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## NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN THAT** the Forty-Second Annual General Meeting of Lion Diversified Holdings Berhad will be held at the Meeting Hall, Level 16, Office Tower, No. 1 Jalan Nagasari (Off Jalan Raja Chulan), 50200 Kuala Lumpur on 12 December 2012 at 10.30 am for the following purposes:

### AGENDA

1. To receive the Directors' Report and Audited Financial Statements for the financial year ended 30 June 2012. **Note 3**
2. To approve the payment of a first and final dividend of 1.0 sen per ordinary share tax exempt. **Resolution 1**
3. To approve the payment of Directors' fees amounting to RM219,000 (2011: RM240,000). **Resolution 2**
4. To re-elect Directors:  
  
In accordance with Article 98 of the Company's Articles of Association, the following Directors retire by rotation and, being eligible, offer themselves for re-election:  
  
Y. Bhg. Tan Sri William H.J. Cheng **Resolution 3**  
Mr Heah Sieu Lay **Resolution 4**
5. To re-appoint Auditors to hold office until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration. **Resolution 5**
6. Special Business  
  
To consider and, if thought fit, pass the following ordinary resolutions:
  - 6.1 Authority to Directors to issue shares  
  
"THAT pursuant to Section 132D of the Companies Act, 1965 and subject to the approval of all relevant authorities being obtained, the Directors be and are hereby empowered to issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued and paid-up capital of the Company for the time being and that such authority shall continue to be in force until the conclusion of the next annual general meeting of the Company." **Resolution 6**
  - 6.2 Proposed Shareholders' Mandate for Recurrent Related Party Transactions  
  
"THAT approval be and is hereby given for the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations as detailed in paragraph 3.3 and with those related parties as set out in paragraph 3.2 of Part A of the Circular to Shareholders of the Company dated 20 November 2012 ("Related Parties") which has been despatched to the shareholders of the Company, provided that such transactions are undertaken in the ordinary course of business and are on normal commercial terms which are consistent with the Group's usual business practices and policies, and on terms not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders; and **Resolution 7**

THAT authority conferred by this ordinary resolution will only continue to be in force until:

- (i) the conclusion of the next annual general meeting of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;
- (ii) the expiration of the period within which the next annual general meeting after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (iii) revoked or varied by resolution passed by the shareholders of the Company in general meeting,

whichever is the earlier; and

THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things to give effect to the transactions contemplated and/or authorised by this ordinary resolution which shall include, without limitation, taking any action which the Directors may, in their absolute discretion deem fit, to recover any sums due to the Company under the said transactions or to settle the same."

### 6.3 Proposed Renewal of Authority for Share Buy-Back

"THAT, subject to the Companies Act, 1965, the provisions of the Articles of Association of the Company, the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements, and the approvals of all relevant governmental and/or regulatory authorities, the Company be and is hereby authorised to buy-back such amount of ordinary shares of RM0.50 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:

- (i) the aggregate number of shares bought-back does not exceed 10% of the total issued and paid-up capital of the Company at any point of time; and
- (ii) the maximum funds to be allocated for the share buy-back shall not exceed the retained profits or the share premium account of the Company or both, based on its latest audited financial statements available up to the date of the share buy-back transaction

(hereinafter referred to as the "Proposed Share Buy-Back"); and

THAT authority conferred by this ordinary resolution shall commence immediately upon the passing of this resolution and will only continue to be in force until:

- (i) the conclusion of the next annual general meeting of the Company, unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next annual general meeting after that date is required by law to be held; or
- (iii) revoked or varied by resolution passed by the shareholders of the Company in general meeting,

whichever occurs first; and

### Resolution 8

THAT authority be and is hereby given to the Directors of the Company to decide in their absolute discretion to retain the ordinary shares of RM0.50 each in the Company so purchased by the Company as treasury shares and/or cancel them and to distribute the treasury shares as share dividends and/or resell the treasury shares; and

FURTHER, THAT authority be and is hereby unconditionally and generally given to the Directors of the Company to take all such steps as are necessary or expedient and/or enter into any and all agreements, arrangements and guarantee with any party or parties to implement, finalise and give full effect to the Proposed Share Buy-Back with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities.”

7. To transact any other business for which due notice shall have been given.

#### **DIVIDEND ENTITLEMENT**

**NOTICE IS ALSO HEREBY GIVEN THAT** a depositor shall qualify for entitlement to the dividend only in respect of:

- (a) shares deposited into the depositor’s securities account before 12.30 pm on 13 December 2012 in respect of shares exempted from mandatory deposit;
- (b) shares transferred into the depositor’s securities account before 4.00 pm on 17 December 2012 in respect of transfers; and
- (c) shares bought on the Exchange on a cum entitlement basis according to the Rules of the Exchange.

The dividend, if approved, will be paid on 27 December 2012 to shareholders on the Register of Members and the Record of Depositors of the Company at the close of business on 17 December 2012.

By Order of the Board

**LIM KWEE PENG**  
**YASMIN WEILI TAN BINTI ABDULLAH**  
Secretaries

Kuala Lumpur  
20 November 2012

#### **Notes:**

1. *Proxy*
  - *In respect of deposited securities, only Members whose names appear in the Record of Depositors on 5 December 2012 shall be eligible to attend the Meeting.*
  - *A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. 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.*
  - *The instrument of proxy shall be deposited at the office of the Registrar of the Company, Level 13, Office Tower, No. 1 Jalan Nagasari (Off Jalan Raja Chulan), 50200 Kuala Lumpur 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.*

2. *Circular to Shareholders dated 20 November 2012 (“Circular”)*

*Details on the following are set out in the Circular enclosed together with the 2012 Annual Report:*

- (i) Part A - Proposed Shareholders’ Mandate for Recurrent Related Party Transactions*
- (ii) Part B - Proposed Renewal of Authority for Share Buy-Back*

3. *Agenda Item 1*

*This item of the Agenda is meant for discussion only. The provisions of Section 169 of the Companies Act, 1965 require that the Directors’ Report and the Audited Financial Statements be laid before the Company at its Annual General Meeting. As such, this Agenda item is not a business which requires a resolution to be put to vote by shareholders.*

4. *Resolution 6*

*This approval will allow the Company to procure the renewal of the general mandate (“General Mandate”) which will empower the Directors of the Company to issue shares in the Company up to an amount not exceeding in total 10% of the issued and paid-up capital of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next annual general meeting of the Company.*

*As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting of the Company held on 21 December 2011 which will lapse at the conclusion of this Annual General Meeting.*

*The General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares for purposes of funding future investment projects, working capital and/or acquisitions.*

5. *Resolution 7*

*This approval will allow the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in paragraph 3.2 of Part A of the Circular, which are necessary for the Group’s day-to-day operations undertaken in the ordinary course of business and are on normal commercial terms which are consistent with the Group’s usual business practices and policies, and on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders.*

6. *Resolution 8*

*This approval will empower the Directors of the Company to purchase the Company’s shares up to 10% of the issued and paid-up capital of the Company at any point of time. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next annual general meeting of the Company.*

## CORPORATE INFORMATION

|                                  |   |  |   |
|----------------------------------|---|--|---|
| <b>Board of Directors</b>        | : | Y. Bhg. Tan Sri William H.J. Cheng<br><i>(Chairman)</i><br>Y. Bhg. Tan Sri Cheng Yong Kim<br><i>(Managing Director)</i><br>Y. Bhg. Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat<br>Y. Bhg. Dato' Ismail @ Mansor bin Said<br>Mr Heah Sieu Lay |   |
| <b>Secretaries</b>               | : | Ms Lim Kwee Peng<br>Puan Yasmin Weili Tan binti Abdullah   |   |
| <b>Company No</b>                | : | 9428-T   |   |
| <b>Registered Office</b>         | : | Level 14, Office Tower<br>No. 1 Jalan Nagasari (Off Jalan Raja Chulan)<br>50200 Kuala Lumpur<br>Tel No : 03-21420155<br>Fax No : 03-21413448<br>Homepage : <a href="http://www.lion.com.my/liondiv">http://www.lion.com.my/liondiv</a>       |   |
| <b>Share Registrar</b>           | : | Secretarial Communications Sdn Bhd<br>Level 13, Office Tower<br>No. 1 Jalan Nagasari (Off Jalan Raja Chulan)<br>50200 Kuala Lumpur<br>Tel Nos : 03-21420155, 03-21418411<br>Fax No : 03-21428409   |   |
| <b>Auditors</b>                  | : | Ernst & Young<br>Level 23A, Menara Milenium<br>Jalan Damanlela<br>Pusat Bandar Damansara<br>50490 Kuala Lumpur   |   |
| <b>Principal Bankers</b>         | : | RHB Bank Berhad<br>Kuwait Finance House (Malaysia) Berhad<br>The Bank of Nova Scotia Berhad  |   |
| <b>Stock Exchange Listing</b>    | : | Bursa Malaysia Securities Berhad ("Bursa Securities")  |   |
|                                  |   | <u>Ordinary Shares</u>   | <u>Irredeemable Convertible<br/>Unsecured Loan Stocks 2008/2013</u> |
| <b>Stock Name</b>                | : | LIONDIV  | LIONDIV-LB  |
| <b>Bursa Securities Stock No</b> | : | 2887   | 2887LB  |
| <b>Reuters Code</b>              | : | LDIV.KL  | LDIVc.KL  |
| <b>ISIN Code</b>                 | : | MYL2887OO007   | MYL2887LBNC7  |

## DIRECTORS' PROFILE

### **Tan Sri William H.J. Cheng**

*Non-Independent Non-Executive Chairman*

Y. Bhg. Tan Sri William H.J. Cheng, a Malaysian, aged 69, was appointed to the Board on 27 October 1989 and has been the Chairman of the Company since 17 December 1994. He is also the Chairman of the Nomination Committee of the Company.

Tan Sri William Cheng has more than 35 years of experience in the business operations of The Lion Group encompassing steel, retail, property development, mining, tyre, motor, plantation and computer.

Tan Sri William Cheng was the President of The Associated Chinese Chambers of Commerce and Industry of Malaysia ("ACCCIM") and The Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor ("KLSCCCI") from 2003 to 2012. He is now a Life Honorary President of ACCCIM and an Honorary President of KLSCCCI.

Tan Sri William Cheng's other directorships in public listed companies are as follows:

- Chairman of Lion Forest Industries Berhad
- Chairman and Managing Director of Lion Corporation Berhad and Parkson Holdings Berhad

He is also the Chairman of Lion AMB Resources Berhad and ACB Resources Berhad, and a Founding Trustee of The Community Chest, a company limited by guarantee incorporated for charity purposes.

Tan Sri William Cheng has a direct shareholding of 121,356,607 ordinary shares of RM0.50 each in the Company ("LDHB Share") and an indirect interest in 286,428,888 LDHB Shares. In addition, he also has (i) a direct interest in RM121,615,000 nominal value of 5-year 4% irredeemable convertible unsecured loan stocks 2008/2013 of the Company ("ICULS") which are convertible into 243,230,000 new LDHB Shares at a conversion price of RM0.50 for each new LDHB Share ("Conversion Price"); and (ii) an indirect interest in RM203,961,522 nominal value of ICULS which are convertible into 407,923,044 new LDHB Shares at the Conversion Price. By virtue of his substantial interest in the Company, he is deemed to be interested in the subsidiaries of the Company, both wholly-owned and those set out on pages 144 and 145 of this Annual Report. He also has interests in certain companies which conduct similar business with the Group in the upstream steel operations and property development sector.

Tan Sri William Cheng is the uncle of Y. Bhg. Tan Sri Cheng Yong Kim, the Managing Director of the Company.

Tan Sri William Cheng attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2012.

**Tan Sri Cheng Yong Kim**

*Managing Director*

Y. Bhg. Tan Sri Cheng Yong Kim, a Singaporean, aged 62, was appointed the Managing Director of the Company on 26 January 2007. Tan Sri Cheng is also a member of the Executive Share Option Scheme Committee of the Company.

Tan Sri Cheng obtained a Bachelor of Business Administration (Honours) degree from the University of Singapore in 1971. He has more than 30 years of experience in the business operations of The Lion Group encompassing steel, retail, property development, mining, tyre, motor, plantation and computer. For a period of seven years from 1988 to 1995, he was the Managing Director of Lion Fasteners Sdn Bhd, a company engaged in the business of manufacturing bolts and nuts. In 1990, he took up the role of President Director in PT Lion Metal Works Tbk, a public company listed on the Indonesia Stock Exchange, which is a manufacturer of steel furniture, building material and stamping products in Indonesia. He took on the position of Managing Director of Lion Industries Corporation Berhad in 1995 and in 1996, he was appointed the Executive Director of the Ceemax and the Likom group of companies which are involved in the manufacturing and marketing of computers, monitors and peripherals. In 2010, Tan Sri Cheng was appointed a council member of the Federation of Malaysian Manufacturers.

Tan Sri Cheng's other directorships in public companies are as follows:

- Managing Director of Lion Industries Corporation Berhad, a public listed company
- Director of Lion Corporation Berhad, a public listed company
- Director of Lion AMB Resources Berhad and Hy-Line Berhad

Tan Sri Cheng has a direct shareholding of 7,841,337 ordinary shares of RM0.50 each in the Company ("LDHB Share") and an indirect interest in 3,500,000 LDHB Shares. In addition, he also has a direct interest in RM1,000,000 nominal value of 5-year 4% irredeemable convertible unsecured loan stocks 2008/2013 of the Company which are convertible into 2,000,000 new LDHB Shares at a conversion price of RM0.50 for each new LDHB Share.

Tan Sri Cheng is the nephew of Y. Bhg. Tan Sri William H.J. Cheng, the Chairman and a major shareholder of the Company.

Tan Sri Cheng attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2012.



**Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat**

*Independent Non-Executive Director*

Y. Bhg. Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat, a Malaysian, aged 61, was appointed to the Board on 1 December 2007. He is also a member of the Audit Committee and Remuneration Committee of the Company.

Tan Sri Dato' Seri Dr Aseh graduated with a Bachelor of Arts (Honours) degree in Economics from the University of Malaya and received his Masters degree in Public Administration from the University of Southern California in the United States of America and his PhD (Honorary) degree in Foreign Relations from Limkokwing University of Creative Technology, Cyberjaya, Malaysia.

Tan Sri Dato' Seri Dr Aseh joined the Ministry of Finance, Malaysia in March 1974 and held various positions as Assistant Secretary, Secretary and Principal Assistant Secretary of the Education Services Commission in Kuala Lumpur, Sarawak and Sabah during his 8 years with the Commission. Since 1984, he served in the Ministry of Home Affairs, Malaysia in various positions including Principal Assistant Secretary of the Security and Police Affairs Division; Undersecretary of Security and Preventive Division, and Management Division; and Deputy Director General and Director General of the Department of Immigration, Malaysia. In February 2001, Tan Sri Dato' Seri Dr Aseh was appointed Secretary General of the Ministry of Home Affairs, Malaysia, a post he held until his retirement on 22 October 2007.

Tan Sri Dato' Seri Dr Aseh is active in community service and is currently the Chairman of RELA Cooperative, Chairman of the University Council of Limkokwing University of Creative Technology, Cyberjaya, Trustee and Chairman of Football Association of Malaysia Vetting, Monitoring and Integrity Committee, President of Rifle Association of Malaysia, President of Tiara Golf & Country Club, Melaka and President of UMNO Club, Retired Senior Civil Servants. He was also active in the Administrative and Diplomatic Service (ADS) and was its longest serving President. In August 2012, Tan Sri Dato' Seri Dr Aseh was appointed the President of Putrajaya Corporation.

Tan Sri Dato' Seri Dr Aseh is the Chairman of MWE Holdings Berhad and Stemlife Berhad, both of which are public listed companies.

Tan Sri Dato' Seri Dr Aseh attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2012.

**Dato' Ismail @ Mansor bin Said**

*Independent Non-Executive Director*

Y. Bhg. Dato' Ismail @ Mansor bin Said, a Malaysian, aged 63, was appointed to the Board on 15 September 1995. Dato' Ismail is also the Chairman of the Audit Committee, Remuneration Committee and Executive Share Option Scheme Committee, and a member of the Nomination Committee of the Company.

Dato' Ismail received his Bachelor of Economics degree from the University of Malaya. Dato' Ismail was a member of Parliament (1978 to 1995), the Chairman of Public Accounts Committee (1985 to 1990), the Chairman of Majlis Amanah Rakyat (1987 to 1990) and the Parliamentary Secretary of the Ministry of Youth and Sports (1990 to 1995).

He is also a Director of Ahmad Zaki Resources Berhad, a public listed company.

Dato' Ismail attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2012.

Dato' Ismail who has served the Board as an Independent Non-Executive Director for more than 17 years retires at the forthcoming Annual General Meeting of the Company.

**Heah Sieu Lay**

*Independent Non-Executive Director*

Mr Heah Sieu Lay, a Malaysian, aged 59, was appointed to the Board on 5 June 2001. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company.

Mr Heah received his Bachelor of Arts (Honours) degree in Accountancy from the City of London Polytechnic, London. He is an Associate Member of the Institute of Chartered Accountants in England and Wales.

Mr Heah was the Group Executive Director of The Lion Group responsible for corporate planning and finance from 1998 to November 2006. Prior to joining The Lion Group in 1998, he was the Managing Director of RHB Sakura Merchant Bankers Berhad ("RHB Sakura") (now known as RHB Investment Bank Berhad) and has vast experience in the field of corporate finance after having served RHB Sakura for 15 years.

He is also a Director of Lion Industries Corporation Berhad, a public listed company.

Mr Heah attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2012.

Save as disclosed above, none of the Directors has (i) any interest in securities in the Company or its subsidiaries; (ii) any family relationship with any Director and/or major shareholder of the Company; (iii) any conflict of interests with the Company; and (iv) any conviction for offences within the past ten (10) years.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors (“Board”) recognises the importance of practising and maintaining good corporate governance to direct the businesses of the Group towards enhancing business prosperity and long term value for its shareholders. The Board is fully committed in ensuring that a high standard of corporate governance is practised and maintained throughout the Group as the underlying principle in discharging its responsibilities.

The Board is pleased to present below a description of how the Group has applied the principles of good governance and the extent to which it has complied with the best practices set out in the Malaysian Code on Corporate Governance (“Code”). These principles and best practices have been applied consistently throughout the financial year ended 30 June 2012 except where otherwise stated herein.

### 1. DIRECTORS

#### The Board

The Board is entrusted with the responsibility in leading and directing the Group towards realising long term shareholders’ values. The Board retains full and effective control of the Group’s strategic plans, overseeing the conduct of the Group’s businesses, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Group’s system of internal control.

The Board meets on a quarterly basis, with additional meetings convened as and when necessary. During the financial year ended 30 June 2012, six (6) Board Meetings were held and all the Directors attended all the Board Meetings held during the financial year. A brief profile of each member of the Board are set out in the Directors’ Profile section of this Annual Report.

#### Board Composition and Balance

The Board comprises five (5) Directors, four (4) of whom are non-executive. The current Board composition complies with the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“Listing Requirements”). The broad range of experience, skills and knowledge of the Directors effectively facilitate the discharge of the Board’s stewardship.

Represented on the Board are three (3) independent non-executive Directors who bring their independent advice, views and judgement to bear on the decision-making process of the Group to ensure that a balanced and unbiased deliberation process is in place to safeguard the interests of other stakeholders. As and when a potential conflict of interest arises, it is mandatory practice for the Directors concerned to declare their interests and abstain from the decision-making process.

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director is responsible for the overall operations of the Group and the implementation of the Board’s strategies and policies.

#### Board Committees

The Board delegates certain functions to several committees, namely the Audit Committee, Nomination Committee, Remuneration Committee and Executive Share Option Scheme Committee to support and assist in discharging its fiduciary duties and responsibilities. The respective committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The Board may form other committees delegated with specific authorities to act on its behalf whenever required. These committees operate under approved terms of reference or guidelines set out by the Board.

#### Supply of Information

The Board, as a whole and its members in their individual capacities, have unrestricted access to complete information on a timely basis in the form and quality necessary for the discharge of their duties and responsibilities. Prior to each Board meeting, all Board members are furnished with the relevant documents and sufficient information to enable them to obtain a comprehensive understanding of the issues to be deliberated upon and senior management of the Group and external advisers are also invited to attend Board meetings to provide their professional views, advice and explanation on specific items on the agenda in order to arrive at an informed decision.

Besides direct access to management staff, external independent professional advisers are also made available to render their independent views and advice to the Board, whenever deemed necessary and under appropriate circumstances, at the Company's expense.

The Company Secretaries advise the Board on its duties and obligations, and the appropriate requirements, disclosures and procedures to be complied with in relation thereto. The Company Secretaries are also responsible in ensuring that Board meeting procedures are followed and that applicable rules and regulations are complied with.

### **Appointments to the Board**

The Nomination Committee is responsible for recommending the right candidates with the necessary mix of skills, experience and competencies to be appointed to the Board and Board Committees to ensure the effectiveness of the Board. Newly appointed Directors will be given an orientation programme to familiarise themselves with the Group's operations to better understand the Group's businesses.

The process of assessing the Directors is an on-going responsibility of the Nomination Committee and the Board.

The members and terms of reference of the Nomination Committee are presented on page 20 of this Annual Report.

### **Re-election of Directors**

In accordance with the Articles of Association of the Company, one-third (1/3) of the Directors shall retire from office at every annual general meeting and all Directors shall retire from office at least once in every three (3) years. Retiring Directors can offer themselves for re-election. Directors who are appointed by the Board during the financial year are subject to re-election by the shareholders at the next annual general meeting following their appointment.

### **Directors' Training**

All members of the Board have attended Bursa Securities' Mandatory Accreditation Programme.

The Directors are also encouraged to attend relevant external professional programmes as necessary to keep abreast of issues facing the changing business environment within which the Group operates.

During the financial year, the Directors had participated in the following seminars, forums, conferences and training programmes ("Programmes"):

| <u>Name of Directors</u>   | <u>Programmes</u>   |
|----------------------------|---|
| Tan Sri William H.J. Cheng | <ul style="list-style-type: none"> <li>• 2011 National Entrepreneurs Convention</li> <li>• Forum on "China-ASEAN Business Leaders"</li> <li>• Seminar on "Youth Entrepreneurship and Business Opportunities in National Economic Transformation"</li> <li>• Forum on "Mediation by the Courts on Civil Cases"</li> <li>• Ministry of International Trade and Industry Minister's Brainstorming Session with Chinese Associations and Think Tanks</li> <li>• Seminar on "Competition Act 2010"</li> <li>• Forum on National Key Economic Areas ("NKEAs") "Wholesale &amp; Retail, Greater KL and Financial Services"</li> <li>• The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) 3<sup>rd</sup> Small and Medium Enterprise (SME) Conference on "Regeneration 2.1, Innovation, Talent and Market"</li> <li>• Forum on NKEAs: Tourism, Education and Health Care</li> <li>• The Lion Group In-house Directors' Training on:               <ol style="list-style-type: none"> <li>1. Key Amendments to Listing Requirements 2011</li> <li>2. Key Recommendations from Malaysian Code on Corporate Governance</li> </ol> </li> </ul> |

| <u>Name of Directors</u>                    | <u>Programmes</u>   |
|---|---|
| Tan Sri Cheng Yong Kim                      | <ul style="list-style-type: none"> <li>• Khazanah Megatrends Forum 2011 - Uncertainty as Normality: Navigating through complex interconnection</li> <li>• NUS Asian Business Series - The Rise of Asian Family Business: The Lippo's Experience</li> <li>• J.P. Morgan Seminar 2011</li> <li>• Federation of Malaysian Manufacturers ("FMM") Leadership Luncheon Talk on "Managing a Competitive Global Business"</li> <li>• The Lion Group In-house Seminar on "Talk on Competition Act, 2010"</li> <li>• The Boston Consulting Group's Energy &amp; Environment, Strategic Exchange - The New World of Global Gas</li> <li>• The Talent Roadmap 2020 Launch by the Prime Minister, YAB Dato' Seri Mohd Najib bin Tun Abdul Razak</li> <li>• Bursa - Advocacy Sessions on Disclosure for Chief Executive Officers and Chief Financial Officers</li> <li>• FMM Briefing on "Impact of Liquefied Natural Gas Imports on Pricing of Energy to Industrial Customers"</li> <li>• Invest Malaysia 2012 - Capitalise on ASEAN's Multinational Marketplace</li> <li>• The Lion Group In-house Directors' Training on:               <ol style="list-style-type: none"> <li>1. Key Amendments to Listing Requirements 2011</li> <li>2. Key Recommendations from Malaysian Code on Corporate Governance</li> </ol> </li> </ul> |
| Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat | <ul style="list-style-type: none"> <li>• Training course on "Business Continuity Planning"</li> </ul>   |
| Dato' Ismail @ Mansor bin Said              | <ul style="list-style-type: none"> <li>• Briefing on "Bridging a gap in developing corporate social responsibility capacity"</li> <li>• Ahmad Zaki Resources Berhad Directors &amp; Senior Management Retreat 2011               <ul style="list-style-type: none"> <li>Day 1                   <ul style="list-style-type: none"> <li>- Updates of 2011 New and Revised Financial Reporting Standards and New Bursa Listing Requirements</li> <li>- Recent Tax Development</li> <li>- Hijrah from Good to Great</li> </ul> </li> <li>Day 2                   <ul style="list-style-type: none"> <li>- Risk Management Refresher</li> <li>- Strategic Plan 2012 to 2017 - "Aligning Strategies with Performance"</li> </ul> </li> </ul> </li> <li>• Bursa Malaysia's Half Day Governance Programme Series on "Role of the Audit Committee in Assuring Audit Quality"</li> <li>• The Lion Group In-house Directors' Training on:               <ol style="list-style-type: none"> <li>1. Key Amendments to Listing Requirements 2011</li> <li>2. Key Recommendations from Malaysian Code on Corporate Governance</li> </ol> </li> </ul>  |
| Heah Sieu Lay                               | <ul style="list-style-type: none"> <li>• The Lion Group In-house Directors' Training on:               <ol style="list-style-type: none"> <li>1. Key Amendments to Listing Requirements 2011</li> <li>2. Key Recommendations from Malaysian Code on Corporate Governance</li> </ol> </li> </ul>   |

In addition, the Company would arrange site visits for the Directors, whenever necessary, to enhance their understanding of the Group's businesses and have a better awareness of the risks associated with the Group's operations.

The Directors are also updated on a continuing basis by the Company Secretaries on new and/or revised requirements to the Listing Requirements as and when the same were advised by Bursa Securities (“Continuing Updates”).

The Board views the aforementioned Programmes attended and/or participated by the Directors, and the Continuing Updates provided to the Directors as adequate to enhance the Directors’ skills and knowledge to carry out their duties as Directors.

The Board will, on a continuing basis, evaluate and determine the training needs of each Director, particularly on relevant new laws and regulations, and essential practices for effective corporate governance and risk management to enable the Directors to sustain their active participation in board deliberations and effectively discharge their duties.

## 2. DIRECTORS’ REMUNERATION

The Company has adopted the objective as recommended by the Code in determining the remuneration of executive Directors so as to ensure that it attracts and retains the Directors needed to manage the Company and the Group effectively. Directors do not participate in decisions regarding their own remuneration. The responsibilities for developing the remuneration policy and determining the remuneration packages of executive Directors lie with the Remuneration Committee. Nevertheless, it is the ultimate responsibility of the Board to approve the remuneration of these Directors. The members and terms of reference of the Remuneration Committee are presented on page 20 of this Annual Report.

Directors’ fees are recommended by the Board for the approval by shareholders of the Company at the annual general meeting.

For confidentiality, the details of the Directors’ remuneration are not disclosed for each individual Director. The transparency and accountability aspects of corporate governance applicable to Directors’ remuneration recommended by the best practices of the Code are deemed appropriately served by the disclosures in the ensuing paragraphs.

The aggregate remuneration of Directors who served during the financial year ended 30 June 2012 are categorised as follows:

|                          | <b>Fees<br/>RM’000</b> | <b>Salaries<br/>&amp; Other<br/>Emoluments<br/>RM’000</b> | <b>Total<br/>RM’000</b> |
|--------------------------|------------------------|---|-------------------------|
| Executive Director       | 25                     | 422   | 447                     |
| Non-executive Directors* | 194                    | –   | 194                     |
|                          | <u>219</u>             | <u>422</u>  | <u>641</u>              |

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

| <b>Range of Remuneration (RM)</b> | <b>Number of Directors</b> |                       |
|-----------------------------------|----------------------------|-----------------------|
|                                   | <b>Executive</b>           | <b>Non-executive*</b> |
| 50,000 & below                    | –                          | 5                     |
| 400,001 – 450,000                 | 1                          | –                     |

\* Including a Director who retired at the previous Annual General Meeting.

### 3. RELATIONS WITH SHAREHOLDERS AND INVESTORS

The annual general meeting is the principal forum for dialogue with shareholders. Shareholders are provided with an opportunity to participate in the question and answer session at which shareholders may raise questions regarding the proposed resolutions at the meeting as well as on matters relating to the Group's businesses and affairs. The Chairman and the Board members are in attendance to respond to shareholders' queries.

The Group also values dialogues with institutional investors, fund managers and analysts. The Group has been practising open discussions with investors/fund managers/analysts upon request. In this regard, information is disseminated with strict adherence to the disclosure requirements of Bursa Securities.

The Company's homepage at [www.lion.com.my/liondiv](http://www.lion.com.my/liondiv) provides easy access to corporate information pertaining to the Group and its activities.

The Board has identified the Company Secretaries to whom concerns may be conveyed and who would bring the same to the attention of the Board.

### 4. ACCOUNTABILITY AND AUDIT

The Audit Committee supports the Board in its responsibility to oversee the financial reporting and the effectiveness of the internal controls of the Group. The Audit Committee comprises three (3) Directors, all of whom are independent. The terms of reference and activities of the Audit Committee are set out in the Audit Committee Report on pages 16 to 19 of this Annual Report.

#### **Financial Reporting**

The Board aims to present a balanced and clear assessment of the Group's position and prospect to the Company's shareholders through the annual financial statements and quarterly announcements. The Board is also responsible in ensuring that the accounting records of the Group are properly kept. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to the adoption of the financial statements of the Group and of the Company.

#### **Directors' Responsibility in Financial Reporting**

The Board is satisfied that for the financial year ended 30 June 2012, the financial statements presented give a true and fair view of the state of affairs, results and cash flows of the Group and of the Company. In preparing the financial statements, the Group has applied, on a consistent basis, the applicable approved accounting standards and the provisions of the Companies Act, 1965.

#### **Internal Control**

The Board has overall responsibility in maintaining a sound internal control system for the Group to achieve its objectives within an acceptable risk profile as well as safeguarding shareholders' investment and the Group's assets. An overview of the state of internal control within the Group is set out in the Statement on Internal Control on page 15 of this Annual Report.

#### **Relationship with the Auditors**

The Board has established a formal and transparent relationship with the auditors. The Audit Committee recommends the appointment of the external auditors and their remuneration. The appointment of the external auditors is subject to the approval of shareholders at the annual general meeting whilst their remuneration is determined by the Board. While the internal auditors attend all meetings of the Audit Committee, the external auditors meet with the Audit Committee at least twice a year and attend the annual general meeting of the Company.

## STATEMENT ON INTERNAL CONTROL

### Introduction

The Board of Directors (“Board”) acknowledges the importance of maintaining a sound system of internal control to safeguard shareholders’ investments and the Group’s assets. Guided by the *Statement on Internal Control: Guidance for Directors of Public Listed Companies*, the Board is pleased to present the Statement on Internal Control of the Group (excluding associated companies, as the Board does not have control over their operations) pursuant to the Bursa Malaysia Securities Berhad Main Market Listing Requirements.

### Board Responsibility

The Board affirms its overall responsibility for the Group’s system of internal control and risk management, and for reviewing the adequacy and integrity of these systems. However, in view of the inherent limitations in any system, such system of internal control is designed to manage rather than to eliminate risks that may impede the achievement of the Group’s objectives. The system can therefore only provide reasonable and not absolute assurance against material misstatements, frauds or losses. The system of internal control covers risk management and financial, organisational, operational and compliance controls.

The Board confirms that there is an on-going process of identifying, evaluating and managing significant risks by the management. This process has been put in place for the year and is reviewed periodically by the Board through its Audit Committee which is supported by the Internal Auditors.

### Risk Management

The Board regards risk management as an integral part of business operations. A Corporate Risk Management Framework was developed and documented via a Corporate Risk Management Manual which sets out in a comprehensive manner the process adopted by the Group towards risk identification, evaluation, control and monitoring. The Risk Management Committee continues to play a pivotal role in overseeing the implementation of the risk management framework, periodically reviewing the risk management scorecards and reporting the status to the Audit Committee.

### Control and Monitoring Process

The Board is committed to maintaining a strong internal control structure for the proper conduct of the Group’s business operations. The key elements include:

- An operational structure with defined lines of responsibility and delegation of authority together with a hierarchical structure of reporting and accountability
- Internal policies and procedures that are regularly updated to reflect changing risks or resolve operational deficiencies including to clearly define limits of authority
- A detailed budgeting process which requires all business units to prepare budget and business plan on an annual basis
- Review of key business variables and the monitoring of the achievements of the Group’s performance on a quarterly basis by the Board and the Audit Committee
- Confirmation of the effectiveness of internal control and risk assessment process by the chief executive officer or general manager of key operating companies by way of completion of the Internal Control – Self-Assessment Questionnaire on an annual basis
- Periodic examination of business processes and system of internal control by the internal audit function which regularly submits its reports to the Audit Committee
- Adequate insurance and physical safeguards on major assets are in place to ensure assets of the Group are sufficiently covered
- A Code of Ethics for all employees which defines the ethical standards and conduct at work
- A Whistleblower Policy established under the Human Resource Policy Manual which defines the rights of informants and also the protections accorded them. The channels of escalation are also documented to encourage and enable concerned parties to report any wrongdoings so that they can be properly addressed

### Conclusion

The Board is of the view that the system of internal control in place is generally satisfactory and sufficient to safeguard all stakeholders’ interest.



## AUDIT COMMITTEE REPORT

### COMPOSITION

As at the date of this Annual Report, the composition of the Audit Committee is as follows:

- **Members**

Y. Bhg. Dato' Ismail @ Mansor bin Said  
*(Chairman, Independent Non-Executive Director)*

Y. Bhg. Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat  
*(Independent Non-Executive Director)*

Mr Heah Sieu Lay  
*(Independent Non-Executive Director)*

The composition of the Audit Committee complies with Chapter 15 of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Listing Requirements").

- **Secretaries**

The Secretaries of Lion Diversified Holdings Berhad, Ms Lim Kwee Peng and Puan Yasmin Weili Tan binti Abdullah, are also Secretaries of the Audit Committee.

### TERMS OF REFERENCE

- **Membership**

The Audit Committee shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all of whom shall be non-executive Directors with a majority of them being independent Directors. The composition of the Audit Committee shall fulfill the requirements as prescribed in the Listing Requirements. The members of the Audit Committee shall elect a chairman among themselves who is an independent Director.

- **Meetings and Minutes**

The Audit Committee shall meet at least four (4) times annually and the Chief Internal Auditor and the Chief Financial Officer shall normally be invited to attend the meetings. A majority of independent Directors present shall form a quorum. The Audit Committee shall meet with the external auditors without the executive Board members being present at least twice a year.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee and the Board. The Chairman of the Audit Committee shall report on each meeting to the Board.

- **Authority**

In conducting its duties and responsibilities, the Audit Committee shall have:

- (a) the authority to investigate any matter within its terms of reference.
- (b) the resources which are required to perform its duties.
- (c) full and unrestricted access to any information pertaining to the Company and the Group.
- (d) direct communication channels with the external and internal auditors.
- (e) the right to obtain independent professional or other advice as necessary.
- (f) the right to invite other Directors and/or management of the Company to attend any particular Audit Committee meeting to discuss specific issues.
- (g) the right to be able to meet with the external auditors, internal auditors or both, excluding the attendance of other Directors or employees of the Company, whenever deemed necessary.

- **Duties**

The duties of the Audit Committee are:

- (a) To consider the appointment, resignation and dismissal of external auditors and the audit fee.
- (b) To discuss with the external auditors, prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved.
- (c) To review and assess the annual and quarterly financial statements prior to the approval of the Board, focusing on:
  - going concern assumption
  - compliance with accounting standards and regulatory requirements
  - changes in accounting policies and practices
  - significant issues arising from audit
- (d) To discuss problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.
- (e) To review the external auditors' management letter and management's response thereto.
- (f) To establish the following with the internal audit function:
  - review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work
  - review internal audit programme
  - ensure co-ordination of external audit with internal audit
  - consider the major findings of internal audit reviews/investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function
- (g) To review any related party transaction and conflict of interests situation that may arise within the Company and the Group.
- (h) To consider the appointment of independent advisers for corporate proposals involving related parties.
- (i) To assess the quality and effectiveness of the system of internal control and efficiency of operations, and to review the risk policy and implementation of the risk management framework.
- (j) To promptly report to Bursa Securities on any matter where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements.
- (k) To review any appraisal or assessment of the performance of the members of the internal audit function, approve any appointment or termination of senior staff members of the internal audit function and be informed of any resignation of senior internal audit staff members and reasons thereof.
- (l) To perform any other such function as may be directed by the Board.

#### **ACTIVITIES DURING THE FINANCIAL YEAR**

During the financial year under review, eight (8) Audit Committee Meetings were held. Except for Mr Heah Sieu Lay who was absent for one (1) Meeting, all other members attended all the eight (8) Meetings held in the financial year.

The Audit Committee carried out its duties in accordance with its Terms of Reference during the year.

The main activities undertaken by the Audit Committee during the year were as follows:

- **Financial Results**

- (a) Reviewed the interim unaudited financial statements of the Group prior to recommending them for approval by the Board.
- (b) Reviewed the annual financial statements of the Group prior to submission to the Board for its consideration and approval focusing particularly on changes in or implementation of major accounting policies, significant and unusual events and compliance with applicable accounting standards approved by the Malaysian Accounting Standards Board (“MASB”) and other legal requirements.

- **Internal Audit**

- (a) Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Group, taking into consideration the assessment of key risk areas.
- (b) Reviewed the audit programmes, resource requirements and skill levels of the internal auditors for the year and assessed the performance of the internal audit function.
- (c) Reviewed the internal audit reports, audit recommendations made and management’s response to these recommendations and actions taken to improve the system of internal control and procedures.
- (d) Monitored the implementation of the audit recommendations to ensure that all key risks and controls have been addressed.
- (e) Reviewed the Internal Control – Self-Assessment ratings submitted by the respective operations management.

- **External Audit**

- (a) Reviewed with external auditors the audit planning memorandum covering the audit objectives and approach, audit plan, key audit areas and relevant technical pronouncements and accounting standards issued by MASB.
- (b) Reviewed with external auditors the results of the audit and the audit report in particular, accounting issues and significant audit adjustments arising from the external audit.
- (c) Reviewed with external auditors the memorandum of comments and recommendations arising from their study and evaluation of the system of internal and accounting controls together with management’s response to the findings of the external auditors.
- (d) Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and remuneration.
- (e) Convened meetings with the external auditors without executive Board members and management being present to discuss issues arising from their review.

- **Risk Management**

Reviewed the Corporate Risk Scorecard of key operations and the mitigating controls to address identified risks.

- **Related Party Transactions**

Reviewed related party transactions entered into by the Group. Reviewed recurrent related party transactions of a revenue or trading nature on a quarterly basis for compliance under the Shareholders’ Mandate.

## INTERNAL AUDIT FUNCTION

The internal audit function is undertaken by the Group Management Audit Department (“GMA Department”). Its principal activity is to perform regular and systematic reviews of the system of internal control so as to provide reasonable assurance that such system continues to operate satisfactorily and effectively.

The purpose, authority and responsibility of the internal audit function as well as the nature of the assurance activities provided by the function are articulated in the Internal Audit Charter.

In discharging its function, the GMA Department adopts the *International Standards for the Professional Practice of Internal Auditing* as well as established auditing guidelines to enhance its competency and proficiency.

A risk-based audit plan is tabled to the Audit Committee for approval on an annual basis. The audit plan covers key operational and financial activities that are significant to the overall performance of the Group and is developed to ensure adequate coverage on a regular basis. Key risk areas are continuously identified and prioritised to ascertain the scope of the audit activities through the adoption by the operation management of the Internal Control – Self-Assessment Questionnaire and the Strategic Corporate Risk Management Scorecard.

During the financial year, the internal auditors had conducted independent reviews and evaluated risk exposures relating to the Group’s governance, operations and information system as follows:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with set policies and procedures
- Identification of opportunities to improve the operations and processes
- Investigations and special audit reviews

The internal auditors also established follow-up review to monitor and to ensure that internal audit recommendations are effectively implemented.

The internal audit activities have been carried out according to the internal audit plan approved by the Audit Committee for the financial year.

The total cost incurred in managing the internal audit function of the Group for the financial year was RM120,000.

## NOMINATION COMMITTEE

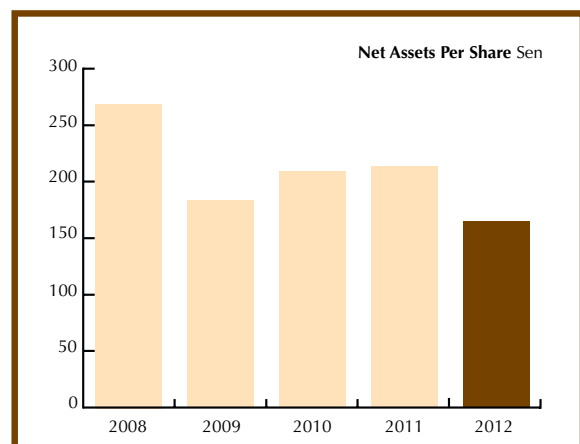
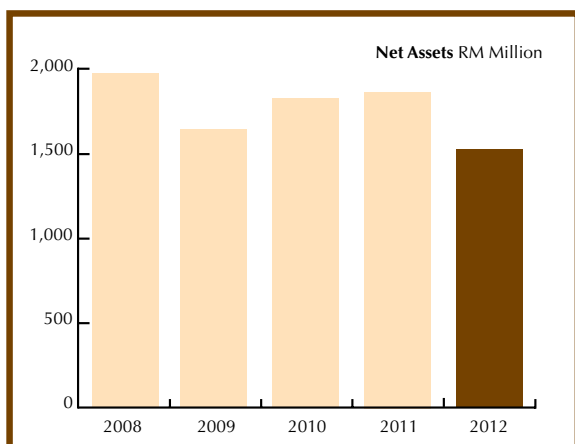
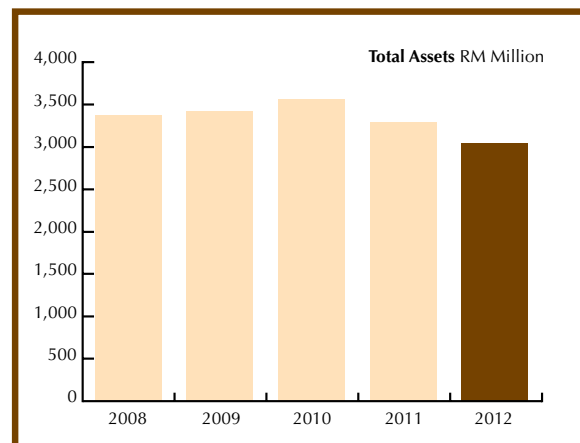
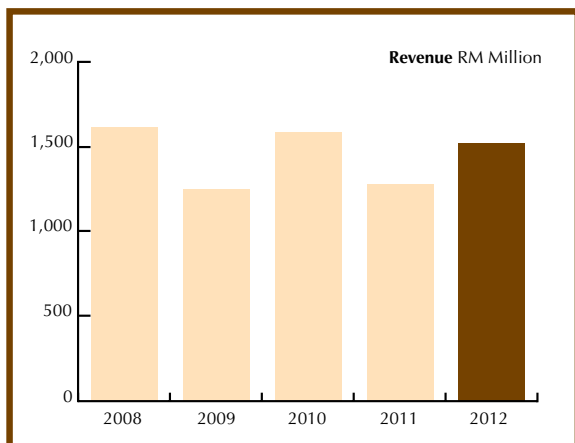
|                           |   |   |
|---------------------------|---|---|
| <b>Chairman</b>           | : | Y. Bhg. Tan Sri William H.J. Cheng<br><i>(Non-Independent Non-Executive Chairman)</i>   |
| <b>Members</b>            | : | Y. Bhg. Dato' Ismail @ Mansor bin Said<br><i>(Independent Non-Executive Director)</i><br><br>Mr Heah Sieu Lay<br><i>(Independent Non-Executive Director)</i>  |
| <b>Terms of Reference</b> | : | <ul style="list-style-type: none"> <li>To recommend to the Board, candidates for directorships in Lion Diversified Holdings Berhad</li> <li>To consider, in making its recommendations, candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder</li> <li>To recommend to the Board, Directors to fill the seats on Board Committees</li> <li>To assist the Board in reviewing on an annual basis, the required mix of skills and experience and other qualities, including core competencies which non-executive Directors should bring to the Board</li> <li>To assess, on an annual basis, the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual Director, based on the process and procedure laid out by the Board</li> </ul> |

## REMUNERATION COMMITTEE

|                           |   |   |
|---------------------------|---|---|
| <b>Chairman</b>           | : | Y. Bhg. Dato' Ismail @ Mansor bin Said<br><i>(Independent Non-Executive Director)</i>   |
| <b>Members</b>            | : | Y. Bhg. Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat<br><i>(Independent Non-Executive Director)</i><br><br>Mr Heah Sieu Lay<br><i>(Independent Non-Executive Director)</i>   |
| <b>Terms of Reference</b> | : | <ul style="list-style-type: none"> <li>To recommend to the Board, the remuneration of the executive Directors in all its forms, drawing from outside advice as necessary</li> <li>To carry out other responsibilities, functions or assignments as may be defined by the Board from time to time</li> </ul> |

## 5 YEARS GROUP FINANCIAL HIGHLIGHTS

| Financial years ended 30 June                           |                 | 2008      | 2009      | 2010      | 2011      | 2012             |
|---|-----------------|-----------|-----------|-----------|-----------|------------------|
| Revenue   | <b>(RM'000)</b> | 1,616,836 | 1,248,815 | 1,590,465 | 1,279,092 | <b>1,516,718</b> |
| Profit/(Loss) before tax                                | <b>(RM'000)</b> | 117,934   | (576,706) | 263,031   | (29,158)  | <b>(231,288)</b> |
| Profit/(Loss) after tax                                 | <b>(RM'000)</b> | 89,589    | (623,731) | 192,356   | (52,118)  | <b>(249,329)</b> |
| Net profit/(loss) attributable to owners of the Company | <b>(RM'000)</b> | 52,755    | (623,508) | 192,356   | (52,118)  | <b>(249,329)</b> |
| <hr/>   |                 |           |           |           |           |                  |
| Total assets  | <b>(RM'000)</b> | 3,392,564 | 3,443,183 | 3,572,558 | 3,295,665 | <b>3,011,981</b> |
| Net assets  | <b>(RM'000)</b> | 1,983,893 | 1,641,932 | 1,826,898 | 1,864,502 | <b>1,501,753</b> |
| Total Borrowings  | <b>(RM'000)</b> | 863,959   | 934,282   | 778,760   | 529,472   | <b>507,955</b>   |
| <hr/>   |                 |           |           |           |           |                  |
| Earnings/(Loss) per share                               | <b>(Sen)</b>    | 7.2       | (44.8)    | 13.8      | (3.7)     | <b>(17.9)</b>    |
| Net assets per share                                    | <b>(Sen)</b>    | 269       | 184       | 209       | 214       | <b>165</b>       |
| <hr/>   |                 |           |           |           |           |                  |
| Dividends (Paid and Proposed):                          |                 |           |           |           |           |                  |
| Rate  | <b>(Sen)</b>    | 1.0       | 1.0       | 1.0       | 1.0       | <b>1.0</b>       |
| Amount (net of tax)                                     | <b>(RM'000)</b> | 7,372     | 7,372     | 7,372     | 7,372     | <b>7,372</b>     |



## THE GROUP'S BUSINESSES



- The Direct Reduced Iron (DRI) plant in Banting, Selangor produces DRI (inset), a substitute raw material for scrap, to make high grade steel.
- *Kilang 'Direct Reduced Iron' (DRI) di Banting, Selangor mengeluarkan DRI (gambar kecil), bahan mentah gantian bagi besi lusuh untuk menghasilkan besi bermutu tinggi.*



Likom, Melaka



Likom, Mexico

- Likom is carrying out contract manufacturing services for IT related components and enclosures in its manufacturing plants in Melaka and Mexico.
- *Likom menjalankan khidmat pengeluaran kontrak untuk komponen berkaitan IT dan 'enclosures' di kilangnya di Melaka dan Mexico.*

1A

1C



- Phases 1A,1B and 1C (top right, clockwise) of D' Venice Residence in Changshu, China, have been successfully completed and handed over to purchasers.
- *Fasa 1A, 1B dan 1C (gambar atas kanan, arah jam) D' Venice Residence di Changshu, China telah siap dibina dan diserahkan kepada para pembeli.*



- Aerial view of Megasteel Sdn Bhd, the country's only integrated flat steel mill producing hot rolled and cold rolled coils (inset, left and right respectively), located next to the DRI plant in Banting, Selangor.
- *Pemandangan dari udara kilang Megasteel Sdn Bhd, satu-satunya kilang besi rata bersepadu di negara ini yang mengeluarkan gegelung gelek panas dan sejuk (gambar kecil, masing-masing kiri dan kanan), terletak bersebelahan kilang DRI di Banting, Selangor.*



## PENYATA PENERUSI

Bagi pihak Lembaga Pengarah, saya dengan ini membentangkan Laporan Tahunan dan Penyata Kewangan Beraudit Lion Diversified Holdings Berhad bagi tahun kewangan berakhir 30 Jun 2012.

### PRESTASI KEWANGAN

Ekonomi global terus berdepan suasana tidak menentu dalam pemulihannya memandangkan negara zon euro masih bergelut untuk mengatasi krisis kewangan mereka dan ekonomi Amerika menunjukkan sedikit tanda-tanda pemulihan yang akan berlaku. Tinjauan bagi industri besi kekal mencabar berikutan pertumbuhan ekonomi yang perlahan di China manakala di pasaran tempatan, pengeluaran besi terpaksa bersaing dengan produk besi import, kos bahan mentah yang tinggi selain kenaikan tarif elektrik dan gas pada tahun kajian.

Walaupun persekitaran operasi luaran yang lemah, Kumpulan berjaya mencatat perolehan yang lebih tinggi berjumlah RM1.5 bilion berbanding RM1.3 bilion pada tahun lalu. Operasi 'direct reduced iron' ("DRI") kita terus kekal sebagai penyumbang utama kepada perolehan dan pendapatan Kumpulan. Semua segmen perniagaan lain melaporkan sumbangan pendapatan positif.

Kelembapan dalam permintaan besi global dan peningkatan import gegelung gelek panas ("HRC") telah menjejaskan operasi Megasteel Sdn Bhd ("Megasteel"), syarikat bersekutu Kumpulan, menyebabkan Kumpulan perlu menyerap bahagian kerugian yang lebih tinggi berjumlah RM238 juta bagi tahun ini. Selepas membuat peruntukan bagi kerugian berjumlah RM37 juta berkaitan hartanah, loji dan peralatan dalam projek relau bagas, Kumpulan mencatat kerugian sebelum cukai sebanyak RM231 juta bagi tahun dalam kajian berbanding kerugian sebelum cukai sebanyak RM29 juta tahun lalu.

### PERKEMBANGAN KORPORAT

Pada 3 Mac 2011, Syarikat mengumumkan cadangan-cadangan berikut :

- Cadangan usahasama antara Syarikat, Lion Industries Corporation Berhad ("LICB") dan Lion Forest Industries Berhad dalam Lion Blast Furnace Sdn Bhd ("LBF"), dengan pegangan saham masing-masing sebanyak 51% : 29% : 20%;
- Cadangan pengambilalihan pelbagai bidang tanah pegangan bebas berhampiran oleh LBF daripada Andalus Development Sdn Bhd, Che Kiang Realty Sdn Bhd dan Amsteel Mills Sdn Bhd (subsidiari 99% milik LICB) pada pertimbangan tunai berjumlah kira-kira RM52.3 juta; dan
- Cadangan LBF untuk menyewa tiga bidang tanah kosong pegangan bebas berhampiran daripada Megasteel untuk tempoh sewaan selama tiga puluh (30) tahun.

Pada 30 Ogos 2012, semua pihak menyatakan persetujuan secara bertulis untuk melanjutkan tempoh bersyarat selama 6 bulan lagi mulai 3 September 2012 hingga 2 Mac 2013. Cadangan-cadangan ini masih tertakluk kepada kelulusan para pemegang saham dan pihak berkuasa lain yang berkaitan.

Butiran penuh perkembangan korporat di atas terkandung dalam muka surat 127 Laporan Tahunan ini.

### TINJAUAN OPERASI

Kumpulan pada dasarnya terlibat dalam aktiviti berikut:

- Pembuatan dan penjualan produk berkaitan besi ("Besi");
- Perkhidmatan kontrak pengeluaran elektronik dan mekanikal ("CMS");
- Pembangunan dan pengurusan hartanah ("Hartanah"); dan
- Pegangan pelaburan, perdagangan dan lain-lain ("Lain-lain").

|             | Perolehan<br>(RM'Juta) |       | Keuntungan Operasi<br>(RM'Juta) |      |
|-------------|------------------------|-------|---------------------------------|------|
|             | 2012                   | 2011  | 2012                            | 2011 |
| Keluli      | 1,314                  | 1,059 | 51                              | 54   |
| CMS         | 139                    | 131   | 10                              | 4    |
| Hartanah    | 54                     | 79    | 16                              | 22   |
| Lain-lain * | 10                     | 10    | 8                               | 9    |
|             | 1,517                  | 1,279 | 85                              | 89   |

\* "Lain-lain" mewakili terutamanya pendapatan dividen dan pendapatan daripada jualan produk besi.

### Bahagian Besi

Operasi teras besi Kumpulan yang terletak di Banting, Malaysia dikendalikan oleh Lion DRI Sdn Bhd ("Lion DRI"), yang terutamanya terlibat dalam pengeluaran DRI, bahan caj ferus berkualiti tinggi yang digunakan dalam pembuatan besi dan keluli. Lion DRI adalah juga salah satu daripada dua pengeluar DRI dalam negara. Operasi DRI kita adalah penyumbang utama perolehan dan pendapatan kepada Kumpulan.

Secara keseluruhan, Bahagian Besi kita melaporkan perolehan lebih tinggi berjumlah RM1,314 juta, tetapi keuntungan operasi adalah lebih rendah pada RM51 juta berbanding tahun lalu ekoran kos bahan mentah yang lebih tinggi.



Perniagaan besi lain Kumpulan adalah menerusi pelaburan 49% kepentingan dalam Lion Corporation Berhad ("LCB") dan 21% pegangan dalam Megasteel. Megasteel terlibat dalam pembuatan dan penjualan HRC dan gegelung gelekkan sejuk ("CRC"), dan merupakan pengeluar tunggal HRC di Malaysia bagi keperluan pasaran domestik dan antarabangsa.

Prestasi syarikat bersekutu kita terus terjejas teruk oleh aktiviti lambakan dalam pasaran domestik yang telah mengakibatkan penurunan ketara dalam pesanan tempatan. Di sebalik permintaan lemah besi antarabangsa, syarikat sekutu kita melaporkan kerugian operasi lebih tinggi bagi tahun dalam kajian.

### **Bahagian CMS**

Bahagian CMS kita beroperasi sebagai pusat sehenti bersepadu pengeluar peralatan tulen ("OEM") yang menyediakan perkhidmatan pembuatan secara kontrak bagi pengeluaran komponen berkaitan IT dan 'enclosures' terutamanya pemasangan produk penyimpanan data dan produk binaan kotak untuk elektronik, barangan elektrik dan pengguna industri. Rangkaian produk berkaitan komponen IT utama kita termasuk televisyen dan bingkai monitor, komponen dan kotak simpanan data, penggera keselamatan, 'private branch exchange' ("PBX") dan kotak paparan TV. Produk elektronik pula termasuk kad ujian kawalan peralatan, suis elektrik dan peranti komunikasi. Fasiliti pengeluaran terletak di Melaka, Malaysia dan di Juarez, Mexico serta disokong oleh pejabat wakil jualan di Amerika Syarikat.

Walaupun persaingan sengit dan kenaikan harga bahan mentah yang dihadapi oleh Bahagian ini, langkah agresif yang diperkenalkan di masa lalu untuk meningkatkan kualiti produk melalui penyelidikan dan pembangunan berterusan bersama-sama dengan pengembangan rangkaian pengedar membolehkan Bahagian ini mencatat prestasi kewangan lebih baik dengan perolehan berjumlah RM139 juta dan keuntungan operasi sebanyak RM10 juta bagi tahun kewangan dalam kajian.

### **Bahagian Hartanah**

Bahagian Hartanah kita merekodkan keuntungan lebih rendah berikutan permintaan untuk hartanah kediaman di China mulai berkurangan susulan langkah yang dilaksanakan oleh Kerajaan China untuk mengendurkan perkembangan pasaran hartanah yang terlampau pesat. Kelulusan pinjaman yang ketat dan cukai yang lebih tinggi bagi aktiviti spekulasi hartanah telah berjaya membendung permintaan untuk hartanah kediaman baru.

Projek hartanah kita di Changshu City dalam Wilayah Jiangsu, China yang telah dua tahun menyumbang dengan ketara kepada pendapatan hartanah Kumpulan terjejas oleh penyederhanaan permintaan dalam pasaran hartanah China. Walaupun Fasa 1A, 1B dan 1C yang terdiri daripada 675 unit pangsapuri mendapat sambutan baik dan dijual sepenuhnya pada tahun-tahun sebelumnya, namun pelancaran terbaru 3 blok pangsapuri teres bertaman 6 tingkat hanya kira-kira 50% terjual. Walau bagaimanapun, permintaan dijangka meningkat menjelang akhir tahun 2012 apabila data ekonomi terkini dari China menunjukkan perubahan dalam kadar pertumbuhan ekonomi selepas pertumbuhan ekonomi yang rendah selama tujuh suku tahunan berturut-turut.

### **DIVIDEN**

Lembaga Pengarah dengan sukacita mencadangkan dividen pertama dan akhir sebanyak 1.0 sen sesaham (2%), dikecualikan cukai, untuk kelulusan para pemegang saham pada Mesyuarat Agung Tahunan akan datang. Dividen tunai yang dibayar akan berjumlah RM7.4 juta.

### **TANGGUNGJAWAB SOSIAL KORPORAT**

Kami memperakui pentingnya Tanggungjawab Sosial Korporat ("CSR") sebagai sebahagian daripada operasi perniagaan dan komited dalam menyokong inisiatif-inisiatif tersebut yang menambah baik masyarakat dan alam sekitar.

#### **Masyarakat**

Dalam menjalankan kegiatan perniagaannya, Kumpulan sentiasa peka akan tanggungjawabnya sebagai warga korporat dalam memberi sumbangan kepada masyarakat di samping meningkatkan keuntungan dan nilai pemegang saham. Kumpulan memberi tumpuan kepada usaha membantu masyarakat dalam bidang pendidikan dan penjagaan kesihatan melalui dua buah Yayasan yang ditubuhkan oleh Syarikat-syarikat Kumpulan Lion yang mana Kumpulan merupakan salah satu daripada ahlinya.

Yayasan Lion-Parkson mengagihkan dana untuk pelbagai tujuan seperti pendidikan, kebajikan dan penyelidikan saintifik; dan pada setiap tahun menawarkan biasiswa kepada bakal graduan universiti tempatan. Tabung Bantuan Perubatan Kumpulan Lion menyediakan bantuan kewangan kepada golongan yang kurang bernasib baik untuk mendapatkan rawatan perubatan termasuk pembedahan, pembelian peralatan perubatan dan ubat-ubatan. Tabung juga menaja program kesihatan kemasyarakatan seperti kem kesihatan dan pembelian mesin-mesin dialisis untuk Pusat Dialisis yang menawarkan perkhidmatan secara bersubsidi kepada pesakit buah pinggang.

### **Alam sekitar**

Kumpulan amat prihatin terhadap isu alam sekitar dengan memberi penekanan kepada penggunaan teknologi terkini dan menerima pakai amalan perniagaan yang mesra alam, mengoptimumkan penggunaan sumber dan melaksanakan kecekapan tenaga. Operasi-operasi Kumpulan mematuhi undang-undang dan peraturan alam sekitar yang diguna pakai oleh industri kendaliannya. Ini termasuk pengurusan pelepasan asap, pengurangan sisa buangan dan program pemuliharaan oleh kilang-kilang pengeluaran kita serta mewujudkan lanskap yang menghijau dan kemudahan taman di perbandaran dan projek hartanah kita.

Kumpulan mengguna pakai peraturan-peraturan keselamatan, kesihatan dan alam sekitar secara sistematik, diperkukuhkan dengan latihan dan pengawasan berterusan untuk memastikan keselamatan dan kesejahteraan para pekerja.

### **PROSPEK**

Persekitaran operasi bagi perniagaan teras besi Kumpulan dijangka kekal mencabar dalam suasana tidak menentu dalam keberkesanan langkah yang dilaksanakan untuk memacu pertumbuhan ekonomi di negara maju dan juga kemeruapan berterusan harga bahan mentah. Di pasaran tempatan, pengeluar besi akan terus berdepan penurunan margin dan pendapatan yang rendah sekiranya isu yang melibatkan kedua-dua industri besi huluan dan hiliran tempatan tidak ditangani tepat pada masanya.

Segmen perniagaan lain kita, iaitu Bahagian Hartanah dan CMS, dijangka terus mencatat prestasi memuaskan selaras dengan pertumbuhan beransur-ansur dalam ekonomi serantau.

### **LEMBAGA PENGARAH**

Pada Mesyuarat Agung Tahunan akan datang, Y. Bhg. Dato' Ismail@Mansor bin Said yang telah berkhidmat dengan Lembaga Pengarah lebih daripada 17 tahun, akan bersara sebagai Pengarah Syarikat. Y. Bhg. Dato' Ismail ialah Pengerusi Jawatankuasa Audit, Jawatankuasa Ganjaran dan Jawatankuasa Skim Opsyen Saham Eksekutif, dan ahli Jawatankuasa Pencalonan. Bagi pihak Lembaga Pengarah, saya ingin merakamkan penghargaan ikhlas saya atas sumbangan tidak ternilai beliau sepanjang tempoh sebagai Pengarah Syarikat, dan Pengerusi serta ahli jawatankuasa Syarikat yang disebutkan di atas.

### **PENGHARGAAN**

Bagi pihak Lembaga Pengarah, saya ingin merakamkan setinggi-tinggi penghargaan dan terima kasih kepada para pelanggan, pembiaya kewangan, rakan perniagaan, pihak berkuasa Kerajaan dan pemegang saham yang dihargai atas sokongan, kerjasama dan keyakinan berterusan mereka terhadap Kumpulan.

Saya juga ingin merakamkan penghargaan tulus ikhlas kepada rakan Pengarah atas bimbangan dan sumbangan tidak ternilai mereka sepanjang tahun dan kepada warga kerja kita atas usaha gigih, dedikasi dan komitmen berterusan kepada Kumpulan.

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

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I hereby present the Annual Report and Audited Financial Statements of Lion Diversified Holdings Berhad for the financial year ended 30 June 2012.

### FINANCIAL PERFORMANCE

The global economy continues to face uncertainties over its recovery as the euro zone countries are still struggling to overcome their financial crisis and the American economy shows little signs of an impending turnaround. The outlook for the steel industry remains challenging due to the slowing economic growth in China while on the local front, steel producers have to contend with imported steel products, high raw material cost as well as hikes in electricity and gas tariffs during the year.

Despite the weak external operating environment, the Group managed to post a higher revenue of RM1.5 billion as compared to RM1.3 billion last year. Our direct reduced iron ("DRI") operation continued to remain the major contributor to the Group's total revenue and earnings. All other business segments reported positive earnings contribution.

The slowdown in global steel demand and the increase in importation of hot rolled coils ("HRC") have severely affected the operations of Megasteel Sdn Bhd ("Megasteel"), an associate of the Group, resulting in the Group having to absorb a higher share of its losses of RM238 million for the year. After providing for further impairment loss of RM37 million in respect of its property, plant and equipment in the blast furnace project, the Group posted a loss before tax of RM231 million for the year under review compared to a loss before tax of RM29 million a year ago.

### CORPORATE DEVELOPMENT

On 3 March 2011, the Company announced the following proposals:

- Proposed joint venture among the Company, Lion Industries Corporation Berhad ("LICB") and Lion Forest Industries Berhad in Lion Blast Furnace Sdn Bhd ("LBF") at an equity participation of 51% : 29% : 20% respectively;
- Proposed acquisitions by LBF of various parcels of contiguous freehold lands from Andalas Development Sdn Bhd, Che Kiang Realty Sdn Bhd and Amsteel Mills Sdn Bhd (a 99%-owned subsidiary of LICB) for a total cash consideration of approximately RM52.3 million; and
- Proposed leasing by LBF of three parcels of contiguous freehold vacant lands from Megasteel for a lease tenure of thirty (30) years.

On 30 August 2012, all parties had mutually agreed in writing to extend the condition period for a further period of 6 months from 3 September 2012 to 2 March 2013. The proposals are pending the approvals of the shareholders and other relevant authorities.

Full details of the above corporate development are contained in page 127 of this Annual Report.

### REVIEW OF OPERATIONS

The Group is principally engaged in the following activities:

- Manufacturing and sale of steel related products ("Steel");
- Electronic and mechanical contract manufacturing services ("CMS");
- Property development and management ("Property"); and
- Investment holding, trading and others ("Others").

|          | Revenue<br>(RM Million) |       | Operating Profit<br>(RM Million) |      |
|----------|-------------------------|-------|----------------------------------|------|
|          | 2012                    | 2011  | 2012                             | 2011 |
| Steel    | 1,314                   | 1,059 | 51                               | 54   |
| CMS      | 139                     | 131   | 10                               | 4    |
| Property | 54                      | 79    | 16                               | 22   |
| Others * | 10                      | 10    | 8                                | 9    |
|          | 1,517                   | 1,279 | 85                               | 89   |

\* "Others" represents mainly the dividend income and income from trading of steel products.

### Steel Division

The Group's core steel operation located in Banting, Malaysia is undertaken by Lion DRI Sdn Bhd ("Lion DRI"), which is primarily involved in the production of DRI, a high quality ferrous charge material used in iron and steelmaking. Lion DRI is also one of the two producers of DRI in the country. Our DRI operation is the key revenue and earnings contributor to the Group.

Overall, our Steel Division reported a higher revenue of RM1,314 million, but operating profit was lower at RM51 million as compared to last year due to higher raw material cost.

The Group's other steel business is through its investments in 49% interest in Lion Corporation Berhad ("LCB") and 21% stake in Megasteel. Megasteel is involved in the manufacture and sale of HRC and cold rolled coils ("CRC"), and is the sole producer of HRC in Malaysia servicing the domestic and international markets.

Our associates' performance continued to be adversely affected by dumping activities in the domestic market that had resulted in a significant drop in local orders. Against the soft international steel demand, our associates reported a significantly higher operating loss for the year under review.

### **CMS Division**

Our CMS Division operates as an integrated one-stop original equipment manufacturer ("OEM") which provides contract manufacturing services for the production of IT related components and enclosures especially the assembly of data storage and box build products for the electronics, electrical and consumer goods industries. Our major product range of IT related components include television and monitor frames, components and enclosures for data storage, security alarm, private branch exchange ("PBX") and display TV set-top boxes. The electronics include test equipment control cards, electrical switching and communication devices. The production facilities are located in Melaka, Malaysia and in Juarez, Mexico supported by our sales representative office in the USA.

Despite the intense competition and the increase in raw material prices faced by the Division, the aggressive measures introduced in the past to enhance the quality of its products through continuous research and development together with expansion of its dealers network have enabled the Division to achieve better financial performance with revenue of RM139 million and operating profit of RM10 million for the financial year under review.

### **Property Division**

Our Property Division recorded a lower profit as demand for residential properties in China began to taper off following measures implemented by the Chinese Government to cool down the overheated property market. Stringent loan approvals together with higher tax for property speculation had effectively curbed demand for new residential properties.

Our property project located in Changshu City in Jiangsu Province, China, which had for the past two years contributed significantly to the Group's property earnings was affected by the moderation in demand in the Chinese property market. While Phases 1A, 1B and 1C comprising 675 units of apartment were well received and fully sold in the previous years, the recent launch of the 3 blocks of 6-storey garden terrace apartments had a take-up rate of only approximately 50%. However, demand is expected to pick up towards the end of 2012 as the latest economic data from China indicates a reversal in the pace of economic growth following seven consecutive quarters of lower economic growth.

### **DIVIDEND**

The Board is pleased to recommend a first and final dividend of 1.0 sen per share (2%), tax exempt, for the approval of shareholders at the forthcoming Annual General Meeting. Net dividend payable will amount to RM7.4 million.

### **CORPORATE SOCIAL RESPONSIBILITY**

We recognise the importance of Corporate Social Responsibility ("CSR") as an integral part of business and are committed to supporting CSR initiatives with positive social and environmental impact.

#### **Society**

In the course of conducting its business operations, the Group is mindful of its responsibilities as a corporate citizen in contributing to society while enhancing the bottom-line and shareholders' value. The Group is focused on helping the community to advance through education and medical care via the two Foundations established by the Lion Group of Companies of which the Group is a member.

The Lion-Parkson Foundation disburses funds for various needs such as education, charity and scientific research; and every year, offers scholarships to undergraduates in the local universities. The Lion Group Medical Assistance Fund provides financial assistance to the less fortunate who require medical treatment including surgery, purchase of medical equipment and medication. The Fund also sponsors community health programmes such as medical camps, and the purchase of dialysis machines for Dialysis Centres providing subsidised treatment to those suffering from kidney failure.

## **Environment**

The Group seeks to uphold environmental concerns with emphasis on application of new technologies and industry best practices that are environmentally friendly, optimise the use of resources and promote energy efficiency. The Group's operations comply with the environmental laws and regulations governing the industries in which it operates. This includes emissions management and waste reduction and recovery by our manufacturing plants, and carrying out landscaping with lush greenery and park facilities in our townships and other property projects.

The Group subscribes to the safety, health and environmental regulations with a systematic approach reinforced by constant training and monitoring to ensure the safety and well-being of our employees.

## **PROSPECTS**

The operating environment for the Group's core steel operation is expected to remain challenging in the light of uncertainties surrounding the effectiveness of measures implemented to boost the economies in the advanced nations and also the continued volatility of raw material prices. On the home front, steel manufacturers will have to face further margin erosion and lower revenue if the issues affecting both the local upstream and downstream steel industry are not adequately addressed on a timely basis.

Our other business segments, comprising the Property and CMS Divisions, are expected to continue to perform satisfactorily in tandem with the gradual growth in the regional economies.

## **BOARD OF DIRECTORS**

At the forthcoming Annual General Meeting, Y. Bhg. Dato' Ismail @ Mansor bin Said who had served on the Board for more than 17 years, will be retiring as Director of the Company. Y. Bhg. Dato' Ismail is the Chairman of the Audit Committee, Remuneration Committee and Executive Share Option Scheme Committee, and a member of the Nomination Committee. On behalf of the Board, I would like to express my sincere appreciation for his invaluable contribution during his tenure as a Director of the Company, and the Chairman and a member of the Company's aforementioned committees.

## **ACKNOWLEDGEMENT**

On behalf of the Board, I wish to extend my sincere thanks and appreciation to all our valued customers, financiers, business associates, Government authorities and shareholders for their continued support, co-operation and confidence in the Group.

I would also like to express my deepest appreciation and gratitude to my fellow Directors for their invaluable guidance and contribution throughout the year and to our employees for their untiring hard work, dedication and commitment to the Group.

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

## 主席报告

我谨代表董事部，提呈金狮多元控股有限公司截至2012年6月30日会计年度的常年报告和经审核财务报告。

### 财务表现

全球经济继续面对復甦的不稳定，因为欧元区仍然为了克服经济危机而挣扎着，而美国经济并未显现出具有说服力的好转。钢铁工业的前景仍然具挑战性，因为中国的经济成长放缓，而在国内方面，这一年来，钢铁生产者必须面对进口的钢铁产品、原料价格上涨以及电费和煤气费提高。

尽管面对疲弱的外部营业环境，本集团仍然取得更高的营业额，达到15亿令吉，上一个会计年度的营业额是13亿令吉。我们的直接还原铁的业务，仍然是本公司总收入和盈利的主要来源。所有其他部门也报告正面的盈利贡献。

全球钢铁需求放缓，以及热轧钢卷的入口增加，严重影响本集团的联号公司，美佳钢铁私人有限公司（“美佳钢铁”）的业务，使到本集团在本会计年度内必须分担其更大的亏损，总额为2亿3,800万令吉。本集团在计入高炉工程在地产，工厂和配备所蒙受的3,700万令吉的减值亏损之后，全年税前亏损为2亿3,100万令吉，上一个会计年度的税前亏损则是2,900万令吉。

### 企业发展

2011年3月3日，该公司宣布了以下建议：

- 建议由本公司，金狮工业有限公司（“金狮工业”）和金狮森林工业有限公司联营金狮高炉私人有限公司（“金狮高炉”），三者的股权分别是51%：29%：20%；
- 建议由金狮高炉向Andalas Development Sdn Bhd, Che Kiang Realty Sdn Bhd以及Amsteel Mills Sdn Bhd（它是金狮工业拥有99%股权的子公司）收购几片相邻的永久地契土地，收购的现金总额接近5,230万令吉；以及
- 建议由金狮高炉向美佳钢铁租用3片相邻的永久地契空地，租期为30年。

2012年8月30日，各方以书面形式相互同意再延长的条件期限6个月，从2012年9月3日至2013年3月2日。这项建议正在等待股东和其他有关当局的批准。

上述企业发展的详情，刊登在本常年报告的第127页。

### 业务检讨

本集团主要从事以下的业务：

- 制造和销售与钢铁有关的产品（“钢铁”）；
- 电子和机械合同制造业服务（“合同制造业服务”）；
- 产业发展和管理（“产业”）；以及
- 投资控股、贸易及其他（“其他”）。

|         | 营业额<br>(单位：百万令吉) |       | 营业利润<br>(单位：百万令吉) |      |
|---------|------------------|-------|-------------------|------|
|         | 2012             | 2011  | 2012              | 2011 |
| 钢铁      | 1,314            | 1,059 | 51                | 54   |
| 合同制造业服务 | 139              | 131   | 10                | 4    |
| 产业      | 54               | 79    | 16                | 22   |
| 其他 *    | 10               | 10    | 8                 | 9    |
|         | 1,517            | 1,279 | 85                | 89   |

\* “其他”主要代表股息收入和钢铁产品贸易的收入。

### 钢铁组

本集团的核心钢铁业务坐落在马来西亚的万津，由金狮直接还原铁有限公司（“金狮直接还原铁”）进行，这家公司主要从事生产直接还原铁。直接还原铁是高品质的含铁原料，用以制造铁和钢。金狮直接还原铁是国内生产直接还原铁的两家公司之一。我们的直接还原铁业务是本集团的收入和盈利的主要来源。

由于原料成本较高，虽然我们的钢铁组今年的营业额增加，达到13亿1,400万令吉，但营业利润却较低，只有5,100万令吉。

本集团的其他钢铁业务，是通过投资在金狮机构有限公司（“金狮机构”）的49%股权，以及投资在美佳钢铁的21%股权。美佳钢铁制造和销售热轧钢卷和冷轧钢卷，是马来西亚唯一的热轧钢卷生产者，产品供应国内市场和国际市场。

我们的联号公司的表现，继续受到外国钢铁在我国市场倾销的不利影响，因为它使到本地订单显著减少。在国际钢铁需求疲软的情况下，我们的联号公司报告，在本会计年度，它们的营业亏损大大的增加。

#### 合同制造业服务组

我们的合同制造业服务组是一站式原料加工制造商，提供合约制造业服务，生产和资讯工艺有关的部件和附件，尤其是为电子业，电器业和消费品工业装配资料储存和盒式产品。我们生产的与资讯工艺有关的主要产品，包括电视盒和电视框，储存资料的部件和配件，保安警铃，私人分支交换系统和电视上盒。电子产品包括测试配备控制卡，电子开关产品以及通信器材。生产设备坐落在马来西亚的马六甲和墨西哥的朱利芝。另外在美国设有销售代表办事处，以提供支援。

尽管本组面对激烈竞争，以及原料涨价，过去所采取的进取性措施，包括通过不断进行研发以提高产品的品质，以及扩大代理商网络，使到本组取得更好的财务表现，本会计年度营业额达到1亿3,900万令吉，营业利润共1,000万令吉。

#### 产业组

我们的产业组利润下降，因为在中国政府实行过热的产业市场冷却的措施之后，住宅产业的需求开始减少。地方政府在批准产业计划时更加严格，以及产业投机必须付更高税率，有效的抑制对住宅产业的需求。

我们在中国江苏省常熟市的产业计划，在过去两年对本集团产业组的盈利作出很大的贡献；它受到中国产业市场需求放缓的影响。在过去几年，第1A期，1B期及1C期共有675单位的公寓，广受欢迎，完全售罄。最近推出3座6层的花园式公寓，售出率只有大约50%。不过，预料到接近2012年年底时，需求将会复苏，因为中国的经济数据显示，在经济成长率连续7个季度较低之后，成长步伐有扭转的现象。

#### 股息

董事部欣然建议领发期初兼期末，每股1分（2%）的免税股息。这项建议必须获得即将召开的常年股东大会批准。应付的净股息是740万令吉。

## 企业社会责任

我们承认企业社会责任（Corporate Social Responsibility）的重要性，并认为它是商业活动中不可割舍的一部分，并将继续承诺支持那些带来积极社会与环境影响的企业社会责任活动。

### 社会

本集团在展开商业活动时，深切了解到作为企业公民的责任，在提高利润和股东企业价值的同时，也要回馈社会。作为金狮集团成立的两项基金的成员，本集团着重于通过这两项基金，以教育和医疗服务来回馈社会。

金狮百盛基金（Lion-Parkson Foundation）拨款供作教育与慈善用途；每年都提供奖学金给在本地大学深造的在籍大学本科生。金狮集团医药援助基金则为迫切需要医疗的马来西亚人提供财务援助，包括手术、购置医药仪器和药物。这项基金也赞助社区保健计划如医疗营，并且为那些向肾病患者提供津贴治疗服务的洗肾中心添购洗肾机器。

### 环境

本集团寻求通过专注于采用全新技术与业界最具环保效益的准则来关心环境保护，充分利用资源与促进能源效益。本集团的业务运作业务运作完全严格遵守其所在领域的环境法律及条例管制。这包括排放管理与废料减少与重复使用计划，也为我们的乡镇和产业项目进行绿化和提供公园设施。

本集团有系统地通过定期培训和有效的监管，来落实安全、卫生及环保条例，以确保员工的安全和福利获得照顾。

### 展望

本集团的核心业务钢铁业的营业环境，预料将继续面对挑战性，这是由于先进国所推行的用以刺激经济的措施之有效性仍然不肯定，而原料价格依然波动不定。在国内，如果影响到本地上游钢铁业和下游钢铁业的课题没有及时得到处理，钢铁制造商将面对盈利率进一步下降以及营业额减少的局面。

由于区域经济逐渐增长，我们的其他商业部门，包括产业组和合约制造业服务组，预料将继续有令人满意的表现。

## 董事部

在即将召开的常年股东大会上，Y. Bhg. Dato' Ismail @ Mansor bin Said已担任本公司董事超过17年，将从本公司董事的职位退休。Y. Bhg. Dato' Ismail是本公司审核委员会、薪酬委员会和执行官购股权计划会的主席，以及提名委员会的委员。我谨代表董事会，针对他在担任公司董事，以及上述委员会的主席和委员期间宝贵的贡献，表达真诚的谢意。

我也要真诚感谢董事们，在过去一年来给予的可贵指导和所作的贡献，也要感谢我们各级雇员不懈的献身精神及对本集团的贡献。

## 鸣谢

我谨代表董事部、真诚感谢所有尊贵的客户、银行家、商业伙伴、政府机构以及股东们，继续给予本集团支持与合作，及对本集团有信心。

主席  
丹斯里钟廷森



## FINANCIAL STATEMENTS

# 2012

For The Financial Year Ended 30 June 2012

## DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2012.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 14 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Company and of the Group during the financial year.

### RESULTS

|                           | <b>Group<br/>RM'000</b> | <b>Company<br/>RM'000</b> |
|---------------------------|-------------------------|---------------------------|
| (Loss)/Profit, net of tax | (249,329)               | 263,778                   |
| Attributable to:          |                         |                           |
| Owners of the Company     | (249,329)               | 263,778                   |
| Non-controlling interests | -                       | -                         |
|                           | <u>(249,329)</u>        | <u>263,778</u>            |

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

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 amount of dividend paid by the Company since 30 June 2011 were as follows:

|   | <b>RM'000</b> |
|---|---------------|
| In respect of the financial year ended 30 June 2011 as reported in the Directors' Report of that year, a first and final dividend of 2% (1 sen per share), tax exempt was paid on 13 January 2012 | <u>7,372</u>  |

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 30 June 2012, of 2% (1 sen per share), tax exempt amounting to a dividend payable of RM7.4 million will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 30 June 2013.

## DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri William H.J. Cheng  
 Tan Sri Cheng Yong Kim  
 Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat  
 Dato' Ismail @ Mansor bin Said  
 Heah Sieu Lay  
 George Leong Chee Fook (Retired on 21.12.2011)

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Tan Sri William H.J. Cheng and Mr Heah Sieu Lay retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Y. Bhg. Dato' Ismail @ Mansor bin Said who has served on the Board as an Independent Non-Executive Director for more than 17 years, retires at the forthcoming Annual General Meeting.

## DIRECTORS' BENEFITS

Save for the 5-year 4% Irredeemable Convertible Unsecured Loan Stocks 2008/2013 of the Company ("ICULS") which are convertible into new ordinary shares of RM0.50 each in the Company, neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 6(a) to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except as disclosed in Note 37 to the financial statements.

## DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares in the Company during and at the end of the financial year were as follows:

|                            | Number of Ordinary Shares of RM0.50 Each |          |               | 30.6.2012   |
|----------------------------|--|----------|---------------|-------------|
|                            | 1.7.2011                                 | Acquired | Disposed      |             |
| <b>Direct Interest</b>     |  |          |               |             |
| Tan Sri William H.J. Cheng | 121,356,607                              | –        | –             | 121,356,607 |
| Tan Sri Cheng Yong Kim     | 7,841,337                                | –        | –             | 7,841,337   |
| <b>Indirect Interest</b>   |  |          |               |             |
| Tan Sri William H.J. Cheng | 286,428,888                              | –        | –             | 286,428,888 |
| Tan Sri Cheng Yong Kim     | 248,259,135                              | –        | (153,699,445) | 94,559,690  |

**DIRECTORS' INTERESTS** (Continued)

In addition, the following Directors were also deemed to have an interest in shares in the Company by virtue of the ICULS which are convertible into new ordinary shares of RM0.50 each in the Company at a conversion price of RM0.50 for each new ordinary share of RM0.50 each in the Company as follows:

|                            | Number of RM1.00 Nominal Value of ICULS |          |                        | 30.6.2012   |
|----------------------------|---|----------|------------------------|-------------|
|                            | 1.7.2011                                | Acquired | Converted/<br>Disposed |             |
| <b>Direct Interest</b>     |   |          |                        |             |
| Tan Sri William H.J. Cheng | 121,615,000                             | –        | –                      | 121,615,000 |
| Tan Sri Cheng Yong Kim     | 1,000,000                               | –        | –                      | 1,000,000   |
| <b>Indirect Interest</b>   |   |          |                        |             |
| Tan Sri William H.J. Cheng | 203,961,522                             | –        | –                      | 203,961,522 |
| Tan Sri Cheng Yong Kim     | 30,014,916                              | –        | (30,014,916)           | –           |

The interests of Directors in office at the end of the financial year in shares in the related corporations during and at the end of the financial year were as follows:

**Indirect Interest**  
**Tan Sri William H.J. Cheng**

|                        | 1.7.2011  | Number of Ordinary Shares |          | 30.6.2012 |
|------------------------|-----------|---------------------------|----------|-----------|
|                        |           | Acquired                  | Disposed |           |
| LDH Investment Pte Ltd | 4,500,000 | –                         | –        | 4,500,000 |

|                      | 9.3.2012 * | Number of Ordinary Shares of RM1.00 Each |          | 30.6.2012 |
|----------------------|------------|--|----------|-----------|
|                      |            | Acquired                                 | Disposed |           |
| Jernih Aktif Sdn Bhd | 2          | 68                                       | –        | 70        |

**Indirect Interest**  
**Tan Sri Cheng Yong Kim**

|                        | 1.7.2011  | Number of Ordinary Shares |             | 30.6.2012 |
|------------------------|-----------|---------------------------|-------------|-----------|
|                        |           | Acquired                  | Disposed    |           |
| LDH Investment Pte Ltd | 4,500,000 | –                         | (4,500,000) | –         |

Note:

\* Became a related corporation on 9 March 2012.

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.

**EXECUTIVE SHARE OPTION SCHEME (“ESOS”)**

A new ESOS for the benefit of executive and non-executive Directors of the Company and executive employees of the Group was implemented on 2 February 2011 for a period of 5 years. The main features of the new ESOS are set out in Note 33.

No options were granted or exercised pursuant to the new ESOS during the financial year.

## **OTHER STATUTORY INFORMATION**

- (a) Before the income statements, the statements of comprehensive income and the statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances 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.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors, other than disclosed in Note 2 to the financial statements:
- (i) 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 affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is 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.

## **SIGNIFICANT EVENTS**

Significant events during the financial year are disclosed in Note 38 to the financial statements.

## **SUBSEQUENT EVENT**

Subsequent event is disclosed in Note 39 to the financial statements.

**AUDITORS**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 16 October 2012.

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

**TAN SRI CHENG YONG KIM**  
Managing Director

Kuala Lumpur, Malaysia

## STATEMENT BY DIRECTORS

### PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, **TAN SRI WILLIAM H.J. CHENG** and **TAN SRI CHENG YONG KIM**, being two of the Directors of **LION DIVERSIFIED HOLDINGS BERHAD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 40 to 138 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the year then ended.

The supplementary information set out in Note 45 to the financial statements on page 139 has been prepared in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants, and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 16 October 2012.

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

Kuala Lumpur, Malaysia

**TAN SRI CHENG YONG KIM**  
Managing Director

## STATUTORY DECLARATION

### PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **TAN SRI CHENG YONG KIM**, the Director primarily responsible for the financial management of **LION DIVERSIFIED HOLDINGS BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 40 to 139 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 CHENG YONG KIM** at Kuala Lumpur in the Federal Territory on 16 October 2012

**TAN SRI CHENG YONG KIM**

Before me,

**W626**  
**HAJJAH JAMILAH ISMAIL**  
Commissioner for Oaths  
Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LION DIVERSIFIED HOLDINGS BERHAD

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Lion Diversified Holdings Berhad, which comprise the statements of financial position as at 30 June 2012 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 138.

### *Directors' responsibility for the financial statements*

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the year then ended.

### *Emphasis of matter*

Without qualifying our opinion, we draw attention to the following:

- (i) Note 11 to the financial statements, which indicates the uncertainty in relation to the resumption of the construction of the Blast Furnace Project; and
- (ii) The Group incurred a net loss of RM249.3 million during the financial year ended 30 June 2012, and as at that date, the current liabilities exceeded its current assets by RM159.2 million. These conditions along with other matters as set forth in Notes 2.1, 26, 27 and 39, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 ("Act") in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LION DIVERSIFIED HOLDINGS BERHAD** (Continued)

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS** (Continued)

- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 14 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of subsidiaries incorporated in Malaysia, did not include any comment required to be made under Section 174(3) of the Act.

### **OTHER MATTERS**

The supplementary information set out in Note 45 to the financial statements on page 139 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The Directors are responsible for the preparation of the supplementary information in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**Ernst & Young**  
**AF: 0039**  
**Chartered Accountants**

Kuala Lumpur, Malaysia  
16 October 2012

**Lee Seng Huat**  
**No. 2518/12/13(J)**  
**Chartered Accountant**



## INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

|  | Note  | Group              |                | Company          |                |
|--|-------|--------------------|----------------|------------------|----------------|
|  |       | 2012<br>RM'000     | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000 |
| Revenue  | 3     | <b>1,516,718</b>   | 1,279,092      | <b>480,839</b>   | 17,308         |
| Other income                                       | 4     | <b>118,570</b>     | 123,518        | <b>32,531</b>    | 1,584          |
| Changes in inventories                             |       | <b>(15,139)</b>    | 16,271         | –                | –              |
| Raw materials and consumables used                 |       | <b>(1,295,972)</b> | (1,069,922)    | –                | –              |
| Property development expenditure                   | 13(b) | <b>(31,479)</b>    | (56,025)       | –                | –              |
| Employee benefits expense                          | 5     | <b>(46,972)</b>    | (44,051)       | <b>(434)</b>     | (1,786)        |
| Depreciation and amortisation                      |       | <b>(34,997)</b>    | (35,473)       | <b>(202)</b>     | (275)          |
| Other expenses                                     |       | <b>(82,181)</b>    | (76,242)       | <b>(87,321)</b>  | (12,470)       |
| Profit from operations                             | 6     | <b>128,548</b>     | 137,168        | <b>425,413</b>   | 4,361          |
| Finance costs                                      | 7     | <b>(77,603)</b>    | (81,676)       | <b>(8,853)</b>   | (14,245)       |
| Impairment loss on investments in associates       |       | <b>(10,725)</b>    | –              | <b>(149,472)</b> | (26,000)       |
| Written off of property, plant and equipments      |       | <b>(36,765)</b>    | –              | –                | –              |
| Gain/(Loss) on disposal of investment in associate |       | <b>83</b>          | 19,905         | <b>(536)</b>     | –              |
| Loss on disposal of a jointly controlled entity    | 16    | –                  | (4,784)        | –                | –              |
| Share of results of associates                     |       | <b>(238,003)</b>   | (123,477)      | –                | –              |
| Share of results of jointly controlled entities    |       | <b>3,177</b>       | 23,706         | –                | –              |
| (Loss)/Profit before tax                           |       | <b>(231,288)</b>   | (29,158)       | <b>266,552</b>   | (35,884)       |
| Income tax expense                                 | 8     | <b>(18,041)</b>    | (22,960)       | <b>(2,774)</b>   | (2,592)        |
| (Loss)/Profit, net of tax                          |       | <b>(249,329)</b>   | (52,118)       | <b>263,778</b>   | (38,476)       |
| Attributable to:                                   |       |                    |                |                  |                |
| Owners of the Company                              |       | <b>(249,329)</b>   | (52,118)       | <b>263,778</b>   | (38,476)       |
| Non-controlling interests                          |       | –                  | –              | –                | –              |
|  |       | <b>(249,329)</b>   | (52,118)       | <b>263,778</b>   | (38,476)       |
| Loss per share (sen):                              |       |                    |                |                  |                |
| Basic  | 9(a)  | <b>(17.9)</b>      | (3.7)          |                  |                |
| Diluted  | 9(b)  | <b>(17.9)</b>      | (3.7)          |                  |                |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

|  | Note | Group            |                | Company         |                |
|--|------|------------------|----------------|-----------------|----------------|
|  |      | 2012<br>RM'000   | 2011<br>RM'000 | 2012<br>RM'000  | 2011<br>RM'000 |
| (Loss)/Profit, net of tax                                  |      | <b>(249,329)</b> | (52,118)       | <b>263,778</b>  | (38,476)       |
| <u>Other comprehensive (loss)/income</u>                   |      |                  |                |                 |                |
| Foreign currency translations                              | 24   | <b>(4,502)</b>   | 9,181          | –               | –              |
| Net (loss)/gain on available-for-sale financial assets:    |      |                  |                |                 |                |
| - (Loss)/Gain on fair value changes                        | 24   | <b>(83,113)</b>  | 59,970         | <b>(14,598)</b> | 10,137         |
| - Transfer to profit or loss upon derecognition            | 24   | <b>(18,433)</b>  | (15,546)       | –               | (483)          |
| Other comprehensive (loss)/income for the year, net of tax |      | <b>(106,048)</b> | 53,605         | <b>(14,598)</b> | 9,654          |
| Total comprehensive (loss)/income for the year             |      | <b>(355,377)</b> | 1,487          | <b>249,180</b>  | (28,822)       |
| Attributable to:   |      |                  |                |                 |                |
| - Owners of the Company                                    |      | <b>(355,377)</b> | 1,487          | <b>249,180</b>  | (28,822)       |
| - Non-controlling interests                                |      | –                | –              | –               | –              |
|  |      | <b>(355,377)</b> | 1,487          | <b>249,180</b>  | (28,822)       |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2012

|  | Note  | Group            |                | Company          |                |
|--|-------|------------------|----------------|------------------|----------------|
|  |       | 2012<br>RM'000   | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000 |
| <b>ASSETS</b>                              |       |                  |                |                  |                |
| <b>Non-current assets</b>                  |       |                  |                |                  |                |
| Property, plant and equipment              | 11    | <b>1,336,249</b> | 1,404,323      | <b>572</b>       | 774            |
| Investment properties                      | 12    | <b>11,687</b>    | 11,945         | –                | –              |
| Land held for property development         | 13(a) | <b>119,541</b>   | 132,137        | –                | –              |
| Investments in subsidiaries                | 14    | –                | –              | <b>380,985</b>   | 347,991        |
| Investments in associates                  | 15    | <b>255,364</b>   | 148,501        | <b>124,568</b>   | 274,660        |
| Investments in jointly controlled entities | 16    | <b>22,243</b>    | 33,334         | –                | –              |
| Investment securities                      | 17    | <b>46,309</b>    | 367,787        | <b>26,860</b>    | 41,479         |
| Intangible assets                          | 18    | <b>10,484</b>    | 10,484         | –                | –              |
| Deferred tax assets                        | 19    | <b>5,175</b>     | 8,296          | <b>4,512</b>     | 7,286          |
|  |       | <b>1,807,052</b> | 2,116,807      | <b>537,497</b>   | 672,190        |
| <b>Current assets</b>                      |       |                  |                |                  |                |
| Property development costs                 | 13(b) | <b>55,797</b>    | 13,425         | –                | –              |
| Inventories                                | 20    | <b>176,619</b>   | 150,281        | –                | –              |
| Investment securities                      | 17    | <b>184,005</b>   | –              | –                | –              |
| Trade and other receivables                | 21    | <b>583,443</b>   | 806,434        | <b>1,258,979</b> | 1,230,321      |
| Tax recoverable                            |       | <b>7,671</b>     | 7,620          | <b>3,933</b>     | 3,382          |
| Cash and cash equivalents                  | 22    | <b>197,394</b>   | 201,098        | <b>8,588</b>     | 9,245          |
|  |       | <b>1,204,929</b> | 1,178,858      | <b>1,271,500</b> | 1,242,948      |
| <b>TOTAL ASSETS</b>                        |       | <b>3,011,981</b> | 3,295,665      | <b>1,808,997</b> | 1,915,138      |

## STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2012 (Continued)

|   | Note | Group            |                | Company          |                |
|---|------|------------------|----------------|------------------|----------------|
|   |      | 2012<br>RM'000   | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000 |
| <b>EQUITY AND LIABILITIES</b>                       |      |                  |                |                  |                |
| <b>Equity attributable to owners of the Company</b> |      |                  |                |                  |                |
| Share capital                                       | 23   | <b>368,612</b>   | 368,612        | <b>368,612</b>   | 368,612        |
| Share premium                                       |      | <b>330,967</b>   | 330,967        | <b>330,967</b>   | 330,967        |
| Other reserves                                      | 24   | <b>318,728</b>   | 424,776        | <b>285,133</b>   | 299,731        |
| Retained profits                                    | 25   | <b>483,446</b>   | 740,147        | <b>539,951</b>   | 283,545        |
|   |      | <b>1,501,753</b> | 1,864,502      | <b>1,524,663</b> | 1,282,855      |
| <b>Non-controlling interests</b>                    |      | –                | –              | –                | –              |
| <b>Total equity</b>                                 |      | <b>1,501,753</b> | 1,864,502      | <b>1,524,663</b> | 1,282,855      |
| <b>Non-current liabilities</b>                      |      |                  |                |                  |                |
| Loans and borrowings                                | 26   | <b>27,048</b>    | 285,847        | <b>5,237</b>     | 16,469         |
| Deferred tax liabilities                            | 19   | <b>119,045</b>   | 109,646        | –                | –              |
| Derivative liability                                | 28   | –                | 42,603         | –                | –              |
|   |      | <b>146,093</b>   | 438,096        | <b>5,237</b>     | 16,469         |
| <b>Current liabilities</b>                          |      |                  |                |                  |                |
| Trade and other payables                            | 29   | <b>736,213</b>   | 611,490        | <b>265,902</b>   | 584,829        |
| Provisions  | 30   | <b>29,000</b>    | 39,695         | –                | 17,695         |
| Product financing liabilities                       | 31   | <b>97,944</b>    | 80,699         | –                | –              |
| Loans and borrowings                                | 26   | <b>480,907</b>   | 243,625        | <b>13,195</b>    | 13,290         |
| Tax payable   |      | <b>20,071</b>    | 17,558         | –                | –              |
|   |      | <b>1,364,135</b> | 993,067        | <b>279,097</b>   | 615,814        |
| <b>Total liabilities</b>                            |      | <b>1,510,228</b> | 1,431,163      | <b>284,334</b>   | 632,283        |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 |      | <b>3,011,981</b> | 3,295,665      | <b>1,808,997</b> | 1,915,138      |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

| Note   | ← Attributable to Owners of the Company → |                            |  |                               | Total<br>RM'000 | Non-<br>Controlling<br>Interests<br>RM'000 | Total<br>Equity<br>RM'000 |
|--|---|----------------------------|--|-------------------------------|-----------------|--|---------------------------|
|  | Share<br>Capital<br>RM'000<br>(Note 23)   | Share<br>Premium<br>RM'000 | Other<br>Reserves<br>RM'000<br>(Note 24) | Retained<br>Profits<br>RM'000 |                 |  |                           |
| <b>Group</b>                                   |   |                            |  |                               |                 |  |                           |
| <b>2012</b>                                    |   |                            |  |                               |                 |  |                           |
| At 1 July 2011                                 | 368,612                                   | 330,967                    | 424,776                                  | 740,147                       | 1,864,502       | -  | 1,864,502                 |
| Total comprehensive loss for the year          | -   | -                          | (106,048)                                | (249,329)                     | (355,377)       | -  | (355,377)                 |
|  | 368,612                                   | 330,967                    | 318,728                                  | 490,818                       | 1,509,125       | -  | 1,509,125                 |
| <b>Transactions with owners</b>                |   |                            |  |                               |                 |  |                           |
| Dividends                                      | 10  | -                          | -  | (7,372)                       | (7,372)         | -  | (7,372)                   |
| Total transactions with owners                 |   | -                          | -  | (7,372)                       | (7,372)         | -  | (7,372)                   |
| At 30 June 2012                                | 368,612                                   | 330,967                    | 318,728                                  | 483,446                       | 1,501,753       | -  | 1,501,753                 |
| <b>2011</b>                                    |   |                            |  |                               |                 |  |                           |
| At 1 July 2010                                 | 368,612                                   | 330,967                    | 369,501                                  | 801,307                       | 1,870,387       | -  | 1,870,387                 |
| Total comprehensive income/(loss) for the year | -   | -                          | 53,605                                   | (52,118)                      | 1,487           | -  | 1,487                     |
|  | 368,612                                   | 330,967                    | 423,106                                  | 749,189                       | 1,871,874       | -  | 1,871,874                 |
| <b>Transactions with owners</b>                |   |                            |  |                               |                 |  |                           |
| Equity-settled share option arrangements       |   | -                          | (1,030)                                  | 1,030                         | -               | -  | -                         |
| Transfer to capital reserve                    |   | -                          | 2,700                                    | (2,700)                       | -               | -  | -                         |
| Dividends                                      | 10  | -                          | -  | (7,372)                       | (7,372)         | -  | (7,372)                   |
| Total transactions with owners                 |   | -                          | 1,670                                    | (9,042)                       | (7,372)         | -  | (7,372)                   |
| At 30 June 2011                                | 368,612                                   | 330,967                    | 424,776                                  | 740,147                       | 1,864,502       | -  | 1,864,502                 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012 (Continued)

| Note  | ← Non-Distributable →                |                         |                                       | Retained Profits<br>RM'000 | Total<br>RM'000  |
|---|--------------------------------------|-------------------------|---------------------------------------|----------------------------|------------------|
|   | Share Capital<br>RM'000<br>(Note 23) | Share Premium<br>RM'000 | Other Reserves<br>RM'000<br>(Note 24) |                            |                  |
| <b>Company 2012</b>                                   |                                      |                         |                                       |                            |                  |
| At 1 July 2011  | 368,612                              | 330,967                 | 299,731                               | 283,545                    | 1,282,855        |
| <b>Total comprehensive (loss)/income for the year</b> | –                                    | –                       | (14,598)                              | 263,778                    | 249,180          |
|   | <b>368,612</b>                       | <b>330,967</b>          | <b>285,133</b>                        | <b>547,323</b>             | <b>1,532,035</b> |
| <b>Transactions with owners</b>                       |                                      |                         |                                       |                            |                  |
| Dividends   | 10                                   | –                       | –                                     | (7,372)                    | (7,372)          |
| Total transactions with owners                        |                                      | –                       | –                                     | (7,372)                    | (7,372)          |
| At 30 June 2012                                       | <b>368,612</b>                       | <b>330,967</b>          | <b>285,133</b>                        | <b>539,951</b>             | <b>1,524,663</b> |
| <b>2011</b>   |                                      |                         |                                       |                            |                  |
| At 1 July 2010  | 368,612                              | 330,967                 | 291,107                               | 328,363                    | 1,319,049        |
| <b>Total comprehensive income/(loss) for the year</b> | –                                    | –                       | 9,654                                 | (38,476)                   | (28,822)         |
|   | 368,612                              | 330,967                 | 300,761                               | 289,887                    | 1,290,227        |
| <b>Transactions with owners</b>                       |                                      |                         |                                       |                            |                  |
| Equity-settled share option arrangements              |                                      | –                       | (1,030)                               | 1,030                      | –                |
| Dividends   | 10                                   | –                       | –                                     | (7,372)                    | (7,372)          |
| Total transactions with owners                        |                                      | –                       | (1,030)                               | (6,342)                    | (7,372)          |
| At 30 June 2011                                       | 368,612                              | 330,967                 | 299,731                               | 283,545                    | 1,282,855        |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Cash flows from operating activities</b>                          |                |                |                |                |
| (Loss)/Profit before tax   | (231,288)      | (29,158)       | 266,552        | (35,884)       |
| Adjustments for:   |                |                |                |                |
| Depreciation and amortisation  | 34,997         | 35,473         | 202            | 275            |
| Property, plant and equipment written off                            | 36,813         | 72             | -              | -              |
| Gain on disposal of property, plant and equipment                    | (52)           | (69)           | -              | -              |
| Gain on disposal of quoted investments                               | -              | (23)           | -              | (16)           |
| (Gain)/Loss on disposal of investment in associate                   | (83)           | (19,905)       | 536            | -              |
| Loss on disposal of a jointly controlled entity                      | -              | 4,784          | -              | -              |
| Loss/(Gain) on conversion of Exchangeable Bonds                      | 2,169          | (599)          | -              | -              |
| Net fair value gain on available-for-sale financial assets (Note 24) | (18,433)       | (15,546)       | -              | (483)          |
| Impairment loss in:  |                |                |                |                |
| - Investments in associates  | 10,725         | -              | 149,472        | 26,000         |
| - Unquoted bonds   | -              | 4,283          | -              | 4,283          |
| - Intangible assets  | -              | 8,330          | -              | -              |
| - Subsidiaries   | -              | -              | 80,006         | -              |
| Net fair value (gain)/loss on derivative liability                   | (42,603)       | 3,684          | -              | -              |
| Allowances for impairment loss on trade and other receivables        | 9,395          | 3,755          | 3,681          | 716            |
| Provision for potential claims                                       | 7,000          | 5,000          | -              | -              |
| Write down/(Reversal) of inventories                                 | 336            | (620)          | -              | -              |
| Reversal of provision for liabilities                                | (17,695)       | -              | (17,695)       | -              |
| Reversal of impairment loss of:                                      |                |                |                |                |
| - Investment properties  | -              | (239)          | -              | -              |
| - Unquoted bonds   | (2,480)        | -              | (2,480)        | -              |
| - Subsidiaries   | -              | -              | (4,381)        | -              |
| Unrealised foreign exchange loss/(gain)                              | 22,353         | (21,968)       | 979            | 3,076          |
| Interest expense   | 77,603         | 81,676         | 8,853          | 14,245         |
| Interest income  | (19,504)       | (53,060)       | (15)           | (1,085)        |
| Dividend income  | (10,129)       | (9,479)        | (480,839)      | (17,308)       |
| Share of results of associates                                       | 238,003        | 123,477        | -              | -              |
| Share of results of jointly controlled entities                      | (3,177)        | (23,706)       | -              | -              |
| Operating profit/(loss) before working capital changes               | 93,950         | 96,162         | 4,871          | (6,181)        |
| Changes in working capital:  |                |                |                |                |
| Inventories  | (26,674)       | 101,551        | -              | -              |
| Receivables  | (141,581)      | 57,829         | (5,316)        | 10             |
| Payables   | 128,685        | (36,158)       | (1,787)        | (19,763)       |
| Property development costs   | (29,921)       | 12,412         | -              | -              |
| Cash generated from/(used in) operations                             | 24,459         | 231,796        | (2,232)        | (25,934)       |
| Interest received  | 19,504         | 43,583         | 15             | 82             |
| Interest paid  | (60,362)       | (50,907)       | (349)          | (44)           |
| Taxes (paid)/refund  | (3,075)        | (1,112)        | 605            | 1,592          |
| Net cash (used in)/generated from operating activities               | (19,474)       | 223,360        | (1,961)        | (24,304)       |

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012 (Continued)

|  | Group           |                | Company         |                |
|--|-----------------|----------------|-----------------|----------------|
|  | 2012<br>RM'000  | 2011<br>RM'000 | 2012<br>RM'000  | 2011<br>RM'000 |
| <b>Cash flows from investing activities</b>                    |                 |                |                 |                |
| Proceeds from disposal of a jointly controlled entity          | –               | 32,670         | –               | –              |
| Proceeds from disposal of investment in associate              | <b>84</b>       | 33,421         | <b>84</b>       | –              |
| Proceeds from disposal of property, plant and equipment        | <b>52</b>       | 69             | –               | –              |
| Proceeds from disposal of investment securities                | <b>2,501</b>    | 13,065         | <b>2,501</b>    | 5,228          |
| Purchase of property, plant and equipment                      | <b>(5,601)</b>  | (19,288)       | –               | (12)           |
| Advances from subsidiaries                                     | –               | –              | <b>1,119</b>    | 128,182        |
| Acquisition of associates                                      | –               | –              | –               | (15,432)       |
| Deferred payment for acquisition of associate                  | <b>(8,380)</b>  | (96,022)       | <b>(8,380)</b>  | (96,022)       |
| Dividends received   | <b>11,984</b>   | 9,479          | <b>26,683</b>   | 16,731         |
| Redemption of preference shares in a jointly controlled entity | <b>11,947</b>   | –              | –               | –              |
| Net cash generated from/(used in) investing activities         | <b>12,587</b>   | (26,606)       | <b>22,007</b>   | 38,675         |
| <b>Cash flows from financing activities</b>                    |                 |                |                 |                |
| Dividends paid   | <b>(7,372)</b>  | (7,372)        | <b>(7,372)</b>  | (7,372)        |
| Repayment of bank borrowings                                   | <b>(51,018)</b> | (208,304)      | <b>(13,134)</b> | (13,098)       |
| Proceeds from bank borrowings                                  | <b>54,218</b>   | 19,471         | –               | –              |
| Repayment obligations under finance leases                     | <b>(236)</b>    | (150)          | <b>(197)</b>    | (150)          |
| Net cash used in financing activities                          | <b>(4,408)</b>  | (196,355)      | <b>(20,703)</b> | (20,620)       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>    | <b>(11,295)</b> | 399            | <b>(657)</b>    | (6,249)        |
| Effects of changes in foreign exchange rates                   | <b>7,591</b>    | (3,215)        | –               | –              |
| <b>Cash and cash equivalents at beginning of year</b>          | <b>201,098</b>  | 203,914        | <b>9,245</b>    | 15,494         |
| <b>Cash and cash equivalents at end of year (Note 22)</b>      | <b>197,394</b>  | 201,098        | <b>8,588</b>    | 9,245          |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

## 1. CORPORATE INFORMATION

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 14. There have been no significant changes in the nature of the principal activities of the Company and of the Group during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). The registered office and the principal place of business of the Company are both located at Level 14, Office Tower, No. 1 Jalan Nagasari (Off Jalan Raja Chulan), 50200 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 16 October 2012.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRSs") and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 July 2011 as described fully in Note 2.2.

The financial statements of the Group and of the Company have been prepared on a historical cost basis except as disclosed in the accounting policies below.

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 of RM249.3 million for the financial year ended 30 June 2012 and as at that date, the Group's current liabilities exceeded its current assets by RM159.2 million.
- (ii) The Group had exceeded its repayment terms in relation to the long term payables as disclosed in Note 27. During the financial year, the Group has proposed for the deferment of the long term payables to be payable on or before 31 December 2012.
- (iii) The Group has proposed for a deferment on its repayment terms and certain amendments to the terms and conditions of the Exchangeable Bonds subsequent to the financial year end, as disclosed in Notes 26 and 39.

In addition, the Group reports that Megasteel Sdn Bhd ("Megasteel"), a major customer of a significant subsidiary, which is also a related party (as disclosed in Note 37) has material uncertainty on its ability to realise its assets and discharge its liabilities in the normal course of business. As at 30 June 2012, the total receivables outstanding from Megasteel amounted to RM460.2 million, representing 94% of the Group's total trade receivable balances.

Megasteel is working with an independent consultant and the local authorities to conduct a study on turnaround action plans. Based on the independent consultant's findings, the action plans identified are but not limited to the following:

- (i) to undertake a corporate and debt restructuring to address capital and funding issues; and
- (ii) to engage global experts in the steel industry to transfer technical know-how and best practice in the industry into Megasteel.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

To address the action plans identified by the independent consultants, Megasteel has carried out the following actions:

- (i) Megasteel has entered into discussions with the relevant local authorities in implementing certain policies for the steel industry; and
- (ii) In the previous financial year, Megasteel has entered into discussions with various interested third party investors to inject new working capital via additional issuance of share capital ("Proposed Investment by New Investor(s)"). The discussion is on-going and there is no indication from these various interested third party investors that they are no longer interested to invest in Megasteel.

The Directors have concluded that the combination of these circumstances highlighted above indicates uncertainty that may cast doubt about the Group's ability 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 proposed deferments will be approved and have a reasonable expectation that Megasteel is taking best efforts to realise the action plans above. For this reason, the Directors are of the opinion that the Group and the Company will be able to continue in operational existence for the foreseeable future.

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 July 2011, the Group and the Company adopted the following new and amended FRSs and IC Interpretations mandatory for annual financial periods beginning on or after 1 July 2011:

Amendments to FRS 1 *Limited Exemptions for First-time Adopters*  
Amendments to FRS 1 *Additional Exemptions for First-time Adopters*  
Amendments to FRS 2 *Group Cash-settled Share-based Payment Transactions*  
Amendments to FRS 7 *Improving Disclosures about Financial Instruments*  
IC Interpretation 4 *Determining Whether an Arrangement contains a Lease*  
IC Interpretation 18 *Transfers of Assets from Customers*  
IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*  
Amendments to IC Interpretation 14 *Prepayments of a Minimum Funding Requirement*  
Improvements to FRSs issued in 2010

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and of the Company except for those discussed below:

#### Amendments to FRS 7 *Improving Disclosures about Financial Instruments*

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed.

#### IC Interpretation 4 *Determining Whether an Arrangement contains a Lease*

Prior to 1 July 2011, the Group had entered into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments with its customer. The assets had been capitalised as the property, plant and equipment which were subsequently depreciated over the assets' useful lives.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

#### IC Interpretation 4 *Determining Whether an Arrangement contains a Lease* (Continued)

Upon adoption of IC Interpretation 4 ("IC Int. 4") and the application of the requirements of FRS 117 to the lease element of the arrangement on operating lease, the Group had separated the payments received from this customer into payments received for the lease and payments received for sale of goods. The assets will continue to be recognised as property, plant and equipment throughout the lease tenure.

The Group has applied this change in accounting policy retrospectively and certain comparatives have been restated accordingly.

The following are the effects to the income statements for the financial year ended 30 June 2012:

|   | <b>Group<br/>2012<br/>RM'000</b> |
|---|----------------------------------|
| <b>(Decrease)/Increase in:</b>                              |                                  |
| Revenue   |                                  |
| - Sale of goods   | (45,530)                         |
| - Operating lease rental income in respect of leased plant: |                                  |
| - Minimum lease income                                      | 29,502                           |
| - Contingent rent   | 16,028                           |
|   | <u><u>          </u></u>         |

The following comparatives have been restated:

|  | <b>As previously<br/>stated<br/>RM'000</b> | <b>Adjustments<br/>RM'000</b> | <b>As<br/>restated<br/>RM'000</b> |
|--|--|-------------------------------|-----------------------------------|
| <b>Income statements</b>                                       |  |                               |                                   |
| <b>30 June 2011</b>  |  |                               |                                   |
| Revenue  |  |                               |                                   |
| - Sale of goods  | 1,189,686                                  | (42,786)                      | 1,146,900                         |
| - Operating lease rental income in<br>respect of leased plant: |  |                               |                                   |
| - Minimum lease income   | -  | 29,502                        | 29,502                            |
| - Contingent rent  | -  | 13,284                        | 13,284                            |
|  | <u><u>          </u></u>                   | <u><u>          </u></u>      | <u><u>          </u></u>          |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Standards and Interpretations issued but not yet effective

The Group and the Company have not adopted the following standards and interpretations that have been issued but not yet effective:

#### Description

Amendments to FRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*  
 Amendments to FRS 7 *Transfers of Financial Assets*  
 Amendments to FRS 112 *Deferred Tax: Recovery of Underlying Assets*  
 FRS 124 *Related Party Disclosures*  
 Amendments to FRS 101 *Presentation of Items of Other Comprehensive Income*  
 FRS 9 *Financial Instruments*  
 FRS 10 *Consolidated Financial Statements*  
 FRS 11 *Joint Arrangements*  
 FRS 12 *Disclosure of interests in Other Entities*  
 FRS 13 *Fair Value Measurement*  
 FRS 119 *Employee Benefits*  
 FRS 127 *Separate Financial Statements*  
 FRS 128 *Investment in Associate and Joint Ventures*  
 IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*  
 Amendments to FRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*  
 Amendments to FRS 132 *Offsetting Financial Assets and Financial Liabilities*

The Directors expect that the adoption of the standards and interpretations above will have no material impact on the financial statements in the period of initial application, except as disclosed below:

#### Amendments to FRS 7 *Transfers of Financial Assets*

The amendments require additional disclosure about financial assets that have been transferred but not derecognised to enable the users of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendments require disclosure about continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendments affect disclosure only and have no impact on the Group's financial position or performance.

#### Amendments to FRS 101 *Presentation of Items of Other Comprehensive Income*

The amendments to FRS 101 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

#### FRS 9 *Financial Instruments*

FRS 9 reflects the first phase of work on the replacement of FRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in FRS 139. The adoption of this first phase of FRS 9 will have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on classification and measurement of financial liabilities. The Group is in the process of making an assessment on the impact of adoption of FRS 9.

#### FRS 10 *Consolidated Financial Statements*

FRS 10 replaces the portion of FRS 127 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. FRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by FRS 10 will require management to exercise significant judgement to determine which entities are controlled and, therefore, are required to be consolidated by a parent, compared with the requirements that were in FRS 127.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Standards and Interpretations issued but not yet effective (Continued)

#### FRS 12 Disclosure of Interests in Other Entities

FRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosure only and has no impact on the Group's financial position or performance.

#### FRS 13 Fair Value Measurement

FRS 13 establishes a single source of guidance under FRS for all fair value measurements. FRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under FRS when fair value is required or permitted. The Group is currently assessing the impact of adoption of FRS 13.

#### FRS 127 Separate Financial Statements

As a consequence of the new FRS 10 and FRS 12, FRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

#### FRS 128 Investments in Associates and Joint Ventures

As a consequence of the new FRS 11 and FRS 12, FRS 128 is renamed as FRS 128 *Investments in Associates and Joint Ventures*. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

#### Amendments to FRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments require additional information to be disclosed to enable the users of the Group's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments affect disclosure only and have no impact on the Group's financial position or performance.

#### Amendments to FRS 132 Offsetting Financial Assets and Financial Liabilities

The amendments to FRS 132 clarified that a legally enforceable right to set off is a right of set off that must not be contingent on a future event; and must be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments further clarified that an entity will meet the net settlement criterion as provided in FRS 132 if the entity can settle amounts in a manner that the outcome is, in effect, equivalent to net settlement.

### **Malaysian Financial Reporting Standards**

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* (MFRS 141) and IC Interpretation 15 *Agreements for Construction of Real Estate* (IC 15), including its parent, significant investor and venturer (herein called "Transitioning Entities").

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Standards and Interpretations issued but not yet effective (Continued)

#### Malaysian Financial Reporting Standards (Continued)

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework for an additional two years. Consequently, adoption of the MFRS Framework by the Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2014.

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 year ending 30 June 2015. 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 retained profits.

### 2.4 Summary of 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. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. 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 by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination 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 business combination. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statements of financial position. The accounting policy for goodwill is set out in Note 2.4(f).

Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquirees are reassessed on acquisition unless the business combination results in a change on the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

#### (b) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (b) Subsidiaries (Continued)

In the Company's separate financial statements, investments in subsidiaries 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.

#### (c) Transactions with non-controlling interests

Non-controlling interests ("NCI") 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 consolidated statements of financial position, separately from parent shareholders' equity. Transactions with NCI are accounted for using the entity concept method, whereby, transactions with NCI are accounted for as transactions with owners. On acquisition of NCI, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to NCI is recognised directly in equity.

#### (d) Associates

Associates are entities, not being subsidiaries or joint ventures, in which the Group has significant influence. 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.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investments in associates are measured in the statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investments. 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 investments is excluded from the carrying amount of the investments and is instead included as income in the determination of the Group's share of the associates' profit or loss for the period in which the investments are acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired.

If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (e) Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.4(d).

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entities.

In the Company's separate financial statements, its investments in jointly controlled entities 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.

#### (f) Intangible assets

##### Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units ("CGU") that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the allocated goodwill, with the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the CGU.

Goodwill and fair value adjustments arising on the acquisitions of foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.4(z)(iii).

Goodwill and fair value adjustments which arose on acquisitions of foreign operations before 1 January 2006 are deemed to be assets and liabilities of the Company and are recorded in RM at the rates prevailing at the date of acquisition.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (g) Property, plant and equipment, and depreciation

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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.

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 cost less any accumulated impairment losses. Freehold land has an unlimited useful life and therefore is not depreciated. Leasehold lands are depreciated over the period of the respective leases which range from 70 to 89 years. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

|  |              |
|--|--------------|
| Buildings                                | 2% - 8%      |
| Land improvements and infrastructure     | 3% - 4%      |
| Plant and machinery                      | 2% - 20%     |
| Motor vehicles                           | 13% - 20%    |
| Office equipment, furniture and fittings | 10% - 33.33% |
| Renovation                               | 10% - 20%    |

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

#### (h) Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.4(g) up to the date of change in use.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (i) Land held for property development and property development costs

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

Land held for property development consists of land where no development activities have been carried out 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 any 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.

##### (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 the 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.

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 the 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 the profit or loss is classified as progress billings within trade payables.

#### (j) 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.

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 first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (j) Impairment of non-financial assets (Continued)

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.

#### (k) Inventories

Industrial land and properties held for sale are stated at the lower of cost and net realisable value. Cost is determined on the specific identification basis and includes costs of land, construction and appropriate development overheads.

Other inventories are stated at the lower of cost (determined on the weighted average basis) and net realisable value. The cost of raw materials comprises the original purchase price plus cost incurred in bringing the inventories to their present location and conditions. The cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value is the estimated selling price in ordinary course of business less estimated costs to completion and estimated costs necessary to make the sale.

#### (l) Financial assets

Financial assets 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.

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 and the Company determine 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, held-to-maturity investments and available-for-sale financial assets.

##### (i) 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 are 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (i) Financial assets (Continued)

##### (ii) 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 12 months after the reporting date which are classified as non-current.

##### (iii) Held-to-maturity investments

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 12 months after the reporting date which are classified as current.

##### (iv) 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 of the three preceding 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 Group's and the Company's right to receive payment is established.

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

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (l) Financial assets (Continued)

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, the date that the Group and the Company commit to purchase or sell the assets.

#### (m) Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

##### (i) Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider 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, receivables 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 and the Company'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 can be related objectively to 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.

##### (ii) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (m) Impairment of financial assets (Continued)

##### (iii) 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.

#### (n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

#### (o) Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

#### (p) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (p) Financial liabilities (Continued)

##### (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.

##### (ii) Other financial liabilities

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

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 are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 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.

#### (q) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

#### (r) Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (s) ICULS

The convertible loan stocks 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, representing the conversion option is 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.

Under the effective interest rate method, the interest expense on the liability component is calculated by applying the prevailing market interest rate for a similar non-convertible bond to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan stocks.

#### (t) Employee benefits

##### (i) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employees Provident Fund in Malaysia, a defined contribution pension scheme. Contributions made to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

##### (ii) Employee share option plans

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserve over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share option reserve is transferred to retained profits upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (u) 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

###### Offtake Agreement

Effective 1 July 2011, the Group has adopted IC Int. 4, "Determining whether an Arrangement contains a Lease", which prescribes that the determination of whether an arrangement is or contains a lease shall be based on the substance of the arrangement. It requires an assessment of whether the fulfillment of the arrangement is dependent on the use of specific asset and the arrangement conveys a right to use such assets, such a contractual arrangement is accounted for as a finance or operating lease. Payment for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments.

The adoption of IC Int. 4 has resulted in operating lease accounting being applied to the Group as the lessor for the Offtake Agreement with a customer. The impact of the adoption of IC Int. 4 is set out in Note 2.2.

For operating lease, the lease income is recognised over the term of the lease on the straight-line basis.

#### (v) Income tax

##### (i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (v) Income tax (Continued)

##### (ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### (x) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be met. Where the grant relates to an asset, the fair value is recognised as deferred capital grant in the statements of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income". Alternatively, they are deducted in reporting the related expenses.

#### (y) 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. Revenue is measured at the fair value of consideration received or receivable.

##### (i) Sale of goods

Revenue is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

##### (ii) Sale of industrial land and completed properties

Revenue from sale of industrial land and completed properties is recognised upon the signing of the sale and purchase agreements.

##### (iii) Interest income

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

##### (iv) Rental income and sales commission

Rental and sales commission are recognised on the accrual basis.

##### (v) Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (y) Revenue recognition (Continued)

##### (vi) 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.

#### (z) Foreign currencies

##### (i) Functional and presentation currency

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

##### (ii) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group’s net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

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 assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income.

On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments arising on 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Summary of significant accounting policies (Continued)

#### (z) Foreign currencies (Continued)

##### (iii) Foreign operations (Continued)

The principal exchange rates used for each respective unit of foreign currency ruling at the reporting date are as follows:

|                              | <b>2012</b> | <b>2011</b> |
|------------------------------|-------------|-------------|
|                              | <b>RM</b>   | <b>RM</b>   |
| United States Dollar ("USD") | <b>3.19</b> | 3.02        |
| Singapore Dollar ("SGD")     | <b>2.50</b> | 2.45        |
| Chinese Renminbi ("Rmb")     | <b>0.50</b> | 0.47        |
| Hong Kong Dollar ("HKD")     | <b>0.41</b> | 0.39        |

#### (aa) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

#### (bb) Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 43, including the factors used to identify the reportable segments and the measurement basis of segment information.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### (a) Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

##### (i) Classification of financial assets

The Group classifies financial assets as held-to-maturity investments when it has a positive intention and ability to hold the investment to maturity.

The Group classified its investments in quoted shares of RM230.3 million (2011: RM367.7 million) as available-for-sale. Management does not have intention to hold the investments for trading purposes.

##### (ii) Impairment of available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost. During the financial year, the Group impaired quoted and unquoted equity instruments with "significant" decline in fair value greater than 20% and 30% respectively, and "prolonged" period as greater than 12 months or more.

##### (iii) Classification between investment properties and property, plant and equipment

The Group has developed certain criteria based on FRS 140 *Investment Property* in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Significant accounting estimates and judgements (Continued)

#### (a) Critical judgements made in applying accounting policies (Continued)

##### (iv) Jointly controlled entities

The Group has interest in several investments which it regards as jointly controlled entities although the Group owns less than half of the equity interest in these entities. These entities have not been regarded as subsidiaries of the Group as management has assessed that the contractual arrangements with the respective joint venture parties have given rise to joint control over these entities in accordance with FRS 131 *Interest in Joint Ventures*.

##### (v) Financial guarantee contracts

At each reporting date, the Group determines the fair value of the guarantees based on the likelihood of the guaranteed party defaulting within the guaranteed period and estimate the loss exposure (after taking into account of the value of assets pledged for the loans).

For the financial year ended 30 June 2012, the Group and the Company have assessed the financial guarantee contracts and determined that the guarantees are more likely not to be called upon by the banks. Financial impact of such guarantees is not material.

#### (b) Key sources of estimation uncertainty

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 are discussed below:

##### (i) Property development

The Group recognises property development revenue and expenses in the income statement 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 costs are disclosed in Note 13(b).

##### (ii) Income tax

Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amount that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Details of income tax expense are disclosed in Note 8.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Significant accounting estimates and judgements (Continued)

#### (b) Key sources of estimation uncertainty (Continued)

##### (iii) 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. The total carrying value of unrecognised tax losses and capital allowances of the Group and of the Company are disclosed in Note 19.

##### (iv) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of goodwill are disclosed in Note 18.

##### (v) Share-based payment

The Group measures the cost of equity-settled transactions with employees by reference to fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of option, volatility and dividend yield and making assumptions about them. The assumptions and valuation model used are disclosed in Note 33.

##### (vi) Recoverability of trade receivables from an associate

Included in amounts due from related parties is an amount due from Megasteel of RM469.5 million which represents approximately 94% (2011: 93%) of the Group's total trade receivable balances. As at the reporting date, RM229.1 million of the outstanding balance is past due but not impaired. Megasteel's action plans are as disclosed in Note 21.

The Directors exercised significant judgement in the assessment of the recoverability of the amount outstanding from Megasteel, which will have significant financial impact if the amount is not recoverable and are of the opinion that sufficient allowance for doubtful debts has been recognised during the financial year in respect of amount due from Megasteel.

##### (vii) Impairment of 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 annual impairment testing 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 or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Significant accounting estimates and judgements (Continued)

#### (b) Key sources of estimation uncertainty (Continued)

##### (vii) Impairment of assets (Continued)

Included in Note 11, property, plant and equipment (construction in progress) is a sum of RM496 million incurred on the Blast Furnace Project (“Project”). The Project has been put on hold pending financing to complete the Project. The term sheet previously signed with a lender had expired subsequent to the financial year end on 19 July 2012. Currently, the management is in the midst of discussion with the lender in connection of obtaining the financing required. The lender has not indicated any withdrawal on the financing of the Project.

During the financial year, the Project was assessed for impairment. The recoverable amount of the Project is estimated based on value-in-use calculations. Value-in-use was determined by discounting the future cash flows generated from the continuing use of the unit and the projected cash flows were prepared based on the financial budgets and projections approved by management covering a fifteen-year period and the following were the key assumptions:

- (a) the sales tonnage and selling price of saleable products, purchase price of raw materials and the production of the Group used in preparing the projected cash flows were determined based on past business performance on a similar industry and management’s expectations on market development;
- (b) the intended customers are related parties in order to support their production;
- (c) the financing will be obtained before the resumption of the construction of the Project; and
- (d) a discount rate of 10% has been applied to the cash flow projections.

The values assigned to the key assumptions represent management’s assessment of future trends as well as historical data in the industry which are based on both external and internal sources. In particular, the assessment is sensitive towards the fluctuation in world steel prices which impact the selling prices of the saleable products.

Premised on the above, the carrying amount of the project was determined to be lower than the recoverable amount and no impairment loss was recognised.

The Directors believe that no reasonably foreseeable changes in any of the above key assumptions would cause the amount capitalised for the Project to materially exceed the recoverable amount.

##### (viii) Useful lives and residual value of plant and machinery

The cost of plant and machinery for the manufacture of direct reduced iron products is depreciated on straight-line basis over the assets’ useful lives. Management estimates the useful lives of these plant and machinery to be within 10 to 25 years. The estimation of the useful lives of plant and machinery has been based on historical experience and judgement with respect to technical obsolescence, physical deterioration, maintenance programmes and usage capacity of the assets in addition to any legal restriction on usage. Residual values of the plant and machinery are estimated by the management based on the assets commercial value at end of their useful lives. These are common life expectancies applied in the steel industry until there is technological development which could impact the economic useful lives and the residual values of these assets. The management will review the estimated useful lives and residual values of plant and machinery at each financial year-end and adjustments to useful lives are made when considered necessary. Therefore, future depreciation charges could be revised.

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**2.5 Significant accounting estimates and judgements** (Continued)

**(b) Key sources of estimation uncertainty** (Continued)

**(ix) Impairment assessment for investments in associates**

Management determines whether the carrying amounts of its investments are impaired at the reporting date. This involves measuring the recoverable amounts which includes fair value less costs to sell and valuation techniques. Valuation techniques include, amongst others, discounted cash flows analysis and in some cases, are based on current market indicators and estimates that provide reasonable approximations to the detailed computation.

Management determined the recoverable amount of these investments based on the individual asset's value-in-use. The present value of the future cash flows to be generated by these assets is the asset's value-in-use. An impairment loss is recognised immediately in the profit or loss if the recoverable amount is less than the carrying amount.

It is in the opinion of the Directors that adequate impairment losses have been recognised in the profit or loss and the management's assumptions are reasonable.

**(x) Provision for potential claims**

The Group determines whether a present obligation from potential claims arising from the arrangement entered with contractors in relation to the construction of property, plant and equipment that exist at the reporting date by taking into account all available evidence. On the basis of such evidence, the Directors considered if provisions are required to be recognised in the financial statements and if required, the estimated amounts are provided. Adequate provisions have been made in respect of financial obligations arising from the potential claims from the arrangement entered with certain contractors of the Group as disclosed in Note 30.

**(xi) Derivative liability**

The Group measures the derivative liability by reference to the fair value of the derivative liability at reporting date. Estimating fair value of the derivative liability requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the derivative liability. This estimate also requires determining the most appropriate inputs into the valuation model including the expected life of the derivative liability, expected volatility and making relevant assumptions about them. The assumptions and models used for estimating fair value of derivative liability and its carrying amount are disclosed in Note 28.

### 3. REVENUE

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

|  | Group            |                  | Company        |                |
|--|------------------|------------------|----------------|----------------|
|  | 2012<br>RM'000   | 2011<br>RM'000   | 2012<br>RM'000 | 2011<br>RM'000 |
| Sale of goods  | 1,412,732        | 1,146,900        | -              | -              |
| Property development   | 48,013           | 78,958           | -              | -              |
| Sales commission   | 533              | 545              | -              | -              |
| Rental income  | 546              | 543              | -              | -              |
| Operating lease rental income<br>in respect of leased plant: |                  |                  |                |                |
| - Minimum lease income                                       | 29,502           | 29,502           | -              | -              |
| - Contingent rent  | 16,028           | 13,284           | -              | -              |
| Dividend income from investment<br>securities - quoted       | 9,364            | 9,360            | 839            | 208            |
| Dividend income from subsidiaries                            | -                | -                | 480,000        | 17,100         |
|  | <b>1,516,718</b> | <b>1,279,092</b> | <b>480,839</b> | <b>17,308</b>  |

### 4. OTHER INCOME

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Interest income from:   |                |                |                |                |
| Unquoted investments  | -              | 2,188          | -              | 1,003          |
| Late payment interest   | 15,740         | 46,961         | -              | -              |
| Short term deposits and others  | 3,764          | 3,911          | 15             | 82             |
|   | <b>19,504</b>  | <b>53,060</b>  | <b>15</b>      | <b>1,085</b>   |
| Rental income   | 209            | 205            | -              | -              |
| Dividend income   | 765            | 119            | -              | -              |
| Gain on disposal of quoted investments                                  | -              | 23             | -              | 16             |
| Net fair value gain on available-for-sale<br>financial assets (Note 24) | 18,433         | 15,546         | -              | 483            |
| Fair value gain on derivative liability<br>(Note 28)                    | 42,603         | -              | -              | -              |
| Reversal of impairment loss on:   |                |                |                |                |
| - Unquoted bond   | 2,480          | -              | 2,480          | -              |
| - Subsidiaries  | -              | -              | 4,381          | -              |
| Reversal of provision for liabilities<br>(Note 30)                      | 17,695         | -              | 17,695         | -              |
| Gain on conversion of Exchangeable Bonds                                | -              | 599            | -              | -              |
| Foreign exchange gain:  |                |                |                |                |
| - Realised  | 5,278          | 14,603         | -              | -              |
| - Unrealised  | 196            | 26,382         | -              | -              |
| Compensation claim (Note i)   | 8,238          | 6,944          | -              | -              |
| Waiver of subsidiaries'<br>intercompany balances                        | -              | -              | 7,960          | -              |
| Other income  | 3,169          | 6,037          | -              | -              |
|   | <b>118,570</b> | <b>123,518</b> | <b>32,531</b>  | <b>1,584</b>   |

(i) This amount arose from the claims from Megasteel as disclosed in Note 37(i).

## 5. EMPLOYEE BENEFITS EXPENSE

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Wages, salaries and bonuses                | 36,268         | 34,643         | 390            | 1,558          |
| Pension costs - defined contribution plans | 3,307          | 2,898          | 32             | 176            |
| Other staff related expenses               | 7,397          | 6,510          | 12             | 52             |
|  | <b>46,972</b>  | <b>44,051</b>  | <b>434</b>     | <b>1,786</b>   |

Included in employee benefits expense of the Group and of the Company is an executive Director's remuneration as further disclosed in Note 6(a).

## 6. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting):

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Auditors' remuneration:                                      |                |                |                |                |
| - Company  | 25             | 25             | 25             | 25             |
| - Subsidiaries   | 477            | 473            | -              | -              |
| Directors' remuneration (Note a)                             | 641            | 656            | 641            | 656            |
| Depreciation:  |                |                |                |                |
| - Property, plant and equipment                              | 34,739         | 35,139         | 202            | 275            |
| - Investment properties                                      | 258            | 334            | -              | -              |
| Direct operating expenses of investment properties           | -              | 168            | -              | -              |
| Property, plant and equipment written off                    | 48             | 72             | -              | -              |
| Impairment loss on trade and other receivables:              |                |                |                |                |
| - Subsidiaries   | -              | -              | 3,681          | 716            |
| - Others   | 9,395          | 3,755          | -              | -              |
| Provision for potential claims                               | 7,000          | 5,000          | -              | -              |
| Impairment loss in:  |                |                |                |                |
| - Investments in subsidiaries                                | -              | -              | 80,006         | -              |
| - Unquoted bond  | -              | 4,283          | -              | 4,283          |
| - Intangible assets  | -              | 8,330          | -              | -              |
| Net fair value (gain)/loss on derivative liability (Note 28) | (42,603)       | 3,684          | -              | -              |
| Write down/(Reversal) of inventories                         | 336            | (620)          | -              | -              |
| Foreign exchange loss:                                       |                |                |                |                |
| - Realised   | 229            | 753            | -              | -              |
| - Unrealised   | 22,549         | 4,414          | 979            | 3,076          |
| Foreign exchange gain:                                       |                |                |                |                |
| - Realised   | (5,278)        | (14,603)       | -              | -              |
| - Unrealised   | (196)          | (26,382)       | -              | -              |
| Rental expenses  | 7,398          | 7,936          | -              | -              |
| Loss/(Gain) on conversion of Exchangeable Bonds              | 2,169          | (599)          | -              | -              |
| Reversal of impairment loss on investment property           | -              | (239)          | -              | -              |
| Gain on disposal of property, plant and equipment            | (52)           | (69)           | -              | -              |

## 6. PROFIT FROM OPERATIONS (Continued)

### (a) Directors' remuneration

The details of remuneration receivable by Directors of the Company during the year are as follows:

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Executive Director:                        |                |                |                |                |
| Fees                                       | 25             | 25             | 25             | 25             |
| Salary and other emoluments                | 390            | 380            | 390            | 380            |
| Pension costs - defined contribution plans | 32             | 36             | 32             | 36             |
|  | <b>447</b>     | <b>441</b>     | <b>447</b>     | <b>441</b>     |
| Non-executive Directors:                   |                |                |                |                |
| Fees                                       | 194            | 215            | 194            | 215            |
|  | <b>641</b>     | <b>656</b>     | <b>641</b>     | <b>656</b>     |

The number of Directors of the Company whose remuneration during the year fell within the following ranges are analysed below:

|                                 | Number of Directors |      |
|---------------------------------|---------------------|------|
|                                 | 2012                | 2011 |
| <u>Executive Director:</u>      |                     |      |
| RM400,001 - RM450,000           | 1                   | 1    |
| <u>Non-executive Directors:</u> |                     |      |
| RM50,000 and below              | 5 *                 | 5    |

\* Including a Director who has retired at the previous Annual General Meeting.

## 7. FINANCE COSTS

|                                  | Group          |                | Company        |                |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Interest expense on:             |                |                |                |                |
| Exchangeable Bonds               | 21,871         | 26,479         | -              | -              |
| Loans and borrowings             | 25,743         | 24,864         | -              | -              |
| Amounts owing to related parties | 7,422          | 1,429          | 323            | 22             |
| ICULS (Note 32)                  | 2,004          | 2,730          | 2,004          | 2,730          |
| Deferred payments (Note 27)      | 6,500          | 11,471         | 6,500          | 11,471         |
| Product financing liabilities    | 14,031         | 14,681         | -              | -              |
| Obligations under finance leases | 32             | 22             | 26             | 22             |
|                                  | <b>77,603</b>  | <b>81,676</b>  | <b>8,853</b>   | <b>14,245</b>  |

**8. INCOME TAX EXPENSE**

|   | Group                |                      | Company             |                     |
|---|----------------------|----------------------|---------------------|---------------------|
|   | 2012<br>RM'000       | 2011<br>RM'000       | 2012<br>RM'000      | 2011<br>RM'000      |
| <b>Income statements</b>                              |                      |                      |                     |                     |
| Current income tax:                                   |                      |                      |                     |                     |
| - Malaysian tax                                       | 1,348                | 5,643                | -                   | -                   |
| - Foreign tax   | 3,697                | 4,917                | -                   | -                   |
|   | <u>5,045</u>         | <u>10,560</u>        | <u>-</u>            | <u>-</u>            |
| Under/(Over) provision in respect of previous years:  |                      |                      |                     |                     |
| - Malaysian income tax                                | 543                  | (68)                 | -                   | -                   |
|   | <u>543</u>           | <u>(68)</u>          | <u>-</u>            | <u>-</u>            |
| Deferred income tax (Note 19):                        |                      |                      |                     |                     |
| - Origination and reversal of temporary differences   | 12,303               | 14,131               | 2,774               | 2,592               |
| - Under/(Over) provision in respect of previous years | 150                  | (1,663)              | -                   | -                   |
|   | <u>12,453</u>        | <u>12,468</u>        | <u>2,774</u>        | <u>2,592</u>        |
| Income tax expense recognised in profit or loss       | <u><u>18,041</u></u> | <u><u>22,960</u></u> | <u><u>2,774</u></u> | <u><u>2,592</u></u> |

The Group is subject to income tax on an entity basis on the profit arising or derived from the tax jurisdictions in which members of the Group are domiciled and operates.

The reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 30 June 2012 and 30 June 2011 is as follows:

|  | Group                |                      | Company             |                     |
|--|----------------------|----------------------|---------------------|---------------------|
|  | 2012<br>RM'000       | 2011<br>RM'000       | 2012<br>RM'000      | 2011<br>RM'000      |
| (Loss)/Profit before tax   | <u>(231,288)</u>     | <u>(29,158)</u>      | <u>266,552</u>      | <u>(35,884)</u>     |
| Tax at Malaysian statutory rate of 25% (2011: 25%)   | (57,822)             | (7,290)              | 66,638              | (8,971)             |
| Different tax rates in other countries   | 7,817                | 7,613                | -                   | -                   |
| Adjustments:   |                      |                      |                     |                     |
| Non-deductible expenses  | 30,873               | 12,750               | 59,613              | 15,438              |
| Income not subject to tax  | (18,880)             | (18,308)             | (123,477)           | (3,875)             |
| Benefits from previously unrecognised tax losses   | (1,080)              | (1,903)              | -                   | -                   |
| Under/(Over) provision of income tax in respect of previous years                                      | 543                  | (68)                 | -                   | -                   |
| Under/(Over) provision of deferred tax in respect of previous years                                    | 150                  | (1,663)              | -                   | -                   |
| Deferred tax assets not recognised in current year   | -                    | 6,887                | -                   | -                   |
| Deferred tax assets recognised on previously unrecognised tax losses and unabsorbed capital allowances | (2,267)              | -                    | -                   | -                   |
| Share of results of associates   | 59,501               | 30,869               | -                   | -                   |
| Share of results of jointly controlled entities  | (794)                | (5,927)              | -                   | -                   |
| Tax expense for the year   | <u><u>18,041</u></u> | <u><u>22,960</u></u> | <u><u>2,774</u></u> | <u><u>2,592</u></u> |

## 8. INCOME TAX EXPENSE (Continued)

Domestic current income tax is calculated at the statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year.

Under the relevant People's Republic of China ("PRC") income tax law, the PRC companies of the Group were subject to corporate income tax at a rate of 25% (2011: 25%) on their respective taxable income.

Lion DRI Sdn Bhd ("Lion DRI"), a wholly-owned subsidiary of the Company, was granted Pioneer Status incentive with full tax exemption for 5 years effective from 1 September 2008. Lion DRI has the option to re-apply for exemption for another 5 years through a fresh application to the authority by 1 August 2013.

Tax savings during the financial year arising from:

|   | <b>Group</b>  |               |
|---|---------------|---------------|
|   | <b>2012</b>   | <b>2011</b>   |
|   | <b>RM'000</b> | <b>RM'000</b> |
| Utilisation of previously unrecognised tax losses | <b>1,080</b>  | 1,903         |

## 9. LOSS PER SHARE

### (a) Basic

Basic loss per share ("LPS") is calculated by dividing the net loss for the year, net of tax attributable to owners of the Company by the weighted average number of ordinary shares in issue after conversion of mandatorily convertible instruments during the financial year.

|  | <b>Group</b>     |             |
|--|------------------|-------------|
|  | <b>2012</b>      | <b>2011</b> |
| Loss, net of tax attributable to owners of the Company (RM'000)                  | <b>(249,329)</b> | (52,118)    |
| Weighted average number of ordinary shares in issue ('000)                       | <b>737,223</b>   | 737,223     |
| Adjustment for conversion of ICULS ('000)  | <b>654,924</b>   | 654,924     |
| Adjusted weighted average number of ordinary shares in issue and issuable ('000) | <b>1,392,147</b> | 1,392,147   |
| Basic LPS (sen)  | <b>(17.9)</b>    | (3.7)       |

### (b) Diluted

There is no dilutive event other than the conversion of ICULS which has already been taken into account in the basic LPS calculation.

## 10. DIVIDENDS

|   | Dividends<br>in respect of year |                |                | Dividends<br>recognised in year |                |
|---|---------------------------------|----------------|----------------|---------------------------------|----------------|
|   | 2012<br>RM'000                  | 2011<br>RM'000 | 2010<br>RM'000 | 2012<br>RM'000                  | 2011<br>RM'000 |
| <b>Recognised during the year:</b>  |                                 |                |                |                                 |                |
| <b>Dividends on ordinary shares:</b>  |                                 |                |                |                                 |                |
| - First and final dividend for 2010,<br>tax exempt (1.0 sen per ordinary share)                               | -                               | -              | 7,372          | -                               | 7,372          |
| - First and final dividend for 2011,<br>tax exempt (1.0 sen per ordinary share)                               | -                               | 7,372          | -              | <b>7,372</b>                    | -              |
| <b>Proposed but not recognised as at 30 June:</b>   |                                 |                |                |                                 |                |
| <b>Dividends on ordinary shares,<br/>subject to shareholders' approval<br/>at the Annual General Meeting:</b> |                                 |                |                |                                 |                |
| - First and final dividend for 2012,<br>tax exempt (1.0 sen per ordinary share)                               | <b>7,372</b>                    | -              | -              | -                               | -              |
|   | <u>7,372</u>                    | <u>7,372</u>   | <u>7,372</u>   | <u>7,372</u>                    | <u>7,372</u>   |

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 30 June 2012, of 2% (1.0 sen per share), tax exempt amounting to a dividend payable of RM7,372,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 30 June 2013.

## 11. PROPERTY, PLANT AND EQUIPMENT

| Group  | Freehold       | Leasehold    | Buildings     | Land                                  | Plant and      | Motor        | Office                                  | Renovation   | Construction   | Total            |
|--|----------------|--------------|---------------|---------------------------------------|----------------|--------------|---|--------------|----------------|------------------|
|  | Land           | Land         |               | Improvements<br>and<br>Infrastructure |                |              | Furniture<br>Equipment,<br>and Fittings |              |                |                  |
|  | RM'000         | RM'000       | RM'000        | RM'000                                | RM'000         | RM'000       | RM'000                                  | RM'000       | RM'000         | RM'000           |
|  |                |              |               | Note (a)                              | Note (a)       |              |   |              | Note (d)       |                  |
| <b>Cost</b>  |                |              |               |                                       |                |              |   |              |                |                  |
| At 1 July 2011   | 115,591        | 8,174        | 15,963        | 138,370                               | 731,976        | 4,233        | 5,477                                   | 1,164        | 533,154        | 1,554,102        |
| Additions  | -              | -            | 2             | 1,389                                 | 970            | 986          | 256                                     | -            | 2,098          | 5,701            |
| Disposals  | -              | -            | -             | -                                     | (9)            | (459)        | (2)                                     | -            | (2,810)        | (3,280)          |
| Written off  | -              | -            | -             | -                                     | (883)          | (28)         | (164)                                   | -            | (36,765)       | (37,840)         |
| Reclassification   | -              | -            | -             | 3,164                                 | (3,164)        | -            | -                                       | -            | -              | -                |
| Transfer from property<br>development cost<br>(Note 13(b)) | -              | -            | 145           | -                                     | -              | -            | -                                       | -            | -              | 145              |
| Exchange differences                                       | -              | -            | 178           | -                                     | 1,551          | 80           | 107                                     | 65           | -              | 1,981            |
| At 30 June 2012  | <u>115,591</u> | <u>8,174</u> | <u>16,288</u> | <u>142,923</u>                        | <u>730,441</u> | <u>4,812</u> | <u>5,674</u>                            | <u>1,229</u> | <u>495,677</u> | <u>1,520,809</u> |



**11. PROPERTY, PLANT AND EQUIPMENT (Continued)**

| Group  | Freehold Land<br>RM'000 | Leasehold Land<br>RM'000 | Buildings<br>RM'000 | Land Improvements and Infrastructure<br>RM'000<br>Note (a) | Plant and Machinery<br>RM'000<br>Note (a) | Motor Vehicles<br>RM'000 | Office Equipment, Furniture and Fittings<br>RM'000 | Renovation<br>RM'000 | Construction in Progress<br>RM'000<br>Note (d) | Total<br>RM'000 |
|--|-------------------------|--------------------------|---------------------|--|---|--------------------------|--|----------------------|--|-----------------|
| <b>Accumulated depreciation and impairment</b>       |                         |                          |                     |  |   |                          |  |                      |  |                 |
| At 1 July 2011                                       | -                       | 605                      | 1,575               | 11,568   | 129,070                                   | 2,610                    | 3,193  | 1,158                | -  | 149,779         |
| Charge for the year                                  | -                       | 87                       | 243                 | 4,068  | 29,337                                    | 403                      | 601  | -                    | -  | 34,739          |
| Disposals  | -                       | -                        | -                   | -  | (9)                                       | (459)                    | (2)  | -                    | -  | (470)           |
| Written off  | -                       | -                        | -                   | -  | (843)                                     | (28)                     | (156)  | -                    | -  | (1,027)         |
| Reclassification                                     | -                       | -                        | -                   | 365  | (365)                                     | (4)                      | 4  | -                    | -  | -               |
| Exchange differences                                 | -                       | -                        | -                   | -  | 1,360                                     | 38                       | 76   | 65                   | -  | 1,539           |
| At 30 June 2012                                      | -                       | 692                      | 1,818               | 16,001   | 158,550                                   | 2,560                    | 3,716  | 1,223                | -  | 184,560         |
| <b>Net carrying amount</b>                           |                         |                          |                     |  |   |                          |  |                      |  |                 |
| At 30 June 2012                                      | 115,591                 | 7,482                    | 14,470              | 126,922  | 571,891                                   | 2,252                    | 1,958  | 6                    | 495,677  | 1,336,249       |
| <b>Cost</b>  |                         |                          |                     |  |   |                          |  |                      |  |                 |
| At 1 July 2010                                       | 115,591                 | 8,174                    | 14,763              | 134,199  | 730,705                                   | 3,776                    | 4,929  | 1,258                | 523,790  | 1,537,185       |
| Additions  | -                       | -                        | -                   | 3,014  | 4,094                                     | 848                      | 1,101  | -                    | 10,620   | 19,677          |
| Disposals  | -                       | -                        | -                   | -  | -   | (343)                    | -  | -                    | -  | (343)           |
| Written off  | -                       | -                        | -                   | -  | (689)                                     | (7)                      | (443)  | -                    | -  | (1,139)         |
| Reclassification                                     | -                       | -                        | -                   | 1,157  | 99  | -                        | -  | -                    | (1,256)  | -               |
| Transfer from property development cost (Note 13(b)) | -                       | -                        | 291                 | -  | -   | -                        | -  | -                    | -  | 291             |
| Transfer from investment properties (Note 12)        | -                       | -                        | 4,069               | -  | -   | -                        | -  | -                    | -  | 4,069           |
| Transfer to investment properties (Note 12)          | -                       | -                        | (3,106)             | -  | -   | -                        | -  | -                    | -  | (3,106)         |
| Exchange differences                                 | -                       | -                        | (54)                | -  | (2,233)                                   | (41)                     | (110)  | (94)                 | -  | (2,532)         |
| At 30 June 2011                                      | 115,591                 | 8,174                    | 15,963              | 138,370  | 731,976                                   | 4,233                    | 5,477  | 1,164                | 533,154  | 1,554,102       |
| <b>Accumulated depreciation and impairment</b>       |                         |                          |                     |  |   |                          |  |                      |  |                 |
| At 1 July 2010                                       | -                       | 518                      | 1,991               | 7,645  | 101,632                                   | 2,573                    | 3,114  | 1,252                | -  | 118,725         |
| Charge for the year                                  | -                       | 87                       | 166                 | 3,923  | 29,971                                    | 418                      | 574  | -                    | -  | 35,139          |
| Disposals  | -                       | -                        | -                   | -  | -   | (343)                    | -  | -                    | -  | (343)           |
| Written off  | -                       | -                        | -                   | -  | (661)                                     | (7)                      | (399)  | -                    | -  | (1,067)         |
| Transfer from investment properties (Note 12)        | -                       | -                        | 283                 | -  | -   | -                        | -  | -                    | -  | 283             |
| Transfer to investment properties (Note 12)          | -                       | -                        | (865)               | -  | -   | -                        | -  | -                    | -  | (865)           |
| Exchange differences                                 | -                       | -                        | -                   | -  | (1,872)                                   | (31)                     | (96)   | (94)                 | -  | (2,093)         |
| At 30 June 2011                                      | -                       | 605                      | 1,575               | 11,568   | 129,070                                   | 2,610                    | 3,193  | 1,158                | -  | 149,779         |
| <b>Net carrying amount</b>                           |                         |                          |                     |  |   |                          |  |                      |  |                 |
| At 30 June 2011                                      | 115,591                 | 7,569                    | 14,388              | 126,802  | 602,906                                   | 1,623                    | 2,284  | 6                    | 533,154  | 1,404,323       |

**11. PROPERTY, PLANT AND EQUIPMENT (Continued)**

| Company                         | Motor<br>Vehicles<br>RM'000 | Office<br>Equipment,<br>Furniture<br>and<br>Fittings<br>RM'000 | Total<br>RM'000 |
|---------------------------------|-----------------------------|--|-----------------|
| <b>At 30 June 2012</b>          |                             |  |                 |
| <b>Cost</b>                     |                             |  |                 |
| At 1 July 2011/30 June 2012     | 2,056                       | 9  | 2,065           |
| <b>Accumulated depreciation</b> |                             |  |                 |
| At 1 July 2011                  | 1,286                       | 5  | 1,291           |
| Charge for the year             | 201                         | 1  | 202             |
| At 30 June 2012                 | 1,487                       | 6  | 1,493           |
| <b>Net carrying amount</b>      |                             |  |                 |
| At 30 June 2012                 | 569                         | 3  | 572             |
| <b>At 30 June 2011</b>          |                             |  |                 |
| <b>Cost</b>                     |                             |  |                 |
| At 1 July 2010                  | 1,779                       | 7  | 1,786           |
| Additions                       | 277                         | 2  | 279             |
| At 30 June 2011                 | 2,056                       | 9  | 2,065           |
| <b>Accumulated depreciation</b> |                             |  |                 |
| At 1 July 2010                  | 1,012                       | 4  | 1,016           |
| Charge for the year             | 274                         | 1  | 275             |
| At 30 June 2011                 | 1,286                       | 5  | 1,291           |
| <b>Net carrying amount</b>      |                             |  |                 |
| At 30 June 2011                 | 770                         | 4  | 774             |

- (a) Included in land improvements and infrastructure, plant and machinery is a direct reduced iron ("DRI") plant of a wholly-owned subsidiary, Lion DRI Sdn Bhd. The DRI plant is constructed on a piece of land leased from a related party for an initial term of thirty (30) years commencing 1 June 2008 and expiring on 31 May 2038, with an option for renewal for a further period of thirty (30) years.
- (b) As at 30 June 2012, the property, plant and equipment of the Group with a net book value of RM763.8 million (2011: RM793.5 million) was pledged for bank borrowings, as disclosed in Note 26(b).

**11. PROPERTY, PLANT AND EQUIPMENT (Continued)**

- (c) During the financial year, the Group and the Company acquired property, plant and equipment at aggregate costs of RM5,701,000 (2011: RM19,677,000) and RM Nil (2011: RM279,000) respectively of which RM100,000 (2011: RM389,000) and RM Nil (2011: RM267,000) respectively were acquired by means of finance lease arrangements. Net book values of property, plant and equipment held under obligations under finance leases as at the reporting date are as follows:

|                | Group          |                | Company        |                |
|----------------|----------------|----------------|----------------|----------------|
|                | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Motor vehicles | <b>980</b>     | 859            | <b>541</b>     | 718            |

- (d) The construction in progress of RM495 million was incurred for the Blast Furnace Project ("Project"). The Project has been put on hold pending financing to complete the Project. The term sheet previously signed with a lender had expired subsequent to the financial year end on 19 July 2012. Currently, the management is still in discussion with the lender on the financing required. The lender has not indicated any withdrawal on the financing of the Project.

In addition, the resumption of the Project is also dependent on the ability of its intended customer which is also a related party, Megasteel, to successfully implement the turnaround action plans to continue in operational existence. Megasteel's action plans are as disclosed in Note 21.

The Directors are of the opinion that the amount capitalised for the Project is recoverable as plans are in place to resume the construction of the Project in the foreseeable future upon obtaining sufficient financing. As of the date of the report, no agreement has yet been signed with any lenders.

**12. INVESTMENT PROPERTIES**

|   | Group          |                |
|---|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Cost</b>   |                |                |
| At 1 July   | <b>13,395</b>  | 14,358         |
| Transfer to property, plant and equipment (Note 11)   | –              | (4,069)        |
| Transfer from property, plant and equipment (Note 11) | –              | 3,106          |
| At 30 June  | <b>13,395</b>  | 13,395         |
| <b>Accumulated depreciation</b>                       |                |                |
| At 1 July   | <b>1,450</b>   | 773            |
| Charge for the year                                   | <b>258</b>     | 334            |
| Transfer to property, plant and equipment (Note 11)   | –              | (283)          |
| Transfer from property, plant and equipment (Note 11) | –              | 865            |
| Reversal of impairment loss                           | –              | (239)          |
| At 30 June  | <b>1,708</b>   | 1,450          |
| <b>Net carrying amount</b>                            |                |                |
| At 30 June  | <b>11,687</b>  | 11,945         |
| <b>Fair value at 30 June</b>                          |                |                |
| Office premises and factory                           | <b>14,432</b>  | 14,432         |

Fair value for office premises and factory were arrived at by reference to market evidence of transaction prices for similar properties.

**13. LAND HELD FOR PROPERTY DEVELOPMENT AND PROPERTY DEVELOPMENT COSTS**
**(a) Land held for property development**

|  | <b>Group</b>               |                     |
|--|----------------------------|---------------------|
|  | <b>2012</b>                | <b>2011</b>         |
|  | <b>RM'000</b>              | <b>RM'000</b>       |
| <b>At cost</b>                         |                            |                     |
| At 1 July                              | <b>132,137</b>             | 142,758             |
| Transfer to property development costs | <b>(24,499)</b>            | (9,158)             |
| Additions                              | <b>2,595</b>               | 2,171               |
| Exchange differences                   | <b>9,308</b>               | (3,634)             |
|  | <hr/> <b>119,541</b> <hr/> | <hr/> 132,137 <hr/> |
| At 30 June                             | <hr/> <b>119,541</b> <hr/> | <hr/> 132,137 <hr/> |

**(b) Property development costs**

|  | <b>Group</b>                 |                      |
|--|------------------------------|----------------------|
|  | <b>2012</b>                  | <b>2011</b>          |
|  | <b>RM'000</b>                | <b>RM'000</b>        |
| Property development costs at 1 July:                  |                              |                      |
| Leasehold land   | <b>17,445</b>                | 23,200               |
| Development costs                                      | <b>75,181</b>                | 45,652               |
|  | <hr/> <b>92,626</b> <hr/>    | <hr/> 68,852 <hr/>   |
| Costs incurred during the year:                        |                              |                      |
| Development costs                                      | <b>52,137</b>                | 43,028               |
|  | <hr/> <b>52,137</b> <hr/>    | <hr/> 43,028 <hr/>   |
| Costs recognised in income statement:                  |                              |                      |
| At 1 July  | <b>(79,202)</b>              | (49,308)             |
| Recognised during the year                             | <b>(31,479)</b>              | (56,025)             |
| Reversal of completed project                          | <b>–</b>                     | 25,323               |
| Exchange differences                                   | <b>(5,580)</b>               | 808                  |
|  | <hr/> <b>(116,261)</b> <hr/> | <hr/> (79,202) <hr/> |
| At 30 June   | <hr/> <b>(116,261)</b> <hr/> | <hr/> (79,202) <hr/> |
| Transferred from land held for property development    | <b>24,499</b>                | 9,158                |
| Transferred to property, plant and equipment (Note 11) | <b>(145)</b>                 | (291)                |
| Unsold units transferred to inventories                | <b>(3,584)</b>               | (1,584)              |
| Reversal of completed project                          | <b>–</b>                     | (25,323)             |
| Exchange differences                                   | <b>6,525</b>                 | (1,213)              |
|  | <hr/> <b>6,525</b> <hr/>     | <hr/> (1,213) <hr/>  |
| Property development costs at 30 June                  | <hr/> <b>55,797</b> <hr/>    | <hr/> 13,425 <hr/>   |

#### 14. INVESTMENTS IN SUBSIDIARIES

|                                     | Company          |                |
|-------------------------------------|------------------|----------------|
|                                     | 2012<br>RM'000   | 2011<br>RM'000 |
| Unquoted shares, at cost            | <b>628,228</b>   | 515,638        |
| Less: Accumulated impairment losses | <b>(247,243)</b> | (167,647)      |
|                                     | <b>380,985</b>   | 347,991        |

As at 30 June 2012, the unquoted shares of subsidiaries with a carrying value of RM181.98 million (2011: RM181.98 million) were pledged for bank borrowings, as disclosed in Note 26.

Details of subsidiaries are as follows:

| Name of subsidiaries                                  | Country of incorporation | Principal activities  | Equity interest |           |
|---|--------------------------|---|-----------------|-----------|
|   |                          |   | 2012<br>%       | 2011<br>% |
| LDH Manufacturing Sdn Bhd                             | Malaysia                 | Investment holding  | <b>100</b>      | 100       |
| Graimpi Sdn Bhd                                       | Malaysia                 | Investment holding and trading in steel products and related services   | <b>100</b>      | 100       |
| LDH Trading Sdn Bhd                                   | Malaysia                 | Property holding  | <b>100</b>      | 100       |
| Lion Subang Parade Sdn Bhd                            | Malaysia                 | Investment holding  | <b>100</b>      | 100       |
| Urban Resources Sdn Bhd                               | Malaysia                 | Property development  | <b>100</b>      | 100       |
| Megavest Sdn Bhd                                      | Malaysia                 | Property development and management   | <b>100</b>      | 100       |
| Lion Mahkota Parade Sdn Bhd                           | Malaysia                 | Ceased operations   | <b>100</b>      | 100       |
| Likom CMS Sdn Bhd                                     | Malaysia                 | Provision of electronic manufacturing services especially original equipment manufacturing for the assembly of computer peripherals and electronic box build products | <b>100</b>      | 100       |
| Likom Caseworks Sdn Bhd                               | Malaysia                 | Manufacturing of metal and plastic components including metal stamping, plastic injection moulding and assembly of parts and services                                 | <b>100</b>      | 100       |
| Parkson Pacific Pte Ltd *                             | Singapore                | Investment holding  | <b>100</b>      | 100       |
| Parkson Glomart Pte Ltd *<br>(Dissolved on 9.10.2012) | Singapore                | Ceased operations   | <b>100</b>      | 100       |

**14. INVESTMENTS IN SUBSIDIARIES (Continued)**

| Name of subsidiaries                            | Country of incorporation | Principal activities                                   | Equity interest            |                     |
|---|--------------------------|--|----------------------------|---------------------|
|   |                          |  | 2012<br>%                  | 2011<br>%           |
| Parkson Management Pte Ltd *                    | Singapore                | Investment holding                                     | <b>100</b>                 | 100                 |
| LDH (S) Pte Ltd *                               | Singapore                | Investment holding                                     | <b>100</b>                 | 100                 |
| LDH Investment Pte Ltd *                        | Singapore                | Investment holding                                     | <sup>(1)</sup> <b>60</b>   | <sup>(1)</sup> 60   |
| Lion DRI Sdn Bhd                                | Malaysia                 | Manufacturing and sale of direct reduced iron products | <b>100</b>                 | 100                 |
| Well Morning Limited *                          | Hong Kong SAR            | Investment holding                                     | <b>100</b>                 | 100                 |
| Excel Step Investments Limited                  | British Virgin Islands   | Investment holding                                     | <b>100</b>                 | 100                 |
| Fusion Energy Sdn Bhd                           | Malaysia                 | Dormant  | <b>100</b>                 | 100                 |
| Lion Blast Furnace Sdn Bhd                      | Malaysia                 | Manufacturing and trading in steel products            | <b>100</b>                 | 100                 |
| Ara Seri Bangun Sdn Bhd                         | Malaysia                 | Dormant  | <b>100</b>                 | 100                 |
| Temasek Potensi Sdn Bhd                         | Malaysia                 | Investment holding                                     | <b>100</b>                 | 100                 |
| Pioneer Glory International Limited β           | British Virgin Islands   | Investment holding                                     | <b>100</b>                 | 100                 |
| Jana Serimas Sdn Bhd                            | Malaysia                 | Dormant  | <b>100</b>                 | –                   |
| Sharp Synergy Sdn Bhd                           | Malaysia                 | Dormant  | <b>100</b>                 | –                   |
| Lion Corporation Berhad *@#                     | Malaysia                 | Investment holding                                     | <sup>(3)</sup> <b>49.2</b> | <sup>(2)</sup> 53.4 |
| <b>Subsidiary of LDH Manufacturing Sdn Bhd</b>  |                          |  |                            |                     |
| CPB Enterprise Sdn Bhd                          | Malaysia                 | Property management                                    | <b>100</b>                 | 100                 |
| <b>Subsidiary of LDH Trading Sdn Bhd</b>        |                          |  |                            |                     |
| Banting Resources Sdn Bhd                       | Malaysia                 | Property investment                                    | <b>100</b>                 | 100                 |
| <b>Subsidiary of Lion Subang Parade Sdn Bhd</b> |                          |  |                            |                     |
| LDH Management Sdn Bhd                          | Malaysia                 | Investment holding and project management              | <b>100</b>                 | 100                 |

**14. INVESTMENTS IN SUBSIDIARIES (Continued)**

| Name of subsidiaries   | Country of incorporation   | Principal activities   | Equity interest |           |
|--|----------------------------|--|-----------------|-----------|
|  |                            |  | 2012<br>%       | 2011<br>% |
| <b>Subsidiaries of LDH Management Sdn Bhd</b>                          |                            |  |                 |           |
| Atlantic Dimension Sdn Bhd   | Malaysia                   | Investment holding   | <b>100</b>      | 100       |
| Viroy Management Services Sdn Bhd                                      | Malaysia                   | Investment holding and property management   | <b>100</b>      | 100       |
| Shanghai DEbier Management Consulting Co Ltd *                         | People's Republic of China | Management consulting services   | <b>100</b>      | 100       |
| <b>Subsidiary of Likom Caseworks Sdn Bhd</b>                           |                            |  |                 |           |
| Likom Caseworks USA Inc *  | United States of America   | Sale of enclosure for set top and security/alarm systems, metal stamping and plastic assemblies for flat televisions, and other related metal stamping and plastic components          | <b>100</b>      | 100       |
| <b>Subsidiary of Likom Caseworks USA Inc</b>                           |                            |  |                 |           |
| Likom de Mexico S.A. de C.V *  | Mexico                     | Manufacturing and assembly for set top and security/alarm systems, metal stamping and plastic assemblies for flat televisions, and other related metal stamping and plastic components | <b>100</b>      | 100       |
| <b>Subsidiary of Parkson Management Pte Ltd</b>                        |                            |  |                 |           |
| Sichuan Parkson Retail Development Co Ltd *<br>(Wound up on 11.7.2011) | People's Republic of China | Ceased operations  | –               | 100       |
| <b>Subsidiary of Lion DRI Sdn Bhd</b>                                  |                            |  |                 |           |
| Limbangan Makmur Sdn Bhd   | Malaysia                   | Provision of chartering services   | <b>100</b>      | 100       |
| <b>Subsidiary of Well Morning Limited</b>                              |                            |  |                 |           |
| Changshu Lion Enterprise Co Ltd  | People's Republic of China | Property development   | <b>100</b>      | 100       |

**14. INVESTMENTS IN SUBSIDIARIES (Continued)**

| Name of subsidiaries                                     | Country of incorporation | Principal activities   | Equity interest |           |
|--|--------------------------|--|-----------------|-----------|
|  |                          |  | 2012<br>%       | 2011<br>% |
| <b>Subsidiary of Excel Step Investments Limited</b>      |                          |  |                 |           |
| Teraju Varia Sdn Bhd                                     | Malaysia                 | Investment holding   | <b>100</b>      | 100       |
| <b>Subsidiary of Lion Blast Furnace Sdn Bhd</b>          |                          |  |                 |           |
| LBF Enterprise (L) Limited                               | Malaysia                 | Dormant  | <b>100</b>      | 100       |
| <b>Subsidiaries of Temasek Potensi Sdn Bhd</b>           |                          |  |                 |           |
| Ara Aspirasi Sdn Bhd                                     | Malaysia                 | Dormant  | <b>100</b>      | 100       |
| Gempower Sdn Bhd   | Malaysia                 | Dormant  | <b>100</b>      | 100       |
| Jernih Aktif Sdn Bhd β                                   | Malaysia                 | Dormant  | <b>70</b>       | –         |
| Tunas Dimensi Sdn Bhd                                    | Malaysia                 | Dormant  | <b>100</b>      | –         |
| <b>Subsidiary of Pioneer Glory International Limited</b> |                          |  |                 |           |
| Fortius Resources (Cambodia) Co Limited β                | Cambodia                 | Dormant  | <b>100</b>      | –         |
| <b>Subsidiaries of Lion Corporation Berhad</b>           |                          |  |                 |           |
| LCB Harta (M) Sdn Bhd *#                                 | Malaysia                 | Managing of debts novated from Lion Corporation Berhad (“LCB”) and certain of its subsidiaries pursuant to a debt restructuring exercise undertaken by LCB and certain of its subsidiaries | –               | 100       |
| Limpahjaya Sdn Bhd *#                                    | Malaysia                 | Investment holding   | –               | 100       |
| Lion Construction & Engineering Sdn Bhd *#               | Malaysia                 | Construction and civil engineering works   | –               | 100       |
| Lion General Trading & Marketing (S) Pte Ltd *#          | Singapore                | General merchant   | –               | 100       |
| Lion Rubber Works Sdn Bhd *#                             | Malaysia                 | Ceased operations  | –               | 100       |



**14. INVESTMENTS IN SUBSIDIARIES (Continued)**

| Name of subsidiaries   | Country of incorporation | Principal activities  | Equity interest |                    |
|--|--------------------------|---|-----------------|--------------------|
|  |                          |   | 2012<br>%       | 2011<br>%          |
| Lion Steelworks Sdn Bhd *#                                     | Malaysia                 | Manufacture and distribution of office equipment, security equipment and steel related products | –               | 100                |
| Lion Trading & Marketing Sdn Bhd *#                            | Malaysia                 | Trading and marketing of security equipment, office equipment and steel related products        | –               | 100                |
| Total Triumph Investments Limited *#                           | British Virgin Islands   | Investment holding  | –               | 100                |
| LCB Harta (L) Limited *#                                       | Malaysia                 | Acquisition and management of USD denominated consolidated and rescheduled debts                | –               | 100                |
| <b>Subsidiaries of Limpahjaya Sdn Bhd</b>                      |                          |   |                 |                    |
| Bersatu Investments Company Limited *#                         | Hong Kong SAR            | Ceased operations   | –               | 71                 |
| Lion Com Sdn Bhd *#  | Malaysia                 | Investment holding  | –               | 100                |
| Lyn (Pte) Ltd *#   | Singapore                | Investment holding  | –               | 79                 |
| Megasteel Sdn Bhd #  | Malaysia                 | Manufacturing of hot rolled coils and cold rolled coils   | <b>21.1</b>     | <sup>(4)</sup> 100 |
| Umevest Sdn Bhd *#   | Malaysia                 | Ceased operations   | –               | 100                |
| Logic Concepts (M) Sdn Bhd *#<br>(Struck off on 13.6.2012)     | Malaysia                 | Ceased operations   | –               | 71                 |
| Logic Furniture (M) Sdn Bhd *#                                 | Malaysia                 | Ceased operations   | –               | 91                 |
| <b>Subsidiary of Bersatu Investments Company Limited</b>       |                          |   |                 |                    |
| Glit Investments Company Limited *#<br>(Dissolved on 6.1.2012) | Hong Kong SAR            | Dormant   | –               | 100                |

**14. INVESTMENTS IN SUBSIDIARIES (Continued)**

| Name of subsidiaries  | Country of incorporation | Principal activities   | Equity interest |           |
|---|--------------------------|--|-----------------|-----------|
|   |                          |  | 2012<br>%       | 2011<br>% |
| <b>Subsidiary of Lion Com Sdn Bhd</b>                                 |                          |  |                 |           |
| Secretarial Communications Sdn Bhd *#                                 | Malaysia                 | Share registration and secretarial services  | –               | 100       |
| <b>Subsidiary of Lyn (Pte) Ltd</b>                                    |                          |  |                 |           |
| Logic Furniture (S) Pte Ltd *#  | Singapore                | Ceased operations  | –               | 100       |
| <b>Subsidiaries of Megasteel Sdn Bhd</b>                              |                          |  |                 |           |
| Megasteel Harta (L) Limited #   | Malaysia                 | To issue and manage bonds pursuant to its parent company's debt financing exercise | –               | 100       |
| Secomex Manufacturing (M) Sdn Bhd #                                   | Malaysia                 | Manufacturing and marketing of industrial gases                                    | –               | 100       |
| <b>Subsidiary of Lion Construction &amp; Engineering Sdn Bhd</b>      |                          |  |                 |           |
| PMB Building System Sdn Bhd *#  | Malaysia                 | Investment holding   | –               | 100       |
| <b>Subsidiary of PMB Building System Sdn Bhd</b>                      |                          |  |                 |           |
| PMB Jaya Sdn Bhd *#   | Malaysia                 | Ceased operations  | –               | 100       |
| <b>Subsidiary of Lion General Trading &amp; Marketing (S) Pte Ltd</b> |                          |  |                 |           |
| Lion Plate Mills Sdn Bhd *#   | Malaysia                 | Manufacturing and marketing of hot rolled steel plates                             | –               | 100       |
| <b>Subsidiary of Lion Steelworks Sdn Bhd</b>                          |                          |  |                 |           |
| Lion Fichet Sdn Bhd *#  | Malaysia                 | Ceased operations  | –               | 100       |
| <b>Subsidiary of Total Triumph Investments Limited</b>                |                          |  |                 |           |
| Bright Steel Sdn Bhd *#   | Malaysia                 | Manufacturing, sale and distribution of steel and iron products                    | –               | 100       |

**14. INVESTMENTS IN SUBSIDIARIES (Continued)**

| Name of subsidiaries                        | Country of incorporation | Principal activities                             | Equity interest |           |
|---|--------------------------|--|-----------------|-----------|
|   |                          |  | 2012<br>%       | 2011<br>% |
| <b>Subsidiaries of Bright Steel Sdn Bhd</b> |                          |  |                 |           |
| B.A.P. Industries Sdn Bhd *#                | Malaysia                 | Ceased operations                                | –               | 100       |
| Bright Steel Service Centre Sdn Bhd *#      | Malaysia                 | Processing and selling of steel coils and sheets | –               | 57.1      |
| Bright Enterprise (Sdn.) Berhad *#          | Malaysia                 | Ceased operations                                | –               | 100       |
| Century Container Industries Sdn Bhd *#     | Malaysia                 | Ceased operations                                | –               | 100       |
| Omali Corporation Sdn Bhd *#                | Malaysia                 | Investment holding                               | –               | 100       |
| <b>Subsidiary of LCB Harta (L) Limited</b>  |                          |  |                 |           |
| Pancar Tulin Sdn Bhd *#                     | Malaysia                 | Property development                             | –               | 100       |

All the companies are audited by Ernst & Young Malaysia except for those marked (\*) which are audited by other firms.

- (1) 30% held by the Company and 30% held by LDH Manufacturing Sdn Bhd.
  - (2) The Group holds in total 53.4% equity interest in Lion Corporation Berhad (“LCB”) via the Company (24.0%), Teraju Varia Sdn Bhd (18.4%), LDH (S) Pte Ltd (5.8%), LDH Management Sdn Bhd (4.7%) and Lion DRI Sdn Bhd (0.5%).
  - (3) The Group holds in total 49.2% equity interest in LCB via the Company (6.9%), Graimpi Sdn Bhd (24.7%), Lion DRI Sdn Bhd (17.4%), LDH (S) Pte Ltd (0.1%), LDH Management Sdn Bhd (0.01%) and Teraju Varia Sdn Bhd (negligible).
  - (4) 78.9% held by Limpahjaya Sdn Bhd and 21.1% held by the Company as disclosed in Note 15.
- β Subsidiaries which were acquired/incorporated and did not conduct their audit for the financial year ended 30 June 2012.
- @ Listed on the Main Market of Bursa Malaysia Securities Berhad.
- # In the previous financial year 30 June 2011, despite the 53.4% shareholding, the Group did not have the power to control LCB due to the existence of potential voting rights that are currently exercisable or convertible, issued by LCB to other parties. Upon conversion of the said potential voting rights, the Group’s interest in LCB will be diluted to below 50%. Consequently, LCB is not regarded as a subsidiary of the Company pursuant to FRS 127 *Consolidated and Separate Financial Statements*.

During the financial year, the Group’s shareholding in LCB has been diluted to 49.2% following the issuance and allotment by LCB on 5 March 2012 of the new LCB shares to the scheme creditors of Megasteel Sdn Bhd (“Megasteel”) pursuant to the Settlement Scheme undertaken by Megasteel as disclosed in Notes 21(a) and 38(b).

#### 14. INVESTMENTS IN SUBSIDIARIES (Continued)

##### Deconsolidation of a subsidiary

During the financial year, the Company had deconsolidated a wholly-owned subsidiary, Sichuan Parkson Retail Development Co Ltd, which was wound up on 11 July 2011.

The deconsolidation has no material effect on the Group's financial results and financial position.

##### Acquisition of subsidiaries

During the financial year, the Group acquired 100% equity interest in Tunas Dimensi Sdn Bhd, Jana Serimas Sdn Bhd, Sharp Synergy Sdn Bhd and Jernih Aktif Sdn Bhd for a cash consideration of RM2.00 each.

The Group's shareholding in Jernih Aktif Sdn Bhd has been diluted to 70% following the issuance and allotment of shares to an external party during the financial year.

No disclosure on the fair values of the acquired assets and liabilities of the combined entities as the acquisition of these subsidiaries have no material effects on the Group's financial results and financial position.

#### 15. INVESTMENTS IN ASSOCIATES

|                                     | Group            |                | Company          |                |
|-------------------------------------|------------------|----------------|------------------|----------------|
|                                     | 2012<br>RM'000   | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000 |
| Quoted shares, at cost:             |                  |                |                  |                |
| In Malaysia                         | <b>966,778</b>   | 611,186        | <b>215,277</b>   | 215,897        |
| Less: Accumulated impairment losses | <b>(10,725)</b>  | –              | <b>(185,709)</b> | (89,700)       |
| Share of post acquisition reserves  | <b>(745,662)</b> | (611,186)      | –                | –              |
|                                     | <b>210,391</b>   | –              | <b>29,568</b>    | 126,197        |
| Unquoted shares, at cost:           |                  |                |                  |                |
| In Malaysia                         | <b>324,463</b>   | 324,463        | <b>324,463</b>   | 324,463        |
| Outside Malaysia                    | <b>5,078</b>     | 5,078          | –                | –              |
| Less: Accumulated impairment losses | –                | –              | <b>(229,463)</b> | (176,000)      |
| Share of post acquisition reserves  | <b>(284,568)</b> | (181,040)      | –                | –              |
|                                     | <b>44,973</b>    | 148,501        | <b>95,000</b>    | 148,463        |
|                                     | <b>255,364</b>   | 148,501        | <b>124,568</b>   | 274,660        |
| Market value of quoted shares:      |                  |                |                  |                |
| In Malaysia                         | <b>210,391</b>   | 294,480        | <b>29,568</b>    | 132,239        |

The Group's share of losses of an associate has been recognised to the extent of the carrying amount of the investments. The unrecognised share of losses amounts to RM107.2 million (2011: RM45.6 million).

Pursuant to the Share Settlement as disclosed in Note 21(a) which was completed on 5 March 2012, the Group received 444.5 million of LCB shares. Since then, the Group resumed the sharing of losses of LCB from March 2012 onwards.

**15. INVESTMENTS IN ASSOCIATES (Continued)**

| Name of associates                           | Country of incorporation   | Principal activities                                    | Proportion (%) of ownership interest |        |
|--|----------------------------|---|--------------------------------------|--------|
|  |                            |   | 2012 %                               | 2011 % |
| <b>Held by the Company:</b>                  |                            |   |                                      |        |
| Lion Corporation Berhad @*^                  | Malaysia                   | Investment holding                                      | <b>6.9</b>                           | 24.0   |
| Megasteel Sdn Bhd                            | Malaysia                   | Manufacturing of hot rolled coils and cold rolled coils | <b>21.1</b>                          | 21.1   |
| <b>Held through subsidiaries:</b>            |                            |   |                                      |        |
| Lion Corporation Berhad @*^                  | Malaysia                   | Investment holding                                      | <b>42.3</b>                          | 29.4   |
| Inner Mongolia Leadar Parkson Plaza Co Ltd * | People's Republic of China | Ceased operations                                       | <b>25.0</b>                          | 25.0   |

@ Listed on the Main Market of Bursa Malaysia Securities Berhad.

^ As at 30 June 2012, the Group holds in total 49.2% equity interest in Lion Corporation Berhad ("LCB") via the Company (6.9%), Graimpi Sdn Bhd (24.7%), Lion DRI Sdn Bhd (17.4%) and LDH (S) Pte Ltd (0.1%), LDH Management Sdn Bhd (0.01%) and Teraju Varia Sdn Bhd (negligible).

As at 30 June 2011, the Group holds in total 53.4% equity interest in LCB via the Company (24.0%), Teraju Varia Sdn Bhd (18.4%), LDH (S) Pte Ltd (5.8%), LDH Management Sdn Bhd (4.7%) and Lion DRI Sdn Bhd (0.5%).

Despite the 53.4% shareholding in the previous financial year, the Group did not have the power to control LCB due to the existence of potential voting rights that are currently exercisable or convertible, issued by LCB to other parties. Upon conversion of the said potential voting rights, the Group's interest in LCB will be diluted to below 50%. Consequently, LCB is not regarded as a subsidiary of the Company pursuant to FRS 127 *Consolidated and Separate Financial Statements*.

\* Audited by firms other than Ernst & Young.

The summarised financial information of the associates is as follows:

|                               | 2012<br>RM'000     | 2011<br>RM'000 |
|-------------------------------|--------------------|----------------|
| <b>Assets and liabilities</b> |                    |                |
| Current assets                | <b>1,420,701</b>   | 1,308,643      |
| Non-current assets            | <b>4,237,806</b>   | 4,458,705      |
| Total assets                  | <b>5,658,507</b>   | 5,767,348      |
| Current liabilities           | <b>(3,556,769)</b> | (3,442,166)    |
| Non-current liabilities       | <b>(1,568,984)</b> | (2,016,873)    |
| Total liabilities             | <b>(5,125,753)</b> | (5,459,039)    |
| <b>Results</b>                |                    |                |
| Revenue                       | <b>3,235,355</b>   | 3,118,646      |
| Loss for the year             | <b>(524,737)</b>   | (285,850)      |

## 15. INVESTMENTS IN ASSOCIATES (Continued)

Included in investments in associates are investment in quoted shares of LCB amounting to RM68.9 million (2011: RM75 million) which were acquired under deferred payment terms as disclosed in Note 27(ii).

As at 30 June 2012, the Company has deposited 90,809,917 (2011: 455,360,000) of LCB shares with the security trustee to secure the settlement of the deferred payments as disclosed in Note 27(ii).

Included in investments in associates' unquoted shares are investments in Preference "E" Shares and Preference "G" Shares of Megasteel Sdn Bhd ("Megasteel") amounting to RM100.0 million with the following salient features:

### Terms of Preference "E" Shares

The Preference "E" Shares of RM0.01 each of Megasteel include 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;
- (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 of Megasteel include 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;

## 15. INVESTMENTS IN ASSOCIATES (Continued)

### Terms of Preference “G” Shares (Continued)

- (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.

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;

**15. INVESTMENTS IN ASSOCIATES (Continued)**
**Terms of Preference "G" Shares (Continued)**

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

(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.

**16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES**

|   | Group          |                |
|---|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 |
| Unquoted ordinary shares, at cost                         | 88             | 88             |
| Unquoted preference shares, at cost                       | –              | 11,947         |
| Share of post-acquisition results less dividends received | 22,155         | 21,299         |
|   | <b>22,243</b>  | <b>33,334</b>  |

The Group's aggregate share of income, expenses, assets and liabilities of the jointly controlled entities is as follows:

|  | 2012<br>RM'000  | 2011<br>RM'000  |
|--|-----------------|-----------------|
| <b>Assets and liabilities</b>                    |                 |                 |
| Current assets                                   | 34,009          | 44,014          |
| Non-current assets                               | 6               | 18              |
| Total assets                                     | <b>34,015</b>   | <b>44,032</b>   |
| Current liabilities/Total liabilities            | <b>(11,780)</b> | <b>(10,705)</b> |
| <b>Results</b>                                   |                 |                 |
| Revenue  | 15,430          | 113,204         |
| Expenses, including finance costs and income tax | (12,253)        | (89,498)        |



**16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Continued)**

Details of the jointly controlled entities are as follows:

| Name of jointly controlled entities | Country of incorporation | Principal activities                         | Proportion (%) of ownership interest |        |
|-------------------------------------|--------------------------|--|--------------------------------------|--------|
|                                     |                          |  | 2012 %                               | 2011 % |
| Panareno Sdn Bhd *                  | Malaysia                 | Property development and property investment | 35                                   | 35     |
| North Plaza Sdn Bhd *               | Malaysia                 | Property development                         | 42.5                                 | 42.5   |

\* Audited by firms other than Ernst & Young.

**Disposal of a jointly controlled entity**

On 23 February 2011, Viroy Management Services Sdn Bhd, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to dispose of its entire 40% equity interest in Kairong Developments (S) Pte Ltd to Teck Chiang (International) Pte Ltd, a wholly-owned subsidiary of Lion Teck Chiang Limited, for a cash consideration of SGD1 (equivalent to approximately RM2.39) and a cash settlement of shareholder's advances of SGD13.50 million (equivalent to approximately RM32.26 million).

The disposal of the jointly controlled entity has been completed on 29 April 2011 and had the following effects on the financial position of the Group for the financial year:

|   | 2011<br>RM'000 |
|---|----------------|
| Total disposal proceeds (Note 37)               | 32,670         |
| Less:   |                |
| Net amount due from a jointly controlled entity | (38,165)       |
| Cost of investment                              | (92)           |
| Share of results of a jointly controlled entity | 803            |
|   | (37,454)       |
| Loss on disposal of a jointly controlled entity | (4,784)        |

**17. INVESTMENT SECURITIES**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Current</b>                             |                |                |                |                |
| <i>Held-to-maturity investments</i>        |                |                |                |                |
| Unquoted:                                  |                |                |                |                |
| - Bonds (a)                                | -              | -              | -              | -              |
| <i>Available-for-sale financial assets</i> |                |                |                |                |
| Quoted:                                    |                |                |                |                |
| - Shares in Malaysia (b)                   | 184,005        | -              | -              | -              |
|  | <b>184,005</b> | <b>-</b>       | <b>-</b>       | <b>-</b>       |

**17. INVESTMENT SECURITIES (Continued)**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Non-current</b>                         |                |                |                |                |
| <i>Held-to-maturity investments</i>        |                |                |                |                |
| Unquoted:                                  |                |                |                |                |
| - Bonds (a)                                | -              | -              | -              | -              |
| - Shares in Malaysia (c)                   | 51             | 52             | -              | -              |
| <i>Available-for-sale financial assets</i> |                |                |                |                |
| Quoted:                                    |                |                |                |                |
| - Shares in Malaysia                       | 45,765         | 366,887        | 26,367         | 40,631         |
| - Shares outside Malaysia                  | 493            | 848            | 493            | 848            |
| (b)  | 46,258         | 367,735        | 26,860         | 41,479         |
| Total non-current investment securities    | 46,309         | 367,787        | 26,860         | 41,479         |
| Total investment securities                | 230,314        | 367,787        | 26,860         | 41,479         |
| Market value of quoted shares:             |                |                |                |                |
| - In Malaysia                              | 229,770        | 366,887        | 26,367         | 40,631         |
| - Outside Malaysia                         | 493            | 848            | 493            | 848            |

**(a) Held-to-maturity - unquoted bonds**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Unquoted bonds, at cost                | 14,451         | 36,451         | 14,451         | 36,451         |
| Accrued interests                      | 3,685          | 11,581         | 3,685          | 11,581         |
| Less: Redeemed                         | 18,136         | 48,032         | 18,136         | 48,032         |
| Less: Accumulated impairment losses    | (6,333)        | (33,749)       | (6,333)        | (33,749)       |
|  | (11,803)       | (14,283)       | (11,803)       | (14,283)       |
| Less: Bonds redeemable within one year | -              | -              | -              | -              |
|  | -              | -              | -              | -              |

The unquoted bonds, issued by the former holding company of the Company, bear a yield to maturity which ranges from 4.0% to 4.75% (2011: 4.0% to 4.75%) per annum.

**17. INVESTMENT SECURITIES (Continued)**
**(b) Quoted shares, representing marketable securities**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <i>Available-for-sale financial assets</i> |                |                |                |                |
| <b>Current</b>                             |                |                |                |                |
| Quoted shares:                             |                |                |                |                |
| - In Malaysia                              | <b>184,005</b> | –              | –              | –              |
| <b>Non-current</b>                         |                |                |                |                |
| Quoted shares:                             |                |                |                |                |
| - In Malaysia                              | <b>45,765</b>  | 366,887        | <b>26,367</b>  | 40,631         |
| - Outside Malaysia                         | <b>493</b>     | 848            | <b>493</b>     | 848            |
|  | <b>46,258</b>  | 367,735        | <b>26,860</b>  | 41,479         |
| Total quoted shares:                       |                |                |                |                |
| - In Malaysia                              | <b>229,770</b> | 366,887        | <b>26,367</b>  | 40,631         |
| - Outside Malaysia                         | <b>493</b>     | 848            | <b>493</b>     | 848            |

The Group's investments in quoted shares in Malaysia with fair value amounting to RM44.8 million (2011: RM69.0 million) have been pledged as security for the banking facilities extended to the Group, as disclosed in Note 26(b)(ii) and (iii).

Investment in quoted shares in Malaysia with fair value of RM184.0 million (2011: RM296.4 million) is pledged as security for the Exchangeable Bonds, as disclosed in Note 26(a).

**(c) Unquoted shares - non-current**

|                                      | Group          |                |
|--------------------------------------|----------------|----------------|
|                                      | 2012<br>RM'000 | 2011<br>RM'000 |
| Unquoted shares in Malaysia, at cost | <b>52</b>      | 52             |
| Less: Amortisation of premium        | <b>(1)</b>     | *              |
|                                      | <b>51</b>      | 52             |

\* Negligible.

The above represent the amortisation of premium for two preference shares of RM1,000 each which are redeemable at least six months before 5 December 2090 at a redemption price of RM1,000 per share.

## 18. INTANGIBLE ASSETS

|   | Goodwill on<br>Consolidation<br>RM'000 | Purchased<br>Goodwill<br>RM'000 | Total<br>RM'000 |
|---|--|---------------------------------|-----------------|
| <b>Group</b>                              |  |                                 |                 |
| <b>Cost</b>                               |  |                                 |                 |
| At 1 July 2010/2011 and 30 June 2011/2012 | 14,662                                 | 18,814                          | 33,476          |
| <b>Accumulated impairment</b>             |  |                                 |                 |
| At 1 July 2011/30 June 2012               | 14,662                                 | 8,330                           | 22,992          |
| <b>Net carrying amount</b>                |  |                                 |                 |
| At 30 June 2011                           | –                                      | 10,484                          | 10,484          |
| At 30 June 2012                           | –                                      | 10,484                          | 10,484          |

### Impairment tests for goodwill

Goodwill has been allocated to the Group's CGU identified according to the country of operation and business segment as follows:

|                                 | Total<br>RM'000 |
|---------------------------------|-----------------|
| <b>Malaysia</b>                 |                 |
| Contract manufacturing services |                 |
| At 30 June 2011/2012            | 10,484          |

The recoverable amounts of the CGU have been determined based on value-in-use calculations using cash flows projections from financial budgets approved by management covering a five-year period.

The pre-tax discount rate applied to the cash flow projections and the forecast growth rates used to extrapolate cash flows beyond the five-year period are as follows:

|                        | 2012 | 2011 |
|------------------------|------|------|
| Growth rates           | 15%  | 5%   |
| Pre-tax discount rates | 8%   | 7%   |

The calculations of value-in-use for the CGU are most sensitive to the following assumptions:

**Budgeted gross margins** – Management determines budgeted gross margin based on past performance achieved in the past two years and its expectations on market development.

**Growth rates** – The forecast growth rates are based on industry growth forecasts.

**Pre-tax discount rates** – Discount rates reflect current market assessment on the time value of money and the risk specific to the CGU. In determining appropriate discount rate for the unit, consideration has been given to the applicable borrowing rates for the unit.

**18. INTANGIBLE ASSETS (Continued)**
**Sensitivity to changes in assumptions**

With regard to the assessment of value-in-use of the respective CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the unit to materially exceed its recoverable amount.

**19. DEFERRED TAX**

|   | Group            |                  | Company        |                |
|---|------------------|------------------|----------------|----------------|
|   | 2012<br>RM'000   | 2011<br>RM'000   | 2012<br>RM'000 | 2011<br>RM'000 |
| At 1 July   | (101,350)        | (88,873)         | 7,286          | 9,878          |
| Recognised in income statements                           | (12,453)         | (12,468)         | (2,774)        | (2,592)        |
| Dissolution of a subsidiary                               | –                | (8)              | –              | –              |
| Exchange differences                                      | (67)             | (1)              | –              | –              |
| At 30 June  | <b>(113,870)</b> | <b>(101,350)</b> | <b>4,512</b>   | <b>7,286</b>   |
| <b>Presented after appropriate offsetting as follows:</b> |                  |                  |                |                |
| Deferred tax assets                                       | 5,175            | 8,296            | 4,512          | 7,286          |
| Deferred tax liabilities                                  | (119,045)        | (109,646)        | –              | –              |
|   | <b>(113,870)</b> | <b>(101,350)</b> | <b>4,512</b>   | <b>7,286</b>   |

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

**Deferred tax assets of the Group:**

|                                 | Provisions<br>RM'000 | ICULS<br>RM'000 | Total<br>RM'000 |
|---------------------------------|----------------------|-----------------|-----------------|
| At 1 July 2011                  | 1,010                | 7,286           | 8,296           |
| Recognised in income statements | (280)                | (2,774)         | (3,054)         |
| Exchange differences            | (67)                 | –               | (67)            |
| At 30 June 2012                 | <b>663</b>           | <b>4,512</b>    | <b>5,175</b>    |
| At 1 July 2010                  | 1,191                | 9,878           | 11,069          |
| Recognised in income statements | (172)                | (2,592)         | (2,764)         |
| Dissolution of a subsidiary     | (8)                  | –               | (8)             |
| Exchange differences            | (1)                  | –               | (1)             |
| At 30 June 2011                 | <b>1,010</b>         | <b>7,286</b>    | <b>8,296</b>    |

**19. DEFERRED TAX (Continued)**
**Deferred tax liabilities of the Group:**

|                                 | <b>Property,<br/>Plant and<br/>Equipment<br/>RM'000</b> |
|---------------------------------|---|
| At 1 July 2011                  | <b>(109,646)</b>  |
| Recognised in income statements | <b>(9,399)</b>  |
|                                 | <hr/>   |
| At 30 June 2012                 | <b>(119,045)</b>  |
|                                 | <hr/> <hr/>   |
| At 1 July 2010                  | (99,942)  |
| Recognised in income statements | (9,704)   |
|                                 | <hr/>   |
| At 30 June 2011                 | (109,646)   |
|                                 | <hr/> <hr/>   |

**Deferred tax assets of the Company:**

|                                 | <b>ICULS<br/>RM'000</b> |
|---------------------------------|-------------------------|
| At 1 July 2011                  | <b>7,286</b>            |
| Recognised in income statements | <b>(2,774)</b>          |
|                                 | <hr/>                   |
| At 30 June 2012                 | <b>4,512</b>            |
|                                 | <hr/> <hr/>             |
| At 1 July 2010                  | 9,878                   |
| Recognised in income statements | (2,592)                 |
|                                 | <hr/>                   |
| At 30 June 2011                 | 7,286                   |
|                                 | <hr/> <hr/>             |

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

|                               | <b>Group</b>           |                        |
|-------------------------------|------------------------|------------------------|
|                               | <b>2012<br/>RM'000</b> | <b>2011<br/>RM'000</b> |
| Unused tax losses             | <b>81,930</b>          | 90,987                 |
| Unabsorbed capital allowances | <b>6,994</b>           | 7,004                  |
|                               | <hr/>                  | <hr/>                  |
|                               | <b>88,924</b>          | 97,991                 |
|                               | <hr/> <hr/>            | <hr/> <hr/>            |

Section 44(5A) and Paragraph 75A of Schedule 3 of the Malaysian Income Tax Act 1967 ("MITA") which became effective in year of assessment 2006 restricts the utilisation of unabsorbed business losses and capital allowance where there is a substantial change in the ordinary shareholder of a company. The test for determining whether there is a substantial change in shareholders is carried out by comparing the shareholders on the last day of the basis period in which the unabsorbed losses/capital allowances were ascertained with those on the first day of the basis period in which the unabsorbed losses/capital allowances are to be utilised.

**19. DEFERRED TAX (Continued)**

Pursuant to guidelines issued by the Malaysian tax authority in 2008, the Ministry of Finance has exempted all companies from the provisions of Section 44(5A) and Paragraph 75A of Schedule 3 of the MITA except for dormant companies. Therefore, all active subsidiaries are allowed to carry forward their unabsorbed capital allowances and business losses.

**20. INVENTORIES**

|                             | <b>Group</b>               |                     |
|-----------------------------|----------------------------|---------------------|
|                             | <b>2012</b>                | <b>2011</b>         |
|                             | <b>RM'000</b>              | <b>RM'000</b>       |
| <b>Cost</b>                 |                            |                     |
| Industrial land             | –                          | 1,607               |
| Properties held for sale    | <b>3,675</b>               | 1,584               |
| Raw materials               | <b>37,303</b>              | 90,259              |
| Raw materials in-transit    | <b>85,460</b>              | –                   |
| Work-in-progress            | <b>412</b>                 | 357                 |
| Finished goods              | <b>9,633</b>               | 21,321              |
| Consumables                 | <b>30,679</b>              | 26,192              |
|                             | <hr/> <b>167,162</b> <hr/> | <hr/> 141,320 <hr/> |
| <b>Net realisable value</b> |                            |                     |
| Work-in-progress            | <b>540</b>                 | 958                 |
| Raw materials               | <b>8,917</b>               | 8,003               |
|                             | <hr/> <b>9,457</b> <hr/>   | <hr/> 8,961 <hr/>   |
| <b>Total</b>                | <hr/> <b>176,619</b> <hr/> | <hr/> 150,281 <hr/> |

The cost of inventories carried at net realisable value at end of the financial year are as follows:

|                  | <b>Group</b>              |                   |
|------------------|---------------------------|-------------------|
|                  | <b>2012</b>               | <b>2011</b>       |
|                  | <b>RM'000</b>             | <b>RM'000</b>     |
| Work-in-progress | <b>574</b>                | 982               |
| Raw materials    | <b>9,891</b>              | 8,868             |
|                  | <hr/> <b>10,465</b> <hr/> | <hr/> 9,850 <hr/> |

Included in raw materials and raw materials in-transit of the Group amounting to RM12.4 million and RM85.5 million respectively (2011: RM80.7 million and RM Nil) are related to the product financing liabilities as disclosed in Note 31.

A subsidiary is the beneficial owner of the industrial land of which the land title is pending transfer to the subsidiary as at 30 June 2011. The industrial land was sold during the financial year.

As disclosed in Note 26(b)(ii), inventories of a subsidiary of RM159.2 million (2011: RM133.3 million) were pledged for bank borrowings.

**21. TRADE AND OTHER RECEIVABLES**

|  |     | Group           |                | Company          |                |
|--|-----|-----------------|----------------|------------------|----------------|
|  |     | 2012<br>RM'000  | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000 |
| <b>Current</b>                               |     |                 |                |                  |                |
| <b>Trade receivables:</b>                    |     |                 |                |                  |                |
| - Third parties                              | (a) | 30,769          | 32,520         | -                | -              |
| - Related parties                            | (a) | 469,463         | 700,946        | -                | -              |
|  |     | <b>500,232</b>  | 733,466        | -                | -              |
| Less: Allowance for impairment:              |     |                 |                |                  |                |
| - Third parties                              |     | (1,771)         | (1,785)        | -                | -              |
| - Related parties                            |     | (9,220)         | -              | -                | -              |
|  |     | <b>(10,991)</b> | (1,785)        | -                | -              |
|  |     | <b>489,241</b>  | 731,681        | -                | -              |
| <b>Other receivables:</b>                    |     |                 |                |                  |                |
| Amounts owing by subsidiaries                | (b) | -               | -              | 1,424,661        | 1,411,177      |
| Sundry receivables                           | (c) | 36,000          | 24,093         | -                | -              |
| Deposits                                     |     | 5,682           | 797            | 3                | 3              |
| Prepaid operating expenses                   |     | 50,099          | 48,340         | 5,352            | 27             |
| Amounts owing by related parties             | (b) | 2,311           | 1,739          | 369              | 378            |
| Amounts owing by jointly controlled entities | (b) | 4,210           | 3,884          | -                | -              |
|  |     | <b>98,302</b>   | 78,853         | <b>1,430,385</b> | 1,411,585      |
| Less: Allowance for impairment:              |     |                 |                |                  |                |
| - Sundry receivables                         |     | (3,755)         | (3,755)        | -                | -              |
| - Amounts owing by subsidiaries              |     | -               | -              | (171,061)        | (180,919)      |
| - Amounts owing by related parties           |     | (345)           | (345)          | (345)            | (345)          |
|  |     | <b>(4,100)</b>  | (4,100)        | <b>(171,406)</b> | (181,264)      |
|  |     | <b>94,202</b>   | 74,753         | <b>1,258,979</b> | 1,230,321      |
| Total trade and other receivables            |     | <b>583,443</b>  | 806,434        | <b>1,258,979</b> | 1,230,321      |
| Less: Prepaid operating expenses             |     | (50,099)        | (48,340)       | (5,352)          | (27)           |
| Add: Cash and cash equivalents (Note 22)     |     | <b>197,394</b>  | 201,098        | <b>8,588</b>     | 9,245          |
| Total loans and receivables                  |     | <b>730,738</b>  | 959,192        | <b>1,262,215</b> | 1,239,539      |



## 21. TRADE AND OTHER RECEIVABLES (Continued)

### (a) Trade receivables

The Group has a significant concentration of credit risk as trade receivables due from Megasteel, a related party, constituted approximately 94% (2011: 93%) of the total trade receivables balances. The total exposure of the Group arising from debts due from Megasteel amounted to RM469.5 million, of which RM229.1 million is past the credit period given to Megasteel. The trade receivables due from Megasteel is secured by a RM45.0 million deposit (“Offtake Deposit”) as disclosed in Note 29(d).

The relationship between Megasteel and the Group is disclosed in Note 37. Included in balance due from Megasteel are the overdue interests and compensation claims charged to Megasteel in accordance to the Offtake Agreement signed between both parties on 16 July 2007. The amount due from Megasteel bears late payment interest at 8.85% (2011: ranging from 8.30% to 8.85%) per annum.

In the previous financial year, Megasteel had proposed a settlement scheme (“Settlement Scheme”) to the Group to settle the long outstanding debts of approximately RM444.5 million via shares (“Share Settlement”) and cash (“Cash Settlement”). The Settlement Scheme was approved by the scheme creditors of Megasteel on 3 February 2012 and the Share Settlement was completed on 5 March 2012 through the receipt of 444.5 million LCB shares.

As at 30 June 2012, the Cash Settlement of RM88.9 million is still outstanding which is due on the earlier of:

- (i) 31 December 2012; or
- (ii) within 5 market days upon the completion of the Proposed Investment by New Investor(s).

As disclosed in Note 2.1, Megasteel is working with an independent consultant and the local authorities to conduct a study on turnaround action plans. Based on the independent consultant’s findings, the action plans identified are but not limited to the following:

- (i) to undertake a corporate and debt restructuring to address capital and funding issues; and
- (ii) to engage global experts in the steel industry to transfer technical know-how and best practice in the industry into Megasteel.

To address the action plans identified by the independent consultants, Megasteel has carried out the following actions:

- (i) Megasteel has entered into discussions with the relevant local authorities in implementing certain policies for the steel industry; and
- (ii) In the previous financial year, Megasteel has entered into discussions with various interested third party investors to inject new working capital via additional issuance of share capital. The discussion is on-going and there is no indication from these various interested third party investors that they are no longer interested to invest in Megasteel.

As at the date of this report, the proposed action plans are still in the discussion stage and have yet to be finalised. However, the Directors have a reasonable expectation that Megasteel will be given the necessary support to turnaround the company. As such, the Directors are of the opinion that the amounts outstanding from Megasteel are recoverable and sufficient allowance for doubtful debt has been recognised during the year in respect of amount due from Megasteel.

Other than the amount owing from Megasteel, the Group has no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

As disclosed in Note 26(b)(ii), trade receivables of a subsidiary of RM352.6 million (2011: RM486.9 million) were pledged for bank borrowings.

Further details on related party transactions are disclosed in Note 37.

**21. TRADE AND OTHER RECEIVABLES (Continued)**

## (a) Trade receivables (Continued)

Aging analysis of trade receivables

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

|  | <b>Group</b>   |               |
|--|----------------|---------------|
|  | <b>2012</b>    | <b>2011</b>   |
|  | <b>RM'000</b>  | <b>RM'000</b> |
| Neither past due nor impaired                | <b>255,397</b> | 77,231        |
| 1 to 30 days past due but not impaired       | <b>149,916</b> | 126,086       |
| 31 to 60 days past due but not impaired      | <b>30,952</b>  | 68,904        |
| 61 to 90 days past due but not impaired      | <b>8,980</b>   | 45,137        |
| 91 to 120 days past due but not impaired     | <b>1,243</b>   | 24,505        |
| More than 121 days past due but not impaired | <b>42,753</b>  | 389,818       |
|  | <b>233,844</b> | 654,450       |
| Impaired                                     | <b>489,241</b> | 731,681       |
|  | <b>10,991</b>  | 1,785         |
|  | <b>500,232</b> | 733,466       |

Receivables that are neither past due nor impaired

Included in trade receivables that are neither past due nor impaired are amount owing from Megasteel amounting to RM231.2 million (2011: RM47.2 million). The Directors are of the opinion that these amounts are recoverable through the normal course of business.

Other than that, trade receivables that are neither past due nor impaired amounting to RM24.2 million (2011: RM30.0 million) are creditworthy debtors with good payment records with the Group. None of the Group's trade receivables that are neither past due nor impaired have been re-negotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM233.8 million (2011: RM654.5 million) that are past due but not impaired as at the reporting date. Included in the amounts are RM229.1 million due from Megasteel.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

|                                     | <b>Group</b>                 |               |
|-------------------------------------|------------------------------|---------------|
|                                     | <b>Individually impaired</b> |               |
|                                     | <b>2012</b>                  | <b>2011</b>   |
|                                     | <b>RM'000</b>                | <b>RM'000</b> |
| Trade receivables - nominal amounts | <b>10,991</b>                | 1,785         |
| Less: Allowance for impairment      | <b>(10,991)</b>              | (1,785)       |
|                                     | -                            | -             |

**21. TRADE AND OTHER RECEIVABLES (Continued)**

## (a) Trade receivables (Continued)

Receivables that are impaired (Continued)

Movement in allowance accounts:

|                             | Group          |                |
|-----------------------------|----------------|----------------|
|                             | 2012<br>RM'000 | 2011<br>RM'000 |
| At 1 July                   | 1,785          | 1,884          |
| Charge for the year         | 9,395          | –              |
| Reversal of impairment loss | (200)          | (78)           |
| Exchange differences        | 11             | (21)           |
|                             | 10,991         | 1,785          |
| At 30 June                  | 10,991         | 1,785          |

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

## (b) Related party balances

The amounts owing by subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The amounts owing by related parties are unsecured, have no fixed terms of repayment and interest free (2011: certain amounts bear interest at the rate of 8.0% per annum). Related parties refer to companies in which certain Directors and certain substantial shareholders of the Company are directors and/or substantial shareholders.

The amounts owing by jointly controlled entities represent shareholders' advance made pursuant to the Joint Venture Agreement. The amounts are unsecured, interest free and have no fixed terms of repayment.

Further details on related party transactions are disclosed in Note 37.

## (c) Included in sundry receivables are dividend income from investments securities of RM17.68 million (2011: RM9.15 million) held by the trustees on behalf of the holders of Exchangeable Bonds.

## (d) As disclosed in Note 26(b)(i) and (ii), other receivables of certain subsidiaries of RM68.4 million (2011: RM49.5 million) were pledged for bank borrowings.

**22. CASH AND CASH EQUIVALENTS**

|                                   | Group          |                | Company        |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Deposits, cash and bank balances: |                |                |                |                |
| Cash on hand and at banks         | 37,890         | 29,108         | 1,344          | 1,215          |
| Cash management funds             | 4,027          | 4,025          | –              | –              |
| Deposits with licensed banks      | 155,477        | 167,965        | 7,244          | 8,030          |
|                                   | 197,394        | 201,098        | 8,588          | 9,245          |
| Cash and cash equivalents         | 197,394        | 201,098        | 8,588          | 9,245          |

## 22. CASH AND CASH EQUIVALENTS (Continued)

The deposits, cash and bank balances of the subsidiaries in the People's Republic of China which amounted to RM92.3 million (2011: RM102.8 million) at reporting date are subject to the exchange control restrictions of that country. The deposits, cash and bank balances are available for use by the subsidiaries in the country and the exchange control restrictions will only apply if the monies are to be remitted to another country outside the People's Republic of China.

Included in cash at banks is an Escrow Account of RM2.1 million (2011: RM1.3 million) maintained by a subsidiary which is pledged to the Murabahah Islamic Instrument as detailed in Note 26(b)(iii).

Deposits, cash and bank balances amounting to RM58.4 million (2011: RM59.7 million) are pledged with financial institutions for banking facilities extended to the Group, as detailed below:

- (i) deposit with licensed banks of the Group of RM50.1 million (2011: RM50.3 million) which is for a sinking fund account maintained by a wholly-owned subsidiary, as disclosed in Note 26(b)(ii)(VI).
- (ii) deposits with licensed banks of the Group and of the Company of RM14.1 million (2011: RM14.7 million) and RM7.2 million (2011: RM7.5 million) respectively which were pledged for banking facilities granted to a subsidiary.

The cash management funds provide daily liquidity without any restriction on redemption limit with the redemption notice of 1 day.

The range of interest rates of deposits at the reporting date were as follows:

|                       | Group              |             | Company            |             |
|-----------------------|--------------------|-------------|--------------------|-------------|
|                       | 2012               | 2011        | 2012               | 2011        |
| Licensed banks        | <b>0.04%-3.10%</b> | 0.04%-2.85% | <b>0.20%-2.85%</b> | 0.14%-2.85% |
| Cash management funds | <b>2.77%-3.04%</b> | 2.08%-2.89% | –                  | –           |

Deposits of the Group and of the Company have maturity days range from 1 to 386 days (2011: 1 to 359 days). Bank balances are deposits held at call with licensed banks.

## 23. SHARE CAPITAL

|                               | Number of ordinary shares of RM0.50 each |           | Amount           |                |
|-------------------------------|--|-----------|------------------|----------------|
|                               | 2012                                     | 2011      | 2012<br>RM'000   | 2011<br>RM'000 |
| <b>Authorised:</b>            |  |           |                  |                |
| At 1 July/30 June             | <b>9,000,000</b>                         | 9,000,000 | <b>4,500,000</b> | 4,500,000      |
| <b>Issued and fully paid:</b> |  |           |                  |                |
| At 1 July/30 June             | <b>737,223</b>                           | 737,223   | <b>368,612</b>   | 368,612        |

**24. OTHER RESERVES**

|   | Fair Value<br>Adjustment<br>Reserve<br>RM'000 | Capital<br>Reserve<br>RM'000 | Exchange<br>Fluctuation<br>Reserves<br>RM'000 | Share<br>Option<br>Reserve<br>RM'000 | Equity<br>Components<br>of ICULS<br>RM'000 | Total<br>RM'000 |
|---|---|------------------------------|---|--------------------------------------|--|-----------------|
| <b>Group</b>                                    |   |                              |   |                                      |  |                 |
| <b>At 1 July 2010</b>                           | 79,109  | –                            | 2,180   | 1,030                                | 287,182                                    | 369,501         |
| <b>Other comprehensive income:</b>              |   |                              |   |                                      |  |                 |
| Available-for-sale investments:                 |   |                              |   |                                      |  |                 |
| - Gain on fair value changes                    | 59,970  | –                            | –   | –                                    | –  | 59,970          |
| - Transfer to profit or loss upon derecognition | (15,546)                                      | –                            | –   | –                                    | –  | (15,546)        |
| Foreign currency translation difference         | –   | –                            | 9,181   | –                                    | –  | 9,181           |
| <b>Transaction with owners:</b>                 |   |                              |   |                                      |  |                 |
| Equity-settled share option arrangements        | –   | –                            | –   | (1,030)                              | –  | (1,030)         |
| Transfer from retained profits                  | –   | 2,700                        | –   | –                                    | –  | 2,700           |
| <b>At 30 June 2011</b>                          | <b>123,533</b>                                | <b>2,700</b>                 | <b>11,361</b>                                 | <b>–</b>                             | <b>287,182</b>                             | <b>424,776</b>  |
| <b>At 1 July 2011</b>                           | <b>123,533</b>                                | <b>2,700</b>                 | <b>11,361</b>                                 | <b>–</b>                             | <b>287,182</b>                             | <b>424,776</b>  |
| <b>Other comprehensive income:</b>              |   |                              |   |                                      |  |                 |
| Available-for-sale investments:                 |   |                              |   |                                      |  |                 |
| - Loss on fair value changes                    | (83,113)                                      | –                            | –   | –                                    | –  | (83,113)        |
| - Transfer to profit or loss upon derecognition | (18,433)                                      | –                            | –   | –                                    | –  | (18,433)        |
| Foreign currency translation difference         | –   | –                            | (4,502)                                       | –                                    | –  | (4,502)         |
| <b>At 30 June 2012</b>                          | <b>21,987</b>                                 | <b>2,700</b>                 | <b>6,859</b>                                  | <b>–</b>                             | <b>287,182</b>                             | <b>318,728</b>  |

**24. OTHER RESERVES (Continued)**

|   | Fair Value<br>Adjustment<br>Reserve<br>RM'000 | Share<br>Option<br>Reserve<br>RM'000 | Equity<br>Components<br>of ICULS<br>RM'000 | Total<br>RM'000 |
|---|---|--------------------------------------|--|-----------------|
| <b>Company</b>                                  |   |                                      |  |                 |
| <b>At 1 July 2010</b>                           | 2,895   | 1,030                                | 287,182                                    | 291,107         |
| <b>Other comprehensive income:</b>              |   |                                      |  |                 |
| Available-for-sale investments:                 |   |                                      |  |                 |
| - Gain on fair value changes                    | 10,137  | –                                    | –  | 10,137          |
| - Transfer to profit or loss upon derecognition | (483)   | –                                    | –  | (483)           |
| <b>Transaction with owners:</b>                 |   |                                      |  |                 |
| Equity-settled share option arrangements        | –   | (1,030)                              | –  | (1,030)         |
| <b>At 30 June 2011</b>                          | 12,549  | –                                    | 287,182                                    | 299,731         |
| <b>At 1 July 2011</b>                           | <b>12,549</b>                                 | <b>–</b>                             | <b>287,182</b>                             | <b>299,731</b>  |
| <b>Other comprehensive income:</b>              |   |                                      |  |                 |
| Available-for-sale investments:                 |   |                                      |  |                 |
| - Loss on fair value changes                    | <b>(14,598)</b>                               | –                                    | –  | <b>(14,598)</b> |
| <b>At 30 June 2012</b>                          | <b>(2,049)</b>                                | <b>–</b>                             | <b>287,182</b>                             | <b>285,133</b>  |

**(a) 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.

**(b) Capital reserve**

Capital reserve represents the transfer from distributable earnings of a wholly-owned subsidiary company arising from its bonus issue of shares.

**(c) Exchange fluctuation reserve**

The exchange fluctuation reserve represents 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.

**(d) Share option reserve**

The share option reserve represents the fair value of equity-settled share options granted to employees by the Company as set out in Note 33.

**(e) Equity component of ICULS**

The reserve represents the fair value of the equity component of ICULS, net of deferred tax, as determined on the date of issue. Further details of ICULS are disclosed in Note 32.

## 25. RETAINED PROFITS

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance of the Income Tax Act, 1967 ("S.108 balance") and opt to pay dividends under the single tier system. The change in the tax legislation also provide for the S.108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the S.108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the S.108 balance as at 30 June 2012 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 30 June 2012, the Company has sufficient tax credit in the S.108 balance to frank the payment of dividends amounting to RM25,402,000 (2011: RM25,402,000) out of its retained profits. Tax exempt profits available for distribution as at reporting date is approximately RM783,165,000 (2011: RM790,537,000), subject to the agreement of the Inland Revenue Board.

## 26. LOANS AND BORROWINGS

|  |     | Group          |         | Company       |        |
|--|-----|----------------|---------|---------------|--------|
|  |     | 2012           | 2011    | 2012          | 2011   |
|  |     | RM'000         | RM'000  | RM'000        | RM'000 |
| <b>Current</b>                             |     |                |         |               |        |
| Secured:                                   |     |                |         |               |        |
| Exchangeable Bonds                         | (a) | 232,523        | 15,219  | -             | -      |
| Term loans                                 | (b) | 235,135        | 214,895 | -             | -      |
| Obligations under finance leases (Note 35) | (c) | 151            | 213     | 97            | 192    |
|  |     | <b>467,809</b> | 230,327 | <b>97</b>     | 192    |
| Unsecured:                                 |     |                |         |               |        |
| Bankers' acceptances ICULS (Note 32)       | (d) | -              | 200     | -             | -      |
|  |     | <b>13,098</b>  | 13,098  | <b>13,098</b> | 13,098 |
|  |     | <b>13,098</b>  | 13,298  | <b>13,098</b> | 13,098 |
|  |     | <b>480,907</b> | 243,625 | <b>13,195</b> | 13,290 |
| <b>Non-current</b>                         |     |                |         |               |        |
| Secured:                                   |     |                |         |               |        |
| Exchangeable Bonds                         | (a) | -              | 243,620 | -             | -      |
| Term loans                                 | (b) | 21,677         | 25,652  | -             | -      |
| Obligations under finance leases (Note 35) | (c) | 380            | 454     | 246           | 348    |
|  |     | <b>22,057</b>  | 269,726 | <b>246</b>    | 348    |
| Unsecured:                                 |     |                |         |               |        |
| ICULS (Note 32)                            |     | <b>4,991</b>   | 16,121  | <b>4,991</b>  | 16,121 |
|  |     | <b>27,048</b>  | 285,847 | <b>5,237</b>  | 16,469 |

**26. LOANS AND BORROWINGS (Continued)**

|  |     | Group          |                | Company        |                |
|--|-----|----------------|----------------|----------------|----------------|
|  |     | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Total borrowings</b>                    |     |                |                |                |                |
| Exchangeable Bonds                         | (a) | 232,523        | 258,839        | –              | –              |
| Term loans                                 | (b) | 256,812        | 240,547        | –              | –              |
| Obligations under finance leases (Note 35) | (c) | 531            | 667            | 343            | 540            |
| Bankers' acceptances                       | (d) | –              | 200            | –              | –              |
| ICULS (Note 32)                            |     | 18,089         | 29,219         | 18,089         | 29,219         |
|  |     | <b>507,955</b> | <b>529,472</b> | <b>18,432</b>  | <b>29,759</b>  |

The remaining maturities of the loans and borrowings excluding obligations under finance leases as at 30 June 2012 are as follows:

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| On demand or within one year                 | 480,756        | 243,412        | 13,098         | 13,098         |
| More than one year and less than two years   | 17,491         | 282,370        | 4,991          | 13,098         |
| More than two years and less than five years | 9,177          | 3,023          | –              | 3,023          |
|  | <b>507,424</b> | <b>528,805</b> | <b>18,089</b>  | <b>29,219</b>  |

(a) Exchangeable Bonds

On 16 November 2007, Excel Step Investments Limited ("Excel Step"), a wholly-owned subsidiary of the Company, issued USD132,110,000 nominal value 5-year 2.5% Exchangeable Bonds.

The Group's Exchangeable Bonds of nominal value of USD132,110,000 are constituted by a Trust Deed dated 16 November 2007 between Excel Step ("Issuer"), the Company ("Guarantor") and AmTrustee Berhad ("Security Trustee") ("Trust Deed").

The principal terms, *inter alia*, of the Exchangeable Bonds are as follows:

(i) Exchange rights

The Exchangeable Bonds are exchangeable into approximately 40 million new ordinary shares of RM1.00 each in Parkson Holdings Berhad ("Parkson") ("Parkson Shares") to be issued by way of conversion of RM160 million nominal value of the redeemable convertible secured loan stocks ("RCSLS") held by Excel Step, at an initial exchange price of RM11.0361 per Parkson Share, at any time during the Exchange Period referred to below.

In accordance with the terms and conditions of the Trust Deed, the exchange price had been adjusted to RM7.72 per Parkson Share on 16 May 2010.

(ii) Exchange period

The Exchangeable Bonds are exchangeable, at the option of the holders, at any time on and after 27 December 2007 up to the close of business on 9 November 2012 with the holders' option to redeem on 16 November 2010. The Exchangeable Bonds shall mature on 16 November 2012.



## 26. LOANS AND BORROWINGS (Continued)

### (a) Exchangeable Bonds (Continued)

The principal terms, *inter alia*, of the Exchangeable Bonds are as follows: (Continued)

#### (iii) Interest rate

The Exchangeable Bonds bear interest from and including the issue date at a rate of 2.5% per annum, on the principal amount of the Exchangeable Bonds, payable semi-annually in arrear on 16 November and 16 May in each year.

#### (iv) Security

The Exchangeable Bonds are secured by, among others:

- (i) a first priority fixed charge on an equivalent of 57.2 million Parkson Shares to be issued pursuant to the conversion of part of the RCCLS held by Excel Step, including any future dividends and any other cash receivables attributable to these shares;
- (ii) negative pledge over certain assets of Excel Step and of the Company; and
- (iii) guarantee from the Company.

The holders of the Exchangeable Bonds, had at the meeting held on 27 August 2010, approved an Extraordinary Resolution, in accordance with the provisions of the Trust Deed, which relates to certain amendments proposed by the Issuer to the terms and conditions of the Exchangeable Bonds and the Trust Deed ("Proposed Amendments"). The Proposed Amendments had been effected by way of a supplemental trust deed executed by the parties to the Trust Deed on 2 September 2010 ("Supplemental Trust Deed").

The Proposed Amendments include, amongst others, the following:

- (i) the removal of the put option exercisable on 16 November 2010 wherein the maturity date remains on 16 November 2012;
- (ii) three pro rata partial redemptions on 16 November 2010, 16 February 2011 and 16 June 2011, totalling approximately 25% of the outstanding Exchangeable Bonds; and
- (iii) Exchange price

During the previous financial year, the exchange prices had been adjusted to RM7.72, RM7.52, RM6.58 and RM5.76 per Parkson Share. The exchange price of RM5.76 per Parkson Share will be used up to the expiry of the Exchange Period,

with each of the Proposed Amendments to be effective from the date the Supplemental Trust Deed was executed, and

- (i) an increase in the interest rate payable from 2.5% to 6%; and
- (ii) an increase in gross yield from 6% to 9%

of the Exchangeable Bonds with effect from the date of payment of the first pro rata partial redemption on 16 November 2010.

On 8 December 2011, the exchange price was adjusted downwards from RM5.76 to RM5.69 per Parkson Share.

## 26. LOANS AND BORROWINGS (Continued)

### (a) Exchangeable Bonds (Continued)

During the financial year, the bondholders had converted USD15,600,000 bonds where USD14,600,000 bonds had been converted at an exchange price of approximately RM5.76 per Parkson Share and the remaining USD1,000,000 bonds had been converted at an exchange price of RM5.69 per Parkson Share.

In the previous financial year, the bondholders had converted USD14,750,000 bonds where USD170,000 bonds had been converted at an exchange price of RM6.58 per Parkson Share and the remaining USD14,580,000 bonds had been converted at an exchange price of RM5.76 per Parkson Share.

The yield to maturity for the Exchangeable Bonds is 9% (2011: 9%) per annum.

Subsequent to the financial year end, the Issuer had proposed certain amendments to the terms and conditions of the Exchangeable Bonds and the trust deeds as disclosed in Note 39.

### (b) Term loans

|  |       | Group          |                |
|--|-------|----------------|----------------|
|  |       | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Current</b>   |       |                |                |
| RM loan at cost of fund ("COF") + 2.5% per annum       | (i)   | 4,900          | 16,206         |
| RM loan at base lending rate ("BLR") + 1.75% per annum | (ii)  | 57,500         | 30,000         |
| RM loan at BLR + 1.25% per annum                       | (ii)  | 147,989        | 148,161        |
| Letter of Credit-i Facility                            | (iii) | 24,746         | 20,528         |
|  |       | <b>235,135</b> | 214,895        |
| <b>Non-current</b>                                     |       |                |                |
| RM loan at COF + 2.5% per annum                        | (i)   | 21,677         | 10,652         |
| RM loan at BLR + 1.75% per annum                       | (ii)  | -              | 15,000         |
|  |       | <b>21,677</b>  | 25,652         |
|  |       | <b>256,812</b> | 240,547        |

#### (i) RM loan at COF + 2.5% per annum

The following are provided to a financial institution to secure the term loan of a wholly-owned subsidiary of the Company:

- (I) first legal charge over 6 parcels of land of the subsidiary;
- (II) debenture over fixed and floating assets of the subsidiary:

|                               |  | A subsidiary   |                |
|-------------------------------|--|----------------|----------------|
|                               |  | 2012<br>RM'000 | 2011<br>RM'000 |
| Property, plant and equipment |  | 72,742         | 72,779         |
| Other receivables             |  | 286            | 415            |
| Tax recoverable               |  | 12             | 12             |
| Cash and cash equivalents     |  | 571            | 358            |
| Total                         |  | <b>73,611</b>  | 73,564         |

**26. LOANS AND BORROWINGS (Continued)**
**(b) Term loans (Continued)**
**(i) RM loan at COF + 2.5% per annum (Continued)**

The following are provided to a financial institution to secure the term loan of a wholly-owned subsidiary of the Company: (Continued)

- (III) corporate guarantee from the Company; and
- (IV) memorandum of deposits over shares of the subsidiary.

During the financial year, the subsidiary of the Company obtained approval from its lender to reschedule the repayment terms of the loan. The new repayment terms are staggered into quarterly payments repayable in full by March 2015.

**(ii) RM loan at BLR + 1.75% per annum and RM loan at BLR +1.25% per annum**

The following are provided to a financial institution to secure the term loans of a wholly-owned subsidiary of the Company:

- (I) debenture incorporating a fixed and floating charge over all present and future assets and undertaking of the subsidiary as follows:

|                               | <b>A subsidiary</b> |               |
|-------------------------------|---------------------|---------------|
|                               | <b>2012</b>         | <b>2011</b>   |
|                               | <b>RM'000</b>       | <b>RM'000</b> |
| Property, plant and equipment | <b>691,095</b>      | 720,718       |
| Investment securities         | <b>93,935</b>       | 32,774        |
| Inventories                   | <b>159,193</b>      | 133,302       |
| Trade and other receivables   | <b>420,793</b>      | 535,931       |
| Tax recoverable               | <b>119</b>          | –             |
| Cash and cash equivalents     | <b>58,443</b>       | 59,704        |
| <b>Total</b>                  | <b>1,423,578</b>    | 1,482,429     |

- (II) irrevocable and unconditional corporate guarantee from the Company;
- (III) first legal charge over the Company's 100% shareholding in the subsidiary;
- (IV) irrevocable and unconditional letter of undertaking from the Company to support the operations of the subsidiary;
- (V) legal assignment on all present and future rights, title, interests and benefits of the subsidiary in and under the Offtake Agreement dated 16 July 2007 entered into between the subsidiary and a related party ("related party"), and of the lease between the subsidiary and the related party of all those pieces and parcels of land;
- (VI) legal assignment of all present and future rights, title, interests and benefits of a cash deposit in the sinking fund account (minimum RM45 million to be maintained) with the lenders; and
- (VII) irrevocable and unconditional letter of undertaking from the related party addressed to the lenders and to the subsidiary which the related party has right of way to enable the subsidiary to carry on its operations and business of manufacturing direct reduced iron and hot briquetted iron in the vicinity of the lease land.

## 26. LOANS AND BORROWINGS (Continued)

### (b) Term loans (Continued)

#### (ii) RM loan at BLR + 1.75% per annum and RM loan at BLR +1.25% per annum (Continued)

On 10 January 2012, the wholly-owned subsidiary had obtained an additional term loan facility amounting to RM50 million for working capital purposes. The interest rate charged by the lender is BLR + 1.75% per annum. The additional securities pledged to the lender are as follows:

- (I) irrevocable and unconditional personal guarantee by a Director of the Company and the wholly-owned subsidiary; and
- (II) memorandum of deposit on 229 million LCB shares.

#### (iii) Letter of Credit-i Facility

In May 2006, a subsidiary of the Company, entered into a facility agreement with Kuwait Finance House (Malaysia) Berhad ("Kuwait Finance House") for an Islamic letter of credit facility, namely Letter of Credit-i Facility, for a maximum aggregate sum of up to RM35 million. In December 2009, the credit facility has been reduced to a maximum aggregate sum up to RM25 million. The Letter of Credit-i Facility is a type of Murabahah Islamic Instrument ("Murabahah").

The Letter of Credit-i Facility bears Murabahah profit margin of 5.5% to 6.5% per annum and has a tenure of 180 days.

The Letter of Credit-i Facility is secured by the following:

- (I) all issued and paid-up shares of the subsidiary;
- (II) 20.8 million quoted shares with carrying value of RM25.4 million (2011: RM39.1 million) owned by the Company as disclosed in Note 17(b);
- (III) corporate guarantee by the Company; and
- (IV) assignment over a designated escrow account identified to the Kuwait Finance House with a power of attorney in relation thereto as disclosed in Note 22.

### (c) Obligations under finance leases

These obligations are mostly secured by charge over the Group's motor vehicles, bearing interest ranging from 2.1% to 3.3% (2011: 2.1% to 3.3%) per annum. These obligations are denominated in the respective functional currencies of the relevant entities in the Group and the Company.

### (d) Bankers' acceptances

Bankers' acceptances for the previous financial year were unsecured and bore interest at rates ranging from 5.11% to 5.45% per annum.

## 27. LONG TERM PAYABLES

|   | Group/Company  |                |
|---|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 |
| Deferred payments                                     | 81,401         | 165,952        |
| Interest expenses recognised during the year (Note 7) | 6,500          | 11,471         |
|   | 87,901         | 177,423        |
| Payment made during the year                          | (8,380)        | (96,022)       |
|   | 79,521         | 81,401         |
| Amount due within one year (Note 29)                  | (79,521)       | (81,401)       |
|   | -              | -              |
| Amount due after one year                             | -              | -              |

- (i) Deferred payments represent the balance of the purchase consideration for the acquisition by the Company and Teraju Varia Sdn Bhd ("Teraju Varia"), a wholly-owned subsidiary of Excel Step which is in turn a wholly-owned subsidiary of the Company, of RM denominated bonds issued by LCB ("LCB Bonds") from Amsteel Corporation Berhad (now known as ACB Resources Berhad) for a cash consideration of RM400 million which had been completed on 27 February 2009 and on the same date, the Company and Teraju Varia converted the LCB Bonds into 804,460,000 ordinary shares of RM1.00 each in LCB, representing 42% of the then enlarged issued and paid-up capital of LCB.
- (ii) The deferred payments include an amount of RM68.9 million (2011: RM75 million) which bears interest at the rate of 9% (2011: 9%) per annum.

During the year, the Company proposed to the creditors for a deferment of the repayment of RM68.9 million on or before 31 December 2012. The total LCB shares pledged for the deferred payments is 90,809,917 shares (2011: 455,360,000 shares) as disclosed in Note 15. As at the date of this report, the majority of the creditors has not reverted with their written consent.

## 28. DERIVATIVE LIABILITY

|  | Group          |                |
|--|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 |
| At beginning of the year   | 42,603         | 38,919         |
| Changes in fair value recognised in income statements during the year (Note 6) | (42,603)       | 3,684          |
|  | -              | 42,603         |
| At end of the year   | -              | 42,603         |

This represents the exchange feature which is a separate embedded derivative contained in Exchangeable Bonds. Bondholders are able to exchange the Exchangeable Bonds into Parkson Shares at a fixed exchange price as disclosed in Note 26(a). The derivative liability is carried at fair value through profit or loss.

The fair value changes are calculated using a binomial option pricing model, taking into account the terms and conditions upon which the derivative liability is issued.

**28. DERIVATIVE LIABILITY (Continued)**

The list of inputs to the option pricing model is as follows:

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Parkson Share price (RM)                  | <b>4.58</b> | 6.02        |
| Exchange price (RM)                       | <b>5.69</b> | 5.76        |
| Expected volatility (%)                   | <b>25</b>   | 30          |
| Expected life of exchange feature (years) | <b>0.4</b>  | 1.4         |
| Risk free rate (% per annum)              | <b>3.2</b>  | 3.6         |

The expected life of exchange feature is based on the contractual life of the Exchangeable Bonds. The expected volatility reflects the assumption that the historical volatility, over a period similar to the life of the exchange feature, is indicative of future trends, which may not necessarily be the actual outcome.

**29. TRADE AND OTHER PAYABLES**

|   |     | <b>Group</b>     |               | <b>Company</b>  |               |
|---|-----|------------------|---------------|-----------------|---------------|
|   |     | <b>2012</b>      | <b>2011</b>   | <b>2012</b>     | <b>2011</b>   |
|   |     | <b>RM'000</b>    | <b>RM'000</b> | <b>RM'000</b>   | <b>RM'000</b> |
| <b>Trade payables</b>                                 | (a) | <b>388,335</b>   | 286,342       | –               | –             |
| <b>Other payables</b>                                 |     |                  |               |                 |               |
| Sundry payables                                       |     | <b>114,130</b>   | 79,953        | –               | –             |
| Deposit   |     | <b>1,279</b>     | 1,091         | –               | –             |
| Accruals  |     | <b>94,345</b>    | 66,515        | <b>22,247</b>   | 24,713        |
| Project payables                                      | (b) | <b>9,981</b>     | 14,702        | –               | –             |
| Amounts due to customers                              |     | –                | 34,868        | –               | –             |
| Amounts owing to subsidiaries                         | (c) | –                | –             | <b>162,957</b>  | 478,217       |
| Amounts owing to related parties                      | (d) | <b>48,622</b>    | 46,618        | <b>1,177</b>    | 498           |
| Deferred payments (Note 27)                           |     | <b>79,521</b>    | 81,401        | <b>79,521</b>   | 81,401        |
|   |     | <b>347,878</b>   | 325,148       | <b>265,902</b>  | 584,829       |
| Total trade and other payables                        |     | <b>736,213</b>   | 611,490       | <b>265,902</b>  | 584,829       |
| Less: Accruals  |     | <b>(94,345)</b>  | (66,515)      | <b>(22,247)</b> | (24,713)      |
| Add: Loans and borrowings (Note 26)                   |     | <b>507,955</b>   | 529,572       | <b>18,432</b>   | 29,759        |
| Total financial liabilities carried at amortised cost |     | <b>1,149,823</b> | 1,074,547     | <b>262,087</b>  | 589,875       |

**(a) Trade payables**

These amounts are non-interest bearing. The normal trade credit terms granted to the Group range from 30 to 90 days (2011: 30 to 90 days).

Included in trade payables were amount due to related parties amounting to RM147.8 million (2011: RM159.3 million) arising from transactions as further disclosed in Note 37.

**29. TRADE AND OTHER PAYABLES (Continued)**
**(b) Project payables**

Project payables represent construction costs for plant and machinery which are unsecured and interest free.

**(c) Amounts owing to subsidiaries**

The amounts owing to subsidiaries are unsecured, interest free and repayable on demand.

**(d) Amounts owing to related parties**

The amounts owing to related parties are unsecured, bearing interest of 8.85% (2011: 8.0% to 8.85%) per annum and repayable on demand.

Included in amounts owing to related parties of the Group is an amount of RM45.0 million (2011: RM45.0 million) of deposits ("Offtake Deposit") received from Megasteel Sdn Bhd ("Megasteel") for sales of hot briquetted iron and hot direct reduced iron as security against the debts owing by Megasteel as disclosed in Note 21. In the event the outstanding debts are not settled within the credit period given, the Group shall be entitled to withdraw from the Offtake Deposit such amount as may be due from the related party towards settlement of the overdue debts.

The normal credit terms granted to the Group range from 30 to 90 days (2011: 30 to 90 days). Other credit terms are assessed on a case-by-case basis.

Further details on related party transactions are disclosed in Note 37.

**30. PROVISIONS**

|                        | <b>Provision<br/>for<br/>liabilities<br/>RM'000<br/>(a)</b> | <b>Provision<br/>for<br/>potential<br/>claims<br/>RM'000<br/>(b)</b> | <b>Total<br/>RM'000</b> |
|------------------------|---|--|-------------------------|
| <b>Group</b>           |   |  |                         |
| At 1 July 2011         | 17,695  | 22,000   | 39,695                  |
| Additional provisions  | –   | 7,000  | 7,000                   |
| Reversal of provisions | (17,695)  | –  | (17,695)                |
| At 30 June 2012        | –   | 29,000   | 29,000                  |
| At 1 July 2010         | 17,695  | 17,000   | 34,695                  |
| Additional provisions  | –   | 5,000  | 5,000                   |
| At 30 June 2011        | 17,695  | 22,000   | 39,695                  |

**30. PROVISIONS (Continued)**

|                             | <b>Provision<br/>for<br/>liabilities<br/>RM'000<br/>(a)</b> |
|-----------------------------|---|
| <b>Company</b>              |   |
| At 1 July 2011              | <b>17,695</b>   |
| Reversal of provisions      | <b>(17,695)</b>   |
|                             | <hr/>   |
| At 30 June 2012             | -   |
|                             | <hr/> <hr/>   |
| At 1 July 2010/30 June 2011 | 17,695  |
|                             | <hr/> <hr/>   |

**(a) Provision for liabilities**

This relates to the estimated quantum of the potential liabilities that may arise from the closure of an operation which is subject to the Company's indemnity.

**(b) Provision for potential claims**

The provision for potential claims represents the estimated quantum of compensation claims by the contractors for the construction of the Blast Furnace Project that was put on hold as disclosed in Note 11. The claims provided are in connection to compensate the losses caused by the delay of the construction of the Project. The Directors are of the opinion that the current provision is adequate to cover the losses incurred. As of the date of this report, no litigation action has been taken by the contractors against the Group.

**31. PRODUCT FINANCING LIABILITIES**

|  | <b>Group</b>           |                        |
|--|------------------------|------------------------|
|  | <b>2012<br/>RM'000</b> | <b>2011<br/>RM'000</b> |
| Payable within 1 year<br>- with external parties | <b>97,944</b>          | 80,699                 |
|  | <hr/> <hr/>            | <hr/> <hr/>            |

The liabilities represent trade financing arrangements contracted by a subsidiary with third parties to purchase raw materials. The terms of trade financing arrangements are 120 days (2011: 120 days), bearing interest rates ranging from 2.2% to 12.0% (2011: 2.2% to 7.5%) per annum. The amount of inventories under such arrangements is disclosed in Note 20.

The trade financing arrangements are denominated in US Dollar. Further details of foreign exchange currency risk are as disclosed in Note 41(d).



### 32. ICULS

In 2008, the Company issued RM327,462,064 nominal value of 5-year 4% irredeemable convertible unsecured loan stocks 2008/2013 ("ICULS") at 100% of its nominal value.

The salient terms of the ICULS are as follows:

(a) Conversion rights and rate

The ICULS are convertible into new ordinary shares of RM0.50 each in the Company ("LDHB Share") during the conversion period at a conversion price of RM0.50 for each new LDHB Share ("Conversion Price").

(b) Conversion period

The ICULS are convertible at any time during the period of 5 years maturing on the date which is the fifth (5th) anniversary of the date of issue of the ICULS.

(c) Coupon rate

The ICULS bear a coupon rate of 4% per annum based on the nominal value of the ICULS payable semi-annually in arrears on every 6 months from the date of issue up to the maturity date.

(d) Redeemability

There will not be any redemption of the ICULS. All remaining ICULS on the maturity date shall be mandatorily converted into new LDHB Shares at the Conversion Price.

(e) Ranking

The new LDHB Shares to be issued upon conversion of the ICULS shall rank *pari passu* in all respects with the then existing LDHB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date on which the new LDHB Shares issued pursuant to the conversion of the ICULS are credited into the securities account of the holder of ICULS maintained with Bursa Malaysia Depository Sdn Bhd.

The ICULS are listed on the Main Market of Bursa Malaysia Securities Berhad.

As at 30 June 2012, RM327,462,064 (2011: RM327,462,064) nominal value of ICULS remained outstanding.

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

|                                      | Group/Company  |                |
|--------------------------------------|----------------|----------------|
|                                      | 2012<br>RM'000 | 2011<br>RM'000 |
| Nominal value                        | 327,462        | 327,462        |
| Less: Unamortised discount           | (309,373)      | (298,243)      |
| Net amount                           | 18,089         | 29,219         |
| Amount due within one year (Note 26) | (13,098)       | (13,098)       |
| Amount due after one year (Note 26)  | 4,991          | 16,121         |

### 32. ICULS (Continued)

The amount recognised in the statements of financial position may be analysed as follows:

|   | <b>Group/Company</b> |               |
|---|----------------------|---------------|
|   | <b>2012</b>          | <b>2011</b>   |
|   | <b>RM'000</b>        | <b>RM'000</b> |
| Liability component at 1 July                         | <b>29,219</b>        | 39,587        |
| Interest expenses recognised during the year (Note 7) | <b>2,004</b>         | 2,730         |
| Interest paid during the year                         | <b>(13,134)</b>      | (13,098)      |
|   | <hr/>                | <hr/>         |
| Liability component at 30 June                        | <b>18,089</b>        | 29,219        |
|   | <hr/> <hr/>          | <hr/> <hr/>   |

Interest expense on the ICULS is calculated on the effective yield basis by applying the interest rate of 7% (2011: 7%) per annum.

### 33. EMPLOYEE SHARE-BASED PAYMENT

The main features of the Executive Share Option Scheme ("ESOS"), which became effective on 1 September 2005, are as follows:

- (a) Executive directors and confirmed executive employees of the Group who have been employed on a continuous full time basis for a period of not less than six months on the date of offer shall be eligible to participate in the ESOS.
- (b) The aggregate number of options exercised and options offered and to be offered under the ESOS shall not exceed 15% of the issued and paid-up share capital of the Company at any one time during the duration of the ESOS subject to the following being complied with:
  - (i) not more than 50% of the shares available under the ESOS shall be allocated, in aggregate, to executive directors and senior management; and
  - (ii) not more than 10% of the shares available under the ESOS shall be allocated to any eligible executive who, either singly or collectively through persons connected with him or her (as defined in paragraph 1.01 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements), holds 20% or more of the issued and paid-up share capital of the Company.
- (c) No options shall be granted for less than 100 ordinary shares nor more than the maximum allowable allotment and each grant of options shall be in multiples of 100 ordinary shares.
- (d) The subscription price of each ordinary share under the ESOS shall be the weighted average market price of the shares for the 5 market days immediately preceding the date of offer on which the shares were traded with a discount of not more than 10%, or the par value of the shares, whichever is the higher.
- (e) The ESOS shall continue to be in force for a period of 5 years and the Company may, if the Board deems fit upon the recommendation of the Option Committee, renew the ESOS for a further 5 years, without further approval of the relevant authorities.

The persons to whom the options have been granted have no right to participate, by virtue of the options, in any share issue of any other company.

No options were granted or exercised pursuant to the ESOS in the previous financial year.

### 33. EMPLOYEE SHARE-BASED PAYMENT (Continued)

The following tables illustrate the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the previous years:

| Grant date | Number of Options         |         |           | Balance as at 30 June 2011 | Exercisable as at 30 June 2011 |
|------------|---------------------------|---------|-----------|----------------------------|--------------------------------|
|            | Balance as at 1 July 2010 | Granted | Exercised |                            |                                |
| 29.5.2008  | 1,984,100                 | –       | –         | (1,984,100)                | –                              |
| WAEP (RM)  | 1.23                      | –       | –         | 1.23                       | –                              |

The ESOS expired on 31 August 2010.

The fair value of the options granted is estimated at the date of grant using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted.

The fair value of options granted on 29 May 2008 was estimated on the date of grant using the following assumptions:

|   |      |
|---|------|
| Fair value at grant date 29 May 2008 (RM) | 1.26 |
| Dividend yield (%)                        | 1.0  |
| Expected volatility (%)                   | 50.0 |
| Risk-free interest rate (%)               | 3.0  |
| Expected life (years)                     | 2.2  |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

A new ESOS for the benefit of executive and non-executive Directors of the Company and executive employees of the Group (“New ESOS”) was implemented on 2 February 2011 for a period of 5 years.

The main features of the New ESOS are as follows:

- (a) Executive and non-executive Directors of the Company who had held office for at least six months, and confirmed executive employees of the Group who have been employed on a continuous full time basis for a period of not less than six months on the date of offer shall be eligible to participate in the New ESOS.
- (b) The aggregate number of options exercised and options offered and to be offered under the New ESOS shall not exceed 5% of the issued and paid-up share capital of the Company at any point of time during the duration of the New ESOS subject to the following being complied with:
  - (i) not more than 50% of the shares available under the New ESOS shall be allocated, in aggregate, to executive and non-executive Directors, and senior management; and
  - (ii) not more than 10% of the shares available under the New ESOS shall be allocated to any eligible executive who, either singly or collectively through persons connected with him or her (as defined in paragraph 1.01 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements), holds 20% or more of the issued and paid-up share capital of the Company.
- (c) No options shall be granted for less than 100 ordinary shares nor more than the maximum allowable allotment and each grant of options shall be in multiples of 100 ordinary shares.

### 33. EMPLOYEE SHARE-BASED PAYMENT (Continued)

The main features of the New ESOS are as follows: (Continued)

- (d) The subscription price of each ordinary share under the New ESOS shall be the weighted average market price of the shares for the 5 market days immediately preceding the date of offer on which the shares were traded with a discount of not more than 10%, or the par value of the shares, whichever is the higher.
- (e) The ESOS shall continue to be in force for a period of 5 years and the Company may, if the Board deems fit upon the recommendation of the Option Committee, renew the New ESOS for a further 5 years, without further approval of the relevant authorities.

No options were granted or exercised pursuant to the New ESOS during the financial year.

### 34. COMMITMENTS

#### (a) Capital commitments

|  | Group            |                  |
|--|------------------|------------------|
|  | 2012<br>RM'000   | 2011<br>RM'000   |
| Capital expenditure for property, plant and equipment: |                  |                  |
| Approved and contracted for                            | 2,258,642        | 2,261,811        |
| Approved but not contracted for                        | 286,170          | 286,145          |
|  | <b>2,544,812</b> | <b>2,547,956</b> |

#### (b) Non-cancellable operating lease commitments

|   |               |               |
|---|---------------|---------------|
| Future minimum rentals payable:                   |               |               |
| Not later than one year                           | 4,105         | 3,820         |
| Later than one year and not later than five years | 7,317         | 9,819         |
| Later than five years                             | 22,742        | 23,884        |
|   | <b>34,164</b> | <b>37,523</b> |

Operating lease payments represent rentals payable by the Group for use of land, buildings, plant and machineries.

#### (c) Acquisition commitments

The acquisition of investments in bonds issued by LCB and equity interest in Megasteel were completed in February 2009. As at 30 June 2012, the balance purchase consideration of RM68.9 million (2011: RM75.0 million) outstanding has been recognised as a liability as disclosed in Note 27(ii).

### 35. OBLIGATIONS UNDER FINANCE LEASES

The Group has finance leases for motor vehicles as disclosed in Note 11. These leases do not have terms of renewal, but have purchase option at nominal values at the end of the lease term.

**35. OBLIGATIONS UNDER FINANCE LEASES (Continued)**

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Minimum lease payments:</b>                     |                |                |                |                |
| Not later than one year                            | 172            | 241            | 112            | 217            |
| Later than one year and not later than five years  | 393            | 409            | 244            | 311            |
| Later than five years                              | 29             | 113            | 29             | 89             |
|  | <b>594</b>     | 763            | <b>385</b>     | 617            |
| Less: Future finance charges                       | (63)           | (96)           | (42)           | (77)           |
| Present value of finance lease liabilities         | <b>531</b>     | 667            | <b>343</b>     | 540            |
| <b>Present value of finance lease liabilities:</b> |                |                |                |                |
| Not later than one year                            | 151            | 213            | 97             | 192            |
| Later than one year and not later than five years  | 352            | 353            | 218            | 268            |
| Later than five years                              | 28             | 101            | 28             | 80             |
|  | <b>531</b>     | 667            | <b>343</b>     | 540            |
| <b>Analysed as:</b>                                |                |                |                |                |
| Due within one year (Note 26)                      | 151            | 213            | 97             | 192            |
| Due after one year (Note 26)                       | 380            | 454            | 246            | 348            |
|  | <b>531</b>     | 667            | <b>343</b>     | 540            |

The obligations under finance leases bore interest at the reporting date at rates ranging from 2.5% to 3.3% (2011: 2.1% to 3.3%) per annum.

**36. CONTINGENT LIABILITIES**
**(i) Corporate guarantees**

|  | Company        |                |
|--|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Unsecured</b>   |                |                |
| Corporate guarantees given to financial institutions for credit facilities granted to subsidiaries | <b>489,335</b> | 499,586        |

Upon adoption of FRS 139 effective 1 July 2010, the financial guarantees provided to financiers for subsidiaries are no longer disclosed as contingent liabilities but would instead be recorded as financial liabilities if considered likely to crystallise. The Company has assessed the financial guarantee contracts and concluded that the financial impact of the guarantees is not material.

### 36. CONTINGENT LIABILITIES (Continued)

#### (ii) Claims from contractors

As disclosed in Note 30, contractors for the Blast Furnace Project ("Project") have made claims of RM82.9 million to recover the cost incurred for purchasing parts and components for the Project but not delivered, and the compensation for damages incurred by the contractors due to the delay, of which RM29.0 million has been provided in the financial statements. The remaining claims were not provided as the management is unable to obtain appropriate and satisfactory evidence to satisfy themselves as to the validity of the above transactions.

#### (iii) Capital expenditure relating to the Project

The Group is exposed to liabilities on parts purchased from contractors but not delivered to the Project site as instructed by the Group due to the delay in construction of the Project as disclosed in Note 11. As at the date of the financial statements, the contractors have yet to submit the invoices and proof of claims for parts purchased. The quantum of the liabilities will be determined based on a mutually agreed sum of work done.

Neither the parts nor the liabilities have been recognised in the financial statements as the Directors are of the opinion that the claims from contractors cannot be reliably measured as at the reporting date.

### 37. SIGNIFICANT RELATED PARTY TRANSACTIONS

#### (i) Transactions with other related parties

| Related Parties                               | Nature   | Group          |                |
|---|--|----------------|----------------|
|   |  | 2012<br>RM'000 | 2011<br>RM'000 |
| Amsteel Mills Sdn Bhd                         | Sale of steel products   | 108,469        | 94,367         |
| Antara Steel Mills Sdn Bhd                    | Purchase of steel products   | 27,856         | 40,042         |
| Lion Waterway Logistics Sdn Bhd               | Transportation services  | 53,069         | 59,943         |
| Megasteel                                     | Sale of steel products (a)   | 1,153,177      | 912,729        |
| Megasteel                                     | Operating lease rental of plant  | 45,530         | 42,786         |
| Megasteel                                     | Purchase of consumables  | 27,134         | 19,407         |
| Megasteel                                     | Lease of land  | 1,142          | 1,142          |
| Megasteel                                     | Compensation claim   | 8,238          | 6,944          |
| Megasteel                                     | Compensation income  | 29,538         | –              |
| Megasteel                                     | Compensation expense   | (30,480)       | –              |
| Megasteel                                     | Commission, management and finance income from trading of steel products (b) | 1,611          | 23,859         |
| Posim Marketing Sdn Bhd ("Posim")             | Purchase of steel products   | 248,193        | 191,365        |
| Posim   | Sale of steel products   | 3,999          | 5,979          |
| Secomex Manufacturing (M) Sdn Bhd             | Purchase of consumables  | 10,933         | 10,222         |
| Teck Chiang (International) Pte Ltd (Note 16) | Disposal of a jointly controlled entity                                      | –              | 32,670         |

### 37. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (i) Transactions with other related parties (Continued)

- (a) On 16 July 2007, a wholly-owned subsidiary of the Company, Lion DRI Sdn Bhd ("Lion DRI") entered into an offtake agreement with Megasteel, to supply to Megasteel its entire production of 1.54 million metric tonnes per annum of the hot direct reduced iron and/or hot briquetted iron ("Steel Products") upon the terms and conditions of the agreement ("Offtake Agreement") as follows:
- (I) The selling price of the Steel Products for the 10 years term shall be based on the formula of a cost plus certain margin ("Selling Price");
  - (II) 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;
  - (III) 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 ("Maybank") base lending rate per annum shall be payable on the outstanding sum from the due date to date of settlement; and
  - (IV) Lion DRI shall be free to dispose of the Steel Products not taken up by Megasteel at 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.

On 20 October 2009, the credit terms under the above mentioned Offtake Agreement was amended to a 7-day term pursuant to a Supplemental Offtake Agreement. During the financial year, the credit terms had been revised to 30 days.

- (b) Graimpi Sdn Bhd ("Graimpi"), a wholly-owned subsidiary of the Company, had the following arrangements with Megasteel:
- (I) Graimpi agreed to supply to Megasteel scrap iron, direct reduced iron, hot briquetted iron, pig iron and/or such other steel materials. Megasteel shall pay Graimpi at cost of purchase, plus 0.9% commission on materials, and interest at the rate of 1.25% per annum over and above the prevailing Maybank base lending rate.
  - (II) Graimpi agreed to purchase prime hot rolled coils ("HRC") from Megasteel at the prevailing market price. In turn, Megasteel agreed to participate in the trading of the HRC by Graimpi by purchasing the HRC from Graimpi. The purchase price to be paid by Megasteel shall be at HRC price, plus 0.9% commission on HRC price, and interest at the rate of 1.25% per annum over and above the prevailing Maybank base lending rate.

Amsteel Mills Sdn Bhd, Antara Steel Mills Sdn Bhd and Lion Waterway Logistics Sdn Bhd are subsidiaries of Lion Industries Corporation Berhad, a substantial shareholder of the Company.

Megasteel and Secomex Manufacturing (M) Sdn Bhd are subsidiaries of Lion Corporation Berhad, an associate of the Company wherein certain Directors of the Company are also substantial shareholders.

Posim Marketing Sdn Bhd, a wholly-owned subsidiary of Lion Forest Industries Berhad wherein certain Directors of the Company are also substantial shareholders.

Teck Chiang (International) Pte Ltd, a wholly-owned subsidiary of Lion Teck Chiang Limited wherein certain Directors of the Company are also substantial shareholders.

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 on terms that are no more favourable to the related parties than those arranged with independent third parties.

Information regarding outstanding balances arising from related party transactions as at 30 June 2012 are disclosed in Notes 21 and 29.

### 37. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (ii) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Wages, salaries and bonuses                | 718            | 672            | 390            | 380            |
| Pension costs - defined contribution plans | 32             | 36             | 32             | 36             |
|  | <b>750</b>     | <b>708</b>     | <b>422</b>     | <b>416</b>     |

### 38. SIGNIFICANT EVENTS

(a) On 3 March 2011, the Company announced the following:

- (i) Proposed joint venture in the blast furnace project among the Company, Lion Industries Corporation Berhad ("LICB") and Lion Forest Industries Berhad in the equity participation of 51:29:20 by the subscription of new ordinary shares of RM1.00 each at par for cash in the capital of Lion Blast Furnace Sdn Bhd ("LBF") to the value of USD162.2 million (equivalent to approximately RM494.7 million) ("Proposed Joint Venture");
- (ii) Proposed acquisitions by LBF of various parcels of contiguous freehold lands all located in Mukim Tanjung Duabelas, Daerah Kuala Langat, Negeri Selangor Darul Ehsan measuring approximately 147.76 acres from Andalas Development Sdn Bhd, Che Kiang Realty Sdn Bhd and Amsteel Mills Sdn Bhd (a 99%-owned subsidiary of LICB) for a total cash consideration of approximately RM52.28 million ("Proposed Land Acquisitions"); and
- (iii) Proposed leasing by LBF of three parcels of contiguous freehold vacant lands all located in Mukim Tanjung Duabelas, Daerah Kuala Langat, Negeri Selangor Darul Ehsan measuring approximately 202.89 acres from Megasteel for a lease tenure of thirty (30) years.

During the financial year, the respective parties to the Subscription Agreement in respect of the Proposed Joint Venture and the Sale and Purchase Agreements for the Proposed Land Acquisitions have mutually agreed in writing to extend the period for fulfilment of conditions precedent as set out in the aforesaid agreements ("Condition Period") for a further period of six (6) months from 3 March 2012 to 2 September 2012.

As at 30 June 2012, the aforesaid proposals have not been completed.

Subsequent to the financial year end, the Condition Period has been further extended for a period of six (6) months from 3 September 2012 to 2 March 2013.

- (b) On 5 March 2012, the Company announced that following the issuance and allotment by LCB on 5 March 2012 of the new ordinary shares of RM1.00 each in LCB to the Scheme Creditors of Megasteel in relation to the share issuance pursuant to the settlement scheme undertaken by Megasteel, the shareholding of the Group in LCB has been diluted to 49.2%.



### 39. SUBSEQUENT EVENT

On 5 September 2012, the Company announced that Excel Step Investments Limited (“Issuer”), a wholly-owned subsidiary of the Company (as Guarantor), is considering with its financial advisers the proposed amendments in respect of its USD132,110,000 nominal value 6.0% Guaranteed Secured Exchangeable Bonds due 2012 (“Bonds”) constituted by the trust deed dated 16 November 2007, as amended by a supplemental trust deed dated 2 September 2010 (collectively, the “Trust Deed”) made between the Issuer, the Company, The Bank of New York Mellon, London Branch and AmTrustee Berhad (“Security Trustee”).

On 27 September 2012, the Company announced that the Issuer will convene a meeting of the holders of the Bonds (“Bondholders’ Meeting”) on 24 October 2012 to pass an Extraordinary Resolution relating to certain amendments proposed by the Issuer to the terms and conditions of the Bonds and the Trust Deed (“Proposed Amendments”) and the release of monies held by the Security Trustee in respect of the existing security arrangements in respect of the Bonds for the purpose of conversion into United States Dollar (“USD”) and the application of such USD amount in making payments due by the Issuer in respect of the Bonds on 16 November 2012.

The Proposed Amendments include, amongst others, the following:

- (i) the extension of the maturity date of the Bonds to 16 November 2014;
- (ii) the redemption of the Bonds at 100% of their principal amount on the extended maturity date;
- (iii) the four partial redemptions totalling approximately USD20.6 million on 16 November 2012, 16 May 2013, 16 November 2013 and 16 May 2014 respectively;
- (iv) quarterly coupon payments on and after 16 November 2012, with a yield reduction from 9.0% per annum calculated on a semi-annual basis to 6.0% per annum calculated on a quarterly basis;
- (v) the dividend protection mechanism in respect of capital distributions to be made by Parkson on or after 16 November 2012 to be by way of a cash payment and not an adjustment to the exchange price; and
- (vi) Issuer redemption permitted where the relevant volume weighted average price of the Parkson shares is at least 120% of the applicable early redemption amount divided by the exchange ratio,

in each case effective from and including 16 November 2012.

The redemption premium (i.e. 6.4173%) is payable as a one-off cash payment on 16 November 2012. Accrued dividends and other cash amounts held by the Security Trustee under the security over the Parkson shares shall be released from such security, converted into USD and applied to meet the payments due by the Issuer in respect of the Bonds on 16 November 2012. At the date of the announcement, the outstanding principal amount of the Bonds was USD68,290,000 and the number of Parkson shares underlying the Bonds was 40,103,873.

As at the date of this report, the Proposed Amendments are pending the approval of the holders of the Bonds via an Extraordinary Resolution at the Bondholders’ Meeting.

### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS

- (a) **Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value**

Fair value information has not been disclosed for the Group’s investments in equity instrument that are carried at cost because fair value cannot be measured reliably. These equity instruments represent ordinary shares in companies that are not quoted on any market and does not have any comparable industry peer that is listed.

#### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

##### (b) Determination of fair value

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

|  | <b>Note</b> |
|--|-------------|
| Trade and other receivables (current)          | 21          |
| Loans and borrowings (current and non-current) | 26          |
| Trade payables (current)                       | 29          |
| Product financing liabilities (current)        | 31          |
| ICULS  | 32          |

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short term nature or that they are floating rate instruments that are repriced to market interest rates on or near the reporting date.

The carrying amount of the current portion of loans and borrowings, obligations under finance lease and product financing liabilities are reasonable approximations of fair values due to the insignificant impact of discounting.

The fair value of non-current loans and borrowings, obligations under finance lease, ICULS and long term payables are estimated by discounting expected future cash flows at current interest rates for similar types of lending or borrowing arrangements/liabilities with similar risk profiles at the reporting date.

- (ii) Amounts due from/to subsidiaries, related parties and jointly controlled entities

It is not practical to estimate the fair values of the amounts owing by/to subsidiaries and related parties due principally to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs.

- (iii) Quoted equity instruments

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

- (iv) Derivatives

The fair value of embedded derivative liability is calculated using a binomial option pricing model, taking into account the terms and conditions upon which the derivative liability is issued.

- (v) Financial guarantees

The fair values of financial guarantees are determined based on the probability weighted discounted cash flows method. The probability has been estimated and assigned for the following key assumptions:

- the likelihood of the guaranteed party defaulting within the guaranteed period;
- the exposure on the portion that is not expected to be recovered due to the guaranteed party's default; and
- the estimated loss exposure if the party guaranteed were to default.

**40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**
**(b) Determination of fair value (Continued)**
**(vi) Cash and cash equivalents, trade and other receivables**

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

**(c) Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 30 June 2012, the Group and the Company held the following financial instruments carried at fair values in the statements of financial position:

|   | 2012<br>RM'000 | Level 1<br>RM'000 | Level 2<br>RM'000 | Level 3<br>RM'000 |
|---|----------------|-------------------|-------------------|-------------------|
| <b>Group</b>                                |                |                   |                   |                   |
| <b>Assets measured at fair value</b>        |                |                   |                   |                   |
| <i>Available-for-sale financial assets:</i> |                |                   |                   |                   |
| Current                                     | 184,005        | 184,005           | -                 | -                 |
| Non-current                                 | 46,258         | 46,258            | -                 | -                 |
|   | 230,263        | 230,263           | -                 | -                 |
|   | 230,263        | 230,263           | -                 | -                 |
| <b>Company</b>                              |                |                   |                   |                   |
| <b>Assets measured at fair value</b>        |                |                   |                   |                   |
| <i>Available-for-sale financial assets:</i> |                |                   |                   |                   |
| Current                                     | -              | -                 | -                 | -                 |
| Non-current                                 | 26,860         | 26,860            | -                 | -                 |
|   | 26,860         | 26,860            | -                 | -                 |
|   | 26,860         | 26,860            | -                 | -                 |

During the financial year ended 30 June 2012, there were no transfers between Level 1 and Level 2 fair values measurements.

#### **41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk.

The Board of Directors reviews and agrees policies and procedures for managing each of these risks, which are executed by the Group's key management personnel. 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 interest rate, foreign exchange, liquidity and credit risks. It is the Group's policy not to engage in speculative transactions. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

It is and has been throughout the current and previous financial years, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

##### **(a) 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. For other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

Credit risk is controlled by the application of credit approval limits, monitoring procedures and assessment of collateral values. In addition, receivables balances are monitored on an ongoing basis via management reporting procedures and internal credit review procedures.

##### Exposure to credit risk

Information regarding the Group's exposure to credit risk is disclosed in Note 21.

##### Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 21.

Deposits with licensed banks and quoted investments are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

##### Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 21.

##### **(b) Liquidity risk**

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 actively manages its operating cash flows and the availability of fund so as to ensure that all funding needs are met. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**
**(b) Liquidity risk (Continued)**
**Analysis of financial instruments by remaining contractual maturities**

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

|  | <b>On demand<br/>or within<br/>one year<br/>RM'000</b> | <b>One to<br/>five years<br/>RM'000</b> | <b>Over five<br/>years<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|---|---------------------------------------|-------------------------|
| <b>2012</b>                              |  |   |                                       |                         |
| <b>Group</b>                             |  |   |                                       |                         |
| <b>Financial liabilities</b>             |  |   |                                       |                         |
| Trade and other payables                 | 736,213  | -                                       | -                                     | 736,213                 |
| Loans and borrowings                     | 493,671  | 28,365                                  | 29                                    | 522,065                 |
| Product financing liabilities            | 97,944   | -                                       | -                                     | 97,944                  |
| Total undiscounted financial liabilities | <u>1,327,828</u>                                       | <u>28,365</u>                           | <u>29</u>                             | <u>1,356,222</u>        |
| <b>Company</b>                           |  |   |                                       |                         |
| <b>Financial liabilities</b>             |  |   |                                       |                         |
| Trade and other payables                 | 265,902  | -                                       | -                                     | 265,902                 |
| Loans and borrowings                     | 13,210   | 5,235                                   | 29                                    | 18,474                  |
| Total undiscounted financial liabilities | <u>279,112</u>   | <u>5,235</u>                            | <u>29</u>                             | <u>284,376</u>          |
| <b>2011</b>                              |  |   |                                       |                         |
| <b>Group</b>                             |  |   |                                       |                         |
| <b>Financial liabilities</b>             |  |   |                                       |                         |
| Trade and other payables                 | 611,490  | -                                       | -                                     | 611,490                 |
| Loans and borrowings                     | 251,480  | 306,903                                 | 113                                   | 558,496                 |
| Product financing liabilities            | 80,699   | -                                       | -                                     | 80,699                  |
| Total undiscounted financial liabilities | <u>943,669</u>   | <u>306,903</u>                          | <u>113</u>                            | <u>1,250,685</u>        |
| <b>Company</b>                           |  |   |                                       |                         |
| <b>Financial liabilities</b>             |  |   |                                       |                         |
| Trade and other payables                 | 584,829  | -                                       | -                                     | 584,829                 |
| Loans and borrowings                     | 13,315   | 16,432                                  | 89                                    | 29,836                  |
| Total undiscounted financial liabilities | <u>598,144</u>   | <u>16,432</u>                           | <u>89</u>                             | <u>614,665</u>          |

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**
**(c) 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 is managed through the use of fixed and floating rates debts. The information on maturity dates and effective interest rates of financial assets and liabilities are 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 loss net of tax would have been RM0.4 million lower/higher, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

**(d) Foreign currency risk**

The Group is exposed to foreign currency exchange risk as a result of the foreign currency transactions entered into by the Group in currencies other than its functional currency. As these transactions are mainly denominated in United States Dollar ("USD") and Singapore Dollar ("SGD"), the Group's foreign currency exchange risk is primarily due to USD and SGD. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

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.

Sensitivity analysis for foreign currency risk

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

**2012**

|                          | <b>Group<br/>Loss<br/>net of tax<br/>RM'000</b> | <b>Company<br/>Profit<br/>net of tax<br/>RM'000</b> |
|--------------------------|---|---|
| USD/RM - strengthened 3% | (5,774)   | 5,976   |
| - weakened 3%            | 5,774   | (5,976)   |
|                          | <hr/> <hr/>                                     | <hr/> <hr/>   |

**2011**

|                          | <b>Group<br/>Loss<br/>net of tax<br/>RM'000</b> | <b>Company<br/>Profit<br/>net of tax<br/>RM'000</b> |
|--------------------------|---|---|
| USD/RM - strengthened 3% | (15,549)  | 5,441   |
| - weakened 3%            | 15,549  | (5,441)   |
| SGD/RM - strengthened 3% | -   | 6,026   |
| - weakened 3%            | -   | (6,026)   |
|                          | <hr/> <hr/>                                     | <hr/> <hr/>   |

#### 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### (e) Market price risk

Market price risk is the risk that the fair value or 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 is exposed to equity price risk arising from its investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Main Market of Bursa Malaysia Securities Berhad, whereas the quoted equity instrument outside Malaysia is listed on the Australian Securities Exchange ("ASX") in Australia. These instruments are classified as available-for-sale financial assets.

To manage its market price risk arising from investments in quoted equity instruments, the Group diversifies and manages its portfolio in accordance with established guidelines and policies.

##### Sensitivity analysis for equity price risk

At the reporting date, if the Group's quoted investments listed on the Bursa Securities had been 2% higher/lower, with all other variables held constant, the Group's other reserve in equity would have been RM4.6 million (2011: RM7.4 million) higher/lower, arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale. As at the reporting date, the impact of changes in 2% (2011: 2%) on the ASX, with all other variables constant, is immaterial to the Group's loss net of tax and equity.

#### 42. 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 make 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 2012 and 30 June 2011.

|  | <b>Group</b>     |               |
|--|------------------|---------------|
|  | <b>2012</b>      | <b>2011</b>   |
|  | <b>RM'000</b>    | <b>RM'000</b> |
| Loans and borrowings                         | 507,955          | 529,472       |
| Trade and other payables                     | 736,213          | 611,490       |
| Less: Cash and cash equivalents              | (197,394)        | (201,098)     |
|  | <hr/>            | <hr/>         |
| Net debts                                    | <b>1,046,774</b> | 939,864       |
|  | <hr/>            | <hr/>         |
| Equity attributable to owners of the Company | <b>1,501,753</b> | 1,864,502     |
| Less: ICULS equity component                 | (287,182)        | (287,182)     |
|  | <hr/>            | <hr/>         |
|  | <b>1,214,571</b> | 1,577,320     |
|  | <hr/>            | <hr/>         |
| Total capital and net debts                  | <b>2,261,345</b> | 2,517,184     |
|  | <hr/> <hr/>      | <hr/> <hr/>   |
| Gearing ratio                                | <b>46%</b>       | 37%           |
|  | <hr/> <hr/>      | <hr/> <hr/>   |

#### 43. SEGMENT INFORMATION

##### (a) Reporting format

The primary segment format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically.

##### (b) Business segments

The Group is organised on a worldwide basis into four major business segments:

- |   |   |   |
|---|---|---|
| (i) Steel                                     | - | Manufacturing and sale of steel products                  |
| (ii) Property                                 | - | Property development and management                       |
| (iii) Contract manufacturing services ("CMS") | - | Electronic and mechanical contract manufacturing services |
| (iv) Others                                   | - | Investment holding, trading and others                    |

Except as indicated above, no operating segment has been aggregated to form the above reportable operating segments.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

#### 2012

|  | Steel<br>RM'000  | Property<br>RM'000 | CMS<br>RM'000  | Others<br>RM'000 | Elimination<br>RM'000 | Total<br>RM'000         |
|--|------------------|--------------------|----------------|------------------|-----------------------|-------------------------|
| <b>Revenue</b>   |                  |                    |                |                  |                       |                         |
| External sales   | 1,314,173        | 53,687             | 138,961        | 9,897            | -                     | 1,516,718               |
| Inter-segment sales  | -                | 1,551              | -              | -                | (1,551)               | -                       |
| Total revenue  | <u>1,314,173</u> | <u>55,238</u>      | <u>138,961</u> | <u>9,897</u>     | <u>(1,551)</u>        | <u>1,516,718</u>        |
| <b>Results</b>   |                  |                    |                |                  |                       |                         |
| Segment results  | 50,284           | 16,207             | 10,025         | 8,249            | -                     | 84,765                  |
| Net fair value gain on available-for-sale financial assets |                  |                    |                |                  |                       | 18,433                  |
| Net fair value gain on derivative liability                |                  |                    |                |                  |                       | 42,603                  |
| Realised and unrealised foreign exchange loss, net         |                  |                    |                |                  |                       | <u>(17,253)</u>         |
| Profit from operations                                     |                  |                    |                |                  |                       | 128,548                 |
| Finance costs  |                  |                    |                |                  |                       | (77,603)                |
| Impairment loss on investments in associates               |                  |                    |                |                  |                       | (10,725)                |
| Gain on disposal of investment in associate                |                  |                    |                |                  |                       | 83                      |
| Property, plant and equipment written off                  |                  |                    |                |                  |                       | (36,765)                |
| Share of results of associates                             |                  |                    |                |                  |                       | (238,003)               |
| Share of results of jointly controlled entities            |                  |                    |                |                  |                       | 3,177                   |
| Income tax expense   |                  |                    |                |                  |                       | <u>(18,041)</u>         |
| Loss for the year  |                  |                    |                |                  |                       | <u><u>(249,329)</u></u> |



**43. SEGMENT INFORMATION (Continued)**
**(b) Business segments (Continued)**
**2012 (Continued)**

|  | Steel<br>RM'000 | Property<br>RM'000 | CMS<br>RM'000 | Others<br>RM'000 | Elimination<br>RM'000 | Total<br>RM'000  |
|--|-----------------|--------------------|---------------|------------------|-----------------------|------------------|
| <b>Assets</b>                              |                 |                    |               |                  |                       |                  |
| Segment assets                             | 1,938,170       | 411,423            | 85,207        | 286,728          | –                     | 2,721,528        |
| Investments in associates                  |                 |                    |               |                  |                       | 255,364          |
| Investments in jointly controlled entities |                 |                    |               |                  |                       | 22,243           |
| Unallocated corporate assets               |                 |                    |               |                  |                       | 12,846           |
| Consolidated total assets                  |                 |                    |               |                  |                       | <u>3,011,981</u> |
| <b>Liabilities</b>                         |                 |                    |               |                  |                       |                  |
| Segment liabilities                        | 743,936         | 71,394             | 22,764        | 533,018          | –                     | 1,371,112        |
| Unallocated corporate liabilities          |                 |                    |               |                  |                       | 139,116          |
| Consolidated total liabilities             |                 |                    |               |                  |                       | <u>1,510,228</u> |
| <b>Other information</b>                   |                 |                    |               |                  |                       |                  |
| Capital expenditure                        | 3,619           | 523                | 1,234         | 325              | –                     | 5,701            |
| Depreciation                               | 31,268          | 454                | 2,778         | 497              | –                     | 34,997           |
| Impairment losses                          | 7,537           | –                  | 175           | 1,683            | –                     | 9,395            |
| Other non-cash expense                     | 7,003           | –                  | 381           | –                | –                     | 7,384            |

**2011**
**Revenue**

|                     |                  |               |                |              |                |                  |
|---------------------|------------------|---------------|----------------|--------------|----------------|------------------|
| External sales      | 1,059,187        | 79,501        | 130,618        | 9,786        | –              | 1,279,092        |
| Inter-segment sales | –                | 1,300         | –              | –            | (1,300)        | –                |
| Total revenue       | <u>1,059,187</u> | <u>80,801</u> | <u>130,618</u> | <u>9,786</u> | <u>(1,300)</u> | <u>1,279,092</u> |

**Results**

|  |        |        |       |       |   |                 |
|--|--------|--------|-------|-------|---|-----------------|
| Segment results  | 54,653 | 22,195 | 3,698 | 8,942 | – | 89,488          |
| Net fair value gain on available-for-sale financial assets |        |        |       |       |   | 15,546          |
| Net fair value loss on derivative liability                |        |        |       |       |   | (3,684)         |
| Realised and unrealised foreign exchange gain, net         |        |        |       |       |   | 35,818          |
| Profit from operations                                     |        |        |       |       |   | 137,168         |
| Finance costs  |        |        |       |       |   | (81,676)        |
| Gain on disposal of investment in associate                |        |        |       |       |   | 19,905          |
| Loss on disposal of a jointly controlled entity            |        |        |       |       |   | (4,784)         |
| Share of results of associates                             |        |        |       |       |   | (123,477)       |
| Share of results of jointly controlled entities            |        |        |       |       |   | 23,706          |
| Income tax expense   |        |        |       |       |   | (22,960)        |
| Loss for the year  |        |        |       |       |   | <u>(52,118)</u> |

**43. SEGMENT INFORMATION (Continued)**
**(b) Business segments (Continued)**
**2011 (Continued)**

|   | Steel<br>RM'000 | Property<br>RM'000 | CMS<br>RM'000 | Others<br>RM'000 | Elimination<br>RM'000 | Total<br>RM'000  |
|---|-----------------|--------------------|---------------|------------------|-----------------------|------------------|
| <b>Assets</b>                                 |                 |                    |               |                  |                       |                  |
| Segment assets                                | 2,220,307       | 383,728            | 78,669        | 415,210          | –                     | 3,097,914        |
| Investments in associates                     |                 |                    |               |                  |                       | 148,501          |
| Investments in jointly<br>controlled entities |                 |                    |               |                  |                       | 33,334           |
| Unallocated corporate assets                  |                 |                    |               |                  |                       | 15,916           |
| Consolidated total assets                     |                 |                    |               |                  |                       | <u>3,295,665</u> |
| <b>Liabilities</b>                            |                 |                    |               |                  |                       |                  |
| Segment liabilities                           | 718,791         | 77,598             | 22,386        | 485,184          | –                     | 1,303,959        |
| Unallocated corporate liabilities             |                 |                    |               |                  |                       | 127,204          |
| Consolidated total liabilities                |                 |                    |               |                  |                       | <u>1,431,163</u> |
| <b>Other information</b>                      |                 |                    |               |                  |                       |                  |
| Capital expenditure                           | 17,127          | 497                | 1,774         | 279              | –                     | 19,677           |
| Depreciation                                  | 31,174          | 459                | 3,324         | 516              | –                     | 35,473           |
| Impairment losses                             | –               | –                  | 8,330         | 8,038            | –                     | 16,368           |
| Other non-cash expense/(income)               | 5,000           | –                  | (833)         | 46               | –                     | 4,213            |

**(c) Geographical segments**

The Group's four business segments are operated in three main geographical areas:

- (i) Malaysia - Steel, property, CMS and others
- (ii) People's Republic of China - Property and others
- (iii) Others - CMS and others

An analysis of the Group's revenue, carrying amount of segment assets and capital expenditure by geographical segment are as follows:

|                            | Segment Revenue         |                | Segment Assets          |                | Capital Expenditure |                |
|----------------------------|-------------------------|----------------|-------------------------|----------------|---------------------|----------------|
|                            | 2012<br>RM'000          | 2011<br>RM'000 | 2012<br>RM'000          | 2011<br>RM'000 | 2012<br>RM'000      | 2011<br>RM'000 |
| Malaysia                   | <b>1,358,385</b>        | 1,103,287      | <b>2,204,016</b>        | 2,499,325      | <b>4,590</b>        | 18,408         |
| People's Republic of China | <b>48,128</b>           | 69,319         | <b>289,914</b>          | 268,793        | <b>643</b>          | 795            |
| Others                     | <b>110,205</b>          | 106,486        | <b>227,598</b>          | 329,796        | <b>468</b>          | 474            |
| Total                      | <u><b>1,516,718</b></u> | 1,279,092      | <u><b>2,721,528</b></u> | 3,097,914      | <u><b>5,701</b></u> | 19,677         |

**(d) Information about major customers**

Revenue from two customers (being related parties as disclosed in Note 37) amounting to RM1,198.7 million (2011: RM955.5 million) and RM108.5 million (2011: RM94.4 million) respectively, arising from sales by the Steel segment.

#### **44. COMPARATIVE**

The presentation and classification of items in the current year financial statements have been consistent with the previous financial year except that certain comparative amounts have been reclassified to conform with current year's presentation.

**45. SUPPLEMENTARY INFORMATION - BREAKDOWN OF RETAINED PROFITS INTO REALISED AND UNREALISED**

The breakdown of the retained profits of the Group and of the Company as at 30 June 2012 into realised and unrealised profits/losses is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants.

|   | Group              |                | Company        |                |
|---|--------------------|----------------|----------------|----------------|
|   | 2012<br>RM'000     | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Total retained profits/<br>(accumulated losses) of the<br>Company and its subsidiaries:       |                    |                |                |                |
| - Realised  | <b>1,760,451</b>   | 1,617,374      | <b>538,469</b> | 249,090        |
| - Unrealised  | <b>(189,061)</b>   | (35,301)       | <b>1,482</b>   | 34,455         |
|   | <b>1,571,390</b>   | 1,582,073      | <b>539,951</b> | 283,545        |
| Total share of accumulated losses<br>from associated companies:                               |                    |                |                |                |
| - Realised  | <b>(887,007)</b>   | (687,528)      | -              | -              |
| - Unrealised  | <b>(153,948)</b>   | (104,698)      | -              | -              |
|   | <b>(1,040,955)</b> | (792,226)      | -              | -              |
| Total share of retained profits/<br>(accumulated losses) from<br>jointly controlled entities: |                    |                |                |                |
| - Realised  | <b>24,082</b>      | 21,326         | -              | -              |
| - Unrealised  | <b>(72)</b>        | (27)           | -              | -              |
|   | <b>24,010</b>      | 21,299         | -              | -              |
| Less: Consolidated adjustments  | <b>(70,999)</b>    | (70,999)       | -              | -              |
| Total retained profits  | <b>483,446</b>     | 740,147        | <b>539,951</b> | 283,545        |

## LIST OF GROUP PROPERTIES

AS AT 30 JUNE 2012

| Address  | Tenure/<br>Expiry Date<br>for Leasehold | Area                 | Description | Existing Use/<br>Age of<br>Building<br>(Year) | Net<br>Book Value<br>(RM million) | Date of<br>Acquisition/<br>Last<br>Revaluation |
|--|---|----------------------|-------------|---|-----------------------------------|--|
| 1. Blok Bunga Raya 3<br>Jalan Abadi 1<br>Taman Malim Jaya<br>75250 Melaka  | Leasehold<br>13.4.2081                  | 3,885.5<br>sq metres | Buildings   | Apartment<br>(14)                             | 2.5                               | June 2004                                      |
| 2. Melaka Technology Park<br>PN 20575<br>Mukim of Cheng<br>District of Melaka Tengah<br>Melaka   | Leasehold<br>14.8.2096                  | 19.8<br>acres        | Buildings   | Factory<br>(20)                               | 25.0                              | December<br>2007                               |
| 3. Geran 64183, Lot 32889<br>Mukim Tanjung 12<br>Kuala Langat<br>Selangor Darul Ehsan  | Freehold                                | 63.4<br>hectares     | Land        | Vacant  | 15.1                              | December<br>2007                               |
| 4. GRN 39954, Lot 2324<br>HS(D) 5379, PT 6341<br>GRN 41084, Lot 8379<br>GRN 55361, Lot 12164<br>Mukim Tanjung 12<br>Kuala Langat<br>Selangor Darul Ehsan | Freehold                                | 763.7<br>acres       | Land        | Vacant  | 100.5                             | June 2008                                      |
| 5. PN 22648, Lot 2697<br>PN 22678, Lot 2699<br>Mukim Tanjung 12<br>Kuala Langat<br>Selangor Darul Ehsan  | Leasehold<br>14.10.2095                 | 36.2<br>acres        | Land        | Vacant  | 3.3                               | June 2008                                      |
| 6. 33, Dong Nan Da Dao<br>Changshu City<br>Jiangsu Province<br>China   | Leasehold<br>7.7.2078                   | 488<br>sq metres     | Building    | Office<br>(3)                                 | 2.8                               | March 2008                                     |

## ANALYSIS OF SHAREHOLDINGS AND CONVERTIBLE SECURITIES

### Share Capital as at 15 October 2012

|                            |   |                                 |
|----------------------------|---|---------------------------------|
| Authorised Capital         | : | RM4,500,000,000                 |
| Issued and Paid-up Capital | : | RM368,611,613.50                |
| Class of Shares            | : | Ordinary shares of RM0.50 each  |
| Voting Rights              | : | One (1) vote per ordinary share |

### Distribution of Shareholdings as at 15 October 2012

| Size of Shareholdings                    | No. of Shareholders | % of Shareholders | No. of Shares      | % of Shares   |
|--|---------------------|-------------------|--------------------|---------------|
| Less than 100                            | 149                 | 1.41              | 4,565              | 0.00          |
| 100 to 1,000                             | 2,375               | 22.55             | 2,076,185          | 0.28          |
| 1,001 to 10,000                          | 4,786               | 45.45             | 25,078,487         | 3.40          |
| 10,001 to 100,000                        | 2,749               | 26.10             | 93,936,174         | 12.74         |
| 100,001 to less than 5% of issued shares | 468                 | 4.44              | 251,661,764        | 34.14         |
| 5% and above of issued shares            | 4                   | 0.05              | 364,466,052        | 49.44         |
|  | <u>10,531</u>       | <u>100.00</u>     | <u>737,223,227</u> | <u>100.00</u> |

### Substantial Shareholders as at 15 October 2012

| Substantial Shareholders                | ← Direct Interest → |             | ← Indirect Interest → |             |  |
|---|---------------------|-------------|-----------------------|-------------|--|
|   | No. of Shares       | % of Shares | No. of Shares         | % of Shares | Nominal Value of ICULS <sup>#</sup> (RM) |
| 1. Tan Sri William H.J. Cheng           | 121,356,607         | 16.46       | 286,209,888           | 38.82       | 325,401,322 <sup>a</sup>                 |
| 2. Lion Development (Penang) Sdn Bhd    | 1,061,889           | 0.14        | 89,997,801            | 12.21       | –  |
| 3. Narajaya Sdn Bhd                     | 89,997,801          | 12.21       | –                     | –           | –  |
| 4. Lion Corporation Berhad              | –                   | –           | 153,699,445           | 20.85       | 30,014,916 <sup>b</sup>                  |
| 5. Amsteel Mills Sdn Bhd                | 116,180,800         | 15.76       | –                     | –           | 30,014,916 <sup>b</sup>                  |
| 6. Lion Industries Corporation Berhad   | 37,518,645          | 5.09        | 116,180,800           | 15.76       | 30,014,916 <sup>b</sup>                  |
| 7. LLB Steel Industries Sdn Bhd         | –                   | –           | 116,180,800           | 15.76       | 30,014,916 <sup>b</sup>                  |
| 8. Steelcorp Sdn Bhd                    | –                   | –           | 116,180,800           | 15.76       | 30,014,916 <sup>b</sup>                  |
| 9. Deluxe Venture International Limited | 17,400,000          | 2.36        | –                     | –           | 170,000,000 <sup>c</sup>                 |

#### Notes:

# 5-year 4% irredeemable convertible unsecured loan stocks 2008/2013 of the Company ("ICULS") which are convertible into new ordinary shares of RM0.50 each in the Company ("LDHB Share") at a conversion price of RM0.50 for each new LDHB Share.

a Direct interest in RM121,615,000 nominal value of ICULS and indirect interest in RM203,786,322 nominal value of ICULS.

b Indirect interest.

c Direct interest.

**Thirty Largest Registered Shareholders as at 15 October 2012**

| <b>Registered Shareholders</b>  | <b>No. of Shares</b> | <b>% of Shares</b> |
|---|----------------------|--------------------|
| 1. Cheng Heng Jem   | 121,356,607          | 16.46              |
| 2. AMSEC Nominees (Tempatan) Sdn Bhd<br>AmTrustee Berhad for Amsteel Mills Sdn Bhd (CS-Amsteel0)          | 116,180,800          | 15.76              |
| 3. Scotia Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Narajaya Sdn Bhd                  | 89,410,000           | 12.13              |
| 4. Lion Industries Corporation Berhad   | 37,518,645           | 5.09               |
| 5. Scotia Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Ribusasi Holdings Sdn Bhd         | 17,980,000           | 2.44               |
| 6. Deluxe Venture International Limited   | 17,400,000           | 2.36               |
| 7. Cheng Yong Kim   | 7,841,337            | 1.06               |
| 8. RHB Nominees (Tempatan) Sdn Bhd<br>RHB Investment Management Sdn Bhd for Ng Siong Ket (EPF)            | 6,042,800            | 0.82               |
| 9. CIMSEC Nominees (Asing) Sdn Bhd<br>CIMB for Lee Chun Fun (PB)  | 5,000,000            | 0.68               |
| 10. Lion Holdings Private Limited   | 4,714,258            | 0.64               |
| 11. Tan Boon Har  | 4,593,800            | 0.62               |
| 12. Citigroup Nominees (Asing) Sdn Bhd<br>CBNY for Dimensional Emerging Markets Value Fund                | 4,064,800            | 0.55               |
| 13. Maybank Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for San Tuan Sam                       | 3,895,100            | 0.53               |
| 14. HSBC Nominees (Asing) Sdn Bhd<br>HSBC-FS for ASM Asia Recovery (Master) Fund                          | 3,840,800            | 0.52               |
| 15. Maybank Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Ng Siong Ket                    | 3,048,600            | 0.41               |
| 16. Chua Ming Chee  | 3,000,000            | 0.41               |
| 17. Gan Seong Liam  | 3,000,000            | 0.41               |
| 18. Maybank Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Lu Yap Yang                     | 2,970,000            | 0.40               |
| 19. Yong Swee Hing  | 2,700,000            | 0.37               |
| 20. RHB Capital Nominees (Tempatan) Sdn Bhd<br>Gan Seong Liam   | 2,500,000            | 0.34               |
| 21. Cheng Yong Kwang  | 2,272,173            | 0.31               |
| 22. ECML Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Irene Toh Lai Ping (04IR014Q-004)  | 2,250,000            | 0.31               |
| 23. TA Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Oh Kim Sun                           | 2,115,400            | 0.29               |
| 24. Wilfred Koh Seng Han  | 2,069,000            | 0.28               |
| 25. CIMSEC Nominees (Asing) Sdn Bhd<br>Exempt AN for CIMB Securities (Singapore) Pte Ltd (Retail Clients) | 2,012,100            | 0.27               |
| 26. Daniel Koh Seng Yong  | 1,936,000            | 0.26               |
| 27. HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN for The Bank of New York Mellon (Mellon Acct)              | 1,910,166            | 0.26               |
| 28. HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Sow Cheng Kow                       | 1,835,800            | 0.25               |
| 29. HSBC Nominees (Asing) Sdn Bhd<br>BBH and Co Boston for GMO Emerging Markets Equity Fund               | 1,763,036            | 0.24               |
| 30. Chee Yaw Soon   | 1,739,000            | 0.24               |

### 5-Year 4% Irredeemable Convertible Unsecured Loan Stocks 2008/2013 ("ICULS")

|                    |  |
|--------------------|--|
| No. of ICULS as at |  |
| 15 October 2012    | : 327,462,064  |
| Nominal Value      | : RM1.00 each  |
| Coupon Rate        | : 4% per annum payable semi-annually   |
| Conversion Period  | : 17 December 2008 to 16 December 2013   |
| Conversion Price   | : RM0.50 for each new ordinary share of RM0.50 each  |
| Conversion Right   | : ICULS holders will have the right to convert the ICULS at the Conversion Price into new ordinary shares of RM0.50 each in the Company during the Conversion Period |

### Distribution of ICULS Holdings as at 15 October 2012

| Size of ICULS Holdings                  | No. of ICULS Holders | % of ICULS Holders | No. of ICULS       | % of ICULS    |
|---|----------------------|--------------------|--------------------|---------------|
| Less than 100                           | 2                    | 1.22               | 100                | 0.00          |
| 100 to 1,000                            | 121                  | 73.78              | 33,400             | 0.01          |
| 1,001 to 10,000                         | 30                   | 18.29              | 104,631            | 0.03          |
| 10,001 to 100,000                       | 3                    | 1.83               | 63,200             | 0.02          |
| 100,001 to less than 5% of issued ICULS | 4                    | 2.44               | 5,630,817          | 1.72          |
| 5% and above of issued ICULS            | 4                    | 2.44               | 321,629,916        | 98.22         |
|   | <u>164</u>           | <u>100.00</u>      | <u>327,462,064</u> | <u>100.00</u> |

### Thirty Largest ICULS Holders as at 15 October 2012

| Registered ICULS Holders   | No. of ICULS | % of ICULS |
|--|--------------|------------|
| 1. Deluxe Venture International Limited  | 170,000,000  | 51.91      |
| 2. Scotia Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Cheng Heng Jem                         | 65,000,000   | 19.85      |
| 3. Cheng Heng Jem  | 56,615,000   | 17.29      |
| 4. Antara Steel Mills Sdn Bhd  | 30,014,916   | 9.17       |
| 5. Lion Holdings Private Limited   | 3,771,406    | 1.15       |
| 6. Cheng Yong Kim  | 1,000,000    | 0.31       |
| 7. Cheng Chai Hai  | 699,411      | 0.21       |
| 8. HDM Nominees (Asing) Sdn Bhd<br>Exempt AN for UOB Kay Hian (Hong Kong) Limited (Clients)                    | 160,000      | 0.05       |
| 9. Lee Hau Hian  | 32,000       | 0.01       |
| 10. Public Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Teoh Kim Chye @ Teoh Kim Chai (E-KLC) | 16,000       | Negligible |
| 11. Chan Chau Ha @ Chan Chow Har   | 15,200       | Negligible |
| 12. Lim Sang Sen   | 10,000       | Negligible |
| 13. Chan Yee Sang  | 8,000        | Negligible |
| 14. Lee Siew Nong  | 8,000        | Negligible |



**Thirty Largest ICULS Holders as at 15 October 2012** (Continued)

| <b>Registered ICULS Holders</b>   | <b>No. of ICULS</b> | <b>% of ICULS</b> |
|---|---------------------|-------------------|
| 15. Maybank Securities Nominees (Asing) Sdn Bhd<br>Exempt AN for UOB Kay Hian Pte Ltd (A/C Clients) | 8,000               | Negligible        |
| 16. Maybank Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Chin Kok Woo              | 6,600               | Negligible        |
| 17. Pan Yok Eng   | 5,600               | Negligible        |
| 18. Chan Pheng Hock   | 5,000               | Negligible        |
| 19. Chuah Boon Kiang  | 4,800               | Negligible        |
| 20. Nor Hafizah binti Ahmad Marzuki   | 4,000               | Negligible        |
| 21. Ooi Kean Hin  | 4,000               | Negligible        |
| 22. Tan Gee Siew  | 4,000               | Negligible        |
| 23. Teu Liak Chey   | 3,200               | Negligible        |
| 24. Ng Say Kong @ Ng Seah Yew   | 3,000               | Negligible        |
| 25. Cheong Seng Tin   | 2,400               | Negligible        |
| 26. Tang Wei Chum   | 2,400               | Negligible        |
| 27. Teh Peng Tin  | 2,320               | Negligible        |
| 28. Aw May Fah  | 2,000               | Negligible        |
| 29. Ee Tee Gin  | 2,000               | Negligible        |
| 30. Koh Sun @ Wong Koh Sang   | 2,000               | Negligible        |

**Directors' Interests in Shares in the Company and its Related Corporations as at 15 October 2012**

The Directors' interests in shares in the Company and its related corporations as at 15 October 2012 are as follows:

|                            | <b>Nominal Value<br/>per Ordinary<br/>Share</b> | <b>Direct Interest</b>   |                        | <b>Indirect Interest</b>   |                        |
|----------------------------|---|--------------------------|------------------------|----------------------------|------------------------|
|                            |   | <b>No. of<br/>Shares</b> | <b>% of<br/>Shares</b> | <b>No. of<br/>Shares</b>   | <b>% of<br/>Shares</b> |
| <b>The Company</b>         | RM0.50  |                          |                        |                            |                        |
| Tan Sri William H.J. Cheng |   | 121,356,607              | 16.46                  | 286,428,888 <sup>(1)</sup> | 38.85                  |
| Tan Sri Cheng Yong Kim     |   | 7,841,337                | 1.06                   | 3,500,000 <sup>(2)</sup>   | 0.47                   |

**Related Corporations**
**Tan Sri William H.J. Cheng**

|                        | <b>Nominal Value<br/>per Ordinary<br/>Share</b> | <b>Indirect Interest</b> |                        |
|------------------------|---|--------------------------|------------------------|
|                        |   | <b>No. of<br/>Shares</b> | <b>% of<br/>Shares</b> |
| LDH Investment Pte Ltd | *   | 4,500,000                | 100.00                 |
| Jernih Aktif Sdn Bhd   | RM1.00  | 70                       | 70.00                  |

**Directors' Interests in Shares in the Company and its Related Corporations as at 15 October 2012 (Continued)**

**Notes:**

(1) *Also deem interested in the following:*

- (i) *a direct interest in RM121,615,000 nominal value of 5-year 4% irredeemable convertible unsecured loan stocks 2008/2013 of the Company ("ICULS") which are convertible into 243,230,000 new ordinary shares of RM0.50 each in the Company ("LDHB Share") at a conversion price of RM0.50 for each new LDHB Share ("Conversion Price"); and*
- (ii) *an indirect interest in RM203,961,522 nominal value of ICULS which are convertible into 407,923,044 new LDHB Shares at the Conversion Price.*

(2) *Also deem interested in a direct interest in RM1,000,000 nominal value of ICULS which are convertible into 2,000,000 new LDHB Shares at the Conversion Price.*

\* *Shares in companies incorporated in Singapore do not have a par value.*

Other than as disclosed above, none of the other Directors of the Company had any interest in shares in the Company or its related corporations as at 15 October 2012.

## **MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

1. Conditional Share Subscription Agreement dated 3 March 2011 and supplemented by agreements dated 26 August 2011, 2 March 2012 and 30 August 2012 entered into among the Company, Lion Industries Corporation Berhad ("LICB"), Lion Forest Industries Berhad ("LFIB"), a subsidiary of LICB, and Lion Blast Furnace Sdn Bhd ("LBF"), a wholly-owned subsidiary of the Company, for the proposed joint venture in LBF in the equity participation of 51%, 29% and 20% respectively, in the enlarged issued and paid-up share capital of LBF of up to RM970 million comprising up to 970 million ordinary shares of RM1.00 each. LICB is a major shareholder of the Company. Both LICB and LFIB are companies wherein certain Directors and certain major shareholders of the Company have interests.
2. Conditional Shareholders' Agreement dated 3 March 2011 entered into among the Company, LICB and LFIB to, amongst others, govern and regulate their relationship with each other under the proposed joint venture pursuant to the Conditional Share Subscription Agreement dated 3 March 2011 and supplemented by agreements dated 26 August 2011, 2 March 2012 and 30 August 2012, and to record the terms and conditions of the parties' relationship and participation as shareholders in LBF, the conduct of LBF's business and the management of LBF and its subsidiary.
3. Conditional Sale and Purchase Agreement dated 3 March 2011 and supplemented by agreements dated 26 August 2011, 2 March 2012 and 30 August 2012 entered into between LBF and Andalas Development Sdn Bhd ("Andalas"), a wholly-owned subsidiary of Amble Bond Sdn Bhd, a company wherein certain Directors and a major shareholder of the Company have interests, for the acquisition by LBF from Andalas of various parcels of contiguous freehold vacant lands held under various land titles all located in Mukim Tanjung Duabelas, Daerah Kuala Langat, Negeri Selangor Darul Ehsan measuring approximately 97.92 acres (approximately 4,265,395 square feet ("sq ft")) for a total cash consideration of RM32.00 million.
4. Conditional Sale and Purchase Agreement dated 3 March 2011 and supplemented by agreements dated 26 August 2011, 2 March 2012 and 30 August 2012 entered into between LBF and Che Kiang Realty Sdn Bhd ("Che Kiang"), a wholly-owned subsidiary of Lion Teck Chiang Limited, a company wherein certain Directors and certain major shareholders of the Company have interests, for the acquisition by LBF from Che Kiang of various parcels of contiguous freehold vacant lands held under various land titles all located in Mukim Tanjung Duabelas, Daerah Kuala Langat, Negeri Selangor Darul Ehsan measuring approximately 8.48 acres (approximately 369,389 sq ft) for a total cash consideration of RM4.06 million.
5. Conditional Sale and Purchase Agreement dated 3 March 2011 and supplemented by agreements dated 26 August 2011, 2 March 2012 and 30 August 2012 entered into between LBF and Amsteel Mills Sdn Bhd ("AMSB"), a 99%-owned subsidiary of LICB, for the acquisition by LBF from AMSB of a parcel of freehold land being part of the land held under title no. H.S.(D) 13425, P.T. 17216 located in Mukim Tanjung Duabelas, Daerah Kuala Langat, Negeri Selangor Darul Ehsan measuring approximately 41.36 acres (approximately 1,801,642 sq ft) for a total cash consideration of approximately RM16.22 million.

## OTHER INFORMATION

### (I) NON-AUDIT FEES

The amount of non-audit fees paid or payable to external auditors for the financial year was RM49,000 (2011: RM90,000).

### (II) RECURRENT RELATED PARTY TRANSACTIONS

The aggregate value of transactions conducted during the financial year ended 30 June 2012 were as follows:

| Nature of Recurrent Transactions  | Related Parties  | Amount<br>RM'000 |
|---|--|------------------|
| <b>Steel related</b>  |  |                  |
| (i) Sale of direct reduced iron, scrap iron and other steel related products and services | Lion Corporation Berhad Group ("LCB Group") <sup>(1)</sup>             | 1,228,085        |
|   | Lion Industries Corporation Berhad Group ("LICB Group") <sup>(2)</sup> | 108,732          |
|   | Lion Forest Industries Berhad Group ("LFIB Group") <sup>(2)</sup>      | 3,999            |
| (ii) Purchase of steel products, scrap iron and other steel related products and services | LCB Group <sup>(1)</sup>   | 38,437           |
|   | LICB Group <sup>(2)</sup>  | 82,434           |
|   | LFIB Group <sup>(2)</sup>  | 248,255          |
| (iii) Rental of industrial land and buildings   | LCB Group <sup>(1)</sup>   | 1,142            |

#### Notes:

"Group" includes subsidiary and associated companies

<sup>(1)</sup> A company in which certain Directors and certain major shareholders of the Company have substantial interests.

<sup>(2)</sup> Companies in which a Director and certain major shareholders of the Company have substantial interests.

### (III) SHARE BUY-BACK

There was no share buy-back during the financial year.

### (IV) CONVERTIBLE SECURITIES

There was no conversion of the 5-year 4% irredeemable convertible unsecured loan stocks 2008/2013 of the Company into shares during the financial year.

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CDS ACCOUNT NUMBER

Grid for CDS account number with dashes in the 3rd and 6th columns.

FORM OF PROXY

I/We .....

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

of .....

being a member/members of LION DIVERSIFIED HOLDINGS 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 Forty-Second Annual General Meeting of the Company to be held at the Meeting Hall, Level 16, Office Tower, No. 1 Jalan Nagasari (Off Jalan Raja Chulan), 50200 Kuala Lumpur on 12 December 2012 at 10.30 am and at any adjournment thereof.

Table with 3 columns: RESOLUTIONS, FOR, AGAINST. Rows 1-8 list resolutions such as 'To approve a first and final dividend'.

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 ..... 2012

No. of shares: .....

Signed: .....

Representation at Meeting:

- In respect of deposited securities, only Members whose names appear in the Record of Depositors on 5 December 2012 shall be eligible to attend the Meeting.
• A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him.
• The instrument of proxy shall be deposited at the office of the Registrar of the Company, Level 13, Office Tower, No. 1 Jalan Nagasari (Off Jalan Raja Chulan), 50200 Kuala Lumpur 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.

