recognised in opening retained earnings at 1 July 2017.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

34. 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	
	2018	**2017**
	RM'000	**RM'000**
Total borrowings (including RCULS - liability portion)	**1,062,936**	1,083,282
Less: Cash and cash equivalents	**(54,550)**	(86,542)
Net debt	**1,008,386**	996,740
Total equity	**972,087**	770,258
Debt-to-equity ratio	**1.04**	1.29

35. MATERIAL LITIGATION

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

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

i. Commencement of Arbitration Proceedings by SHRC

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

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

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

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

Danieli and DMSB are seeking several declarations in relation to the Contract and the Service Agreement and claiming damages, interest and costs as well as payment of €34,908,670,70. As mentioned in Note 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

35. MATERIAL LITIGATION *cont'd*

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 parties are still in the process of filing the relevant documents as directed by the Tribunal. The Tribunal has fixed 30 October 2018 to 9 November 2018 for oral hearing of the arbitration.

iv. Commencement of Court Proceeding against SHRC by Danieli Thailand

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

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

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

The Kuala Lumpur Sessions Court dismissed SHRC's Application. SHRC appealed to the Kuala Lumpur High Court ("SHRC Appeal") against the Sessions Court's decision.

The Kuala Lumpur High Court dismissed SHRC Appeal. SHRC is appealing to the Court of Appeal against the High Court's decision.

Both parties have now agreed to an amicable settlement, without admission of liability, and the Court proceeding has been withdrawn accordingly.

The settlement is not expected to have material impact on the earnings of SSB Group for the current financial year.

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 50 to 147 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 2018 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

24 August 2018

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 50 to 147 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 24 August 2018.

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 2018 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 50 to 147.

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 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Emphasis of Matters

Uncertainty of the outcome of the arbitration process

Without qualifying our opinion, we draw attention to Note 35 which describes the uncertainty in respect of the outcome of the arbitrations among the Group, Danieli & C. Officine Meccaniche S.p.A, Danieli Malaysia Sdn Bhd and Danieli Co. Ltd.

INDEPENDENT AUDITORS' REPORT

to the members of Southern Steel Berhad
(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	
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 the Group'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.

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.

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*

Early adoption of MFRS 9, Financial Instruments - Group and Company	
Refer to the accounting policy on Note 2.1 Basis of preparation - use of estimates and judgements, Note 2.2(e) Financial Instruments, Note 2.2(f)(i) Impairment of financial assets, Note 32 - Financial Instruments and Note 33 - changes in accounting policy, to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Group and the Company early adopted MFRS 9 in the current financial year ended 30 June 2018. MFRS 9 requires the Group and the Company to change the accounting policies to account for financial instruments. New judgements were applied to classify financial assets and to measure impairment loss using the expected credit loss model. In addition, additional disclosures were made to comply with the requirements of MFRS 7, *Financial Instruments: Disclosures*. This is one of the key audit matters because of the complexities and subjective judgements surrounding classification and measurement which increased the risks of material misstatements.	Our audit procedures, amongst others include: • Evaluated the appropriateness of the accounting policies based on the requirements of MFRS 9; • Evaluated the appropriateness of the classification and measurement of financial assets of the Group and the Company; • Challenged the adequacy of the impairment losses recorded by the Group and the Company by comparing them with our expectation pursuant to the new standard; and • Assessed the disclosures made by comparing them with the requirements of MFRS 7.

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.

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

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.

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.

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*

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.

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

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

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

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

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.

INDEPENDENT AUDITORS' REPORT

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

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

Penang

24 August 2018

Thong Foo Vung
Approval Number : 02867/08/2020 J
Chartered Accountant

OTHER INFORMATION

1. PROPERTIES HELB BY THE GROUP AS AT 30 JUNE 2018

	Location	Tenure	Existing Use	Acquisition Date	Approximate Area	Approximate Age of Building (Year)	Net Book Value as at 30 June 2018 (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	4	174,619
	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	4	
	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	4	
	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	4	
	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	4	
	Plot 524(c), Prai Industrial Park	Leasehold expiring on 24 Oct 2073	Office and factory building	04 Apr 2012	1.41 acres	4	
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	15-16	24,826

OTHER INFORMATION
cont'd

1. PROPERTIES HELB BY THE GROUP AS AT 30 JUNE 2018 *cont'd*

	Location	Tenure	Existing Use	Acquisition Date	Approximate Area	Approximate Age of Building (Year)	Net Book Value as at 30 June 2018 (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	20-22	
	No PT 3178 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 09 Apr 2050	Factories	19 Oct 1990	2.60 acres	20	
	2595 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 09 Apr 2050	Factories	07 Oct 1991	2.60 acres	20	
	2613 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang	Leasehold expiring on 21 Mar 2050	Factories	23 Sep 1991	5.10 acres	20	16,213
	No PT 3831 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 21 Oct 2054	Factories	25 May 1993	1.31 acres	20	
	No PT 3980 Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 25 Jan 2059	Drains	12 Aug 1996	2.13 acres	-	
	No PT 4271 (formerly Plot 596) Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 04 Nov 2064	Vacant Land	18 Mar 1998	0.12 hectares	-	
4	4457 Mukim 15 Jalan Chain Ferry 12100 Butterworth Penang	Freehold	Factory Godown	12 Jun 1989	413,427 sq ft	22-49	25,012
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	8	22,563
6	PT 4639, Mukim 1 Seberang Perai Tengah Penang	Leasehold expiring on 01 Jul 2112	Vacant Land	25 Mar 2013	7.25 hectares	-	18,545

OTHER INFORMATION
cont'd

1. PROPERTIES HELB BY THE GROUP AS AT 30 JUNE 2018 *cont'd*

	Location	Tenure	Existing Use	Acquisition Date	Approximate Area	Approximate Age of Building (Year)	Net Book Value as at 30 June 2018 (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	22-37	13,028
8	Rawang Integrated Industrial Park	Freehold	Office and factory building	20 Apr 1994	4.63 hectares	21	10,808
9	3081 Jalan Besar Nibong Tebal, Penang	Freehold	Office and factory building	22 Jun 1998	304,210 sq ft	22-54	10,535
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	18	7,351

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 28 SEPTEMBER 2018

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

Distribution Schedule Of Shareholders As At 28 September 2018

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	54	1.25	1,949	0.00
100 – 1,000	1,205	27.85	1,109,387	0.25
1,001 – 10,000	2,159	49.90	9,872,138	2.28
10,001 – 100,000	795	18.37	26,831,607	6.19
100,001 – less than 5% of issued shares	111	2.56	77,696,688	17.92
5% and above of issued shares	3	0.07	318,130,532	73.36
	4,327	100.00	433,642,301	100.00

List Of Thirty Largest Shareholders As At 28 September 2018

	Name of Shareholders	No. of Shares	%
1.	Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Manufacturing Group Sdn. Bhd.	204,728,115	47.21
2.	Assets Nominees (Tempatan) Sdn Bhd - Signaland Sdn. Bhd.	87,432,194	20.16
3.	Southern Amalgamated Co Sdn Bhd	25,970,223	5.99
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)	3,829,700	0.88
7.	Hock Kheng Industries Sdn Bhd	3,500,000	0.81
8.	UOBM Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Southern Amalgamated Co. Sdn Bhd (PGB)	3,500,000	0.81
9.	Lim Seow Chin	2,200,000	0.51
10.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lai Siak Hwee (E-BPT)	2,011,100	0.46
11.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Hwang Enterprises Sdn Bhd (507040214111)	2,000,000	0.46

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 28 SEPTEMBER 2018 *cont'd*

List Of Thirty Largest Shareholders As At 28 September 2018 *cont'd*

	Name of Shareholders	No. of Shares	%
12.	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inbamanay A/P M J Arumanayagam (8061712)	1,543,300	0.36
13.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for Credit Suisse (HK BR-TST-Asing)	1,476,190	0.34
14.	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Helina Shanti Solomon (7001761)	1,445,200	0.33
15.	Deva Dassan Solomon	1,398,500	0.32
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.	DB (Malaysia) Nominee (Asing) Sdn Bhd - The Bank of New York Mellon for Acadian Emerging Markets Small Cap Equity Fund, LLC	1,130,100	0.26
19.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Deva Dassan Solomon (MY1091)	1,094,300	0.25
20.	HLB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Deva Dassan Solomon	1,086,300	0.25
21.	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Deva Dassan Solomon (8041850)	1,076,600	0.25
22.	Choong Cheow Sai	1,050,944	0.24
23.	Southgroup Holdings Sdn. Bhd.	972,815	0.23
24.	Chua Holdings Sdn Bhd	921,795	0.21
25.	Maybank Nominees (Tempatan) Sdn Bhd - Maybank Trustees Berhad for Hong Leong Sea-5 Equity Fund (412383)	856,100	0.20
26.	UOB Kay Hian Nominees (Tempatan) Sdn Bhd - Exempt AN for UOB Kay Hian Pte Ltd (A/C Clients)	838,000	0.19
27.	Seri Pinang Sdn. Bhd.	781,200	0.18
28.	AmanahRaya Trustees Berhad - Amanah Saham Bank Simpanan Nasional	760,000	0.18
29.	Kim Poh Sitt Tat Feedmill Sendirian Berhad	700,000	0.16
30.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Ong Eng Moo	650,100	0.15
		377,341,195	87.02

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 28 SEPTEMBER 2018 *cont'd*

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 28 September 2018 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	-	-	
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 spouse and companies in which the substantial shareholder has interest and a family member*

3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (RCULS) HOLDINGS AS AT 28 SEPTEMBER 2018

Distribution Schedule Of RCULS Holders As At 28 September 2018

Size of Holdings	**No. of RCULS Holders**	**%**	**No. of RCULS**	**%**
Less than 100	11	2.79	300	0.00
100 – 1,000	114	28.86	88,385	0.05
1,001 – 10,000	194	49.11	742,774	0.44
10,001 – 100,000	56	14.18	1,663,000	0.97
100,001 – less than 5% RCULS outstanding	19	4.81	21,230,272	12.43
5% and above of RCULS outstanding	1	0.25	147,080,154	86.11
	395	100.00	170,804,885	100.00

OTHER INFORMATION
cont'd

3. ANALYSIS OF 5-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS (RCULS) HOLDINGS AS AT 28 SEPTEMBER 2018 *cont'd*

List Of Thirty Largest RCULS Holders As At 28 September 2018

	Name of RCULS Holders	No. of RCULS	%
1.	Assets Nominees (Tempatan) Sdn Bhd - 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	0.62
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	207,500	0.12
16.	Kenanga Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Cheong Chen Yue	187,900	0.11
17.	Kuan Bee Yoong @ Kuan Mee Yoong	120,000	0.07
18.	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Cheong Chen Yue	114,800	0.07
19.	Ta Kin Yan	114,300	0.07
20.	Junie Ong Fu Tze	105,000	0.06
21.	Chim Luang Eng	92,700	0.05
22.	Ong Chin Hong	86,100	0.05
23.	Ong Guat Li	85,000	0.05
24.	Huang Phang Lye	70,500	0.04
25.	TA Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Chia Tuan Sia	70,200	0.04
26.	Wong Kim Wai	67,900	0.04
27.	HLB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for See Ean Seng	55,000	0.03
28.	Ng Bee Hong	53,350	0.03
29.	Lim Kian Wat	50,150	0.03
30.	Grandeur Land Sdn Bhd	50,000	0.03
		168,991,326	98.94

OTHER INFORMATION
cont'd

4. DIRECTORS' INTEREST AS AT 28 SEPTEMBER 2018

Subsequent to the financial year end, there was no change, as at 28 September 2018, 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 45 to 46 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.

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 failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Fifty-sixth 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, 29 November 2018 at 2.00 p.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote on a poll as indicated below with an "X":

	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Director fees and Directors' Other Benefits		
2.	To re-elect YBhg Dato' Dr Tan Tat Wai as a Director		
3.	To re-elect Mr Seow Yoo Lin as a Director		
4.	To re-elect YBhg Dato' Ahmad Johari Bin Abdul Razak as a Director		
5.	To re-appoint Messrs 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 and new 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 Bhd 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		

Dated this _____ day of _____ 2018

_____ _____

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 21 November 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*
2. *If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.*
3. *If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.*
4. *A proxy may but need not be a member of the Company.*
5. *Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend, participate, speak and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*
6. *Where two (2) or more proxies are appointed, the 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-sixth 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