LION CORPORATION

# LION CORPORATION BERHAD

(12890-A)

Laporan Tahunan

2017

Annual Report

# CONTENTS

# NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN THAT** the 44th Annual General Meeting of Lion Corporation Berhad will be held at the Meeting Hall, Level 16, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur, Wilayah Persekutuan on 21 November 2017 at 10.30 am for the following purposes:

**AGENDA**

| | | |
|---|---|---|
| 1. | To receive the Audited Financial Statements for the financial year ended 30 June 2017 together with the Reports of the Directors and the Auditors thereon. | **Note 1** |
| 2. | To approve the payment of Directors' fees amounting to RM139,700 for the financial year ended 30 June 2017 (2016: RM237,000). | **Resolution 1** |
| 3. | To approve the payment of Directors' benefits up to RM68,750 for meeting allowances for the period commencing 1 February 2017 until the next annual general meeting of the Company. | **Resolution 2** |
| 4. | To re-elect Y. Bhg. Datuk Mohd Yusof bin Abd Rahaman who retires by rotation in accordance with Article 98 of the Company's Constitution. | **Resolution 3** |
| 5. | To re-appoint the following as Directors of the Company: | |
| | Y. Bhg. Tan Sri William H.J. Cheng | **Resolution 4** |
| | Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain | **Resolution 5** |
| | Y. Bhg. Datuk M. Chareon Sae Tang @ Tan Whye Aun | **Resolution 6** |
| 6. | To re-appoint Messrs Ong Boon Bah & Co as Auditors of the Company and to authorise the Directors to fix their remuneration. | **Resolution 7** |
| 7. | To transact any other business for which due notice shall have been given. | |

By Order of the Board

**CHAN POH LAN (MAICSA 0826543)**
**WONG PHOOI LIN (MAICSA 7013812)**
Secretaries

Kuala Lumpur
30 October 2017

***Notes:***

1. *Agenda Item 1*

   *The Audited Financial Statements are laid in accordance with Section 340(1)(a) of the Companies Act 2016 for discussion only. As such, this Agenda item is not a business which requires a resolution to be put to vote by shareholders.*

2. *Proxy*

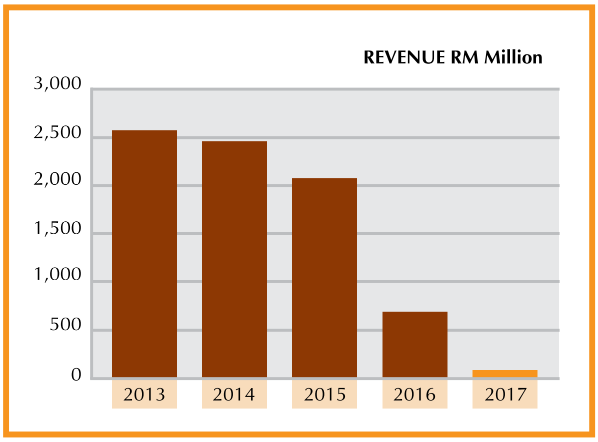
   - *In respect of deposited securities, only Members whose names appear in the Record of Depositors on 14 November 2017 shall be eligible to attend the Meeting.*
   - *A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote instead of him. A proxy need not be a member of the Company.*
   - *If a member appoints two (2) proxies, the proportion of his shareholdings represented by each proxy must be specified.*
   - *The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or the hand of an officer or attorney duly authorised.*
   - *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
   - *The instrument of proxy shall be deposited at the Office of the Registrar of the Company at Level 13, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur, Wilayah Persekutuan not less than forty-eight (48) hours before the time for holding the Meeting.*
   - *Completed Form of Proxy sent through facsimile transmission shall not be accepted.*

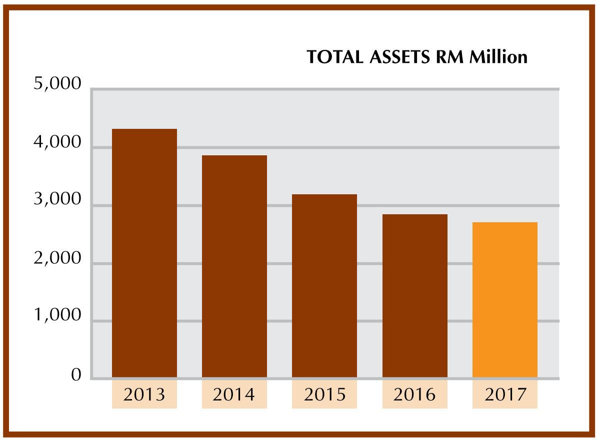
# CORPORATE INFORMATION

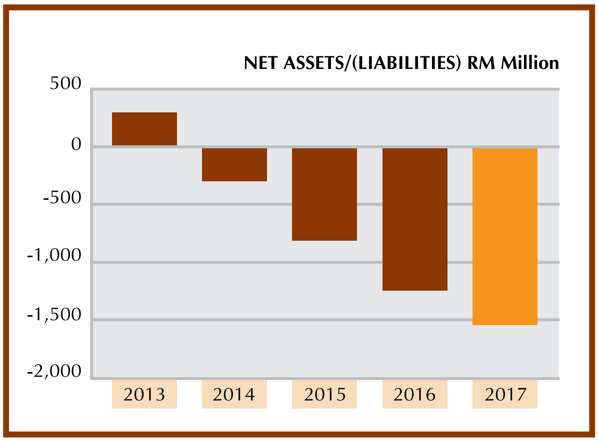
| | | |
|---|---|---|
| **Board of Directors** | : | Y. Bhg. Tan Sri William H.J. Cheng<br>*(Chairman and Managing Director)*<br>Y. Bhg. Tan Sri Cheng Yong Kim<br>Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain<br>Y. Bhg. Datuk Mohd Yusof bin Abd Rahaman<br>Y. Bhg. Dato' Afifuddin bin Abdul Kadir<br>Y. Bhg. Datuk M. Chareon Sae Tang @ Tan Whye Aun<br>Dr Folk Jee Yoong |
| **Secretaries** | : | Ms Chan Poh Lan (MAICSA 0826543)<br>Ms Wong Phooi Lin (MAICSA 7013812) |
| **Company No** | : | 12890-A |
| **Registered Office** | : | Level 14, Lion Office Tower<br>No. 1 Jalan Nagasari<br>50200 Kuala Lumpur<br>Wilayah Persekutuan<br>Tel No : 03-21420155<br>Fax No : 03-21413448<br>Website : www.lion.com.my |
| **Share Registrar** | : | Secretarial Communications Sdn Bhd<br>Level 13, Lion Office Tower<br>No. 1 Jalan Nagasari<br>50200 Kuala Lumpur<br>Wilayah Persekutuan<br>Tel Nos : 03-21420155, 03-21418411<br>Fax No : 03-21428409 |
| **Auditors** | : | Ong Boon Bah & Co.<br>B-10-1, Megan Avenue 1<br>189 Jalan Tun Razak<br>50400 Kuala Lumpur<br>Wilayah Persekutuan |
| **Principal Bankers** | : | AmInvestment Bank Berhad<br>Malayan Banking Berhad<br>RHB Bank Berhad<br>Bank of China (Malaysia) Berhad |

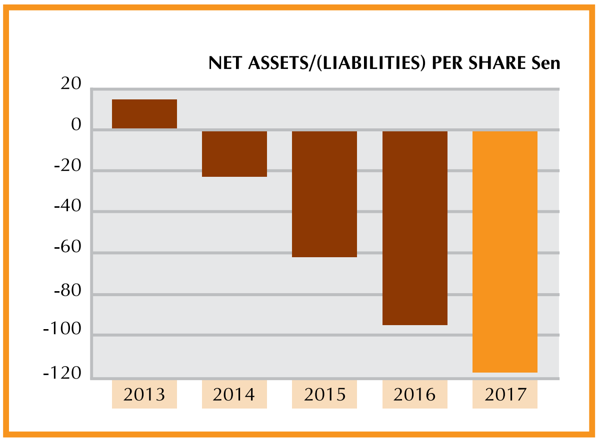
# 5 YEARS GROUP FINANCIAL HIGHLIGHTS

| Financial years ended 30 June | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Revenue | (RM'000) | 2,591,833 | 2,481,954 | 2,087,508 | 701,779 | **87,167** |
| Loss before tax | (RM'000) | (354,864) | (625,851) | (645,081) | (561,810) | **(382,347)** |
| Loss after tax | (RM'000) | (326,656) | (598,834) | (656,594) | (560,781) | **(395,832)** |
| Net loss attributable to owners of the Company | (RM'000) | (245,618) | (507,071) | (522,965) | (440,875) | **(298,480)** |
| Total assets | (RM'000) | 4,334,722 | 3,840,108 | 3,214,144 | 2,842,150 | **2,683,160** |
| Net assets/(liabilities) | (RM'000) | 216,032 | (286,066) | (797,948) | (1,236,704) | **(1,536,455)** |
| Total borrowings | (RM'000) | 1,792,287 | 1,866,799 | 1,956,802 | 2,021,128 | **2,197,022** |
| Loss per share | (Sen) | (18.7) | (38.5) | (39.7) | (33.5) | **(22.7)** |
| Net assets/(liabilities) per share | (Sen) | 15 | (23) | (62) | (95) | **(118)** |



# REVIEW OF OPERATIONS

The Group is principally engaged in the following activities:
- Property development ("**Property**");
- Manufacture, distribution and trading of office equipment, security equipment and steel fabricated products ("**Furniture**");
- Manufacturing of hot rolled coils, cold rolled coils, bands and sheets ("**Steel**"); and
- Investment holding, share registration and secretarial services ("**Others**").

| | Revenue | | Operating Profit/(Loss) | |
|---|---|---|---|---|
| **(RM Million)** | **2017** | **2016** | **2017** | **2016** |
| Property | **54** | 42 | **29** | 14 |
| Furniture | **19** | 23 | **(2)** | (0.1) |
| Steel | **14** | 637 | **(143)** | (325) |
| Others | **0.2** | 0.2 | **(5)** | (1) |
| | **87** | 702 | **(121)** | (312) |

*("Operating profit/(loss)" refers to operating profit/(loss) before interests, impairment losses, share in results of associates and taxation)*

During the financial year, the Group saw a significant decline in revenue following the temporary shutdown of Megasteel Sdn Bhd's ("Megasteel") steel operations after being severely affected by difficult market conditions and cheap hot rolled steel coil imports in the past several years.

For the financial year under review, the Group registered a revenue of RM87 million which was mainly contributed by the Property Division. With higher profit from the Property Division and lower loss from the Steel Division, the Group recorded a significantly lower operating loss of RM121 million as compared with RM312 million a year ago.

**Property Division**

The Group's sole property project is in the development of a major township known as "Bandar Mahkota Cheras" located off 9th mile Jalan Cheras in Kuala Lumpur. The freehold self-contained township offers quality country living complete with a range of supporting amenities.

For the financial year under review, the Division achieved a commendable performance by recording higher revenue of RM54 million as compared to RM42 million in the previous year, while profit increased to RM29 million from RM14 million a year ago. The encouraging response to our launches is a re-assurance that strategically located properties with competitive pricing will continue to attract demand despite challenging market conditions.

**Furniture Division**

The demand for steel office furniture from both the export and domestic markets remained stagnant and highly competitive for the financial year under review. Sales to the Middle Eastern market, our major export contributor where we have an established reputation for product quality, were affected by the pricing pressures resulting from increasingly intense competition. The domestic steel office furniture market is matured and highly price-sensitive, with stiff competition from cheaper products from China.

For the financial year under review, the Furniture Division recorded a lower revenue of RM19 million (2016: RM23 million) and higher operating loss of RM2 million (2016: RM0.1 million).

**Steel Division**

Following the temporary shutdown of Megasteel last year, the Steel Division recorded a significantly lower revenue of RM14 million in this financial year. During this same financial year, the Division had completed the disposal of the property, plant and equipment in Shah Alam (Shareholders' approval was obtained in August 2016) and recorded a gain of RM48 million. After accounting for the gain, coupled with the lower loss from Megasteel, the Division recorded a lower operating loss of RM143 million which comprised mainly overhead costs (including depreciation) and foreign exchange loss.

# CORPORATE DEVELOPMENTS

During and subsequent to the financial year under review, the Group had undertaken the following significant corporate events:

(i) Following an application by Megasteel Sdn Bhd (“Megasteel”), the High Court of Malaya (“High Court”) had on 5 May 2016 pursuant to the antecedent orders of Section 176 of the Companies Act, 1965, granted Megasteel the following (“Court Order”):

(a) liberty to convene scheme meetings within 90 days from 5 May 2016 to consider and if thought fit, to approve the terms of the schemes of arrangement to be proposed by Megasteel with its scheme creditors (“Proposed Debt Restructuring Scheme”); and

(b) a restraining order for a period of 90 days from 5 May 2016, whereby the creditors and lenders of Megasteel are restrained from taking action against Megasteel and/or the Company and/or their assets.

On 28 June 2016 and 14 July 2016, Tenaga Nasional Berhad (“TNB”) and Woodgrove Investments Pte Ltd (“Woodgrove”) have respectively applied to intervene and set-aside the Court Order.

Subsequently on 2 August 2016, the High Court had granted Megasteel an ad-interim extension of the Court Order pending the decision of the High Court on the below applications (“Pending Court Applications”) which were initially fixed for hearing on 6 and 7 September 2016:

(a) Megasteel’s application for the Court Order to be extended for a period of 180 days from the date of the court order for extension;

(b) TNB’s application dated 28 June 2016 to intervene in these proceedings and to set-aside the Court Order; and

(c) Woodgrove’s application dated 14 July 2016 to intervene in these proceedings and to set-aside the Court Order.

An extension of the Court Order was applied in order to allow Megasteel to have sufficient time to formalise the Proposed Debt Restructuring Scheme for the approval of its scheme creditors.

On 22 August 2016, the High Court had vacated the above-mentioned hearing dates and had fixed 17 and 18 October 2016 (“October 2016 hearing dates”) as the new hearing dates for the above Pending Court Applications. Subsequently on 6 September 2016, the High Court had vacated the October 2016 hearing dates and had fixed 15 and 16 November 2016 as new hearing dates for the Pending Court Applications.

The High Court had vacated the hearing dates of the Pending Court Applications on several occasions and had further fixed 8 and 9 December 2016 as the new hearing dates for the Pending Court Applications. By way of consent order, Woodgrove had been added as a party to court proceedings and Woodgrove had withdrawn its application to set aside the Court Order on 8 December 2016.

Subsequently, the High Court had vacated the hearing of Megasteel’s application to extend the order dated 5 May 2016 as well as TNB’s application to set aside the restraining order for numerous times and at the request of TNB, a case management which was previously scheduled for 7 September 2017 was postponed to 4 December 2017 to update the High Court on the progress of the settlement between Megasteel and TNB.

(ii) The Company had on 18 May 2016 announced that Bright Steel Service Centre Sdn Bhd (“BSSC”), a wholly-owned subsidiary of the Company, had entered into a conditional sale and purchase agreement and business assets acquisition agreement with Axis Development Sdn Bhd, for the disposal of BSSC’s property, plant and equipment for a total cash consideration of RM64 million.

The said disposal was completed on 30 September 2016.

(iii) The trading in the securities of the Company had been suspended with effect from 10 October 2016 and the securities of the Company were officially delisted from the Main Board of Bursa Malaysia Securities Berhad on 12 October 2016.

# FINANCIAL STATEMENTS 2017

For The Financial Year Ended 30 June 2017

## DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2017.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding.

The information on the name, place of incorporation, principal activities and percentage of issued share capital held by the holding company in each subsidiary is disclosed in Note 16 to the financial statements.

**RESULTS**

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Net loss for the financial year | (395,832) | (71,458) |
| Attributable to: | | |
| - Owners of the Company | (298,480) | (71,458) |
| - Non-controlling interests | (97,352) | – |
| | (395,832) | (71,458) |

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

**DIVIDEND**

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

**ISSUE OF SHARES AND DEBENTURES**

The Company did not issue any new shares or debentures during the financial year.

**DIRECTORS OF THE COMPANY**

The name of the Directors of the Company in office during the financial year and up to the date of the report are:

Tan Sri William H.J. Cheng
Tan Sri Cheng Yong Kim
Datuk Emam Mohd Haniff bin Emam Mohd Hussain
Datuk M. Chareon Sae Tang @ Tan Whye Aun
Datuk Mohd Yusof bin Abd Rahaman
Dato' Afifuddin bin Abdul Kadir
Dr Folk Jee Yoong

**DIRECTORS OF THE SUBSIDIARIES**

The name of the Directors of the subsidiaries in office during the financial year and up to the date of the report are:

Chan Ho Wai
Chan Poh Lan
Haji Mohamad Khalid bin Abdullah
Khor Toong Yee
Lee Chaing Huat
Lee Whay Keong
Low Seng Wah
Ooi Kim Lai
Tan Kim Kee
Tan Sri Cheng Yong Kim
Tan Sri Rafidah Aziz
Tan Sri William H.J. Cheng
Wang Chung-Yu
Wang Wing Ying
Lai Chin Yang (resigned with effect from 27 June 2017)

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than those disclosed in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest save and except for any benefit which may be deemed to have arisen by virtue of transactions between the Company and its related corporations and certain companies in which certain Directors of the Company are Directors and/or substantial shareholders as disclosed in Note 36 to the financial statements.

Neither during nor at the end of the financial year, was the Company a party to any arrangement whose object is to enable Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than those arising from the conversion of warrants and redeemable convertible secured loan stocks issued by the Company.

**DIRECTORS' INTERESTS**

The interests of Directors in shares in the Company during and at the end of the financial year are as follows:

| | Number of Ordinary Shares | | | |
|---|---|---|---|---|
| | **As at 1.7.2016** | **Additions** | **Disposals** | **As at 30.6.2017** |
| **Direct Interests** | | | | |
| Tan Sri William H.J. Cheng | 52,175,536 | – | – | 52,175,536 |
| Tan Sri Cheng Yong Kim | 1,947,808 | – | – | 1,947,808 |
| **Deemed Interests** | | | | |
| Tan Sri William H.J. Cheng | 861,865,432 | – | – | 861,865,432 |
| Tan Sri Cheng Yong Kim | 806,891,226 | – | (304,914,404) | 501,976,822 |
| Datuk M. Chareon Sae Tang @ Tan Whye Aun | 98,180 | – | – | 98,180 |

In addition to the above, the following Directors are also deemed to have an interest in shares in the Company by virtue of:

a) Redeemable convertible secured loan stocks ("RCSLS") of nominal value RM1.00 each convertible into new ordinary shares in the Company at a conversion price of RM5.00 for every one new ordinary share in the Company

| | Nominal Value of RCSLS | | | |
|---|---|---|---|---|
| | **As at 1.7.2016** | **Additions** | **Disposals** | **As at 30.6.2017** |
| Tan Sri William H.J. Cheng | 316,075,950 | – | – | 316,075,950 |

b) Warrants with a right to subscribe for one new ordinary share in the Company for every one warrant held at an exercise price of RM5.00 per share ("Warrants")

| | Number of Warrants | | | |
|---|---|---|---|---|
| | **As at 1.7.2016** | **Additions** | **Disposals** | **As at 30.6.2017** |
| Tan Sri William H.J. Cheng | 10,169,387 | – | – | 10,169,387 |
| Tan Sri Cheng Yong Kim | 9,541,175 | – | (9,200,581) | 340,594 |
| Dr Folk Jee Yoong | 1,560 | – | – | 1,560 |

The Directors' interests in related corporations are as follows:

| | Number of Shares | | | |
|---|---|---|---|---|
| | **As at 1.7.2016** | **Additions** | **Disposals** | **As at 30.6.2017** |
| **Deemed Interests** | | | | |
| **Tan Sri William H.J. Cheng** | | | | |
| **Tan Sri Cheng Yong Kim** | | | | |
| Megasteel Sdn Bhd | | | | |
| - Ordinary Shares | 600,000,001 | – | – | 600,000,001 |
| - Preference "D" Shares | 49,000,000 | – | – | 49,000,000 |
| - Preference "E" Shares | 11,000,000 | – | – | 11,000,000 |
| - Preference "F" Shares | 26,670,000 | – | – | 26,670,000 |
| - Preference "G" Shares | 100,000,000 | – | – | 100,000,000 |

**DIRECTORS' INTERESTS (continued)**

In addition to the above, the following Directors are also deemed to have an interest in shares in the Company by virtue of: (continued)

The Directors' interests in related corporations are as follows: (continued)

| | Number of Ordinary Shares of HK$10.00 each | | | |
|---|---|---|---|---|
| | As at 1.7.2016 | Additions | Disposals | As at 30.6.2017 |
| **Deemed Interests** | | | | |
| **Tan Sri William H.J. Cheng** | | | | |
| **Tan Sri Cheng Yong Kim** | | | | |
| Bersatu Investments Company Limited | 42,644 | – | – | 42,644 |

Other than as disclosed above, none of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during and at the end of the financial year.

**INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS**

The Directors and officers of the Group and of the Company are covered under a Directors' and Officers' Liability Insurance up to an aggregate limit of RM50 million against any legal liability, if incurred by the Directors and officers of the Group and of the Company in the discharge of their duties while holding office for the Company and its subsidiaries.

**OTHER STATUTORY INFORMATION**

Before the statements of profit or loss, statements of other comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad receivables and the making of impairment loss on receivables and had satisfied themselves that all known bad receivables had been written off and that adequate impairment had been made for doubtful receivables; and

(b) to ensure that any current assets which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records had 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:

(a) which would render the amounts written off for bad receivables or the amount of the impairment loss on receivables in the financial statements of the Group and of the Company inadequate to any substantial extent; or

(b) which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or

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

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

**OTHER STATUTORY INFORMATION (continued)**

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

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

(b) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.

In the opinion of the Directors, except as disclosed in the financial statements:

(a) the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature;

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and

(c) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

**SIGNIFICANT EVENTS**

Significant events during the financial year are disclosed in Note 41 to the financial statements.

**QUALIFICATION ON THE FINANCIAL STATEMENTS OF SUBSIDIARIES**

The particulars of the manner in which the financial statements of subsidiaries are qualified in so far as subjects of the qualification are not covered by the Group's financial statements and are material from the point of view of members of the Company are described in Note 16 to the financial statements.

**AUDITORS' REMUNERATION**

The auditors' remuneration is disclosed in Note 9 to the financial statements.

**AUDITORS**

The auditors, Ong Boon Bah & Co, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 3 October 2017.

**TAN SRI WILLIAM H.J. CHENG**
Chairman and Managing Director

**TAN SRI CHENG YONG KIM**
Director

Kuala Lumpur

# STATEMENTS OF PROFIT OR LOSS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 6 | **87,167** | 701,779 | **98** | 121 |
| Other operating income | | **56,707** | 11,575 | **–** | 2,449 |
| Changes in inventories of finished goods and work-in-progress | | **(6,692)** | (231,162) | **–** | – |
| Raw materials and consumables used | | **(12,966)** | (372,382) | **–** | – |
| Property development expenditure | | **(22,988)** | (15,009) | **–** | – |
| Employee benefits expenses | 7 | **(33,937)** | (76,258) | **(2)** | (39) |
| Depreciation | | **(140,530)** | (142,159) | **–** | – |
| Inventories written down | | **(349)** | (1,514) | **–** | – |
| Other operating expenses | 8 | **(43,990)** | (183,182) | **(1,461)** | (1,402) |
| (Loss)/Profit from operations | 9 | **(117,578)** | (308,312) | **(1,365)** | 1,129 |
| Finance costs | 10 | **(278,228)** | (251,564) | **(65,847)** | (63,790) |
| (Impairment losses)/Reversal of impairment losses on: | | | | | |
| - investment in an associate | | **–** | (452) | **–** | – |
| - investment securities | | **(1,362)** | 135 | **(31)** | (94) |
| - amount due from subsidiaries | | **–** | – | **(4,215)** | (601,864) |
| Share in results of associates | | **14,821** | (1,617) | **–** | – |
| Loss before taxation | | **(382,347)** | (561,810) | **(71,458)** | (664,619) |
| Taxation | 11 | **(13,485)** | 1,029 | **–** | 36 |
| Net loss for the financial year | | **(395,832)** | (560,781) | **(71,458)** | (664,583) |
| Attributable to: | | | | | |
| - Owners of the Company | | **(298,480)** | (440,875) | **(71,458)** | (664,583) |
| - Non-controlling interests | | **(97,352)** | (119,906) | **–** | – |
| Net loss for the financial year | | **(395,832)** | (560,781) | **(71,458)** | (664,583) |
| Loss per share attributable to owners of the Company: | 12 | | | | |
| - Basic (sen) | | **(22.7)** | (33.5) | | |
| - Diluted (sen) | | **N/A** | N/A | | |

The accompanying notes form an integral part of the financial statements.

# STATEMENTS OF OTHER COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Net loss for the financial year | **(395,832)** | (560,781) | **(71,458)** | (664,583) |
| Other Comprehensive (Loss)/Income | | | | |
| - Translation difference on net equity of foreign subsidiaries and other movements | **(2,680)** | 2,913 | **–** | – |
| - Net gain on fair value changes on available-for-sale financial assets | **705** | 291 | **–** | – |
| - Share of other comprehensive income of associates | **704** | 1,001 | **–** | – |
| Other comprehensive (loss)/income for the financial year, net of tax, representing items that may be reclassified subsequently to profit or loss | **(1,271)** | 4,205 | **–** | – |
| Total comprehensive loss for the financial year | **(397,103)** | (556,576) | **(71,458)** | (664,583) |
| Attributable to: | | | | |
| - Owners of the Company | **(299,751)** | (436,670) | **(71,458)** | (664,583) |
| - Non-controlling interests | **(97,352)** | (119,906) | **–** | – |
| | **(397,103)** | (556,576) | **(71,458)** | (664,583) |

The accompanying notes form an integral part of the financial statements.

# STATEMENTS OF FINANCIAL POSITION

## AS AT 30 JUNE 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **ASSETS** | | | | | |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | 13 | **1,938,927** | 2,076,669 | **–** | – |
| Land held for property development | 14(a) | **8,549** | 706 | **–** | – |
| Goodwill | 15 | **–** | – | **–** | – |
| Investment in subsidiaries | 16 | **–** | – | **7,873** | 7,873 |
| Investment in associates | 17 | **35,271** | 20,650 | **–** | – |
| Investment securities | 18(a) | **1,972** | 1,298 | **73** | 104 |
| Deferred tax assets | 19 | **383,052** | 378,483 | **–** | – |
| | | **2,367,771** | 2,477,806 | **7,946** | 7,977 |
| **Current Assets** | | | | | |
| Property development costs | 14(b) | **29,204** | 46,749 | **–** | – |
| Inventories | 20 | **145,113** | 129,649 | **–** | – |
| Investment securities | 18(b) | **19,700** | 20,262 | **–** | – |
| Trade and other receivables | 21 | **56,806** | 46,951 | **227** | 145 |
| Amount due from subsidiaries | 22 | **–** | – | **13** | 4,445 |
| Tax recoverable | | **757** | 2,127 | **659** | 659 |
| Deposits with financial institutions | 23 | **7,689** | 26,528 | **1,565** | 3,165 |
| Cash and bank balances | | **56,120** | 74,810 | **527** | 599 |
| | | **315,389** | 347,076 | **2,991** | 9,013 |
| Non-current assets classified as held for sale | 24 | **–** | 17,268 | **–** | – |
| | | **315,389** | 364,344 | **2,991** | 9,013 |
| **TOTAL ASSETS** | | **2,683,160** | 2,842,150 | **10,937** | 16,990 |

# STATEMENTS OF FINANCIAL POSITION (continued)

## AS AT 30 JUNE 2017

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity Attributable to Owners of the Company** | | | | | |
| Share capital | 25 | **1,413,884** | 1,316,199 | **1,413,884** | 1,316,199 |
| Reserves | 26 | **(2,950,339)** | (2,552,903) | **(2,671,772)** | (2,502,629) |
| | | **(1,536,455)** | (1,236,704) | **(1,257,888)** | (1,186,430) |
| **Non-Controlling Interest** | | **(491,325)** | (393,973) | **–** | – |
| **Total Equity** | | **(2,027,780)** | (1,630,677) | **(1,257,888)** | (1,186,430) |
| **Non-Current Liabilities** | | | | | |
| Preference shares | 27 | **111,000** | 111,000 | **–** | – |
| Loans and borrowings | 28 | **293,294** | 281,674 | **293,210** | 281,498 |
| Bonds and debts | 31 | **825,359** | 789,457 | **825,359** | 789,457 |
| Deferred tax liabilities | 19 | **1,211** | 1,533 | **–** | – |
| Deferred liabilities | 32 | **3,344** | 3,350 | **–** | – |
| | | **1,234,208** | 1,187,014 | **1,118,569** | 1,070,955 |
| **Current Liabilities** | | | | | |
| Trade and other payables | 33 | **2,387,221** | 2,335,813 | **20,439** | 36,807 |
| Amount due to subsidiaries | 22 | **–** | – | **129,817** | 95,658 |
| Loans and borrowings | 28 | **1,078,369** | 949,997 | **–** | – |
| Tax liabilities | | **11,142** | 3 | **–** | – |
| | | **3,476,732** | 3,285,813 | **150,256** | 132,465 |
| **Total Liabilities** | | **4,710,940** | 4,472,827 | **1,268,825** | 1,203,420 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,683,160** | 2,842,150 | **10,937** | 16,990 |

The accompanying notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

| Group | Note | Share Capital RM'000 | Share Premium RM'000 | Other Reserves RM'000 (Note 26) | Accumulated Losses RM'000 | Total RM'000 | Non-Controlling Interest RM'000 | Total Equity RM'000 |
|---|---|---|---|---|---|---|---|---|
| | | ← Attributable to Owners of the Company | ← Non-Distributable → | | | → | | |
| At 1 July 2015 | | 1,316,199 | 97,685 | 343,736 | (2,555,568) | (797,948) | (266,044) | (1,063,992) |
| Total comprehensive income/ (loss) for the financial year | | – | – | 4,205 | (440,875) | (436,670) | (119,906) | (556,576) |
| Acquisition of non-controlling interests | | – | – | – | (2,086) | (2,086) | (8,023) | (10,109) |
| Issue of bonus shares by a subsidiary | | – | – | 250 | (250) | – | – | – |
| At 30 June 2016 | | 1,316,199 | 97,685 | 348,191 | (2,998,779) | (1,236,704) | (393,973) | (1,630,677) |
| **At 1 July 2016** | | **1,316,199** | **97,685** | **348,191** | **(2,998,779)** | **(1,236,704)** | **(393,973)** | **(1,630,677)** |
| Total comprehensive loss for the financial year | | **–** | **–** | **(1,271)** | **(298,480)** | **(299,751)** | **(97,352)** | **(397,103)** |
| Transfer to share capital pursuant to Section 618(2) of the Companies Act 2016 | 26 | **97,685** | **(97,685)** | **–** | **–** | **–** | **–** | **–** |
| At 30 June 2017 | | **1,413,884** | **–** | **346,920** | **(3,297,259)** | **(1,536,455)** | **(491,325)** | **(2,027,780)** |

| Company | Note | Share Capital RM'000 | Share Premium RM'000 | Other Reserves RM'000 (Note 26) | Accumulated Losses RM'000 | Total Equity RM'000 |
|---|---|---|---|---|---|---|
| | | | ← Non-Distributable | → | | |
| At 1 July 2015 | | 1,316,199 | 97,685 | 15,887 | (1,951,618) | (521,847) |
| Total comprehensive loss for the financial year | | – | – | – | (664,583) | (664,583) |
| At 30 June 2016 | | 1,316,199 | 97,685 | 15,887 | (2,616,201) | (1,186,430) |
| **At 1 July 2016** | | **1,316,199** | **97,685** | **15,887** | **(2,616,201)** | **(1,186,430)** |
| Total comprehensive loss for the financial year | | **–** | **–** | **–** | **(71,458)** | **(71,458)** |
| Transfer to share capital pursuant to Section 618(2) of the Companies Act 2016 | 26 | **97,685** | **(97,685)** | **–** | **–** | **–** |
| At 30 June 2017 | | **1,413,884** | **–** | **15,887** | **(2,687,659)** | **(1,257,888)** |

The accompanying notes form an integral part of the financial statements.

# STATEMENTS OF CASH FLOWS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Loss before taxation | | **(382,347)** | (561,810) | **(71,458)** | (664,619) |
| Adjustments for non-cash items, interests and dividends | 38(a) | **385,909** | 419,077 | **70,340** | 663,489 |
| Operating profit/(loss) before working capital changes | | **3,562** | (142,733) | **(1,118)** | (1,130) |
| Changes in working capital: | | | | | |
| Inventories | | **(15,813)** | 159,047 | **–** | – |
| Receivables | | **(18,149)** | 64,706 | **(82)** | (17) |
| Payables | | **(63,791)** | 30,177 | **(16,368)** | 463 |
| Property development costs | | **9,702** | (19,973) | **–** | – |
| Cash (used in)/generated from operations | | **(84,489)** | 91,224 | **(17,568)** | (684) |
| Tax paid | | **(5,864)** | (11,078) | **–** | (2,109) |
| Retirement benefit paid | | **(6)** | (133) | **–** | – |
| Net cash (outflow)/inflow from operating activities | | **(90,359)** | 80,013 | **(17,568)** | (2,793) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of property, plant and equipment | 38(b) | **(151)** | (1,618) | **–** | – |
| Purchase of investment | | **–** | (850) | **–** | – |
| Additions to investment in a subsidiary | | **–** | (10,109) | **–** | – |
| Proceeds from disposal/ redemption of: | | | | | |
| - property, plant and equipment | | **1,391** | 1,458 | **–** | – |
| - investments | | **1,574** | 3,105 | **–** | – |
| - assets held for sale | | **61,470** | – | **–** | – |
| Increase/(Decrease) in fixed deposits pledged | | **261** | (14) | **–** | – |
| Dividend received | | **906** | 1,233 | **–** | – |
| Repayment from subsidiaries | | **–** | – | **217** | 1,357 |
| Advances from subsidiaries | | **–** | – | **34,159** | 51,329 |
| Interest received | | **2,658** | 867 | **98** | 121 |
| Net cash inflow/(outflow) from investing activities | | **68,109** | (5,928) | **34,474** | 52,807 |

# STATEMENTS OF CASH FLOWS (continued)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Redemption of bonds and debts | | **(13,990)** | (38,216) | **(13,990)** | (38,216) |
| Repayment of: | | | | | |
| - finance lease liabilities | | **(91)** | (94) | **–** | – |
| - short term borrowings | | **(4,754)** | (88,597) | **(4,588)** | (12,533) |
| Interest paid | | **(119)** | (7,660) | **–** | – |
| Net cash outflow from financing activities | | **(18,954)** | (134,567) | **(18,578)** | (50,749) |
| **Net decrease in cash and cash equivalents** | | **(41,204)** | (60,482) | **(1,672)** | (735) |
| **Effects of changes in exchange rates** | | **65** | 155 | **–** | – |
| **Cash and cash equivalents at beginning of the financial year** | | **55,818** | 116,145 | **3,764** | 4,499 |
| **Cash and cash equivalents at end of the financial year** | 38(c) | **14,679** | 55,818 | **2,092** | 3,764 |

The accompanying notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2017

### 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and had been officially delisted from Bursa Malaysia Securities Berhad ("Bursa Securities") on 12 October 2016 as detailed in Note 41(e). The registered office and principal place of business of the Company are both located at Level 14, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur, Wilayah Persekutuan.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 16. There have been no significant changes in the activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 3 October 2017.

### 2. BASIS OF PREPARATION

The financial statements comply with Financial Reporting Standards ("FRSs") and the requirements of the Companies Act 2016 in Malaysia. During the financial year ended 30 June 2017, the Group and the Company adopted all of the new and revised FRSs and Amendments issued by Malaysian Accounting Standards Board ("MASB") that are relevant to their operations.

The financial statements of the Group and the Company have been prepared on the historical cost basis except when otherwise indicated.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The Group reports the following conditions and events:

(i) The Group incurred a net loss attributable to owners of the Company of RM298 million (2016: RM441 million) for the financial year ended 30 June 2017. As of that date, the Group's current liabilities exceeded its current assets by RM3,161 million (2016: RM2,921 million) and the Group reported a net shareholders' deficit of RM1,536 million (2016: RM1,237 million).

(ii) Since prior years, a subsidiary of the Company, Megasteel Sdn Bhd ("Megasteel") has not been able to comply with the credit terms granted by its creditors as disclosed in Note 33. Megasteel has entered into deferral payment plans and settlement schemes with these creditors. However, Megasteel has not been able to fulfil its obligations under these arrangements

(iii) As disclosed in Note 28, Megasteel entered into a 2010 Restructured Scheme in relation to the Syndicated Term Loans during the financial year ended 30 June 2010.

Megasteel has been unable to comply with the rescheduled payment terms of the 2010 Restructured Scheme. On 20 November 2014, a revised scheme was sent to the Syndicated Term Loan Lenders, where consents from certain USD Term Loan Lenders have not been obtained. In addition, one of the Lenders has commenced unilateral legal proceeding against Megasteel as disclosed in Note 35(c).

(iv) Megasteel had defaulted on its banker's acceptance from a local bank in the previous financial year and this has resulted in cross default on other borrowings and facilities. There were subsequent defaults on all banking facilities and other term loan thereafter.

(v) Megasteel had defaulted on the RM306 million settlement with Tenaga Nasional Berhad (''TNB'') in the previous financial year as disclosed in Note 35(b).

**2. BASIS OF PREPARATION (continued)**

The Group reports the following conditions and events: (continued)

(vi) Megasteel has temporarily ceased its operations since March 2016 following the termination by TNB of the supply of electricity to it. Thereafter, Megasteel has laid off and relocated certain of its employees.

(vii) Following an application by Megasteel, the High Court of Malaya ("High Court") had on 5 May 2016 pursuant to the antecedent orders of Section 176 of the Companies Act, 1965 granted Megasteel the following ("Court Order"):

(a) liberty to convene scheme meetings within 90 days from 5 May 2016 to consider and if thought fit, to approve the terms of the schemes of arrangement to be proposed by Megasteel with its scheme creditors ("Proposed Debt Restructuring Scheme"); and

(b) a restraining order for a period of 90 days from 5 May 2016, whereby the creditors and lenders of Megasteel are restrained from taking action against Megasteel and/or the Company and/or their assets.

On 28 June 2016 and 14 July 2016, TNB and a secured lender, Woodgrove Investments Pte Ltd (''Woodgrove'') had respectively applied to intervene and set-aside the Court Order.

Subsequently on 2 August 2016, the High Court had granted Megasteel an ad-interim extension of the Court Order ("2 August 2016 ad-interim extension") pending the decision of the High Court on the below applications ("Pending Court Applications"):

(i) Megasteel's application for the Court Order to be extended for a period of 180 days from the date of the court order for extension;

(ii) TNB's application dated 28 June 2016 to intervene in these proceedings and to set-aside the Court Order; and

(iii) Woodgrove's application dated 14 July 2016 to intervene in these proceedings and to set-aside the Court Order.

On 8 December 2016, by way of an order of the Court with consent of Woodgrove and Megasteel ("consent order"), Woodgrove had been added as a party to court proceeding and withdrawn its application to set aside the Court Order. TNB's application to intervene and to set aside the Court Order is still pending. The Court has directed that a case management be fixed for 4 December 2017 to update the Court on the progress of settlement between Megasteel and TNB.

(viii) Megasteel is currently working with its adviser on the finalisation of the Proposed Debt Restructuring Scheme. An independent valuer was appointed to carry out a valuation of the assets for the purpose of the Proposed Debt Restructuring Scheme. The latest term sheet under the Proposed Debt Restructuring Scheme has been sent to the secured leaders of Megasteel in March 2017.

The Directors have concluded that the combination of the circumstances highlighted above indicate material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the Directors believe that the results from the Proposed Debt Restructuring Scheme will enable the Group to generate sufficient cash flows to meet its above mentioned obligations and improve the cash flows of the Group. For these reasons, the Directors are of the opinion that the Group will be able to continue in operational existence for the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

### (b) Foreign Currencies

#### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group is measured using the currency of the primary economic environment in which the entity operates ("Functional Currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's Functional Currency.

#### (ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's Functional Currency ("Foreign Currencies") are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(b) **Foreign Currencies (continued)**

(ii) **Foreign Currency Transactions (continued)**

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary items are denominated in either the Functional Currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary items are denominated in a currency other than the Functional Currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) **Foreign Operations**

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities are translated into RM at the rate of exchange ruling at the reporting date;
- Income and expenses for statement of profit or loss are translated at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the Functional Currency of the foreign operations and translated at the closing rate at the reporting date.

The principal closing rates used in translation of foreign currency amounts are as follows:

| | **2017 RM** | **2016 RM** |
|---|---|---|
| 1 United States Dollar ("USD") | **4.29** | 4.02 |
| 1 Euro | **5.02** | 4.46 |
| 1 Singapore Dollar | **3.11** | 2.98 |

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(i) Sale of Goods and Services**

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

**(ii) Rendering of Services**

Revenue from the contract services is recognised upon the completion of services and delivered of goods to the related party. Service fee includes consumables required to undertake the services.

**(iii) Interest Income**

Interest income is recognised on an accrual basis using the effective yield method.

**(iv) Dividend Income**

Dividend income is recognised when the Group's or the Company's right to receive payment is established.

**(v) Development Properties**

Revenue from sale of development properties is accounted for by the stage of completion method. The stage of completion is determined by reference to the costs incurred to date to the total estimated costs where the outcome of the projects can be reliably estimated.

**(vi) Rental Income**

Rental income is recognised on a straight-line basis over the term of the lease.

**(d) Employee Benefits**

**(i) Short Term Benefits**

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined Contribution Plans**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Employee Benefits (continued)

#### (iii) Unfunded Defined Benefit Plan

A subsidiary of the Company operates an unfunded, defined retirement benefit scheme ("the Scheme") for its eligible employees. The Group's obligation under the Scheme, calculated using the Projected Unit Credit Method, is determined based on actuarial computations by independent actuaries who carry a full valuation of the plan every three years, through which the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is discounted in order to determine its present value.

The amount recognised in the statements of financial position represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service costs, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the plan.

### (e) Taxes

#### (i) Current Income Tax

Income tax on profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

#### (ii) Deferred Tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from business combination that is an acquisition, in which case deferred tax is included in the resulting goodwill or negative goodwill on acquisition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Taxes (continued)

#### (iii) Goods and Services Tax ("GST")

On and after 1 April 2015, revenue, expenses and assets are recognised net of the amount of GST except:

(a) where the GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(b) receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### (f) Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost. Property, plant and equipment cost comprise purchase price, including import duties and directly attributable costs of bringing the asset to working condition for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land is stated at revalued amount, which is the fair value at the date of revaluation less any impairment losses. The freehold land has not been revalued since it was first revalued in 1998. The Directors have not adopted a policy of regular revaluation of this asset and no later valuation has been recorded. As permitted under the transitional provision of IAS 16 (Revised): *Property, Plant and Equipment*, this asset continues to be stated at its 1998 valuation.

Any revaluation surplus is credited to the asset revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any asset revaluation reserve relating to the particular asset is transferred directly to accumulated losses.

Property, plant and equipment are classified as capital work-in-progress until the asset is brought to working condition for its intended use.

Freehold land and capital work-in-progress are not depreciated. Leasehold land is amortised evenly over the lease term of the land. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

| | |
|---|---|
| Buildings and land improvements | 2% - 10% |
| Plant and machinery | 3.33% - 20% |
| Furniture and equipment | 5% - 20% |
| Motor vehicles | 20% |

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(f) **Property, Plant and Equipment (continued)**

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to accumulated losses.

(g) **Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liability. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. The policy for the recognition and measurement of impairment losses for goodwill is in accordance with Note 3(h).

(h) **Impairment of Non-Financial Assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Investment in Subsidiaries

A subsidiary is an entity over which the Group has all the following:

(i) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its investment with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

### (j) Investment in Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investment in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associates is carried in the statements of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associates. The Group's share of the net profit or loss of the associates is recognised in profit or loss. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates. The associates are equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associates.

Goodwill relating to associates is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associates' identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and instead included as income in the determination of the Group's share of the associates' profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that is held primarily for trading purposes are presented as current whereas financial assets that is not held primarily for trading purposes are presented as current or non-current based on the settlement date.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than twelve months after the reporting date which are classified as non-current.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified in any other categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Company's right to receive payment is established.

Investments in equity investments whose fair value cannot be reliably measured are measured at cost less impairment loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Financial Assets (continued)

<u>Available-for-sale financial assets (continued)</u>

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within twelve months after the reporting date.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

<u>Held-to-maturity investments</u>

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within twelve months after the reporting date which are classified as current.

### (l) Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

<u>Receivables and other financial assets carried at amortised cost</u>

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease as a result of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Impairment of Financial Assets (continued)**

Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the 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. Such impairment losses are not reversed in subsequent periods.

**(m) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts, demand deposits and other short term and highly liquid investments which are readily convertible to cash with insignificant risk of changes in value.

For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits. Cash and cash equivalents (other than bank overdrafts) are categorised and measured as loans and receivables in accordance with policy as described in Note 3(k).

**(n) Land Held for Property Development and Property Development Costs**

**(i) Land held for property development**

Land held for property development consists of land on which no significant development work has been undertaken or where development activities are not expected to be completed within the normal operating cycle. Such land is classified within non-current assets and is stated at cost less accumulated impairment losses.

Land held for property development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Land Held for Property Development and Property Development Costs (continued)

#### (ii) Property development costs

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in profit or loss by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

When the financial outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on properties sold are recognised as an expense in the period in which they are incurred.

Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised as an expense immediately.

Property development costs not recognised as an expense are recognised as an asset, which is measured at the lower of cost and net realisable value.

The excess of revenue recognised in profit or loss over billings to purchasers is classified as accrued billings within trade receivables and the excess of billings to purchasers over revenue recognised in profit or loss is classified as progress billings within trade payables.

### (o) Inventories

Inventories are stated at lower of cost and net realisable value.

The cost of raw materials comprises the original purchase price plus cost incurred in bringing the inventories to their present locations and conditions. The cost of finished goods and work-in-progress consists of direct materials, direct labour, other direct costs and appropriate production overheads where applicable and is determined on a weighted average basis.

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.

### (p) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when the Group and the Company have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

The Group and the Company do not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstances where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group. The Group and the Company do not recognise contingent asset but discloses its existence when inflows of economic benefits are probable, but not virtually certain.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

#### (ii) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables, loans and borrowings, bonds and debts.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings, bonds and debts are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Loans and borrowings, bonds and debts are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### (r) Preference Shares ("PS")

PS are recorded at the amount of proceeds received, net of transaction costs.

PS are classified as non-current liabilities in the statements of financial position and the preferential dividends are recognised as finance costs in profit or loss in the period they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (s) Redeemable Convertible Secured Loan Stocks ("RCSLS")

The RCSLS are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible bond. The difference between the proceeds of issue of the convertible loan stocks and the fair value assigned to the liability component represents the conversion options included in equity. The liability component is subsequently stated at amortised cost using the effective interest rate method until extinguished on conversion or redemption, whilst the value of the equity component is not adjusted in subsequent periods. Attributable transaction costs are apportioned and deducted directly from the liability and equity component based on their carrying amounts at the date of issue.

### (t) Leases

#### (i) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### (ii) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

### (v) Segment Reporting

Segment reporting is presented for enhancing assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risk and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, that are subject to risks and returns which are different from those components.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

### (w) Fair Value Estimation for Disclosure Purposes

In assessing the fair value of financial instruments, the Group and the Company use a variety of methods and make assumptions that are based on market conditions existing at each reporting date.

The fair value of publicly traded securities is based on quoted market prices at the reporting date. Where there is no active market, fair value is established using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The face values for the financial assets and financial liabilities with maturity of less than one (1) year are assumed to approximate their fair values.

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

| **Description** | **Effective for annual periods beginning on or after** |
|---|---|
| Amendments to FRS 107 *Statement of Cash Flows: Disclosure Initiative* | 1 January 2017 |
| Amendments to FRS 112 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses* | 1 January 2017 |
| Amendments to FRS 12 *Disclosure of Interests in Other Entities* (Annual Improvements to FRSs 2014 - 2016 Cycle) | 1 January 2017 |
| Amendments to FRS 2 *Share-based Payment: Classification and Measurement of Share-based Payment Transactions* | 1 January 2018 |
| Amendments to FRS 4 *Insurance Contracts: Applying FRS 9 Financial Instruments with FRS 4 Insurance Contracts* | 1 January 2018 |
| FRS 9 *Financial Instruments (IFRS 9 as issued by IASB in July 2014)* | 1 January 2018 |
| Amendments to FRS 140 *Investment Property: Transfers of Investment Property* | 1 January 2018 |
| IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 |
| Amendments to FRS 1 *First-time Adoption of Financial Reporting Standards* (Annual Improvements to FRSs 2014 - 2016 Cycle) | 1 January 2018 |
| Amendments to FRS 128 *Investment in Associates and Joint Ventures* (Annual Improvements to FRSs 2014 - 2016 Cycle) | 1 January 2018 |
| Amendments to FRS 10 *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | To be announced |
| Amendments to FRS 128 *Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | To be announced |

The Group and the Company have not adopted the new FRSs, amendments to FRSs and IC Interpretation that have been issued but not yet effective and will adopt these standards when they become effective. The adoption of the above standards and interpretation is not expected to have a material impact on the financial statements in the period of initial application.

**<u>Malaysian Financial Reporting Standards</u>**

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 *Agriculture* and IC Interpretation 15 *Agreements for Construction of Real Estate*, including its parent, significant investor and venturer ("Transitioning Entities").

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2018.

The Group and the Company fall within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the financial year ending 30 June 2019. In presenting its first MFRS financial statements, the Group and the Company will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening accumulated losses.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the version affects only that period, or in the period of the revision and future periods if the version affects both current and future periods.

**Critical Accounting Estimates and Assumptions**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

**(i) Preparation of financial statements on a going concern basis**

The Group has prepared the financial statements on a going concern basis as the Directors believe that the results from the certain measures undertaken by Megasteel as disclosed in Note 2 will enable the Group to generate sufficient cash flows to meet its obligation when it falls due. Thus, the Directors are of the opinion that the Group will be able to continue in operational existence for the foreseeable future.

**(ii) Depreciation of Property, Plant and Equipment**

The cost of the plant and machinery relating to manufacturing of hot rolled coils and cold rolled coils is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be within 15 years to 25 years and residual value to be 5% of the cost. Changes in the expected level of usage and technological developments could vary the economic useful lives and the residual values of these assets which may cause a material adjustment to future depreciation charges.

Despite the temporary cessation of operations, the Group has continued to depreciate all property, plant and equipment up to the reporting date.

**(iii) Impairment of Property, Plant and Equipment**

Impairment exists when the carrying value of an asset or cash-generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

As disclosed in Note 13, the Group did not carry out any impairment assessment due to the temporary cessation of operations of certain subsidiaries. Consequently, there could be additional impairment losses which may be required to be recognised.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Critical Accounting Estimates and Assumptions (continued)

#### (iv) Estimated Impairment of Tangible Assets

When there is an indication that the carrying amount of an asset may be impaired, the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use, will be assessed. The assessment of recoverable amount involves various methodologies.

Fair value of an asset is estimated by reference to net assets of the investee or based on prevailing market value determined by professional valuers.

In determining the value in use of an asset, being the future economic benefits to be expected from its continued use and ultimate disposal, the Group makes estimates and assumptions that require significant judgements and estimates. While the Group believes these estimates and assumptions to be reasonable and appropriate, changes in these estimates and assumptions of value in use could impact on the Group's financial position and results.

The Group did not carry out any impairment assessment due to the temporary cessation of operations as described in Note 41(a). Consequently, there could be additional impairment losses which may be required to be recognised.

#### (v) Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on estimation of future sales, operating costs, capital expenditure, dividends and other capital management transactions which are highly judgmental. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statements of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

As disclosed in Note 2, the Directors have been undertaking certain measures to improve the Group's liquidity and financial position. The Directors believe that the results from the proposed measures will enable the Group to generate sufficient future taxable profits against which the losses and capital allowances can be utilised.

The carrying value of recognised deferred tax assets of the Group is disclosed in Note 19.

#### (vi) Inventories

Significant judgement is required in determining the quality, grades and density of the raw materials existing at the end of the financial year. In forming judgement, the Group relies on past experience and on the work of an expert in measuring the raw materials. Details of inventories are disclosed in Note 20.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Critical Accounting Estimates and Assumptions (continued)

#### (vii) Impairment on Receivables

The Group makes impairment on receivables based on assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes on an instrument loss basis in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such differences will impact the carrying value of receivables and impairment in the period in which such estimates have been changed.

#### (viii) Property Development

The Group recognises property development revenue and expenses in profit or loss by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

Significant judgement is required in determining the stage of completion, the extent of the property development costs incurred, the estimated total property development revenue and costs, as well as the recoverability of the development projects. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists.

Details of property development cost are disclosed in Note 14.

#### (ix) Provision arising from the Offtake Agreement

As disclosed in Note 36(iv), the Group is contractually bound to purchase hot direct reduced iron and/or hot briquetted iron ("Steel Products") from Lion DRI Sdn. Bhd. ("Lion DRI"), a related party, based on the cost plus certain margin. Limbungan Makmur Sdn. Bhd., another related party, has entered into a contract with a freight forwarder company, for freight service on delivery of iron ore pellets, a key raw material for the production of the Steel Products to Lion DRI. The freight charges will be passed on to Lion DRI upon delivery of the iron ore pellets.

As the Group is contractually bound to purchase the Steel Products from Lion DRI, which will include the cost of the freight services, there may exist an onerous contract where the Group may need to incur unavoidable costs which may exceed the economic benefits expected to be received from it. However, the Group believes that no provision for onerous contract is required as the Offtake Agreement has expired on 15 July 2017.

The expiry of the Offtake Agreement might not relinquish the Group from further obligation and right under the provision of the Offtake Agreement and the Supplemental Offtake Agreement which may give rise to further provision to the Group.

However, the Group believes that a provision for further liabilities in the financial statements is not required in relation to the further obligation and right under the Offtake Agreement and the Supplemental Offtake Agreement under FRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

## 6. REVENUE

Revenue of the Group and of the Company consists of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Sales of goods | **32,738** | 593,629 | **–** | – |
| Rendering of services | **–** | 66,274 | **–** | – |
| Property development | **54,270** | 41,665 | **–** | – |
| Registration and other professional fees | **159** | 211 | **–** | – |
| Interest income | **–** | – | **98** | 121 |
| | **87,167** | 701,779 | **98** | 121 |

## 7. EMPLOYEE BENEFITS EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Salaries, wages and bonuses | **25,842** | 52,929 | **2** | 27 |
| Defined contribution plans | **1,920** | 6,907 | **–** | 2 |
| Defined benefit plan (Note 32) | **–** | 332 | **–** | – |
| Other staff related expenses | **6,175** | 16,090 | **–** | 10 |
| | **33,937** | 76,258 | **2** | 39 |

Included in the employee benefits expenses of the Group and of the Company are remuneration of an executive Director and other members of key management as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Salaries and other emoluments | **687** | 1,467 | **2** | 37 |
| Defined contribution plans | **42** | 82 | **–** | 2 |
| | **729** | 1,549 | **2** | 39 |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any executive Director of the Group.

## 8. OTHER OPERATING EXPENSES

Included in the other operating expenses of the Group are plant repair and maintenance costs and electricity charges relating to manufacturing of hot rolled coils and cold rolled coils totalling RM Nil (2016: RM81.9 million).

## 9. (LOSS)/PROFIT FROM OPERATIONS

The (loss)/profit from operations is arrived at:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **After charging:** | | | | |
| Auditors' remuneration: | | | | |
| - current year | **255** | 453 | **42** | 42 |
| - prior year | **19** | 4 | **–** | – |
| Directors' remuneration (Note) | **425** | 621 | **164** | 347 |
| Impairment loss on receivables (net) | **2,657** | 2,301 | **–** | – |
| Loss on disposal of property, plant and equipment | **–** | 1,794 | **–** | – |
| Property, plant and equipment written off | **324** | – | **–** | – |
| Operating lease expense | **–** | 33,664 | **–** | – |
| Rental of premises | **695** | 1,386 | **–** | – |
| Net foreign exchange loss: | | | | |
| - realised | **266** | 3,059 | **–** | – |
| - unrealised | **29,290** | 21,129 | **345** | 311 |
| Professional fees paid to a firm in which a Director, Datuk M. Chareon Sae Tang @ Tan Whye Aun, has interest | **26** | 266 | **–** | – |
| **And crediting:** | | | | |
| Gain on disposal of: | | | | |
| - property, plant and equipment | **890** | – | **–** | – |
| - assets held for sale | **47,664** | – | **–** | – |
| Interest income | **3,456** | 3,650 | **98** | 121 |
| Rental income | **2,274** | 2,235 | **–** | – |
| Debt waiver from a subsidiary | **–** | – | **–** | 2,449 |

Note: The Directors' remuneration is categorised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Executive Director:** | | | | |
| - Salary and other emoluments | **245** | 272 | **2** | 27 |
| - Fees | **12** | 24 | **12** | 24 |
| - Defined contribution plans | **18** | 31 | **–** | 2 |
| - Benefits-in-kind | **–** | 10 | **–** | 10 |
| | **275** | 337 | **14** | 63 |
| **Non-Executive Directors:** | | | | |
| - Other emoluments | **22** | 71 | **22** | 71 |
| - Fees | **128** | 213 | **128** | 213 |
| | **425** | 621 | **164** | 347 |

## 9. (LOSS)/PROFIT FROM OPERATIONS (continued)

The number of Directors whose total remuneration fell into the respective bands are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Executive Director:** | | | | |
| - RM15,000 and below | **–** | – | **1** | – |
| - RM50,001 - RM100,000 | **–** | – | **–** | 1 |
| - RM250,001 - RM300,000 | **1** | – | **–** | – |
| - RM300,001 - RM350,000 | **–** | 1 | **–** | – |
| **Non-Executive Directors:** | | | | |
| - RM25,000 and below | **1** | – | **1** | – |
| - RM25,001 - RM50,000 | **5** | 3 | **5** | 3 |
| - RM50,001 - RM100,000 | **–** | 3 | **–** | 3 |

## 10. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Interest Expenses on:** | | | | |
| - bonds and debts | **49,547** | 47,986 | **49,547** | 47,986 |
| - RCSLS | **16,300** | 15,675 | **16,300** | 15,675 |
| - term loans | **89,844** | 76,528 | **–** | – |
| - product financing liabilities | **6,888** | 5,156 | **–** | – |
| - bank overdrafts | **3,756** | 2,407 | **–** | – |
| - others | **111,893** | 103,812 | **–** | 129 |
| | **278,228** | 251,564 | **65,847** | 63,790 |

## 11. TAXATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Current Estimated Tax:** | | | | |
| Malaysian income tax: | | | | |
| - Current year | **(6,369)** | (3,796) | **–** | – |
| - Under provision in prior years | **(12,007)** | (81) | **–** | (66) |
| | **(18,376)** | (3,877) | **–** | (66) |
| **Deferred Taxation: (Note 19)** | | | | |
| - Relating to origination and reversal of temporary differences | **4,774** | 4,914 | **–** | 102 |
| - Over/(Under) provision in prior years | **117** | (8) | **–** | – |
| | **4,891** | 4,906 | **–** | 102 |
| **Total** | **(13,485)** | 1,029 | **–** | 36 |

## 11. TAXATION (continued)

A reconciliation of taxation applicable to loss before taxation at the statutory income tax rate to taxation at the effective tax rate of the Group and of the Company is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Loss before taxation | **(382,347)** | (561,810) | **(71,458)** | (664,619) |
| Tax calculated at Malaysian statutory tax rate of 24% (2016: 24%) | **91,763** | 134,834 | **17,150** | 159,509 |
| Income not subject to tax | **9,684** | 8,475 | **–** | 588 |
| Expenses not deductible for tax purposes | **(5,086)** | (27,134) | **(17,150)** | (159,995) |
| Deferred tax assets not recognised during the year | **(101,513)** | (114,669) | **–** | – |
| Tax effect of share in results of associates | **3,557** | (388) | **–** | – |
| Under provision in prior years | **(11,890)** | (89) | **–** | (66) |
| | **(13,485)** | 1,029 | **–** | 36 |

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the year.

## 12. LOSS PER SHARE

### (a) Basic

Basic loss per share is calculated by dividing net loss for the financial year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| Net loss for the financial year attributable to owners of the Company (RM'000) | **(298,480)** | (440,875) |
| Weighted average number of ordinary shares in issue ('000) | **1,316,199** | 1,316,199 |
| Basic loss per share (sen) | **(22.7)** | (33.5) |

### (b) Diluted

The diluted loss per share is not presented as the unexercised warrants and RCSLS have no dilutive effect as the exercise price is above the average market value of the Company's shares.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RM'000 | Plant and machinery RM'000 | Furniture and equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2017** | | | | | | |
| **Cost/Valuation** | | | | | | |
| At 1 July 2016 | 846,517 | 3,415,002 | 48,177 | 3,079 | 26,774 | 4,339,549 |
| Additions | – | 69 | 82 | – | – | 151 |
| Disposals | – | (10,423) | (8) | (194) | – | (10,625) |
| Written off | – | (610) | (1) | – | – | (611) |
| Reclassified from assets held for sale (Note 24) | 4,671 | – | – | – | – | 4,671 |
| At 30 June 2017 | 851,188 | 3,404,038 | 48,250 | 2,885 | 26,774 | 4,333,135 |
| Representing items at: | | | | | | |
| Cost | 551,188 | 1,146,033 | 48,250 | 2,885 | 26,774 | 1,775,130 |
| Valuation | 300,000 | 2,258,005 | – | – | – | 2,558,005 |
| | 851,188 | 3,404,038 | 48,250 | 2,885 | 26,774 | 4,333,135 |
| **Accumulated Depreciation** | | | | | | |
| At 1 July 2016 | 229,097 | 1,941,059 | 38,170 | 2,673 | – | 2,210,999 |
| Depreciation charge for the financial year | 16,492 | 121,885 | 2,087 | 66 | – | 140,530 |
| Disposals | – | (9,922) | (8) | (194) | – | (10,124) |
| Written off | – | (286) | (1) | – | – | (287) |
| Reclassified from assets held for sale (Note 24) | 1,209 | – | – | – | – | 1,209 |
| At 30 June 2017 | 246,798 | 2,052,736 | 40,248 | 2,545 | – | 2,342,327 |
| Representing items at: | | | | | | |
| Cost | 246,798 | 502,234 | 40,248 | 2,545 | – | 791,825 |
| Valuation | – | 1,550,502 | – | – | – | 1,550,502 |
| | 246,798 | 2,052,736 | 40,248 | 2,545 | – | 2,342,327 |
| **Accumulated Impairment Losses** | | | | | | |
| At 1 July 2016/ 30 June 2017 | 9,815 | 42,066 | – | – | – | 51,881 |
| Representing items at: | | | | | | |
| Cost | 9,815 | 42,066 | – | – | – | 51,881 |
| **Net Book Value** | | | | | | |
| At cost | 294,575 | 601,733 | 8,002 | 340 | 26,774 | 931,424 |
| At valuation | 300,000 | 707,503 | – | – | – | 1,007,503 |
| | 594,575 | 1,309,236 | 8,002 | 340 | 26,774 | 1,938,927 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Land and buildings RM'000 | Plant and machinery RM'000 | Furniture and equipment RM'000 | Motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2016** | | | | | | |
| **Cost/Valuation** | | | | | | |
| At 1 July 2015 | 872,372 | 3,434,090 | 47,123 | 3,357 | 23,554 | 4,380,496 |
| Additions | 13 | 1,413 | 1,345 | 12 | 3,220 | 6,003 |
| Disposals | – | (6,534) | (284) | (290) | – | (7,108) |
| Written off | – | – | (7) | – | – | (7) |
| Reclassified to assets held for sale (Note 24) | (25,868) | (13,967) | – | – | – | (39,835) |
| At 30 June 2016 | 846,517 | 3,415,002 | 48,177 | 3,079 | 26,774 | 4,339,549 |
| Representing items at: | | | | | | |
| Cost | 546,517 | 1,156,997 | 48,177 | 3,079 | 26,774 | 1,781,544 |
| Valuation | 300,000 | 2,258,005 | – | – | – | 2,558,005 |
| | 846,517 | 3,415,002 | 48,177 | 3,079 | 26,774 | 4,339,549 |
| **Accumulated Depreciation** | | | | | | |
| At 1 July 2015 | 220,845 | 1,835,406 | 36,125 | 2,894 | – | 2,095,270 |
| Depreciation charge for the financial year | 16,852 | 122,950 | 2,288 | 69 | – | 142,159 |
| Disposals | – | (3,330) | (236) | (290) | – | (3,856) |
| Written off | – | – | (7) | – | – | (7) |
| Reclassified to assets held for sale (Note 24) | (8,600) | (13,967) | – | – | – | (22,567) |
| At 30 June 2016 | 229,097 | 1,941,059 | 38,170 | 2,673 | – | 2,210,999 |
| Representing items at: | | | | | | |
| Cost | 229,097 | 461,487 | 38,170 | 2,673 | – | 731,427 |
| Valuation | – | 1,479,572 | – | – | – | 1,479,572 |
| | 229,097 | 1,941,059 | 38,170 | 2,673 | – | 2,210,999 |
| **Accumulated Impairment Losses** | | | | | | |
| At 1 July 2015/ 30 June 2016 | 9,815 | 42,066 | – | – | – | 51,881 |
| Representing items at: | | | | | | |
| Cost | 9,815 | 42,066 | – | – | – | 51,881 |
| **Net Book Value** | | | | | | |
| At cost | 307,605 | 653,444 | 10,007 | 406 | 26,774 | 998,236 |
| At valuation | 300,000 | 778,433 | – | – | – | 1,078,433 |
| At 30 June 2016 | 607,605 | 1,431,877 | 10,007 | 406 | 26,774 | 2,076,669 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2003, the Group adjusted the plant and machinery of a subsidiary to its fair value upon the acquisition of an additional 40% equity interest in that subsidiary. The fair value is based on a valuation carried out by Mr Lim Lian Hong, a registered valuer of Raine & Horne International Zaki + Partners Sdn Bhd, an independent firm of professional valuers, on 11 January 2002 and adjusted for depreciation to the date of acquisition. The surplus arising from the fair value that relates to existing equity holding of RM149.0 million (net of deferred tax liabilities) has been credited to asset revaluation reserve account. It is not the policy of the Group to revalue such asset regularly.

Land and buildings of the Group are as follows:

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings and land improvements RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2017** | | | | |
| **Cost/Valuation** | | | | |
| At 1 July 2016 | 311,191 | 4,642 | 530,684 | 846,517 |
| Reclassified from assets held for sale (Note 24) | – | – | 4,671 | 4,671 |
| At 30 June 2017 | 311,191 | 4,642 | 535,355 | 851,188 |
| Representing items at: | | | | |
| Cost | 11,191 | 4,642 | 535,355 | 551,188 |
| Valuation | 300,000 | – | – | 300,000 |
| | 311,191 | 4,642 | 535,355 | 851,188 |
| **Accumulated Depreciation** | | | | |
| At 1 July 2016 | – | 1,066 | 228,031 | 229,097 |
| Depreciation charge for the financial year | – | 51 | 16,441 | 16,492 |
| Reclassified from assets held for sale (Note 24) | – | – | 1,209 | 1,209 |
| At 30 June 2017 | – | 1,117 | 245,681 | 246,798 |
| Representing items at: | | | | |
| Cost | – | 1,117 | 245,681 | 246,798 |
| **Accumulated Impairment Losses** | | | | |
| At 1 July 2016/30 June 2017 | 9,673 | – | 142 | 9,815 |
| Representing items at: | | | | |
| Cost | 9,673 | – | 142 | 9,815 |
| **Net Book Value** | | | | |
| At cost | 1,518 | 3,525 | 289,532 | 294,575 |
| At valuation | 300,000 | – | – | 300,000 |
| At 30 June 2017 | 301,518 | 3,525 | 289,532 | 594,575 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings and land improvements RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2016** | | | | |
| **Cost/Valuation** | | | | |
| At 1 July 2015 | 311,191 | 13,496 | 547,685 | 872,372 |
| Additions | – | – | 13 | 13 |
| Reclassified to assets held for sale (Note 24) | – | (8,854) | (17,014) | (25,868) |
| At 30 June 2016 | 311,191 | 4,642 | 530,684 | 846,517 |
| Representing items at: | | | | |
| Cost | 11,191 | 4,642 | 530,684 | 546,517 |
| Valuation | 300,000 | – | – | 300,000 |
| | 311,191 | 4,642 | 530,684 | 846,517 |
| **Accumulated Depreciation** | | | | |
| At 1 July 2015 | – | 3,187 | 217,658 | 220,845 |
| Depreciation charge for the financial year | – | 106 | 16,746 | 16,852 |
| Reclassified to assets held for sale (Note 24) | – | (2,227) | (6,373) | (8,600) |
| At 30 June 2016 | – | 1,066 | 228,031 | 229,097 |
| Representing items at: | | | | |
| Cost | – | 1,066 | 228,031 | 229,097 |
| **Accumulated Impairment Losses** | | | | |
| At 1 July 2015/30 June 2016 | 9,673 | – | 142 | 9,815 |
| Representing items at: | | | | |
| Cost | 9,673 | – | 142 | 9,815 |
| **Net Book Value** | | | | |
| At cost | 1,518 | 3,576 | 302,511 | 307,605 |
| At valuation | 300,000 | – | – | 300,000 |
| At 30 June 2016 | 301,518 | 3,576 | 302,511 | 607,605 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

Leasehold land is analysed as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Long term leasehold land | **3,525** | 3,576 |

The revalued freehold land and plant and machinery if stated at cost less depreciation would amount to RM35.0 million (2016: RM35.0 million) and RM0.63 billion (2016: RM0.68 billion) respectively as at the end of the financial year.

Property, plant and equipment with carrying values totalling RM1.88 billion (2016: RM2.02 billion) has been charged to financial institutions as securities for credit facilities as disclosed in Note 28.

During the financial year, the Group did not perform any assessment of impairment on property, plant and equipment of certain subsidiaries in respect of all the non-financial assets due to the temporary cessation of operations since the previous financial year and constraints in resources.

The net book value of property, plant and equipment held under hire purchase and finance lease arrangements is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Motor vehicles | **332** | 364 |

## 14. PROPERTY DEVELOPMENT ACTIVITIES

### (a) Land Held for Property Development

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **Freehold land, at cost** | | |
| At 1 July | **706** | 755 |
| Cost incurred during the year | **–** | 2,502 |
| Transfer from/(to) property development cost | **7,843** | (2,551) |
| At 30 June | **8,549** | 706 |

## 14. PROPERTY DEVELOPMENT ACTIVITIES (continued)

### (b) Property Development Costs

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| Property development cost at 1 July: | | |
| - Freehold land | **6,676** | 5,837 |
| - Development costs | **57,063** | 28,173 |
| | **63,739** | 34,010 |
| Cost incurred during the year: | | |
| - Freehold land | **–** | 959 |
| - Development costs | **40,074** | 28,287 |
| | **40,074** | 29,246 |
| Reversal of completed projects | **(21,451)** | (1,681) |
| Cost recognised in profit or loss: | | |
| At 1 July | **(16,990)** | (7,283) |
| Recognised during the financial year | **(17,063)** | (11,388) |
| Reversal of completed projects | **21,451** | 1,681 |
| | **(12,602)** | (16,990) |
| Transfer from land held for property development | **(7,843)** | 2,551 |
| Transfer to inventories | **(32,713)** | (387) |
| Property development cost at 30 June | **29,204** | 46,749 |

The land was charged as security for the bonds and debts and RCSLS issued by the Company.

The title in respect of the land has yet to be registered in the name of the subsidiary.

## 15. GOODWILL

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| **Goodwill on Consolidation, at Cost** | | |
| At 1 July | – | 501,511 |
| Written off | – | (501,511) |
| At 30 June | – | – |
| **Accumulated Impairment Losses** | | |
| At 1 July | – | (501,511) |
| Written off | – | 501,511 |
| At 30 June | – | – |
| **Net Carrying Amount** | – | – |

Goodwill acquired in business combinations is allocated, at acquisition date, to cash-generating units ("CGU") that are expected to benefit from that business combination. Goodwill has been allocated to the steel operation of the Group.

## 16. INVESTMENT IN SUBSIDIARIES

| | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|
| **Unquoted Shares** | | |
| At cost | **25,916** | 25,916 |
| Accumulated impairment losses | **(20,501)** | (20,501) |
| | **5,415** | 5,415 |
| Cost of investment arising from share options | **2,458** | 2,458 |
| | **7,873** | 7,873 |

**16. INVESTMENT IN SUBSIDIARIES (continued)**

Certain investment in subsidiaries with carrying values totalling RM5.4 million (2016: RM5.4 million) have been charged as security for the bonds and debts and RCSLS issued by the Company as disclosed in Notes 31 and 29 respectively.

The subsidiaries are as follows:

| Name of Company | Country of Incorporation | Holding in Equity 2017 % | 2016 % | Principal Activities |
|---|---|---|---|---|
| LCB Harta (M) Sdn Bhd | Malaysia | **100.00** | 100.00 | Managing of debts novated from LCB and certain of its subsidiaries pursuant to a debt restructuring exercise undertaken by LCB and certain of its subsidiaries |
| Limpahjaya Sdn Bhd | Malaysia | **100.00** | 100.00 | Investment holding |
| Lion Construction & Engineering Sdn Bhd | Malaysia | **100.00** | 100.00 | Construction and civil engineering works |
| Lion General Trading & Marketing (S) Pte Ltd * (struck off on 7 November 2016) | Republic of Singapore | **–** | 100.00 | Ceased operations |
| Lion Rubber Works Sdn Bhd | Malaysia | **100.00** | 100.00 | Ceased operations |
| Lion Steelworks Sdn Bhd | Malaysia | **100.00** | 100.00 | Manufacture and distribution of office equipment, security equipment and steel related products |
| Lion Trading & Marketing Sdn Bhd | Malaysia | **100.00** | 100.00 | Trading and marketing of security equipment, office equipment and steel related products |
| LCB Harta (L) Limited * | Malaysia | **100.00** | 100.00 | Acquisition and management of USD denominated consolidated and rescheduled debts |
| Total Triumph Investments Limited | British Virgin Islands | **100.00** | 100.00 | Investment holding |

**16. INVESTMENT IN SUBSIDIARIES (continued)**

The subsidiaries are as follows: (continued)

| Name of Company | Country of Incorporation | Holding in Equity 2017 % | 2016 % | Principal Activities |
|---|---|---|---|---|
| **Subsidiaries of Limpahjaya Sdn Bhd** | | | | |
| Bersatu Investments Company Limited * | Hong Kong | **71.00** | 71.00 | Ceased operations |
| Lion Com Sdn Bhd | Malaysia | **100.00** | 100.00 | Investment holding |
| Lyn (Pte) Ltd * (struck off on 5 December 2016) | Republic of Singapore | **–** | 79.00 | Investment holding |
| Megasteel Sdn Bhd * | Malaysia | **78.89** | 78.89 | Manufacturing of hot rolled coils and cold rolled coils |
| Umevest Sdn Bhd | Malaysia | **100.00** | 100.00 | Ceased operations |
| **Subsidiary of Lion Com Sdn Bhd** | | | | |
| Secretarial Communications Sdn Bhd | Malaysia | **100.00** | 100.00 | Secretarial and share registration services |
| **Subsidiary of Lyn (Pte) Ltd** | | | | |
| Logic Furniture (S) Pte Ltd * (struck off on 7 November 2016) | Republic of Singapore | **–** | 100.00 | Ceased operations |
| **Subsidiaries of Megasteel Sdn Bhd** | | | | |
| Megasteel Harta (L) Limited * | Malaysia | **100.00** | 100.00 | To issue and manage bonds pursuant to its parent company's debt financing exercise |
| Secomex Manufacturing (M) Sdn Bhd * | Malaysia | **100.00** | 100.00 | Manufacturing and marketing of industrial gases |
| **Subsidiary of Lion Construction & Engineering Sdn Bhd** | | | | |
| PMB Building System Sdn Bhd | Malaysia | **100.00** | 100.00 | Investment holding |

## 16. INVESTMENT IN SUBSIDIARIES (continued)

The subsidiaries are as follows: (continued)

| Name of Company | Country of Incorporation | Holding in Equity 2017 % | 2016 % | Principal Activities |
|---|---|---|---|---|
| **Subsidiary of PMB Building System Sdn Bhd** | | | | |
| PMB Jaya Sdn Bhd | Malaysia | **100.00** | 100.00 | Ceased operations |
| **Subsidiary of Lion Steelworks Sdn Bhd** | | | | |
| Lion Fichet Sdn Bhd | Malaysia | **100.00** | 100.00 | Ceased operations |
| **Subsidiary of Total Triumph Investments Limited** | | | | |
| Bright Steel Sdn Bhd | Malaysia | **100.00** | 100.00 | Manufacturing, sale and distribution of steel and iron products |
| **Subsidiaries of Bright Steel Sdn Bhd** | | | | |
| B.A.P. Industries Sdn Bhd | Malaysia | **100.00** | 100.00 | Ceased operations |
| Bright Steel Service Centre Sdn Bhd | Malaysia | **100.00** | 100.00 | Processing and sale of steel coils and sheets |
| Bright Enterprise (Sdn.) Berhad | Malaysia | **100.00** | 100.00 | Ceased operations |
| Century Container Industries Sdn Bhd | Malaysia | **100.00** | 100.00 | Ceased operations |
| Omali Corporation Sdn Bhd | Malaysia | **100.00** | 100.00 | Investment holding |
| **Subsidiary of LCB Harta (L) Limited** | | | | |
| Pancar Tulin Sdn Bhd | Malaysia | **100.00** | 100.00 | Property development |

Note:

* Financial statements of subsidiaries not audited by Ong Boon Bah & Co.

## 16. INVESTMENT IN SUBSIDIARIES (continued)

The qualification of the financial statements of Megasteel Sdn Bhd ("Megasteel") which is not covered by the Group's financial statements and is material from the point of view of members of the Directors are described below:

(a) A disclaimer of opinion on going concern basis of accounting has been included in the financial statements of Megasteel.

(b) Qualification on the recognition of deferred tax assets.

(c) Qualification as to whether any other provision for further liabilities in relation to the Offtake Agreement is required.

(d) Qualification as to whether the carrying value of property, plant and equipment and the related revaluation reserve are appropriate.

(e) Qualification as to whether inventories are carried at lower of cost or net realisable value.

The table below shows details of non-wholly owned subsidiaries of the Group that the Group has non-controlling interests:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Accumulated balances of non-controlling interest:** | | |
| - Material non-controlling interest: Megasteel | **(491,325)** | (393,973) |
| **Loss allocated to non-controlling interests:** | | |
| - Material non-controlling interest: Megasteel | **(97,352)** | (119,917) |
| - Immaterial non-controlling interest | **–** | 11 |
| | **(97,352)** | (119,906) |

The summarised financial information of the material non-controlling interest is provided below. This information is based on amounts before inter-company eliminations.

| | Megasteel 2017 RM'000 | Megasteel 2016 RM'000 |
|---|---|---|
| **Summarised Statement of Profit or Loss:** | | |
| Revenue | **–** | 557,065 |
| Loss for the year | **(446,675)** | (553,568) |
| **Summarised Statement of Financial Position:** | | |
| Non-current assets | **2,281,553** | 2,402,088 |
| Current assets | **129,684** | 125,131 |
| Non-current liability | **(186,670)** | (186,670) |
| Current liabilities | **(4,770,765)** | (4,440,072) |
| Net liabilities | **(2,546,198)** | (2,099,523) |
| **Summarised cash flow information:** | | |
| Operating | **(4,961)** | (31,184) |
| Investing | **44** | 824 |
| Financing | **1,313** | (6,532) |
| Net decrease in cash and cash equivalents | **(3,604)** | (36,892) |

## 17. INVESTMENT IN ASSOCIATES

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **Quoted Shares outside Malaysia** | | | | |
| - at cost | **95,994** | 95,994 | **–** | – |
| - accumulated impairment losses | **(52,457)** | (52,457) | **–** | – |
| | **43,537** | 43,537 | **–** | – |
| **Unquoted Shares** | | | | |
| - at cost | **844,786** | 844,786 | **1,540** | 1,540 |
| - accumulated impairment losses | **(447,512)** | (447,512) | **(1,540)** | (1,540) |
| | **397,274** | 397,274 | **–** | – |
| | **440,811** | 440,811 | **–** | – |
| Share of post-acquisition results and reserves | **(405,540)** | (420,161) | **–** | – |
| | **35,271** | 20,650 | **–** | – |
| Market value of quoted shares: | | | | |
| - quoted outside Malaysia | **34,802** | 19,936 | **–** | – |
| Represented by: | | | | |
| Share of net assets other than goodwill | **75,084** | 60,945 | | |

The associates are as follows:

| Name of Company | Country of Incorporation | Holding in Equity 2017 % | Holding in Equity 2016 % | Principal Activities |
|---|---|---|---|---|
| ACB Resources Berhad | Malaysia | **# 47.66** | # 47.66 | Investment holding |
| Lion Plantations Sdn Bhd | Malaysia | **30.00** | 30.00 | Investment holding |
| Lion Insurance Company Limited | Malaysia | **# 36.28** | # 36.28 | Captive insurance business |
| Lion Asiapac Limited | Republic of Singapore | **# 29.98** | # 29.98 | Investment holding |

# Held by subsidiaries

## 17. INVESTMENT IN ASSOCIATES (continued)

The summarised financial information of the associates is as follows:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Assets** | | |
| Current assets | **536,088** | 477,803 |
| Non-current assets | **108,391** | 226,230 |
| Total assets | **644,479** | 704,033 |
| **Liabilities** | | |
| Current liabilities | **(1,863,910)** | (1,895,249) |
| Non-current liabilities | **(2,949)** | (3,288) |
| Total liabilities | **(1,866,859)** | (1,898,537) |
| **Results** | | |
| Revenue | **96,379** | 105,606 |
| Loss for the year | **(56,923)** | (159,877) |

The Group's share of losses of the associates has been recognised to the extent of the carrying amount of the investments. The cumulative unrecognised share of losses amounted to RM730.4 million (2016: RM679.5 million) and current year's unrecognised share of losses amounted to RM50.9 million (2016: RM73.7 million).

## 18. INVESTMENT SECURITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **(a) Non-Current** | | | | |
| **Available-for-sale Investments** | | | | |
| Quoted Shares in Malaysia | | | | |
| - at fair value | **1,034** | 360 | **73** | 104 |
| Unquoted Shares | | | | |
| - at cost | **1,243** | 1,243 | **–** | – |
| - accumulated impairment losses | **(305)** | (305) | **–** | – |
| | **938** | 938 | **–** | – |
| **Total** | **1,972** | 1,298 | **73** | 104 |
| Market value of quoted shares | **1,034** | 360 | **73** | 104 |

## 18. INVESTMENT SECURITIES (continued)

| | | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **(b) Current** | | | | | |
| **Held-to-maturity Investments** | | | | | |
| - unquoted bonds | (c) | **19,700** | 20,262 | **–** | – |

### (c) Held-to-maturity Investments - Unquoted Bonds

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| At 1 July | **20,262** | 20,418 |
| Exchange difference | **1,381** | 1,470 |
| Accreted interest | **962** | 934 |
| Redemption during the year | **(1,574)** | (3,105) |
| | **21,031** | 19,717 |
| (Impairment losses)/Reversal of impairment losses | **(1,331)** | 545 |
| At 30 June | **19,700** | 20,262 |
| Receivable within one year | **(19,700)** | (20,262) |
| | **–** | – |

The held-to-maturity investments represent consolidated and rescheduled USD debts issued by Amsteel Harta (L) Limited ("ACB SPV") ("ACB SPV Debts") acquired by a subsidiary, from its holder in previous financial years. The ACB SPV Debts constitute direct, unsubordinated and secured obligations of the ACB SPV and was charged as security for the bonds and debts and RCSLS issued by the Company.

The terms of the ACB SPV Debts are as follows:

(i) There are two tranches of the ACB SPV Debts as follows:

| Class | Nominal Value USD'000 | Net Present Value USD'000 | Maturity Date | Cash Yield-To-Maturity (per annum) |
|---|---|---|---|---|
| B | 16,315 | 14,665 | 31.12.2014 | 3.25% |
| C | 6,949 | 6,318 | 31.12.2014 | 4.00% |
| | 23,264 | 20,983 | | |

The ACB SPV Debts are receivable annually on 31 December of each calendar year and are subject to late payment charges of 1% per annum above the cash yield-to-maturity.

(ii) The ACB SPV Debts are secured by assets included in the proposed divestment programme for ACB Resources Berhad ("ACB") and its subsidiaries ("ACB Group"), certain assets and investments, and such other securities provided and as may be provided from time to time by the ACB Group to the Security Trustee for the benefit of, *inter alia*, the holders of the ACB SPV Debts.

## 19. DEFERRED TAXATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At 1 July | **376,950** | 372,044 | **–** | (102) |
| Recognised in profit or loss (Note 11) | **4,891** | 4,906 | **–** | 102 |
| At 30 June | **381,841** | 376,950 | **–** | – |

Presented after appropriate offsetting as follows:

| | | | | |
|---|---|---|---|---|
| Deferred tax assets | **383,052** | 378,483 | **–** | – |
| Deferred tax liabilities | **(1,211)** | (1,533) | **–** | – |
| At 30 June | **381,841** | 376,950 | **–** | – |

### (a) Deferred Tax Assets of the Group

| | Property, plant and equipment RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 July 2015 | 350,576 | 23,338 | 373,914 |
| Recognised in profit or loss | 4,569 | – | 4,569 |
| At 30 June 2016 | **355,145** | **23,338** | **378,483** |
| Recognised in profit or loss | **4,569** | **–** | **4,569** |
| At 30 June 2017 | **359,714** | **23,338** | **383,052** |

### (b) Deferred Tax Liabilities of the Group

| | RCSLS RM'000 | Accelerated Capital Allowances RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 July 2015 | (102) | (1,768) | (1,870) |
| Recognised in profit or loss | 102 | 235 | 337 |
| At 30 June 2016 | **–** | **(1,533)** | **(1,533)** |
| Recognised in profit or loss | **–** | **322** | **322** |
| At 30 June 2017 | **–** | **(1,211)** | **(1,211)** |

## 19. DEFERRED TAXATION (continued)

### (c) Deferred Tax Liabilities of the Company

| | RCSLS RM'000 |
|---|---|
| At 1 July 2015 | (102) |
| Recognised in profit or loss | 102 |
| At 30 June 2016 | – |
| Recognised in profit or loss | – |
| At 30 June 2017 | – |

Deferred tax assets have not been recognised in respect of the following items:

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| Unused tax losses | **2,090,402** | 1,693,867 |
| Unabsorbed capital allowances | **173,004** | 147,984 |
| Unutilised reinvestment allowances | **47,154** | 47,154 |
| Other deductible temporary differences | **302,963** | 301,549 |
| | **2,613,523** | 2,190,554 |

The unused tax losses and unabsorbed capital allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective subsidiaries. These amounts are subject to agreement with the tax authority.

## 20. INVENTORIES

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| **At Cost:** | | |
| Properties held for sale | **30,053** | 3,265 |
| Raw materials | **718** | 790 |
| Work-in-progress | **1,377** | 1,975 |
| Finished goods | **–** | 12 |
| Spares, supplies and consumables | **101,936** | 104,464 |
| | **134,084** | 110,506 |
| **At Net Realisable Value:** | | |
| Raw materials | **3,192** | 5,412 |
| Finished goods | **6,229** | 12,100 |
| Spares, supplies and consumables | **1,608** | 1,631 |
| | **11,029** | 19,143 |
| **Total** | **145,113** | 129,649 |

During the year, inventories recognised as an expense in the profit or loss of the Group was RM42.6 million (2016: RM618.6 million).

The product financing facilities with related parties have been entered into in the normal course of business and have been established on terms that are no more favourable to the related parties than those arranged with independent third parties. There are no remaining inventories under product financing in the current year.

Inventories of the Group amounting to RM103.5 million (2016: RM105.8 million) are secured by way of a floating charge for certain borrowings as disclosed in Note 28.

## 21. TRADE AND OTHER RECEIVABLES

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Trade receivables | **42,687** | 37,636 | **–** | – |
| Accumulated impairment losses (a) | **(14,164)** | (13,031) | **–** | – |
| | **28,523** | 24,605 | **–** | – |
| Other receivables | **31,601** | 23,424 | **226** | 144 |
| Accumulated impairment losses (b) | **(8,219)** | (6,804) | **–** | – |
| | **23,382** | 16,620 | **226** | 144 |
| Prepayments | **154** | 980 | **–** | – |
| Deposits | **4,747** | 4,746 | **1** | 1 |
| | **56,806** | 46,951 | **227** | 145 |

Included in receivables of the Group and of the Company are related parties balances of which RM1.1 million (2016: RM2.1 million) and RM Nil (2016: RM Nil) respectively are in trade receivables and RM0.6 million (2016: RM0.6 million) and RM0.1 million (2016: RM0.1 million) respectively are in other receivables.

The Group's normal trade credit terms range from 5 days to 60 days (2016: 5 days to 60 days). Interest on overdue trade balances are charged at a rate of 6% to 16% (2016: 6% to 16%) per annum. They are recognised at their original invoice amounts which represent their fair values on initial recognition. Other credit terms are assessed and approved on a case-by-case basis.

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| Neither past due nor impaired | **11,842** | 16,690 |
| 1 to 30 days past due not impaired | **7,709** | 3,668 |
| 31 to 60 days past due not impaired | **4,443** | 872 |
| 61 to 90 days past due not impaired | **958** | 350 |
| 91 to 180 days past due not impaired | **2,025** | 1,436 |
| More than 180 days past due not impaired | **1,546** | 1,589 |
| | **16,681** | 7,915 |
| Impaired | **14,164** | 13,031 |
| | **42,687** | 37,636 |

## 21. TRADE AND OTHER RECEIVABLES (continued)

(a) Movement of the accumulated impairment losses account is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| At 1 July | **13,031** | 11,823 |
| Additions | **1,258** | 1,253 |
| Reversal | **(16)** | (15) |
| Written off | **(109)** | (30) |
| At 30 June | **14,164** | 13,031 |

(b) Movement of the accumulated impairment losses account is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| At 1 July | **6,804** | 5,874 |
| Additions | **1,415** | 1,063 |
| Written off | **–** | (133) |
| At 30 June | **8,219** | 6,804 |

Receivables that are neither past due nor impaired

Receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. None of the Group's receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM16.7 million (2016: RM7.9 million) that are past due at the reporting date but not impaired.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

Receivables of the Group amounting to RM24.4 million (2016: RM17.9 million) are secured by way of a floating charge for certain borrowings as disclosed in Note 28.

## 22. AMOUNT DUE FROM/TO SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Amount due from subsidiaries | **1,177,792** | 1,178,009 |
| Accumulated impairment losses | **(1,177,779)** | (1,173,564) |
| | **13** | 4,445 |
| Amount due to subsidiaries | **129,817** | 95,658 |

Movement of the accumulated impairment losses account is as follows:

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| At 1 July | **1,173,564** | 571,700 |
| Additions | **4,215** | 601,864 |
| At 30 June | **1,177,779** | 1,173,564 |

The amount due from/to subsidiaries which arose mainly from inter-company advances and payments made on behalf are unsecured and repayable on demand. The amount due from/to subsidiaries are interest free (2016: interest free).

## 23. DEPOSITS WITH FINANCIAL INSTITUTIONS

The deposits of the Group and the Company carry a weighted average interest rate as at the reporting date of 2.8% (2016: 3.0%) and 2.9% (2016: 3.2%) per annum respectively and have varying periods of between 1 day and 27 days (2016: 1 day and 275 days) and 2 days (2016: 1 day and 12 days) respectively.

Included in deposits of the Group is an amount of RM Nil (2016: RM0.3 million) which is pledged as a bank guarantee by a subsidiary.

## 24. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| At 1 July | **17,268** | – |
| Reclassified from property, plant and equipment (Notes 13 and 41(d)) | **–** | 17,268 |
| Reclassified to property, plant and equipment (Notes 13 and 41(d)) | **(3,462)** | – |
| Disposal | **(13,806)** | – |
| At 30 June | **–** | 17,268 |

During the previous financial year, Bright Steel Service Centre Sdn Bhd, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement and business assets acquisition agreement with Axis Development Sdn Bhd, for the disposal of its property, plant and equipment for a cash consideration of RM64 million.

The said disposal was completed on 30 September 2016.

## 25. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | **2017** | **2016** |
| | **'000** | **'000** |
| **No. of Ordinary Shares:** | | |
| At 1 July/30 June | **1,316,199** | 1,316,199 |
| | **RM'000** | **RM'000** |
| **Issued and Fully Paid Ordinary Shares:** | | |
| At 1 July | **1,316,199** | 1,316,199 |
| Transfer from share premium pursuant to Section 618(2) of the Companies Act 2016 | **97,685** | – |
| At 30 June | **1,413,884** | 1,316,199 |

The Companies Act 2016 which came into effect on 31 January 2017 abolished the concept of authorised share capital and par value of share capital.

## 26. RESERVES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Non-Distributable:** | | | | |
| Asset revaluation reserve | **264,859** | 264,859 | **–** | – |
| Capital reserves | **49,038** | 44,115 | **3,046** | 3,046 |
| Foreign currency translation reserve | **19,477** | 26,376 | **–** | – |
| Fair value adjustment reserve | **883** | 178 | **178** | 178 |
| Equity component of RCSLS | **8,990** | 8,990 | **8,990** | 8,990 |
| Warrant reserve | **3,673** | 3,673 | **3,673** | 3,673 |
| | **346,920** | 348,191 | **15,887** | 15,887 |
| Share premium | **–** | 97,685 | **–** | 97,685 |
| | **346,920** | 445,876 | **15,887** | 113,572 |
| Accumulated losses | **(3,297,259)** | (2,998,779) | **(2,687,659)** | (2,616,201) |
| | **(2,950,339)** | (2,552,903) | **(2,671,772)** | (2,502,629) |

The nature and purpose of each category of reserves are as follows:

**(a) Asset Revaluation Reserve**

The asset revaluation reserve is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

**(b) Capital Reserves**

Capital reserves comprise mainly share of post acquisition reserves of associates and profits recorded by a subsidiary of the Company which was incorporated to manage the Ringgit Malaysia debts and bonus share issue through retained earnings by a subsidiary.

**(c) Foreign Currency Translation Reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

**(d) Fair Value Adjustment Reserve**

Fair value adjustment reserve represents the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed of or impaired.

**(e) Equity Component of RCSLS**

This reserve represents the fair value of the equity component of RCSLS, net of deferred tax liabilities, as determined on the date of issue.

**26. RESERVES (continued)**

**(f) Warrant Reserve**

Warrant reserve is pertaining to the issuance of 36,734,534 warrants as consideration for the conditional take-over offer of the remaining ordinary shares in ACB ("ACB Share") on the basis of one new warrant of the Company ("LCB Warrant") for every ten ACB Shares held.

The details of LCB Warrants are as follows:

(i) Each warrant entitles its registered holder to subscribe for one new LCB Share. In conjunction with the capital reconstruction undertaken by the Company in the previous financial years, the exercise price of the LCB Warrant has been adjusted from RM1.00 to RM5.00. The LCB Warrants may be exercised at any time commencing from 21 April 2009 but not later than 14 April 2019 (both dates inclusive).

(ii) The new LCB Shares to be issued pursuant to the exercise of the LCB Warrants will upon allotment and issue, rank *pari passu* in all respects with the then existing issued and paid-up LCB Shares, save that they will not be entitled to any dividend, right, allotment and/or other distribution, the entitlement date of which is on or before the new LCB Shares are credited into the securities account of the holder maintained with Bursa Malaysia Depository Sdn Bhd.

(iii) No LCB Warrants were converted into new LCB Shares during the financial year. As of the reporting date, the total number of warrants which remained unexercised amounted to 36,734,534 warrants. Any warrant which has not been exercised at the date of maturity will lapse and cease to be valid for any purpose.

**(g) Share Premium**

Pursuant to Section 618(2) of the Companies Act 2016, the sum of RM97,685,000 standing to the credit of the Company's share premium account has been transferred and became part of the Company's share capital.

## 27. PREFERENCE SHARES

Megasteel Sdn Bhd ("Megasteel") issued Preference "D" Shares, Preference "E" Shares, Preference "F" Shares and Preference "G" Shares, of which Preference "D" Shares and Preference "F" Shares were issued to the immediate holding company, Limpahjaya Sdn Bhd. The Preference "E" Shares and Preference "G" Shares are held by a related party.

| | | Group | |
|---|---|---|---|
| | **Preference "E" Shares RM'000** | **Preference "G" Shares RM'000** | **Total RM'000** |
| **Issued and paid-up:** | | | |
| At 1 July 2015/30 June 2016 | 110 | 1,000 | 1,110 |
| At 1 July 2016 | **110** | **1,000** | **1,110** |
| Transfer from share premium pursuant to Section 618(2) of the Companies Act 2016 | **10,890** | **99,000** | **109,890** |
| At 30 June 2017 | **11,000** | **100,000** | **111,000** |
| **Share premium:** | | | |
| At 1 July 2015/30 June 2016 | 10,890 | 99,000 | 109,890 |
| At 1 July 2016 | **10,890** | **99,000** | **109,890** |
| Transfer to share capital pursuant to Section 618(2) of the Companies Act 2016 | **(10,890)** | **(99,000)** | **(109,890)** |
| At 30 June 2017 | **–** | **–** | **–** |

**Terms of Preference "E" Shares**

The Preference "E" Shares of RM0.01 each includes the following salient features:

(i) The Preference "E" Shares shall be issued at a par value of RM0.01 with a premium of RM0.99 per Preference "E" Share;

(ii) The Preference "E" Shares shall carry the right to preference dividend (cumulative) of RM0.05 per Preference "E" Share after the Preference "G" Shares but in priority to the Preference "D" Shares, the Preference "F" Shares and the ordinary shares in Megasteel;

(iii) The Preference "E" Shares shall rank both as regards dividend and return of capital after the Preference "G" Shares but in priority to the Preference "D" Shares, the Preference "F" Shares and the ordinary shares in Megasteel;

(iv) The Preference "E" Shares shall not be entitled to any right of voting at any general meeting of Megasteel nor receipt of any notices of meetings of Megasteel;

(v) The Preference "E" Shares shall be subordinated to (a) the Syndicated Term Loans of Megasteel; and (b) the full redemption of the Preference "G" Shares;

**27. PREFERENCE SHARES (continued)**

**Terms of Preference "E" Shares (continued)**

(vi) The Preference "E" Shares shall be redeemed at the par value of RM0.01 with a premium of RM0.99 per Preference "E" Share, at the option of Megasteel in priority to the Preference "D" Shares and the Preference "F" Shares subject to the full settlement of the Syndicated Term Loans of Megasteel and the full redemption of the Preference "G" Shares; and

(vii) The Preference "E" Shares shall be transferable but not convertible.

**Terms of Preference "G" Shares**

The Preference "G" Shares of RM0.01 each includes the following salient features:

(i) The Preference "G" Shares shall be issued at a par value of RM0.01 with a premium of RM0.99 per Preference "G" share;

(ii) The Preference "G" Shares shall carry the right to a fixed cumulative preference dividend of RM0.05 per share per annum, subject to the availability of profits;

(iii) The Preference "G" Shares shall rank in priority to the ordinary shares and the existing Preference "D", "E" and "F" Shares of Megasteel in the event of liquidation, dissolution, winding-up or other repayment of capital of Megasteel and dividends declared (if any) provided that there shall be no further right to participate in the surplus assets or profits of Megasteel;

(iv) The Preference "G" Shares shall be subordinated to the existing Syndicated Term Loans of Megasteel and in the event of a refinancing of the existing Syndicated Term Loans, the Preference "G" Shares shall be subordinated up to the amount utilised to repay the existing Syndicated Term Loans from the proceeds of the refinancing ("Subordination"). The Preference "G" Shares shall rank *pari passu* with all other present and future indebtedness;

(v) The Preference "G" Shares shall be for an initial tenure of five years ("Initial Tenure"). On the fourth anniversary of the date of issue, Megasteel has the option to extend the tenure of the Preference "G" Shares for a further five years from the maturity date of the Initial Tenure ("Extended Tenure").

During the Extended Tenure, the Preference "G" Shares shall bear a fixed cumulative preference dividend per preference share per annum calculated based on the issue price of RM1.00 multiplied by the base lending rate of Malayan Banking Berhad at the date of declaration of dividend plus 1.5% per annum subject to availability of profits;

(vi) The Preference "G" Shares may be converted into new ordinary shares of RM1.00 each in Megasteel at any time throughout their tenure on the basis of 1.50 Preference "G" Shares for every one ordinary share of RM1.00 each in Megasteel during the Initial Tenure by surrendering the relevant number of Preference "G" Shares.

The conversion ratio during the Extended Tenure shall be:

i) 1.50 Preference "G" Shares for every one ordinary share of RM1.00 each; or

ii) 25% discount based on the then latest audited net tangible assets of Megasteel;

whichever is lower, subject to a minimum of RM1.00 by surrendering the Preference "G" Shares of at least equivalent to the conversion ratio.

Fractional shares arising from the conversion will be rounded down to the nearest share.

**27. PREFERENCE SHARES (continued)**

**Terms of Preference "G" Shares (continued)**

The new ordinary shares of RM1.00 each in Megasteel to be issued pursuant to the conversion of the Preference "G" Shares shall rank *pari passu* in all respects with the then existing issued and paid-up shares of Megasteel, except that they will not be entitled to any dividends, rights, allotments and/or any other distributions that may be declared, made or paid, the entitlement date of which is prior to the issuance of the new shares;

(vii) The Preference "G" Shares shall be redeemed in the following manner where applicable:

(a) Redemption upon maturity subject to the Subordination provision;

(b) Mandatory Early Redemption

Within one year of the full settlement of the Syndicated Term Loans during the Extended Tenure of the Preference "G" Shares;

(c) Optional Redemption

Megasteel will have the option to redeem any of the Preference "G" Shares in whole, or in part in multiples of 1,000,000 Preference "G" Shares by giving a two weeks' written notice ("Notice Period") to the holders at any time, if Megasteel repays all the Syndicated Term Loans of Megasteel within the Initial Tenure of the Preference "G" Shares. The redemption shall take effect on the next business day after the expiry of the Notice Period ("Optional Redemption Date"). Notwithstanding the Notice Period, the holder is entitled to convert the Preference "G" Shares at any time before the Optional Redemption Date; and

(d) Mandatory Redemption

In the case of the occurrence of a shareholders' or creditors' winding-up of Megasteel, mandatory redemption is required by Megasteel subject to Subordination provision;

(viii) The Preference "G" Shares carry no right to vote at general meetings nor receipt of any notices of meetings of Megasteel unless the general meeting is for any resolution (i) which varies or is deemed to vary the rights and privileges of the Preference "G" Shareholder; (ii) for a capital reduction; and (iii) for winding-up of Megasteel; and

(ix) The Preference "G" Shares shall not be transferable.

## 28. LOANS AND BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Short Term Borrowings** | | | | |
| Secured: | | | | |
| Syndicated Term Loans | **922,022** | 807,874 | **–** | – |
| Other term loan | **26,603** | 23,477 | **–** | – |
| Bills payable | **44,818** | 39,678 | **–** | – |
| Revolving credits | **35,428** | 33,176 | **–** | – |
| Bank overdrafts | **49,130** | 45,259 | **–** | – |
| Finance lease liabilities (Note 30) | **93** | 92 | **–** | – |
| | **1,078,094** | 949,556 | **–** | – |
| Unsecured: | | | | |
| Bills payable | **275** | 441 | **–** | – |
| | **1,078,369** | 949,997 | **–** | – |
| **Long Term Borrowings** | | | | |
| Secured: | | | | |
| RCSLS (Note 29) | **293,210** | 281,498 | **293,210** | 281,498 |
| Finance lease liabilities (Note 30) | **84** | 176 | **–** | – |
| | **293,294** | 281,674 | **293,210** | 281,498 |
| **Total Borrowings** | | | | |
| RCSLS (Note 29) | **293,210** | 281,498 | **293,210** | 281,498 |
| Syndicated Term Loans (Note A) | **922,022** | 807,874 | **–** | – |
| Other term loan | **26,603** | 23,477 | **–** | – |
| Bills payable | **45,093** | 40,119 | **–** | – |
| Revolving credits | **35,428** | 33,176 | **–** | – |
| Bank overdrafts | **49,130** | 45,259 | **–** | – |
| Finance lease liabilities (Note 30) | **177** | 268 | **–** | – |
| | **1,371,663** | 1,231,671 | **293,210** | 281,498 |

Other term loan, bills payable, revolving credits and bank overdrafts pertaining to certain subsidiaries are secured by charges on the property, plant and equipment (Note 13) and other assets of the subsidiaries.

## 28. LOANS AND BORROWINGS (continued)

The weighted average effective interest rates at the reporting date for the respective credit facilities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | % | % | % | % |
| RCSLS | **5.8** | 5.8 | **5.8** | 5.8 |
| Term loans | **12.0** | 12.4 | **–** | – |
| Bills payable | **9.7** | 10.4 | **–** | – |
| Revolving credits | **10.7** | 10.9 | **–** | – |
| Bank overdrafts | **8.9** | 9.4 | **–** | – |

### (A) Syndicated Term Loans

The balance outstanding as at the reporting date is as shown below:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| RM Term Loan | **398,919** | 355,664 |
| USD Term Loan | **523,103** | 452,210 |
| | **922,022** | 807,874 |

A restructuring scheme in relation to the Syndicated Term Loans came into effect in 2010 ("Restructured Scheme"). The restructured amount of the Syndicated Term Loans comprises RM denominated Term Loan ("RM Term Loan") of RM599 million and USD denominated Term Loan ("USD Term Loan") of USD205 million.

Interest is charged at 2.5% above the respective Syndicated Term Loans Lenders' cost of funds/London Interbank Offer Rate ("COF/LIBOR") up to 30 June 2010 and at 5% above the respective Syndicated Term Loans Lenders' COF/LIBOR from 1 July 2010 onwards.

The Syndicated Term Loans facility is secured against:

(a) property, plant and equipment of Megasteel Group as disclosed in Note 13, including any future additions;

(b) floating assets of Megasteel Group; and

(c) charge over certain investment in subsidiaries.

**28. LOANS AND BORROWINGS (continued)**

**(A) Syndicated Term Loans (continued)**

The terms and conditions for the Restructured Scheme include the following:

**(i) Sale of certain quoted investment in an associate ("Pledged Shares")**

Tan Sri William H.J. Cheng ("TSWC") shall grant Megasteel an option to put to him or its nominee(s), for TSWC to purchase the Pledged Shares. The disposal was completed in the financial year ended 2010.

**(ii) Sale of certain property, plant and equipment of a subsidiary**

Megasteel agrees to dispose of certain of its subsidiary's property, plant and equipment as follows:

(a) Megasteel shall enter into a sale and purchase agreement with a bona fide purchaser for the sale of certain of its property, plant and equipment no later than 30 June 2010 or such extended date as may be agreed by the Syndicated Term Loans Lenders whose loans represent more than 75% of the aggregate value of the RM Term Loan and USD Term Loan inclusive of principal, interests, commission, fees or expenses respectively as defined in the provisional Term Sheet;

(b) The sale of the property, plant and equipment shall be subjected to the approvals of shareholders of the Company and other requisite approvals from relevant authorities;

(c) Proceeds from the sale of the property, plant and equipment shall be received by 30 September 2010. In the event the sale cannot be completed by 30 September 2010, Megasteel shall have the option to extend the completion date for a further 3 months; and

(d) Proceeds (net of transaction costs) from the sale of the property, plant and equipment shall be utilised to prepay or repay the principal and/or interest due in chronological order of maturity.

Due to the weak market condition, the realisation of the planned disposal of the Group's assets required by the Restructured Scheme of the Syndicated Term Loans has been delayed. As at 30 June 2017, the Group has not entered into any sale and purchase agreement for the sale of the property, plant and equipment.

Corporate Debt Restructuring Committee ("CDRC") had issued a letter dated 20 December 2012 to all lenders of Megasteel ("Lenders") informing them that Megasteel's admission to CDRC has been approved and Lenders were required to observe an informal standstill pending completion of the Proposed Debt Restructuring Scheme.

On 28 March 2013, CDRC chaired a meeting during which Megasteel rolled-out a preliminary term sheet to the Lenders outlining the principal terms and conditions of the Proposed Debt Restructuring Scheme.

On 14 July 2014, Megasteel sent out the Term Sheet to the Lenders outlining the principal terms and conditions of the Proposed Debt Restructuring Scheme. The Proposed Debt Restructuring Scheme was subsequently revised and sent to the Lenders on 20 November 2014. Megasteel has failed to obtain unanimous consent from the Lenders.

In the previous financial year, Megasteel had obtained consent from all its RM Term Loan Lenders (some of which are with certain conditions). However, only two out of the seven USD Term Loan Lenders have given their consents while one has commenced legal proceedings against Megasteel, as further disclosed in Notes 35(c) and 41(b).

## 29. REDEEMABLE CONVERTIBLE SECURED LOAN STOCKS

Pursuant to the completion of the LCB Scheme for implementation on 27 February 2009, the Company had converted a portion of its LCB Class B Bonds and LCB Debts into LCB redeemable convertible secured loan stocks ("RCSLS") as follows:

(a) RM294,747,299 nominal value of LCB Class B(a) Bonds with present value of RM286,834,000 into RM286,834,000 nominal value of LCB Class B(a) RCSLS;

(b) RM200,000,000 nominal value of LCB Class B(b) Bonds with present value of RM178,769,000 into RM178,769,000 nominal value of LCB Class B(b) RCSLS; and

(c) RM5,252,701 nominal value of LCB Debts with present value of RM5,130,000 into RM5,130,000 nominal value of LCB Class B(c) RCSLS.

Salient terms of the RCSLS are as follows:

(i) The tranches of RCSLS are as follows:

| | Class | Nominal Value RM'000 | Maturity Date | Coupon Rate (per annum) |
|---|---|---|---|---|
| RCSLS | B(a) | 286,834 | 31.12.2015 | 5.00% |
| RCSLS | B(b) | 178,769 | 31.12.2015 | 7.00% |
| RCSLS | B(c) | 5,130 | 31.12.2015 | 4.25% |
| | | 470,733 | | |

The RCSLS are subject to late payment charge of 1% per annum above the coupon rate.

(ii) Conversion right and rate

The RCSLS were convertible into new LCB Shares during the conversion period at the conversion price of RM1.00 nominal amount of the RCSLS for every new LCB Share. In conjunction with the capital reconstruction undertaken by the Company in the previous financial year, the conversion price of the RCSLS has been adjusted from RM1.00 to RM5.00.

(iii) Conversion period

The RCSLS are convertible into new LCB Shares on or after the issue date (27 February 2009) of the RCSLS but ending on the maturity date (31 December 2015). In the previous financial years, the RCSLS Holders had granted approval for the extension of time for the redemption of the RCSLS to 31 December 2030 and as such, the conversion period was extended to 31 December 2030 accordingly.

**29. REDEEMABLE CONVERTIBLE SECURED LOAN STOCKS (continued)**

(iv) Redeemability

The redemption of the RCSLS at RM1.00 for every RM1.00 nominal value of RCSLS is as follows:

- Mandatory Early Redemption - to redeem in chronological order of the redemption date in the event the surplus in the Redemption Account is RM5,000,000 or more on a pro rata basis with the LCB Bonds, LCB Debts and RCSLS.

- Redemption Upon Maturity - all outstanding RCSLS and not converted on the expiry of the conversion period will be redeemed for cash at RM1.00 per RCSLS.

- Mandatory Redemption

  (a) the Company shall redeem 20% of the total RCSLS issued at every redemption date as follows:

    - 31 December 2011;
    - 31 December 2012;
    - 31 December 2013;
    - 31 December 2014; and
    - 31 December 2015

  (b) all outstanding RCSLS shall be redeemed upon the occurrence of a shareholders' or creditors' winding up of the Company or upon the declaration of the event of default.

In the previous financial years, RCSLS Holders have granted approval for the extension of time for the redemption of the RCSLS up to 31 December 2030.

(v) Security

The securities for the RCSLS shall be the same as the securities for the LCB Bonds and LCB Debts (Note 31).

(vi) Ranking of New Shares

The new LCB Shares to be issued pursuant to the conversion of the RCSLS shall rank *pari passu* in all respects with the then existing issued and paid-up shares of the Company, except that they will not be entitled to any dividends, rights, allotments and/or any other distributions that may be declared, made or paid, the entitlement date of which is prior to the crediting of the new shares into the securities account of the holder maintained with Bursa Depository Malaysia Sdn Bhd.

As at 30 June 2017, RM481,439,000 nominal value of RCSLS remained outstanding.

The value of the RCSLS has been split into the liability component and the equity component, representing the fair value of the conversion option. The RCSLS are accounted for in the statements of financial position as follows:

| | Group and Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Liability component at 1 July | **281,498** | 278,356 |
| Interest expenses recognised during the year (Note 10) | **16,300** | 15,675 |
| Repayment during the year | **(4,588)** | (12,533) |
| Liability component at 30 June | **293,210** | 281,498 |

## 29. REDEEMABLE CONVERTIBLE SECURED LOAN STOCKS (continued)

The RCSLS are redeemable over the following periods:

| | Group and Company | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Within 1 year | **–** | – |
| From 1 to 2 years | **–** | – |
| From 2 to 5 years | **–** | – |
| After 5 years | **293,210** | 281,498 |
| | **293,210** | 281,498 |

Included in the RCSLS are amount of RM263.7 million (2016: RM253.5 million) due to a related party.

## 30. FINANCE LEASE LIABILITIES

| | Group | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Minimum lease payments: | | |
| Not later than 1 year | **105** | 105 |
| Later than 1 year and not later than 2 years | **70** | 105 |
| Later than 2 years and not later than 5 years | **19** | 87 |
| | **194** | 297 |
| Future finance charges | **(17)** | (29) |
| | **177** | 268 |
| Present value of finance lease payments: | | |
| Not later than 1 year | **93** | 92 |
| Later than 1 year and not later than 2 years | **65** | 93 |
| Later than 2 years and not later than 5 years | **19** | 83 |
| | **177** | 268 |
| Analysed as: | | |
| Due within 12 months | **93** | 92 |
| Due after 12 months | **84** | 176 |
| | **177** | 268 |

The finance lease liabilities carry interest rates at the reporting date at rates ranging from 2.3% to 3.7% (2016: 2.3% to 3.7%) per annum.

## 31. BONDS AND DEBTS

| | Group and Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **Non-Current** | | |
| Secured: | | |
| - LCB Bonds | **819,785** | 784,375 |
| - LCB Debts | **5,574** | 5,082 |
| **Total** | **825,359** | 789,457 |

The bonds and debts are redeemable/repayable over the following periods:

| | Group and Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Within 1 year | **–** | – |
| From 1 to 2 years | **–** | – |
| From 2 to 5 years | **–** | – |
| After 5 years | **825,359** | 789,457 |
| | **825,359** | 789,457 |

Included in the Bonds and Debts is an amount of RM753.8 million (2016: RM743.6 million) due to a related party.

The Company had on 27 February 2009 implemented the LCB Scheme which is to address its debt obligation to redeem/repay the LCB Bonds and LCB Debts issued by the Company pursuant to the Group Wide Restructuring Scheme ("GWRS") implemented in 2003.

On 27 February 2009, the Company had:

(i) fully redeemed its LCB Class A Bonds amounting to RM35.9 million;

(ii) converted RM900,000,000 nominal value of LCB Class B(b) Bonds with a present value of RM804,460,000 into 804,460,000 new ordinary shares; and

(iii) converted a portion of its LCB Class B Bonds and LCB Debts into RCSLS (Note 29).

**31. BONDS AND DEBTS (continued)**

The principal terms and conditions of the LCB Bonds and LCB Debts are as follows:

(i) The tranches of LCB Bonds and LCB Debts are as follows:

| | Class | Nominal Value RM'000 | Net Present Value RM'000 | Maturity Date | Cash Yield-to-Maturity (per annum) |
|---|---|---|---|---|---|
| LCB Bonds | B(a) | 592,647 | 408,881 | 31.12.2019 | 5.00% |
| LCB Bonds | B(b) | 1,347,652 | 809,717 | 31.12.2020 | 7.00% |
| LCB Debts | B | 10,734 | 7,974 | 31.12.2019 | 4.25% |
| | | 1,951,033 | 1,226,572 | | |

The LCB Bonds and LCB Debts are redeemable/repayable annually on 31 December of each calendar year and are subject to late payment charges of 1% per annum above the cash yield-to-maturity.

(ii) The Security Trustee holds the following securities ("Securities") for the benefit of the holders of the LCB Bonds and LCB Debts:

(a) The assets included in the Proposed Divestment Programme ("PDP") for the Group. If there is an existing security on any such assets, the Security Trustee will take a lower priority security interest;

(b) The LDHB Inter-Co Repayment received by the Company;

(c) Entire/Partial investment in Lion Plate Mills Sdn Bhd, Bright Steel Sdn Bhd, Megasteel Sdn Bhd, LCB Harta (L) Limited and certain investment in associates;

(d) The Residual Assets, if any;

(e) Dividends upstreaming from Lion Plate Mills Sdn Bhd and Bright Steel Sdn Bhd;

(f) The excess, if any, of the ACB SPV Debts and proceeds of the Property Development Project known as Mahkota Cheras Project;

(g) All rights, title and interest of the Company and Limpahjaya under the Deed of Undertaking;

(h) Proceeds from the disposal of 66,666,667 ordinary shares in Megasteel;

(i) 33,333,333 ordinary shares in Megasteel;

(j) Shares and assets in Pancar Tulin Sdn Bhd (including the property development project);

(k) Shares in LCB Harta (L) Limited;

(l) Such other securities as may be provided from time to time to the Security Trustee for the benefit of the Bondholders, RCSLS Holders and the Lenders; and

**31. BONDS AND DEBTS (continued)**

The principal terms and conditions of the LCB Bonds and LCB Debts are as follows: (continued)

(ii) The Security Trustee holds the following securities ("Securities") for the benefit of the holders of the LCB Bonds and LCB Debts: (continued)

(m) The Redemption Account and the General Escrow Account held by the Company. The Redemption Account will capture the LCB Dedicated Cash Flows.

Dedicated Cash Flows means cash flow from the following sources:

- net surplus proceeds from the disposal of any assets in the PDP for the Group over which there is presently a security, if applicable;

- net proceeds from the disposal of any assets in the PDP for the Group over which there is presently no security;

- proceeds of the LDHB Inter-Co Repayment received by the Company (including any loyalty payment received following the full repayment of LDHB Inter-Co Repayment);

- dividends or cash flow from the Deed of Undertaking;

- subject to the proportions allocated pursuant to the Trust Deed, dividends and disposal proceeds from Bright Steel Sdn Bhd and Lion Plate Mills Sdn Bhd;

- repayment proceeds from the ACB SPV Debts and proceeds from the Property Development Project; and

- proceeds from the disposal of 11.1% of the issued and paid-up share capital of Megasteel.

Monies captured in the Redemption Account can only be used towards redemption/repayment of the LCB Bonds, LCB Debts and RCSLS and cannot be utilised for any other purposes.

The LCB Bonds, LCB Debts and RCSLS constitute direct, unsubordinated and secured obligations of the Company, being the issuer.

The LCB Bonds, LCB Debts and RCSLS ranked *pari passu* amongst each other over the Securities held by the Security Trustee under items (a) to (m) above.

In the previous financial years, Bondholders and Lenders had granted approval for extension of the redemption/repayment period for LCB Bonds and LCB Debts up to 31 December 2034.

## 32. DEFERRED LIABILITIES

### Unfunded Defined Benefit Plan

A subsidiary of the Company operates an unfunded defined benefit plan for its eligible employees. The latest actuarial valuation of the plan was carried out on 30 June 2016 by an independent qualified actuary.

The movements during the financial year in the amounts recognised in the Group's statements of financial position are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **Non-Current** | | |
| At 1 July | **3,350** | 3,151 |
| Charged to profit or loss (Note 7) | **–** | 332 |
| Benefit paid | **(6)** | (133) |
| At 30 June | **3,344** | 3,350 |
| The amount recognised is analysed as follows: | | |
| - Present value of unfunded defined benefit obligations | **3,344** | 3,350 |
| The expenses recognised in profit or loss are analysed as follows: | | |
| - Current service cost | **–** | 166 |
| - Interest cost | **–** | 166 |
| | **–** | 332 |

The principal actuarial assumptions used are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **%** | **%** |
| Discount rate | **5** | 5 |
| Expected rate of salary increase | **5** | 5 |

## 33. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Trade payables | **1,931,302** | 1,886,488 | **–** | – |
| Other payables | **289,209** | 293,457 | **4,120** | 20,428 |
| Security deposits received from customers | **9,605** | 8,791 | **–** | – |
| Product financing liabilities | **96,108** | 91,934 | **–** | – |
| Accruals | **57,114** | 51,102 | **16,319** | 16,379 |
| Project payables | **3,883** | 4,041 | **–** | – |
| | **2,387,221** | 2,335,813 | **20,439** | 36,807 |

Included in payables of the Group and of the Company are related parties balances of which RM1,479.9 million (2016: RM1,479.8 million) and RM Nil (2016: RM Nil) respectively are in trade payables, RM68.4 million (2016: RM109.4 million) and RM4.1 million (2016: RM20.4 million) respectively are in other payables and RM69.5 million (2016: RM65.8 million) and RM Nil (2016: RM Nil) respectively are in product financing liabilities.

Certain of the related parties balances bear interest rates ranging from 7.9% to 9.1% (2016: 7.9% to 9.1%) per annum.

The entire security deposits received from customers bear interest rates ranging from 6.5% to 10.0% (2016: 6.5% to 10.0%) per annum.

Product financing liabilities are the liabilities arising from the trade financing arrangements with parties where titles to the inventories pertaining to these arrangements are legally with these parties, and of which the Group has the obligation to purchase. The obligation to purchase ranges from 90 days to 120 days with interest rates ranging from 6% to 9% (2016: 6% to 9%) per annum. The inventories under such arrangements are disclosed in Note 20. All other normal credit terms granted to the Group in trade payables range from 30 days to 120 days.

Project payables represent construction costs for plant and machinery, and are unsecured and interest-free. The normal credit terms granted to the Group range from 30 days to 120 days. Other credit terms are assessed on a case-by-case basis.

In previous financial years, a subsidiary of the Company has entered into a Settlement Scheme to settle the long outstanding amounts due to certain of its unsecured creditors accumulated until 30 April 2011, whereby RM748.8 million was settled via the issuance of 936,009,129 new ordinary shares in the Company. Included in the amounts settled under the Settlement Scheme were amounts due to related parties of RM577.8 million.

As at 30 June 2017, the Group has an amount outstanding of RM99.0 million (2016: RM99.0 million) under the Settlement Scheme which is due for payment and is non-interest bearing. Included in the Settlement Scheme are amounts due to related parties of RM74.2 million (2016: RM74.2 million).

Since the previous financial years, the subsidiary had exceeded certain credit terms of trade and other payables. The subsidiary has entered into deferral payment plans, formulating payment strategies and refinancing balances with a significant constitution of these creditors. The Directors are of the opinion that the subsidiary will have the continued support from these creditors.

As described in Note 41(b), the subsidiary had on 5 May 2016 and 2 August 2016 obtained a Restraining Order and an ad-interim extension respectively against all creditors.

## 34. COMMITMENTS

### (a) Capital Commitments

As at the reporting date, the Group has the following capital commitments:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Capital expenditure for property, plant and equipment: | | |
| - approved and contracted for | **8,058** | 8,058 |
| - approved but not contracted for | **41,279** | 41,279 |
| | **49,337** | 49,337 |

### (b) Non-Cancellable Operating Lease Commitments

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **As Lessor** | | |
| Future minimum rentals receivable: | | |
| Not later than one year | **1,333** | 1,353 |
| Later than one year and not later than five years | **5,315** | 5,343 |
| Later than five years | **18,546** | 19,875 |
| | **25,194** | 26,571 |

## 35. CONTINGENT LIABILITIES

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| (a) Guarantees in respect of loans and facilities granted to subsidiaries | | |
| - unsecured | **96,998** | 110,258 |

(b) On 10 April 2014, Megasteel and Tenaga Nasional Berhad ("TNB") had mutually agreed to settle a RM306 million claim ("Consent Judgement Sum") made by TNB for the supply of electricity to Megasteel. A consent judgement had also been recorded at the High Court of Malaya ("High Court"), stating that Megasteel be given a 12-month moratorium from April 2014 to pay the amount and that it shall commence the scheduled payment of the Consent Judgement Sum by 24 monthly instalments from April 2015. Additionally, the supply of electricity by TNB shall be on an advance payment basis effective April 2014.

Thereafter, TNB agreed to grant Megasteel a further moratorium period wherein the 24 monthly instalments shall commence from April 2016 instead of April 2015. On 7 August 2015, the High Court had allowed Megasteel's application to record by way of an order with consent of TNB and Megasteel, that TNB had granted Megasteel new terms to pay the Consent Judgement Sum and that Megasteel shall commence the scheduled payment of the Consent Judgement Sum from April 2016. Megasteel had defaulted in the instalment payment since April 2016.

**35. CONTINGENT LIABILITIES (continued)**

On 5 May 2016, Megasteel had obtained a Restraining Order against all creditors. On 28 June 2016, TNB had applied to intervene and set-aside the Restraining Order.

Subsequently on 2 August 2016, the High Court had granted Megasteel an ad-interim extension of the Restraining Order pending the decision on the High Court on Megasteel's application for the Restraining Order to be extended for a period of 180 days from the date of the Restraining Order for extension and TNB's application dated 28 June 2016 to intervene in these proceedings to set-aside the Restraining Order.

As disclosed in Note 41(b), the High Court had on 13 July 2017 vacated the hearing dates of TNB's application to set aside the Restraining Order and that a case management which was previously scheduled for 7 September 2017 was postponed to 4 December 2017 to update the High Court on the progress of the settlement between Megasteel and TNB.

(c) Woodgrove Investments Pte Ltd ("Woodgrove"), through its solicitors, issued a statutory notice of demand pursuant to the antecedent orders of the Section 218 of the Companies Act, 1965 ("Section 218 Notice") against Megasteel on 5 January 2015. Under the Section 218 Notice, Woodgrove demanded for the payment of a sum of USD7,191,100 (approximately RM29 million) owing by Megasteel as at 16 December 2014 plus interest, within 21 days from the date of the receipt by Megasteel of the Section 218 Notice, failing which Megasteel is deemed unable to pay its debts and appropriate action may be taken to wind-up Megasteel.

On 20 January 2015, Megasteel's solicitors wrote a letter of reply to Woodgrove's solicitors to state that Woodgrove's claim is premature and there is a bona fide disputed debt. On 22 January 2015, Megasteel applied to the High Court of Malaya in Kuala Lumpur for a fortuna injunction order to restrain Woodgrove from filing and/or presenting a winding-up order against Megasteel ("Fortuna Injunction").

On 17 March 2015, interlocutory Fortuna Injunction was granted against Woodgrove. On 28 May 2015, permanent Fortuna Injunction was granted against Woodgrove.

Woodgrove has since appealed to the Court of Appeal against the Fortuna Injunction. The Court of Appeal had on 21 January 2016 dismissed Woodgrove's appeal.

Woodgrove had applied for leave to appeal to the Federal Court. On 13 February 2017, the Federal Court dismissed Woodgrove's application for leave to appeal and Woodgrove has no further right of appeal in respect of this matter.

**36. RELATED PARTY TRANSACTIONS**

Related parties refer to entities in which certain Directors and/or substantial shareholders of the Company or of its subsidiaries or persons connected to such Directors and/or substantial shareholders have interests.

Significant transactions undertaken with related parties are as follows:

| | | Group | |
|---|---|---|---|
| **Name of Company** | **Type of Transactions** | **2017 RM'000** | **2016 RM'000** |
| **(i) With ACB Resources Berhad ("ACB") Group** | | | |
| Lion Tooling Sdn Bhd | Trade purchases | **8** | 1,009 |
| **(ii) With Lion Asiapac Limited ("LAP") Group** | | | |
| Compact Energy Sdn Bhd | Trade purchases | **–** | 7,671 |
| | Rental income | **333** | 438 |

## 36. RELATED PARTY TRANSACTIONS (continued)

Significant transactions undertaken with related parties are as follows: (continued)

| Name of Company | Type of Transactions | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|---|
| **(iii) With Other Related Parties** | | | |
| Amsteel Mills Sdn Bhd | Trade sales | **133** | 10,577 |
| | Trade purchases | **–** | 1,725 |
| | Rental income | **–** | 52 |
| | Rental expenses | **54** | 744 |
| Amsteel Mills Marketing Sdn Bhd | Trade purchases | **–** | 2,545 |
| Lion Waterway Logistics Sdn Bhd | Logistic services | **–** | 6,407 |
| | Rental income | **187** | 187 |
| Posim Petroleum Marketing Sdn Bhd | Trade purchases | **14** | 382 |
| Posim Marketing Sdn Bhd | Trade sales | **–** | 118,757 |
| Singa Logistics Sdn Bhd | Logistic services | **4** | 3,612 |
| Lion DRI Sdn Bhd | Trade sales | **–** | 19,889 |
| | Trade purchases (Note (iv)) | **–** | 303,539 |
| | Operating lease expense | **–** | 33,664 |
| | Rental income | **1,142** | 1,142 |
| Graimpi Sdn Bhd | Interest expense on product financing | **–** | 374 |
| Mitsui & Co Ltd | Trade purchases | **–** | 9,062 |
| Ributasi Holdings Sdn Bhd | Interest expense on product financing | **710** | 2,183 |

ACB and LAP are associates of the Company wherein certain Directors and substantial shareholders of the Company have interests.

Amsteel Mills Sdn Bhd, Amsteel Mills Marketing Sdn Bhd, Lion Waterway Logistics Sdn Bhd, Posim Petroleum Marketing Sdn Bhd, Posim Marketing Sdn Bhd and Singa Logistics Sdn Bhd are subsidiaries of Lion Industries Corporation Berhad, a substantial shareholder of the Company wherein certain Directors and substantial shareholders of the Company have interests.

Lion DRI Sdn Bhd and Graimpi Sdn Bhd are subsidiaries of Lion Diversified Holdings Berhad, a substantial shareholder of the Company wherein certain Directors and substantial shareholders of the Company have interests.

Mitsui & Co Ltd was a substantial shareholder of a subsidiary of the Company until August 2015.

Ributasi Holdings Sdn Bhd is a subsidiary of Lion Development (Penang) Sdn Bhd, a company in which certain Directors of the Company have interests.

**36. RELATED PARTY TRANSACTIONS (continued)**

**(iv) Offtake Agreement**

On 16 July 2007, a subsidiary of the Company, Megasteel Sdn Bhd ("Megasteel") entered into an Offtake Agreement with Lion DRI Sdn Bhd ("Lion DRI") for the supply of the entire production of the hot direct reduced iron and/or hot briquetted iron (''Steel Products'') by Lion DRI to Megasteel, upon the terms and conditions of the Offtake Agreement as follows:

(a) the selling price of the Steel Products for the 10-year term shall be based on the formula of cost plus certain margin (''Selling Price'');

(b) in the event the average scrap price for 3 months' period is higher than the Selling Price, Lion DRI shall invoice Megasteel the Selling Price together with 50% of the price difference;

(c) Megasteel shall settle the invoice within 30 days of the invoice failing which, interest at the rate of 2.25% above Malayan Banking Berhad's base lending rate per annum shall be payable on the outstanding sum from the due date to date of settlement;

(d) Lion DRI shall be free to dispose of the Steel Products not taken up by Megasteel in the open market and if Lion DRI shall suffer a loss on such sale, Megasteel shall indemnify Lion DRI for such losses. In the event Lion DRI fails to deliver the Steel Products, Megasteel shall be at liberty to source for alternative equivalent and Lion DRI shall indemnify Megasteel for losses suffered;

(e) The Offtake Agreement expired on 15 July 2017; and

(f) The expiry of the Offtake Agreement might not relinquish Megasteel from further obligation and right under the provision of the Offtake Agreement and the Supplemental Offtake Agreement which may give rise to further provision to Megasteel. However, Megasteel believes that a provision for further liabilities in the financial statements is not required in relation to the further obligation and right under the Offtake Agreement and the Supplemental Offtake Agreement.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established under terms that are no more favourable to the related parties than those arranged with independent third parties.

**37. SEGMENTAL ANALYSIS**

The Group is organised into four major business segments:

| | | | |
|---|---|---|---|
| (i) | Steel | - | manufacturing of hot rolled coils, cold rolled coils, bands and sheets |
| (ii) | Property | - | property development |
| (iii) | Furniture | - | manufacture, distribution and trading of office equipment, security equipment and steel fabricated products |
| (iv) | Others | - | investment holding, share registration and secretarial services |

No geographical segmental analysis is presented as the Group operates principally in Malaysia.

The Directors are of the opinion that all inter-segment transactions were carried out on terms and conditions not materially different from those obtainable in transactions with independent third parties.

## 37. SEGMENTAL ANALYSIS (continued)

| | Steel RM'000 | Property RM'000 | Furniture RM'000 | Others RM'000 | Elimination RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2017** | | | | | | |
| **Revenue** | | | | | | |
| External | 14,047 | 54,270 | 18,691 | 159 | – | 87,167 |
| Inter-segment | – | – | – | 25 | (25) | – |
| | 14,047 | 54,270 | 18,691 | 184 | (25) | 87,167 |
| **Results** | | | | | | |
| Segment results | (142,884) | 28,755 | (2,116) | (4,789) | – | (121,034) |
| Interest income | 990 | 1,256 | 55 | 1,155 | – | 3,456 |
| Loss from operations | | | | | | (117,578) |
| Finance costs | | | | | | (278,228) |
| Impairment losses on investment in securities | | | | | | (1,362) |
| Share in results of associates | | | | | | 14,821 |
| Loss before taxation | | | | | | (382,347) |
| Taxation | | | | | | (13,485) |
| Net loss for the financial year | | | | | | (395,832) |
| Segment assets | 2,074,299 | 138,364 | 21,021 | 30,396 | – | 2,264,080 |
| Investment in associates | | | | | | 35,271 |
| Unallocated corporate assets | | | | | | 383,809 |
| Consolidated total assets | | | | | | 2,683,160 |
| Segment liabilities | 3,459,940 | 25,825 | 3,427 | 90,826 | – | 3,580,018 |
| Unallocated corporate liabilities | | | | | | 1,130,922 |
| Consolidated total liabilities | | | | | | 4,710,940 |
| **Other information** | | | | | | |
| Capital expenditure | 40 | 7 | 104 | – | – | 151 |
| Depreciation | 140,204 | 13 | 312 | 1 | – | 140,530 |

## 37. SEGMENTAL ANALYSIS (continued)

| | Steel RM'000 | Property RM'000 | Furniture RM'000 | Others RM'000 | Elimination RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2016** | | | | | | |
| **Revenue** | | | | | | |
| External | 636,711 | 41,665 | 23,192 | 211 | – | 701,779 |
| Inter-segment | 2,068 | – | 24 | 25 | (2,117) | – |
| | 638,779 | 41,665 | 23,216 | 236 | (2,117) | 701,779 |
| **Results** | | | | | | |
| Segment results | (324,882) | 14,300 | (52) | (1,328) | – | (311,962) |
| Interest income | 890 | 1,113 | 65 | 1,582 | – | 3,650 |
| Loss from operations | | | | | | (308,312) |
| Finance costs | | | | | | (251,564) |
| (Impairment losses)/ Reversal of impairment losses on: | | | | | | |
| - investment in an associate | | | | | | (452) |
| - investment securities | | | | | | 135 |
| Share in results of associates | | | | | | (1,617) |
| Loss before taxation | | | | | | (561,810) |
| Taxation | | | | | | 1,029 |
| Net loss for the financial year | | | | | | (560,781) |
| Segment assets | 2,266,479 | 119,701 | 23,726 | 30,984 | – | 2,440,890 |
| Investment in associates | | | | | | 20,650 |
| Unallocated corporate assets | | | | | | 380,610 |
| Consolidated total assets | | | | | | 2,842,150 |
| Segment liabilities | 3,262,452 | 24,977 | 3,958 | 108,949 | – | 3,400,336 |
| Unallocated corporate liabilities | | | | | | 1,072,491 |
| Consolidated total liabilities | | | | | | 4,472,827 |
| **Other information** | | | | | | |
| Capital expenditure | 5,413 | 7 | 583 | – | – | 6,003 |
| Depreciation | 141,809 | 13 | 336 | 1 | – | 142,159 |

## 38. STATEMENTS OF CASH FLOWS

### (a) Adjustments for non-cash items, interests and dividends

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Debt waiver from a subsidiary | **–** | – | **–** | (2,449) |
| (Gain)/Loss on disposal of: | | | | |
| - property, plant and equipment | **(890)** | 1,794 | **–** | – |
| - assets held for sale | **(47,664)** | – | **–** | – |
| Impairment losses/(Reversal of impairment losses) on: | | | | |
| - investment in an associate | **–** | 452 | **–** | – |
| - investment in securities | **1,362** | (135) | **31** | 94 |
| - receivables | **2,657** | 2,301 | **–** | – |
| - amount due from subsidiaries | **–** | – | **4,215** | 601,864 |
| Interest expenses | **278,228** | 251,564 | **65,847** | 63,790 |
| Interest income | **(3,456)** | (3,650) | **(98)** | (121) |
| Inventories written down | **349** | 1,514 | **–** | – |
| Depreciation | **140,530** | 142,159 | **–** | – |
| Property, plant and equipment written off | **324** | – | **–** | – |
| Provision for defined benefit plan | **–** | 332 | **–** | – |
| Share in results of associates | **(14,821)** | 1,617 | **–** | – |
| Unrealised loss on foreign exchange | **29,290** | 21,129 | **345** | 311 |
| | **385,909** | 419,077 | **70,340** | 663,489 |

### (b) Purchase of property, plant and equipment

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Aggregate cost of purchase (Note 13) | **151** | 6,003 |
| Purchase by means of deferred payment | **–** | (4,385) |
| Purchase by cash | **151** | 1,618 |

**38. STATEMENTS OF CASH FLOWS (continued)**

**(c) Cash and cash equivalents at end of the financial year**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Cash and bank balances | **56,120** | 74,810 | **527** | 599 |
| Deposits with financial institutions | **7,689** | 26,528 | **1,565** | 3,165 |
| Bank overdrafts (Note 28) | **(49,130)** | (45,259) | **–** | – |
| | **14,679** | 56,079 | **2,092** | 3,764 |
| Fixed deposits pledged to licensed banks | **–** | (261) | **–** | – |
| | **14,679** | 55,818 | **2,092** | 3,764 |

Cash and bank balances and deposits with financial institutions of the Group amounting to RM1.7 million (2016: RM1.5 million) are secured by way of a floating charge for borrowings as disclosed in Note 28.

The titles of the following deposits and bank balances, which arose from a property development project, have not been transferred to the name of the subsidiary:

| | Group | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | RM'000 |
| Bank balances | **38,497** | 38,535 |
| Deposits with financial institutions | **–** | 20,861 |
| | **38,497** | 59,396 |

Included in bank balances of a subsidiary is an amount of RM41.5 million (2016: RM37.5 million) held pursuant to Section 7A of the Housing Development (Control and Licensing) Act, 1966 and therefore restricted from use for other operations.

**39. FINANCIAL INSTRUMENTS**

**Financial Risk Management Objectives and Policies**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group operates within clearly defined guidelines on financial risk management and it is not the Group's policy to engage in speculative transactions.

## 39. FINANCIAL INSTRUMENTS (continued)

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:

**Foreign Currency Risk**

The Group is principally exposed to transactional currency risks through the purchase of materials and consumables, sales of finished goods, and in its financing activities that are denominated in a currency other than the functional currency. The currency giving rise to this risk is primarily the United States Dollar ("USD"). The Group monitors developments in Government policies and market conditions to take necessary actions should there be any indication of unfavourable foreign exchange movement.

The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the property or investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments.

The financial assets and liabilities of the Group and of the Company that are not denominated in its functional currencies are as follows:

| | USD RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2017** | | | |
| Trade and other receivables | **1,243** | **–** | **1,243** |
| Trade and other payables | **42,284** | **6,340** | **48,624** |
| Loans and borrowings | **523,103** | **–** | **523,103** |
| Bonds and debts | **5,574** | **–** | **5,574** |
| **2016** | | | |
| Trade and other receivables | 1,411 | – | 1,411 |
| Trade and other payables | 42,868 | 5,800 | 48,668 |
| Loans and borrowings | 452,210 | – | 452,210 |
| Bonds and debts | 5,082 | – | 5,082 |
| **Company** | | | |
| **2017** | | | |
| Bonds and debts | **5,574** | **–** | **5,574** |
| **2016** | | | |
| Bonds and debts | 5,082 | – | 5,082 |

## 39. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's and the Company's profit/loss net of tax to a reasonably possible change in the USD exchange rate against the functional currency of the Group and of the Company, with all other variables held constant:

| | Profit net of tax | |
|---|---|---|
| | **2017** | **2016** |
| **Group** | **RM'000** | **RM'000** |
| USD/RM - strengthened 3% | **(12,990)** | (11,371) |
| - weakened 3% | **12,990** | 11,371 |
| **Company** | | |
| USD/RM - strengthened 3% | **(127)** | (116) |
| - weakened 3% | **127** | 116 |

**Interest Rate Risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits. Interest rates of the Group's borrowings are managed through fixed and floating rates. Investments in financial assets are short term in nature and are mostly placed as short term deposits with licensed financial institutions.

The information on maturity dates and effective interest rates of financial assets and liabilities is disclosed in their respective notes.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM1 million higher/lower, arising mainly as a result of lower/higher interest expense on floating rate of loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

## 39. FINANCIAL INSTRUMENTS (continued)

### Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables and the Company's exposure to credit risk arises primarily from loans and advances to subsidiaries and financial guarantees given. For other financial assets (investment securities, cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally credit evaluations are performed on customers requiring credit over a certain amount. As at the reporting date, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statements of financial position.

The Company provides unsecured financial guarantees in respect of facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayment made by the subsidiaries. As at the reporting date, there was no indication that any subsidiary would default on repayment other than as disclosed in Note 41(c). The financial guarantees have not been recognised since the fair value on initial recognition was not material.

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly. As at the reporting date, the maximum exposure to credit risk is represented by its carrying amounts in the statement of financial position.

### Market Risk

Market price risk is the risk that the fair value of future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The Group's key business segment operates in a business environment where international finished goods prices generally move in tandem with key raw material prices, except when finished goods prices declined steeply due to unusual factors. The Group reduces its exposure to these fluctuations through close monitoring and maintaining the raw material inventory at appropriate levels, where possible.

The Group is exposed to equity price risk arising from its investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on Bursa Malaysia Securities Berhad. These instruments are classified as available-for-sale financial assets. The Group does not have exposure to commodity price risk.

### Liquidity and Cash Flow Risks

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by bank borrowings.

The Group manages its debt maturity profile, operating cash flow and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As mentioned in Note 2, as at 30 June 2017, the Group's current liabilities exceeded its current assets by RM3.16 billion.

## 39. FINANCIAL INSTRUMENTS (continued)

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations:

| | On demand RM'000 | Less than 12 months RM'000 | 1 to 5 years RM'000 | After 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| **Group** | | | | | |
| Trade and other payables | **2,193,028** | **194,193** | **–** | **–** | **2,387,221** |
| Loans and borrowings | **–** | **1,078,383** | **89** | **481,439** | **1,559,911** |
| Bonds and debts | **–** | **–** | **–** | **1,666,779** | **1,666,779** |
| | **2,193,028** | **1,272,576** | **89** | **2,148,218** | **5,613,911** |
| **2017** | | | | | |
| **Company** | | | | | |
| Trade and other payables | **–** | **20,439** | **–** | **–** | **20,439** |
| Amount due to subsidiaries | **129,817** | **–** | **–** | **–** | **129,817** |
| Loans and borrowings | **–** | **–** | **–** | **481,439** | **481,439** |
| Bonds and debts | **–** | **–** | **–** | **1,666,779** | **1,666,779** |
| | **129,817** | **20,439** | **–** | **2,148,218** | **2,298,474** |
| **2016** | | | | | |
| **Group** | | | | | |
| Trade and other payables | 651,352 | 1,684,461 | – | – | 2,335,813 |
| Loans and borrowings | – | 950,011 | 192 | 487,870 | 1,438,073 |
| Bonds and debts | – | – | – | 1,686,448 | 1,686,448 |
| | 651,352 | 2,634,472 | 192 | 2,174,318 | 5,460,334 |
| **2016** | | | | | |
| **Company** | | | | | |
| Trade and other payables | – | 36,807 | – | – | 36,807 |
| Amount due to subsidiaries | 95,658 | – | – | – | 95,658 |
| Loans and borrowings | – | – | – | 487,870 | 487,870 |
| Bonds and debts | – | – | – | 1,686,448 | 1,686,448 |
| | 95,658 | 36,807 | – | 2,174,318 | 2,306,783 |

## 39. FINANCIAL INSTRUMENTS (continued)

**Fair Values**

The carrying amounts of financial liabilities of the Group as at the reporting date approximated their fair values except as set out below:

| | Group | |
|---|---|---|
| | **Carrying amount RM'000** | **Fair value RM'000** |
| **2017** | | |
| **Financial Liabilities** | | |
| Finance lease liabilities | **177** | **180** |
| **2016** | | |
| **Financial Liabilities** | | |
| Finance lease liabilities | 268 | 382 |

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and cash equivalents and trade and other receivables/payables

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) Quoted investments

The fair value of quoted shares is determined by reference to the stock exchange quoted market bid prices at the close of the business on the reporting date.

(iii) Unquoted investments

It is not practical to estimate the fair value of the Group's unquoted investments due to lack of market information and the inability to estimate fair value without incurring excessive costs. However, the Group does not expect the carrying amounts to be significantly different from recoverable amounts.

(iv) Loans and borrowings

The carrying amount of short term borrowings approximates fair value because of the short maturity period. The fair value of long term borrowings is estimated based on the current rates available for borrowings with the same maturity profile.

## 39. FINANCIAL INSTRUMENTS (continued)

### Fair Value Hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

(iii) Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

There have been no transfer between Levels 1, 2 and 3 during the financial year.

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2017** | | | | |
| **Group** | | | | |
| **Financial Assets** | | | | |
| Available-for-sale investments | **1,034** | **–** | **–** | **1,034** |
| **2017** | | | | |
| **Company** | | | | |
| **Financial Assets** | | | | |
| Available-for-sale investments | **73** | **–** | **–** | **73** |

### Categories of Financial Instruments

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

(i) Loans and receivables ("L&R")

(ii) Other liabilities ("OL")

| 2017 | Carrying Amount RM'000 | L&R RM'000 | OL RM'000 |
|---|---|---|---|
| **Group** | | | |
| **Financial Assets** | | | |
| Trade and other receivables | **56,652** | **56,652** | **–** |
| Deposits with financial institutions | **7,689** | **7,689** | **–** |
| Cash and bank balances | **56,120** | **56,120** | **–** |
| | **120,461** | **120,461** | **–** |
| **Group** | | | |
| **Financial Liabilities** | | | |
| Trade and other payables | **2,387,221** | **–** | **2,387,221** |
| Loans and borrowings | **1,371,663** | **–** | **1,371,663** |
| Bonds and debts | **825,359** | **–** | **825,359** |
| | **4,584,243** | **–** | **4,584,243** |

**39. FINANCIAL INSTRUMENTS (continued)**

**Categories of Financial Instruments (continued)**

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

| **2017** | **Carrying Amount RM'000** | **L&R RM'000** | **OL RM'000** |
|---|---|---|---|
| **Company** | | | |
| **Financial Assets** | | | |
| Trade and other receivables | **227** | **227** | **–** |
| Amount due from subsidiaries | **13** | **13** | **–** |
| Deposits with financial institutions | **1,565** | **1,565** | **–** |
| Cash and bank balances | **527** | **527** | **–** |
| | **2,332** | **2,332** | **–** |
| **Company** | | | |
| **Financial Liabilities** | | | |
| Trade and other payables | **20,439** | **–** | **20,439** |
| Amount due to subsidiaries | **129,817** | **–** | **129,817** |
| Loans and borrowings | **293,210** | **–** | **293,210** |
| Bonds and debts | **825,359** | **–** | **825,359** |
| | **1,268,825** | **–** | **1,268,825** |
| **2016** | | | |
| **Group** | | | |
| **Financial Assets** | | | |
| Trade and other receivables | 45,971 | 45,971 | – |
| Deposits with financial institutions | 26,528 | 26,528 | – |
| Cash and bank balances | 74,810 | 74,810 | – |
| | 147,309 | 147,309 | – |
| **Group** | | | |
| **Financial Liabilities** | | | |
| Trade and other payables | 2,335,813 | – | 2,335,813 |
| Loans and borrowings | 1,231,671 | – | 1,231,671 |
| Bonds and debts | 789,457 | – | 789,457 |
| | 4,356,941 | – | 4,356,941 |

## 39. FINANCIAL INSTRUMENTS (continued)

### Categories of Financial Instruments (continued)

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

| 2016 | Carrying Amount RM'000 | L&R RM'000 | OL RM'000 |
|---|---|---|---|
| **Company** | | | |
| **Financial Assets** | | | |
| Trade and other receivables | 145 | 145 | – |
| Amount due from subsidiaries | 4,445 | 4,445 | – |
| Deposits with financial institutions | 3,165 | 3,165 | – |
| Cash and bank balances | 599 | 599 | – |
| | 8,354 | 8,354 | – |
| **Company** | | | |
| **Financial Liabilities** | | | |
| Trade and other payables | 36,807 | – | 36,807 |
| Amount due to subsidiaries | 95,658 | – | 95,658 |
| Loans and borrowings | 281,498 | – | 281,498 |
| Bonds and debts | 789,457 | – | 789,457 |
| | 1,203,420 | – | 1,203,420 |

## 40. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains the Group's stability and growth in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. No changes were made in the objective, policies or processes during the financial years ended 30 June 2017 and 2016.

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Loans and borrowings | **1,371,663** | 1,231,671 | **293,210** | 281,498 |
| Bonds and debts | **825,359** | 789,457 | **825,359** | 789,457 |
| Trade and other payables | **2,387,221** | 2,335,813 | **20,439** | 36,807 |
| Less: Deposits with financial institutions | **(7,689)** | (26,528) | **(1,565)** | (3,165) |
| Cash and bank balances | **(56,120)** | (74,810) | **(527)** | (599) |
| Net debt (A) | **4,520,434** | 4,255,603 | **1,136,916** | 1,103,998 |
| Equity attributable to owners of the Company | **(1,536,455)** | (1,236,704) | **(1,257,888)** | (1,186,430) |
| Capital and net debt (B) | **2,983,979** | 3,018,899 | **(120,972)** | (82,432) |
| Gearing ratio (A/B) | **151%** | 141% | **N/A** | N/A |

## 41. SIGNIFICANT EVENTS

(a) Megasteel has temporarily ceased its operations since prior financial year. Megasteel has only retained certain key employees from operation, manufacturing, finance and payroll departments. In previous financial year, Megasteel has conducted retrenchment exercise and has arrangement with certain employees whereby they will be on half pay basis. Subsequently, in current financial year, Megasteel has further laid off certain of the remaining employees.

(b) Following an application by Megasteel, the High Court of Malaya ("High Court") had on 5 May 2016 pursuant to the antecedent orders of Section 176 of the Companies Act, 1965, granted Megasteel the following ("Court Order"):

(i) liberty to convene scheme meetings within 90 days from 5 May 2016 to consider and if thought fit, to approve the terms of the schemes of arrangement to be proposed by Megasteel with its scheme creditors ("Proposed Debt Restructuring Scheme"); and

(ii) a restraining order for a period of 90 days from 5 May 2016, whereby the creditors and lenders of Megasteel are restrained from taking action against Megasteel and/or the Company and/or their assets.

On 28 June 2016 and 14 July 2016, TNB and Woodgrove have respectively applied to intervene and set-aside the Court Order.

Subsequently on 2 August 2016, the High Court had granted Megasteel an ad-interim extension of the Court Order ("2 August 2016 ad-interim extension") pending the decision of the High Court on the below applications ("Pending Court Applications") which were initially fixed for hearing on 6 and 7 September 2016:

(i) Megasteel's application for the Court Order to be extended for a period of 180 days from the date of the court order for extension;

(ii) TNB's application dated 28 June 2016 to intervene in these proceedings and to set-aside the Court Order; and

(iii) Woodgrove's application dated 14 July 2016 to intervene in these proceedings and to set-aside the Court Order.

An extension of the Court Order was applied in order to allow Megasteel to have sufficient time to formalise the Proposed Debt Restructuring Scheme for the approval of its scheme creditors.

On 22 August 2016, the High Court had vacated the above-mentioned hearing dates and had fixed 17 and 18 October 2016 ("October 2016 hearing dates") as the new hearing dates for the above Pending Court Applications. Subsequently on 6 September 2016, the High Court had vacated the October 2016 hearing dates and had fixed 15 and 16 November 2016 as new hearing dates for the Pending Court Applications.

The High Court had vacated the hearing dates of the Pending Court Applications on several occasions and had further fixed 8 and 9 December 2016 as the new hearing dates for the Pending Court Applications. By way of consent order, Woodgrove had been added as a party to court proceedings and Woodgrove had withdrawn its application to set aside the Court Order on 8 December 2016.

Subsequently, the High Court had vacated the hearing of Megasteel's application to extend the order dated 5 May 2016 as well as TNB's application to set aside the restraining order for numerous times and at the request of TNB, a case management which was previously scheduled for 7 September 2017 was postponed to 4 December 2017 to update the High Court on the progress of the settlement between Megasteel and TNB.

**41. SIGNIFICANT EVENTS (continued)**

(c) Megasteel had failed to settle a banker's acceptance ("BA") which fell due on 23 September 2015 resulting in an event of default by Megasteel. There were subsequent defaults thereafter. The agreement for the following facilities contain cross default provisions:

(i) Non-syndicated term loan from Bank Pembangunan Malaysia Berhad with principal amount outstanding of approximately RM23 million;

(ii) Syndicated term loan (both RM Term Loan and USD Term Loan) with principal amount outstanding of approximately RM784.5 million; and

(iii) Working capital facilities agreements:

- BA agreements with amount outstanding of RM32.4 million;

- Revolving credit with amount outstanding of RM33.2 million; and

- Trust receipt with amount outstanding of RM12.7 million.

Up to the reporting date, none of the above lenders has declared an event of default due to the Restraining Order that is currently in place.

However, one of the lenders namely Woodgrove had intervened and to set-aside the Restraining Order granted to Megasteel on 14 July 2016. Further details are disclosed at Note 35(c).

(d) The Company had on 18 May 2016 announced that Bright Steel Service Centre Sdn Bhd, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement and business assets acquisition agreement with Axis Development Sdn Bhd, for a total cash consideration of RM64 million. The said disposal was completed on 30 September 2016.

(e) Pursuant to paragraph 8.04(5) of the Bursa Securities' Main Market Listing Requirements, the trading in the securities of the Company has been suspended with effect from 10 October 2016 and the securities of the Company have been officially delisted from the Main Board of Bursa Securities on 12 October 2016.

# STATEMENT BY DIRECTORS

## PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, **TAN SRI WILLIAM H.J. CHENG** and **TAN SRI CHENG YONG KIM**, being two of the Directors of **LION CORPORATION BERHAD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 11 to 96 are drawn up in accordance with Financial Reporting Standards in Malaysia and the requirements of the Companies Act 2016 so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 3 October 2017.

**TAN SRI WILLIAM H.J. CHENG**
Chairman and Managing Director

**TAN SRI CHENG YONG KIM**
Director

Kuala Lumpur, Malaysia

# STATUTORY DECLARATION

## PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT 2016

I, **TAN SRI WILLIAM H.J. CHENG**, being the Director primarily responsible for the financial management of **LION CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 11 to 96 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **TAN SRI WILLIAM H.J. CHENG** at Kuala Lumpur in the Federal Territory on 3 October 2017.

**TAN SRI WILLIAM H.J. CHENG**

Before me

**W530**
**TAN SEOK KETT**
Commissioner for Oaths
Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LION CORPORATION BERHAD

**Report on the Audit of the Financial Statements**

*Opinion*

We have audited the financial statements of LION CORPORATION BERHAD, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 96.

We do not express an opinion on the accompanying financial statements of the Group and of the Company. Because of the significance and the multiple uncertainties and their possible cumulative effects on the financial statements as described in the *Basis for disclaimer of opinion* section, we have not been able to obtain sufficient appropriate audit evidence to provide for a basis of audit opinion.

*Basis for disclaimer of opinion*

i) As described in Note 2 to the financial statements, the Group and the Company incurred a net loss attributable to owners of the Company of RM298 million and RM71 million respectively for the financial year ended 30 June 2017. As at 30 June 2017, the Group's and the Company's current liabilities exceeded their current assets by RM3,161 million and RM147 million respectively.

In the previous financial year, Megasteel Sdn Bhd ("Megasteel") had defaulted on certain of its borrowing obligations which gave rise to a cross-default with all other lenders. There were subsequent defaults on all banking facilities and other term loan thereafter.

As disclosed in Note 2(vi) to the financial statements, Megasteel has temporarily ceased its operations and retrenched and laid off certain of its employees.

In addition, since previous financial years, Megasteel has not been paying its creditors (including an energy supplier) on due dates and has been dealing with most of the suppliers on cash terms.

All the above events indicate a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

As described in Note 2 to the financial statements, the Directors of the Company have been undertaking certain measures to remediate the delayed repayments to the lenders and creditors. The consolidated financial statements have been prepared on a going concern basis, the appropriateness of the application of the going concern basis is dependent on the outcome of these measures, which are subject to multiple uncertainties, mainly including but not limited to: (i) the ability of Megasteel to negotiate with the lenders for the renewal of or extension of existing borrowings under the revised Term Sheet in the Proposed Debt Restructuring Scheme, as defined in Note 2 to the financial statements, so as to ensure that the lenders agree not to exercise or enforce such rights as permitted therein; and (ii) Megasteel being able to obtain electricity supplies from the energy supplier and to-recommence its manufacturing operation and remains profitable in the foreseeable future.

The Group did not provide a detailed analysis to support its assessment of going concern basis of accounting. Consequently, we are unable to satisfy ourselves as to whether the management's use of the going concern basis of accounting is appropriate.

Should the going concern basis for the preparation of the financial statements no longer be appropriate, adjustments will have to be made to restate the carrying amount of the assets to their recoverable amounts and to provide for further liabilities which may arise.

*Basis for disclaimer of opinion (continued)*

ii) Notwithstanding that the Group has consistently recorded losses in recent years, the Group has continued to recognise deferred tax assets of approximately RM383 million as at the reporting date. Such recognition constitutes a departure from FRS 112 Income Taxes. The Group should have derecognised the entire deferred tax assets of RM383 million and this would have increased the accumulated losses for the previous financial year and shareholders' deficits of the Group.

iii) As at the reporting date, pursuant to the Offtake Agreement as mentioned in Note 36(iv) to the financial statements, Megasteel is liable to make good any losses suffered by a related party for the production and supply of hot briquetted iron and hot direct reduced iron. The Offtake Agreement has expired on 15 July 2017 and no provision for onerous contract is required. However, we were unable to obtain sufficient appropriate audit evidence as to whether any other provision for further liabilities was required in relation to the Offtake Agreement and the Supplemental Offtake Agreement prior to or after its expiry.

iv) No impairment assessment has been carried out on the property, plant and equipment of the Group despite existence of indications of impairment. Consequently, we were unable to satisfy ourselves as to whether the carrying value of property, plant and equipment and the related revaluation reserve were appropriate.

v) As at 30 June 2017, certain of the inventories which comprise spares, supplies and consumables have indications that the cost of inventories might not be recoverable. However, the Group has not performed an assessment on the net realisable value of its inventories. Consequently, we were unable to obtain sufficient and appropriate audit evidences as to whether these inventories were carried at the lower of cost or net realisable value.

*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.

*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 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 Group's and the Company's ability 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 and 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 responsibilities is to conduct an audit of the Group and of the Company's financial statements in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, and to issue an auditors' report. However, because of the matters described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act 2016 ("Act") in Malaysia, except for those disclosed in the *Basis for disclaimer of opinion* section, we also report that the accounting and other records and registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors as disclosed in Note 16 to the financial statements have been properly kept in accordance with the provisions of the Act.

We also report that the auditors' reports on the financial statements of the subsidiaries were not subject to any material qualification and did not include any comments required to be made under Section 266(3) of the Act except that the auditors' reports of the following subsidiaries which were disclaimed in respect of matters discussed below:

(i) Megasteel Sdn Bhd - Disclaimer of opinion on going concern and on the same matters in the *Basis for disclaimer of opinion* section Notes (ii) to (v).

(ii) Secomex Manufacturing (M) Sdn Bhd - Disclaimer of opinion on going concern, qualification on existence of inventories, insufficient audit evidence for provision and the same matters in the *Basis for disclaimer of opinion* section Notes (iv) and (v).

**Other matters**

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

**ONG BOON BAH & CO**
**AF: 0320**
**Chartered Accountants**

**LIM KOK BENG**
**00588/02/2019 J**
**Chartered Accountant**

Kuala Lumpur
3 October 2017

# FORM OF PROXY

CDS ACCOUNT NUMBER

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | – | | | | – | | | | | | | | | |

I/We ..........................................................................................................................................

I.C. No./Company No. ..................................................................................................................

of ..............................................................................................................................................

being a member of LION CORPORATION BERHAD, hereby appoint ...........................................................

......................................................................................................................................................

I.C. No. ......................................................................................................................................

of ..............................................................................................................................................

or failing whom, ............................................................................................................................

I.C. No. ......................................................................................................................................

of ..............................................................................................................................................

as my/our proxy to vote for me/us and on my/our behalf at the 44th Annual General Meeting of the Company to be held at the Meeting Hall, Level 16, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur, Wilayah Persekutuan on 21 November 2017 at 10.30 am and at any adjournment thereof.

| RESOLUTIONS | FOR | AGAINST |
|---|---|---|
| 1. To approve Directors' fees | | |
| 2. To approve Directors' benefits | | |
| 3. To re-elect Y. Bhg. Datuk Mohd Yusof bin Abd Rahaman as Director | | |
| 4. To re-appoint Y. Bhg. Tan Sri William H.J. Cheng as Director | | |
| 5. To re-appoint Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain as Director | | |
| 6. To re-appoint Y. Bhg. Datuk M. Chareon Sae Tang @ Tan Whye Aun as Director | | |
| 7. To re-appoint Messrs Ong Boon Bah & Co as Auditors | | |

Please indicate with an "X" how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

As witness my/our hand this .................. day of ......................................... 2017

No. of shares: ...........................................

Signed: ..............................................

**Representation at Meeting:**

- In respect of deposited securities, only Members whose names appear in the Record of Depositors on 14 November 2017 shall be eligible to attend the Meeting.
- A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- If a member appoints two (2) proxies, the proportion of his shareholdings represented by each proxy must be specified.
- The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or the hand of an officer or attorney duly authorised.
- Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- The instrument of proxy shall be deposited at the Office of the Registrar of the Company at Level 13, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur, Wilayah Persekutuan not less than forty-eight (48) hours before the time for holding the Meeting.
- Completed Form of Proxy sent through facsimile transmission shall not be accepted.

**LION CORPORATION BERHAD** (12890-A)
Level 14, Lion Office Tower
No. 1 Jalan Nagasari
50200 Kuala Lumpur
Wilayah Persekutuan

Tel No : +603 2142 0155
Fax No : +603 2141 3448

www.lion.com.my