

## FINANCIAL STATEMENTS

# 2016

For The Financial Year Ended 30 June 2016

## DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2016.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 16 to the financial statements.

There have been no significant changes in the activities of the Company and of its subsidiaries during the financial year.

### RESULTS

	<b>Group RM'000</b>	<b>Company RM'000</b>
Net loss for the financial year	(560,781)	(664,583)
Attributable to:		
- Owners of the Company	(440,875)	(664,583)
- Non-controlling interests	(119,906)	-
	<u>(560,781)</u>	<u>(664,583)</u>

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

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

### DIVIDEND

The Directors do not recommend any dividend for the financial year ended 30 June 2016.

### SHARE CAPITAL

There was no increase in the issued and paid-up share capital of the Company during the financial year.

## DIRECTORS

The Directors who served since the date of the last report are:

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

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Tan Sri Cheng Yong Kim and Y. Bhg. Dato' Afifuddin bin Abdul Kadir retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Pursuant to Section 129(6) of the Companies Act, 1965, Y. Bhg. Tan Sri William H.J. Cheng, Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain and Y. Bhg. Datuk M. Chareon Sae Tang @ Tan Whye Aun retire and offer themselves for re-appointment as Directors of the Company to hold office until the next Annual General Meeting.

## DIRECTORS' BENEFITS

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

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

## DIRECTORS' INTERESTS

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

	Number of Ordinary Shares of RM1.00 each			As at 30.6.2016
	As at 1.7.2015	Additions	Disposals	
<b>Direct Interests</b>				
Tan Sri William H.J. Cheng	52,175,536	–	–	52,175,536
Tan Sri Cheng Yong Kim	1,947,808	–	–	1,947,808
<b>Indirect Interests</b>				
Tan Sri William H.J. Cheng	861,865,432	–	–	861,865,432
Tan Sri Cheng Yong Kim	806,891,226	–	–	806,891,226
Datuk M. Chareon Sae Tang @ Tan Whye Aun	98,180	–	–	98,180

**DIRECTORS' INTERESTS (continued)**

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

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

	Number of RM1.00 Nominal Value of RCSLS			As at 30.6.2016
	As at 1.7.2015	Additions	Disposals	
Tan Sri William H.J. Cheng	316,075,950	–	–	316,075,950

- b) Warrants with a right to subscribe for one new ordinary share of RM1.00 each in the Company for every one warrant held at an exercise price of RM5.00 per share ("Warrants")

	Number of Warrants			As at 30.6.2016
	As at 1.7.2015	Additions	Disposals	
Tan Sri William H.J. Cheng	10,169,407	–	(20)	10,169,387
Tan Sri Cheng Yong Kim	9,541,195	–	(20)	9,541,175
Dr Folk Jee Yoong	1,560	–	–	1,560

The Directors' interests in related corporations are as follows:

	Nominal Value per Share	Number of Ordinary Shares			As at 30.6.2016
		As at 1.7.2015	Additions	Disposals	
<b>Indirect Interests</b>					
<b>Tan Sri William H.J. Cheng</b>					
<b>Tan Sri Cheng Yong Kim</b>					
Bersatu Investments Company Limited	HK\$10.00	42,644	–	–	42,644
Lyn (Pte) Ltd	*	1,225,555	–	–	1,225,555
Megasteel Sdn Bhd					
- Ordinary Shares	RM1.00	600,000,001	–	–	600,000,001
- Preference "D" Shares	RM0.01	49,000,000	–	–	49,000,000
- Preference "E" Shares	RM0.01	11,000,000	–	–	11,000,000
- Preference "F" Shares	RM0.01	26,670,000	–	–	26,670,000
- Preference "G" Shares	RM0.01	100,000,000	–	–	100,000,000

**Note:**

- \* Shares in companies incorporated in Singapore do not have a par value.

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.

## OTHER STATUTORY INFORMATION

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

- (a) to ascertain that proper action had been taken in relation to the writing off of bad receivables and the making of impairment loss on receivables and had satisfied themselves that all known bad receivables had been written off and that adequate impairment had been made for doubtful receivables; and
- (b) to ensure that any current assets which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records had been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amounts written off for bad receivables or the amount of the impairment loss on receivables in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; and
- (d) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.

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

- (a) the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature;
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and
- (c) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

## SIGNIFICANT EVENTS

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

## SUBSEQUENT EVENT

Subsequent event is disclosed in Note 42 to the financial statements.

**AUDITORS**

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 4 October 2016.

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

**TAN SRI CHENG YONG KIM**  
Director

Kuala Lumpur

## STATEMENTS OF PROFIT OR LOSS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	6	701,779	2,087,508	121	119,510
Other operating income		11,575	22,799	2,449	–
Changes in inventories of finished goods and work-in-progress		(231,162)	(209,048)	–	–
Raw materials and consumables used		(372,382)	(1,472,066)	–	–
Property development expenditure		(15,009)	(17,127)	–	–
Employee benefits expenses	7	(76,258)	(91,960)	(32)	(387)
Depreciation		(142,159)	(142,519)	–	–
Inventories written down		(1,514)	(26,627)	–	–
Other operating expenses	8	(183,182)	(487,111)	(1,409)	(1,851)
(Loss)/Profit from operations	9	(308,312)	(336,151)	1,129	117,272
Finance costs	10	(251,564)	(267,062)	(63,790)	(67,509)
(Impairment losses)/Reversal of impairment on:					
- investment in an associate		(452)	–	–	–
- investment in securities		135	(2,578)	(94)	(82)
Impairment and waiver losses on amount due from subsidiaries		–	–	(601,864)	(304,057)
Share in results of associates		(1,617)	(39,290)	–	–
Loss before taxation		(561,810)	(645,081)	(664,619)	(254,376)
Taxation	11	1,029	(11,513)	36	(2,275)
Net loss for the financial year		(560,781)	(656,594)	(664,583)	(256,651)
Attributable to:					
- Owners of the Company		(440,875)	(522,965)	(664,583)	(256,651)
- Non-controlling interests		(119,906)	(133,629)	–	–
Net loss for the financial year		(560,781)	(656,594)	(664,583)	(256,651)
Loss per share attributable to owners of the Company:	12				
- Basic (sen)		(33.5)	(39.7)		
- Diluted (sen)		N/A	N/A		

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

## STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net loss for the financial year	<b>(560,781)</b>	(656,594)	<b>(664,583)</b>	(256,651)
<u>Other Comprehensive Income</u>				
- Translation difference on net equity of foreign subsidiaries and other movements	<b>2,913</b>	1,078	-	-
- Net gain on fair value changes on available-for-sale financial assets	<b>291</b>	-	-	-
- Share of other comprehensive income of associates	<b>1,001</b>	10,005	-	-
Other comprehensive income for the financial year, net of tax, representing items that may be reclassified subsequently to profit or loss	<b>4,205</b>	11,083	-	-
Total comprehensive loss for the financial year	<b>(556,576)</b>	(645,511)	<b>(664,583)</b>	(256,651)
Attributable to:				
- Owners of the Company	<b>(436,670)</b>	(511,882)	<b>(664,583)</b>	(256,651)
- Non-controlling interests	<b>(119,906)</b>	(133,629)	-	-
	<b>(556,576)</b>	(645,511)	<b>(664,583)</b>	(256,651)

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

**STATEMENTS OF FINANCIAL POSITION****AS AT 30 JUNE 2016**

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	13	<b>2,076,669</b>	2,233,345	–	–
Land held for property development	14(a)	<b>706</b>	755	–	–
Goodwill	15	–	–	–	–
Investment in subsidiaries	16	–	–	<b>7,873</b>	7,873
Investment in associates	17	<b>20,650</b>	22,959	–	–
Investment securities	18(a)	<b>1,298</b>	567	<b>104</b>	198
Deferred tax assets	19	<b>378,483</b>	373,914	–	–
		<b>2,477,806</b>	2,631,540	<b>7,977</b>	8,071
<b>Current Assets</b>					
Property development costs	14(b)	<b>46,749</b>	26,727	–	–
Inventories	20	<b>129,649</b>	290,210	–	–
Investment securities	18(b)	<b>20,262</b>	20,418	–	–
Trade and other receivables	21	<b>46,951</b>	111,797	<b>145</b>	128
Amount due from subsidiaries	22	–	–	<b>4,445</b>	605,217
Tax recoverable		<b>2,127</b>	82	<b>659</b>	–
Deposits with financial institutions	23	<b>26,528</b>	14,578	<b>3,165</b>	3,981
Cash and bank balances		<b>74,810</b>	118,792	<b>599</b>	518
		<b>347,076</b>	582,604	<b>9,013</b>	609,844
Non-current assets classified as held for sale	24	<b>17,268</b>	–	–	–
		<b>364,344</b>	582,604	<b>9,013</b>	609,844
<b>TOTAL ASSETS</b>		<b>2,842,150</b>	3,214,144	<b>16,990</b>	617,915



**STATEMENTS OF FINANCIAL POSITION** (continued)

AS AT 30 JUNE 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>EQUITY AND LIABILITIES</b>					
<b>Equity Attributable to Owners of the Company</b>					
Share capital	25	<b>1,316,199</b>	1,316,199	<b>1,316,199</b>	1,316,199
Reserves	26	<b>(2,552,903)</b>	(2,114,147)	<b>(2,502,629)</b>	(1,838,046)
		<b>(1,236,704)</b>	(797,948)	<b>(1,186,430)</b>	(521,847)
<b>Non-Controlling Interests</b>		<b>(393,973)</b>	(266,044)	–	–
<b>Total Equity</b>		<b>(1,630,677)</b>	(1,063,992)	<b>(1,186,430)</b>	(521,847)
<b>Non-Current Liabilities</b>					
Preference shares	27	<b>111,000</b>	111,000	–	–
Loans and borrowings	28	<b>281,674</b>	278,626	<b>281,498</b>	278,356
Bonds and debts	31	<b>789,457</b>	779,376	<b>789,457</b>	779,376
Deferred tax liabilities	19	<b>1,533</b>	1,870	–	102
Deferred liabilities	32	<b>3,350</b>	275,458	–	–
		<b>1,187,014</b>	1,446,330	<b>1,070,955</b>	1,057,834
<b>Current Liabilities</b>					
Trade and other payables	33	<b>2,335,813</b>	1,927,847	<b>36,807</b>	36,214
Amount due to subsidiaries	22	–	–	<b>95,658</b>	44,329
Loans and borrowings	28	<b>949,997</b>	898,800	–	–
Tax liabilities		<b>3</b>	5,159	–	1,385
		<b>3,285,813</b>	2,831,806	<b>132,465</b>	81,928
<b>Total Liabilities</b>		<b>4,472,827</b>	4,278,136	<b>1,203,420</b>	1,139,762
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,842,150</b>	3,214,144	<b>16,990</b>	617,915

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

## STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Group	← Attributable to Owners of the Company →				Total RM'000	Non- Controlling Interests RM'000	Total Equity RM'000
	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000 (Note 26)	Accumulated Losses RM'000			
At 1 July 2014	1,316,199	97,685	332,653	(2,032,603)	(286,066)	(132,415)	(418,481)
Total comprehensive income/ (loss) for the financial year	–	–	11,083	(522,965)	(511,882)	(133,629)	(645,511)
At 30 June 2015	1,316,199	97,685	343,736	(2,555,568)	(797,948)	(266,044)	(1,063,992)
At 1 July 2015	<b>1,316,199</b>	<b>97,685</b>	<b>343,736</b>	<b>(2,555,568)</b>	<b>(797,948)</b>	<b>(266,044)</b>	<b>(1,063,992)</b>
Total comprehensive income/ (loss) for the financial year	–	–	4,205	(440,875)	(436,670)	(119,906)	(556,576)
Acquisition of non-controlling interests	–	–	–	(2,086)	(2,086)	(8,023)	(10,109)
Issue of bonus shares by a subsidiary	–	–	250	(250)	–	–	–
At 30 June 2016	<b>1,316,199</b>	<b>97,685</b>	<b>348,191</b>	<b>(2,998,779)</b>	<b>(1,236,704)</b>	<b>(393,973)</b>	<b>(1,630,677)</b>

Company	← Non-Distributable →				Total RM'000
	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000 (Note 26)	Accumulated Losses RM'000	
At 1 July 2014	1,316,199	97,685	15,887	(1,694,967)	(265,196)
Total comprehensive loss for the financial year	–	–	–	(256,651)	(256,651)
At 30 June 2015	1,316,199	97,685	15,887	(1,951,618)	(521,847)
At 1 July 2015	<b>1,316,199</b>	<b>97,685</b>	<b>15,887</b>	<b>(1,951,618)</b>	<b>(521,847)</b>
Total comprehensive loss for the financial year	–	–	–	(664,583)	(664,583)
At 30 June 2016	<b>1,316,199</b>	<b>97,685</b>	<b>15,887</b>	<b>(2,616,201)</b>	<b>(1,186,430)</b>

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

## STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Loss before taxation		<b>(561,810)</b>	(645,081)	<b>(664,619)</b>	(254,376)
Adjustments for non-cash items, interests and dividends	38(a)	<b>419,077</b>	552,410	<b>663,489</b>	252,854
Operating loss before working capital changes		<b>(142,733)</b>	(92,671)	<b>(1,130)</b>	(1,522)
Changes in working capital:					
Inventories		<b>159,047</b>	364,641	-	-
Receivables		<b>64,706</b>	49,626	<b>(17)</b>	862
Payables		<b>30,177</b>	(230,174)	<b>463</b>	3,731
Property development costs		<b>(19,973)</b>	(24,356)	-	-
Cash generated from/(used in) operations		<b>91,224</b>	67,066	<b>(684)</b>	3,071
Tax paid		<b>(11,078)</b>	(11,128)	<b>(2,109)</b>	(1,173)
Retirement benefit paid		<b>(133)</b>	(38)	-	-
Net cash inflow/(outflow) from operating activities		<b>80,013</b>	55,900	<b>(2,793)</b>	1,898
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	38(b)	<b>(1,618)</b>	(9,598)	-	-
Purchase of investment		<b>(850)</b>	-	-	-
Additions to investment in a subsidiary		<b>(10,109)</b>	-	-	-
Proceeds from disposal/ redemption of:					
- property, plant and equipment		<b>1,458</b>	81	-	-
- investments		<b>3,105</b>	5,742	-	-
Increase in fixed deposits pledged		<b>(14)</b>	(85)	-	-
Dividend received		<b>1,233</b>	1,463	-	-
Repayment from subsidiaries		-	-	<b>1,357</b>	-
Advances from subsidiaries		-	-	<b>51,329</b>	44,206
Interest received		<b>867</b>	3,314	<b>121</b>	125
Net cash (outflow)/inflow from investing activities		<b>(5,928)</b>	917	<b>52,807</b>	44,331

**STATEMENTS OF CASH FLOWS** (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Redemption of bonds and debts		(38,216)	(35,170)	(38,216)	(35,170)
Repayment of:					
- finance lease liabilities		(94)	(81)	-	-
- short term borrowings		(88,597)	(30,227)	(12,533)	(11,412)
Interest paid		(7,660)	(39,539)	-	-
Net cash outflow from financing activities		(134,567)	(105,017)	(50,749)	(46,582)
Net decrease in cash and cash equivalents		(60,482)	(48,200)	(735)	(353)
Effects of changes in exchange rates		155	2,020	-	-
Cash and cash equivalents at beginning of the financial year		116,145	162,325	4,499	4,852
Cash and cash equivalents at end of the financial year	38(c)	55,818	116,145	3,764	4,499

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

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

### 1. CORPORATE INFORMATION

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 principal place of business of the Company are both located at Level 14, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 4 October 2016.

The Company had on 25 October 2013 announced that it is an affected listed issuer pursuant to the provisions of the Practice Note 17 ("PN17") of the Main Market Listing Requirements of Bursa Securities ("LR"). Pursuant to the PN17, the Company is required to submit a regularisation plan within 12 months to the Securities Commission/ Bursa Securities ("Regularisation Plan").

Bursa Securities had via its letter dated 29 September 2016 decided to reject the Company's application for a further extension of time to 30 November 2016 for the Company to submit the Regularisation Plan as there is no material development towards the finalisation and submission of the Regularisation Plan to the regulatory authorities.

The Company had on 4 October 2016 announced that the trading in the securities of the Company will be suspended with effect from 10 October 2016 and the securities of the Company will be de-listed on 12 October 2016 as detailed in Note 42.

### 2. BASIS OF PREPARATION

The financial statements comply with Financial Reporting Standards ("FRSs") and the requirements of the Companies Act, 1965 in Malaysia. During the financial year ended 30 June 2016, the Group and the Company adopted all of the new and revised FRSs and Amendments issued by Malaysian Accounting Standards Board ("MASB") that are relevant to their operations as described in Note 4.

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

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

The Group reports the following conditions and events:

- (i) The Group incurred a net loss attributable to owners of the Company of RM441 million (2015: RM523 million) for the financial year ended 30 June 2016. As of that date, the Group's current liabilities exceeded its current assets by RM2,921 million (2015: RM2,249 million) and the Group reported a net shareholders' deficit of RM1,237 million (2015: RM798 million).
- (ii) Since prior years, a subsidiary of the Company, Megasteel Sdn Bhd ("Megasteel") has not been able to comply with the credit terms granted to it by its creditors as disclosed in Note 33. Megasteel has entered into deferral payment plans and settlement schemes with these creditors. However, Megasteel has not been able to fulfill its obligations under these arrangements.

## 2. BASIS OF PREPARATION (continued)

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

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

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

- (iv) As disclosed in Note 41(d), Megasteel has on 23 September 2015 defaulted on its banker's acceptance from a local bank and this has resulted in an event of default by Megasteel and cross default on other borrowings and facilities. There were subsequent defaults announced thereafter.
- (v) As disclosed in Note 32(b), Megasteel and Tenaga Nasional Berhad ("TNB") had on 10 April 2014 agreed mutually to settle a RM306 million claim made by TNB for the supply of electricity to Megasteel commencing payment by 24 equal monthly instalments from April 2016. Megasteel has defaulted in the instalment payment since April 2016.
- (vi) As disclosed in Note 41(a), Megasteel has temporarily ceased its operations following the Government's decision not to impose safeguard duties on imports of hot rolled coils.
- (vii) Following an application by Megasteel, the High Court of Malaya ("High Court") had on 5 May 2016 pursuant to Section 176 of the Companies Act, 1965 granted Megasteel the following ("Court Order"):
  - (a) liberty to convene scheme meetings within 90 days from 5 May 2016 to consider and if thought fit, to approve the terms of the schemes of arrangement to be proposed by Megasteel with its scheme creditors ("Schemes of Arrangement"); and
  - (b) a restraining order for a period of 90 days from 5 May 2016, whereby the creditors and lenders of Megasteel are restrained from taking action against Megasteel and/or the Company and/or their assets.

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

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

- (i) Megasteel's application for the Court Order to be extended for a period of 180 days from the date of the court order for extension;
- (ii) TNB's application dated 28 June 2016 to intervene in these proceedings and to set-aside the Court Order; and
- (iii) Woodgrove's application dated 14 July 2016 to intervene in these proceedings and to set-aside the Court Order.

On 22 August 2016, the High Court had vacated the September Hearing and fixed 17 and 18 October 2016 as the new hearing dates. Subsequent thereto, the High Court had vacated the October 2016 hearing dates and has fixed 15 and 16 November 2016 as the new hearing dates for the Pending Court Applications.

## 2. BASIS OF PREPARATION (continued)

Megasteel is currently working with its adviser on the finalisation of the Schemes of Arrangement. On 19 July 2016, a restructuring scheme has been presented to the Secured Lenders of Megasteel, proposing a revised repayment terms and details. An independent valuer will be appointed by the Secured Lenders to carry out a valuation of the assets for the purpose of the proposed debt restructuring exercise.

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

Nevertheless, after making enquiries and considering the uncertainties described above, the Directors believe that the result from the proposed debt restructuring exercise will enable the Group to generate sufficient cash flows to meet its above mentioned obligation and improve the cash flows of the Group. For these reasons, the Directors are of the opinion that the Group will be able to continue in operational existence for the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Consolidation

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

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

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

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

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

### (b) Foreign Currencies

#### (i) Functional and Presentation Currency

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Foreign Currencies (continued)

##### (ii) Foreign Currency Transactions

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

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

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

##### (iii) Foreign Operations

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

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

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

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

	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
1 United States Dollar ("USD")	<b>4.02</b>	3.77
1 Euro	<b>4.46</b>	4.22
1 Singapore Dollar	<b>2.98</b>	2.80



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Revenue Recognition

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

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

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

##### (ii) Rendering of Services

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

##### (iii) Interest Income

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

##### (iv) Dividend Income

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

##### (v) Development Properties

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

##### (vi) Rental Income

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

#### (d) Employee Benefits

##### (i) Short Term Benefits

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

##### (ii) Defined Contribution Plans

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Employee Benefits (continued)

##### (iii) Unfunded Defined Benefit Plan

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

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

#### (e) Taxes

##### (i) Current Income Tax

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

##### (ii) Deferred Tax

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Taxes (continued)

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

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

- (a) where the GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (b) receivables and payables that are stated with the amount of GST included.

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

#### (f) Property, Plant and Equipment

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

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

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

#### (g) Goodwill

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

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

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

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

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Investment in Subsidiaries

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

- (i) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

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

#### (j) Investment in Associates

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

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

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial Assets

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

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

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

##### Financial assets at fair value through profit or loss

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

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

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

##### Loans and receivables

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

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

##### Available-for-sale financial assets

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial Assets (continued)

##### Available-for-sale financial assets (continued)

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

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

##### 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 twelve months after the reporting date which are classified as current.

#### (l) Impairment of Financial Assets

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### Available-for-sale financial assets

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

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

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

##### Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

#### (m) Cash and Cash Equivalents

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

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

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

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

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### (ii) Property development costs

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

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

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

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

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

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

#### (o) Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Financial Liabilities

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

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

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

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

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

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

##### (ii) Other financial liabilities

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

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

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

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### (t) Leases

##### (i) As lessee

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

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

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

##### (ii) As lessor

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

#### (u) Equity Instruments

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (v) Segment Reporting

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

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

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

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

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

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

### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Description	Effective for annual periods beginning on or after
Annual Improvements to FRSs 2012 – 2014 Cycle	1 January 2016
Amendments to FRS 116 and FRS 138 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to FRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to FRS 101 <i>Disclosure Initiative</i>	1 January 2016
Amendments to FRS 10, FRS 12 and FRS 128 <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
FRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to FRS 107 <i>Disclosure Initiative</i>	1 January 2017
FRS 9 <i>Financial Instruments</i>	1 January 2018
Amendments to FRS 9 and FRS 9	1 January 2018
Amendments to FRS 10 and FRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

#### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

##### **FRS 9 *Financial Instruments***

In November 2014, Malaysian Accounting Standards Board (MASB) issued the final version of FRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces FRS 139 *Financial Instruments: Recognition and Measurement* and all previous versions of FRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. FRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Retrospective application is required, but comparative information is not compulsory. The adoption of FRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

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

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2017.

The Group falls within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the financial year ending 30 June 2018. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening accumulated losses.

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

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

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

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

**Critical Accounting Estimates and Assumptions**

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

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

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

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

The cost of the plant and machinery relating to manufacturing of hot rolled coils and cold rolled coils is depreciated on a straight-line basis over the assets' estimated economic useful lives up to their residual value. Management estimates the useful lives of these plant and machinery to be within 15 years to 30 years and residual value to be 5%. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, which may cause a material adjustment to future depreciation charges.

Despite the cessation of operations as described in Note 41(a), the Group has continued to depreciate all property, plant and equipment up to the reporting date.

**(iii) Estimated Impairment of Tangible Assets**

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

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

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

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

**(iv) 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. Details of deferred tax assets are disclosed in Note 19.

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

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

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

**Critical Accounting Estimates and Assumptions (continued)**

**(v) Inventories**

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

**(vi) Impairment on Receivables**

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

**(vii) Property Development**

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

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

Details of property development cost are disclosed in Note 14.

**(viii) Provision for Onerous Contract**

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

As the Group is contractually bound to purchase the Steel Products from Lion DRI, which will include the cost of the freight services, there may exist an onerous contract where the Group may need to incur unavoidable costs which may exceed the economic benefits expected to be received from it. However, due to the cessation of operations, the Group believes that no provision for onerous contract is required as the likelihood of future outflow of resources to settle the obligation is remote.

## 6. REVENUE

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Sales of goods	593,629	2,025,506	–	–
Rendering of services	66,274	–	–	–
Property development	41,665	61,781	–	–
Registration and other professional fees	211	221	–	–
Dividend income from a subsidiary	–	–	–	53,225
Interest income	–	–	121	66,285
	<b>701,779</b>	<b>2,087,508</b>	<b>121</b>	<b>119,510</b>

## 7. EMPLOYEE BENEFITS EXPENSES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries, wages and bonuses	52,929	65,173	20	240
Defined contribution plans	6,907	8,205	2	29
Defined benefit plan (Note 32)	332	311	–	–
Other staff related expenses	16,090	18,271	10	118
	<b>76,258</b>	<b>91,960</b>	<b>32</b>	<b>387</b>

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries and other emoluments	1,455	1,794	30	358
Defined contribution plans	82	113	2	29
	<b>1,537</b>	<b>1,907</b>	<b>32</b>	<b>387</b>

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

## 8. OTHER OPERATING EXPENSES

Included in the other operating expenses of the Group are plant repair and maintenance costs and electricity charges relating to manufacturing of hot rolled coils and cold rolled coils totalling RM81.9 million (2015: RM283.0 million).



9. (LOSS)/PROFIT FROM OPERATIONS

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>After charging:</b>				
Auditors' remuneration:				
- current year	453	464	42	40
- prior year	4	-	-	-
Bad receivables written off	-	405	-	-
Directors' remuneration (Note)	538	893	269	624
Impairment loss on receivables (net)	2,301	1,529	-	-
Loss on disposal of property, plant and equipment	1,794	-	-	-
Property, plant and equipment:				
- impairment loss	-	5,914	-	-
- written off	-	2	-	-
Operating lease expense	33,664	44,844	-	-
Rental of premises	1,386	1,502	-	-
Net foreign exchange loss:				
- realised	3,059	-	-	-
- unrealised	21,129	71,247	311	716
Professional fees paid to a firm in which a Director, Datuk M. Chareon Sae Tang @ Tan Whye Aun, has interest	266	111	-	-
	<b>266</b>	<b>111</b>	<b>-</b>	<b>-</b>
<b>And crediting:</b>				
Gain on disposal of property, plant and equipment	-	81	-	-
Interest income from:				
- subsidiaries	-	-	-	66,152
- others	3,650	4,993	121	133
Net foreign exchange gain:				
- realised	-	1,290	-	-
Rental income	2,235	5,621	-	-
Debt waiver from a subsidiary	-	-	2,449	-

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

Note: The Directors' remuneration is categorised as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Executive Director:</b>				
- Salary and other emoluments	260	480	20	240
- Fees	24	24	24	24
- Defined contribution plans	31	58	2	29
- Benefits-in-kind	10	118	10	118
	<u>325</u>	<u>680</u>	<u>56</u>	<u>411</u>
<b>Non-Executive Directors:</b>				
- Fees	213	213	213	213
	<u>538</u>	<u>893</u>	<u>269</u>	<u>624</u>

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

	Group		Company	
	2016	2015	2016	2015
<b>Executive Director:</b>				
- RM55,001 - RM100,000	–	–	1	–
- RM300,001 - RM350,000	1	–	–	–
- RM400,001 - RM450,000	–	–	–	1
- RM650,001 - RM700,000	–	1	–	–
<b>Non-Executive Directors:</b>				
- RM25,000 and below	1	1	1	1
- RM25,001 - RM50,000	5	5	5	5

10. FINANCE COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Interest Expenses on:</b>				
- bonds and debts	47,986	48,939	47,986	48,939
- RCSLS	15,675	18,441	15,675	18,441
- term loans	76,528	67,746	–	–
- product financing liabilities	5,156	24,000	–	–
- bank overdrafts	2,407	1,443	–	–
- others	103,812	106,493	129	129
	<u>251,564</u>	<u>267,062</u>	<u>63,790</u>	<u>67,509</u>

## 11. TAXATION

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Current Estimated Tax:</b>				
Malaysian income tax:				
- Current year	(3,796)	(13,376)	-	(2,258)
- Under provision in prior years	(81)	(1,672)	(66)	(751)
	(3,877)	(15,048)	(66)	(3,009)
<b>Deferred Taxation: (Note 19)</b>				
- Relating to origination and reversal of temporary differences	4,914	5,117	102	734
- Under provision in prior years	(8)	(1,582)	-	-
	4,906	3,535	102	734
Total	<b>1,029</b>	(11,513)	<b>36</b>	(2,275)

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loss before taxation	(561,810)	(645,081)	(664,619)	(254,376)
Tax calculated at Malaysian statutory tax rate of 24% (2015: 25%)	134,834	161,270	159,509	63,594
Income not subject to tax	8,475	5,500	588	13,306
Expenses not deductible for tax purposes	(27,134)	(18,588)	(159,995)	(78,424)
Deferred tax assets not recognised during the year	(114,669)	(146,618)	-	-
Tax effect of share in results of associates	(388)	(9,823)	-	-
Under provision in prior years	(89)	(3,254)	(66)	(751)
	<b>1,029</b>	(11,513)	<b>36</b>	(2,275)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

**12. LOSS PER SHARE**

**(a) Basic**

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

	<b>2016</b>	<b>Group</b>	<b>2015</b>
Net loss for the financial year attributable to owners of the Company (RM'000)	<b>(440,875)</b>		(522,965)
Weighted average number of ordinary shares in issue ('000)	<b>1,316,199</b>		1,316,199
Basic loss per share (sen)	<b>(33.5)</b>		(39.7)

**(b) Diluted**

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

13. PROPERTY, PLANT AND EQUIPMENT

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RM'000	Plant and machinery RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
<b>Group</b>						
<b>2015</b>						
<b>Cost/Valuation</b>						
At 1 July 2014	872,372	3,425,438	45,086	3,397	23,554	4,369,847
Additions	–	8,653	2,045	331	–	11,029
Disposals	–	–	(2)	(371)	–	(373)
Written off	–	(1)	(6)	–	–	(7)
At 30 June 2015	872,372	3,434,090	47,123	3,357	23,554	4,380,496
Representing items at:						
Cost	572,372	1,176,085	47,123	3,357	23,554	1,822,491
Valuation	300,000	2,258,005	–	–	–	2,558,005
	872,372	3,434,090	47,123	3,357	23,554	4,380,496
<b>Accumulated Depreciation</b>						
At 1 July 2014	204,019	1,712,224	33,688	3,198	–	1,953,129
Depreciation charge for the financial year	16,826	123,183	2,443	67	–	142,519
Disposals	–	–	(2)	(371)	–	(373)
Written off	–	(1)	(4)	–	–	(5)
At 30 June 2015	220,845	1,835,406	36,125	2,894	–	2,095,270
Representing items at:						
Cost	220,845	426,763	36,125	2,894	–	686,627
Valuation	–	1,408,643	–	–	–	1,408,643
	220,845	1,835,406	36,125	2,894	–	2,095,270
<b>Accumulated Impairment Losses</b>						
At 1 July 2014	9,782	36,185	–	–	–	45,967
Impairment loss for the financial year	33	5,881	–	–	–	5,914
At 30 June 2015	9,815	42,066	–	–	–	51,881
Representing items at:						
Cost	9,815	42,066	–	–	–	51,881
<b>Net Book Value</b>						
At cost	341,712	707,256	10,998	463	23,554	1,083,983
At valuation	300,000	849,362	–	–	–	1,149,362
At 30 June 2015	641,712	1,556,618	10,998	463	23,554	2,233,345

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

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

Land and buildings of the Group are as follows:

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land RM'000	Leasehold land RM'000	Buildings and land improve- ments RM'000	Total RM'000
<b>Group 2016</b>				
<b>Net Book Value</b>				
At cost	1,518	3,576	302,511	307,605
At valuation	300,000	–	–	300,000
At 30 June 2016	<b>301,518</b>	<b>3,576</b>	<b>302,511</b>	<b>607,605</b>
<b>2015</b>				
<b>Cost/Valuation</b>				
At 1 July 2014/30 June 2015	311,191	13,496	547,685	872,372
Representing items at:				
Cost	11,191	13,496	547,685	572,372
Valuation	300,000	–	–	300,000
	<b>311,191</b>	<b>13,496</b>	<b>547,685</b>	<b>872,372</b>
<b>Accumulated Depreciation</b>				
At 1 July 2014	–	3,022	200,997	204,019
Depreciation charge for the financial year	–	165	16,661	16,826
At 30 June 2015	<b>–</b>	<b>3,187</b>	<b>217,658</b>	<b>220,845</b>
Representing items at:				
Cost	–	3,187	217,658	220,845
<b>Accumulated Impairment Losses</b>				
At 1 July 2014	9,673	–	109	9,782
Impairment loss for the financial year	–	–	33	33
At 30 June 2015	<b>9,673</b>	<b>–</b>	<b>142</b>	<b>9,815</b>
Representing items at:				
Cost	9,673	–	142	9,815
<b>Net Book Value</b>				
At cost	1,518	10,309	329,885	341,712
At valuation	300,000	–	–	300,000
At 30 June 2015	<b>301,518</b>	<b>10,309</b>	<b>329,885</b>	<b>641,712</b>



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

Leasehold land is analysed as follows:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Long term leasehold land	<b>3,576</b>	10,309

The revalued freehold land and plant and machinery if stated at cost less depreciation would amount to RM35.0 million (2015: RM35.0 million) and RM0.68 billion (2015: RM0.73 billion) respectively as at the end of the financial year.

Property, plant and equipment with carrying values totalling RM2.02 billion (2015: RM2.15 billion) has been charged to financial institutions as securities for credit facilities as disclosed in Note 28.

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

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Motor vehicles	<b>364</b>	428

**14. PROPERTY DEVELOPMENT ACTIVITIES**

**(a) Land Held for Property Development**

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Freehold land, at cost</b>		
At 1 July	755	2,528
Cost incurred during the year	<b>2,502</b>	–
Cost over provided during the year	–	(9,553)
Transfer (to)/ from property development cost	<b>(2,551)</b>	7,780
At 30 June	<b>706</b>	755

14. PROPERTY DEVELOPMENT ACTIVITIES (continued)

(b) Property Development Costs

	Group	
	2016 RM'000	2015 RM'000
Property development cost at 1 July:		
- Freehold land	5,837	7,012
- Development costs	28,173	40,648
	34,010	47,660
Cost incurred during the year:		
- Freehold land	959	3,783
- Development costs	28,287	44,632
	29,246	48,415
Reversal of completed projects	(1,681)	(54,285)
Cost recognised in profit or loss:		
At 1 July	(7,283)	(47,062)
Recognised during the financial year	(11,388)	(14,506)
Reversal of completed projects	1,681	54,285
	(16,990)	(7,283)
Transfer from/(to) land held for property development	2,551	(7,780)
Transfer to inventories	(387)	-
	2,164	(7,780)
Property development cost at 30 June	46,749	26,727

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

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

15. GOODWILL

	Group	
	2016 RM'000	2015 RM'000
<b>Goodwill on Consolidation, at Cost</b>		
At 1 July	501,511	501,511
Written off	(501,511)	-
At 30 June	-	501,511
<b>Accumulated Impairment Losses</b>		
At 1 July	(501,511)	(501,511)
Written off	501,511	-
At 30 June	-	(501,511)
<b>Net Carrying Amount</b>	-	-

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

16. INVESTMENT IN SUBSIDIARIES

	Company	
	2016 RM'000	2015 RM'000
<b>Unquoted Shares</b>		
At cost	25,916	25,916
Accumulated impairment losses	(20,501)	(20,501)
	5,415	5,415
Cost of investment arising from share options	2,458	2,458
	7,873	7,873

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

Certain investment in subsidiaries with carrying values totalling RM5.4 million (2015: RM5.4 million) have been charged as security for the bonds and debts and RCSLS issued by the Company as disclosed in Notes 31 and 29 respectively.

The subsidiaries are as follows:

Name of Company	Country of Incorporation	Holding in Equity		Principal Activities
		2016 %	2015 %	
LCB Harta (M) Sdn Bhd	Malaysia	<b>100.00</b>	100.00	Managing of debts novated from LCB and certain of its subsidiaries pursuant to a debt restructuring exercise undertaken by LCB and certain of its subsidiaries
Limpahjaya Sdn Bhd	Malaysia	<b>100.00</b>	100.00	Investment holding
Lion Construction & Engineering Sdn Bhd	Malaysia	<b>100.00</b>	100.00	Construction and civil engineering works
Lion General Trading & Marketing (S) Pte Ltd *	Republic of Singapore	<b>100.00</b>	100.00	Ceased operations
Lion Rubber Works Sdn Bhd	Malaysia	<b>100.00</b>	100.00	Ceased operations
Lion Steelworks Sdn Bhd	Malaysia	<b>100.00</b>	100.00	Manufacture and distribution of office equipment, security equipment and steel related products
Lion Trading & Marketing Sdn Bhd	Malaysia	<b>100.00</b>	100.00	Trading and marketing of security equipment, office equipment and steel related products
LCB Harta (L) Limited *	Malaysia	<b>100.00</b>	100.00	Acquisition and management of USD denominated consolidated and rescheduled debts
Total Triumph Investments Limited	British Virgin Islands	<b>100.00</b>	100.00	Investment holding

16. INVESTMENT IN SUBSIDIARIES (continued)

The subsidiaries are as follows: (continued)

Name of Company	Country of Incorporation	Holding in Equity		Principal Activities
		2016 %	2015 %	
<b>Subsidiaries of Limpahjaya Sdn Bhd</b>				
Bersatu Investments Company Limited *	Hong Kong	71.00	71.00	Ceased operations
Lion Com Sdn Bhd	Malaysia	100.00	100.00	Investment holding
Lyn (Pte) Ltd *	Republic of Singapore	79.00	79.00	Investment holding
Megasteel Sdn Bhd *	Malaysia	78.89	78.89	Manufacturing of hot rolled coils and cold rolled coils
Umevest Sdn Bhd	Malaysia	100.00	100.00	Ceased operations
<b>Subsidiary of Lion Com Sdn Bhd</b>				
Secretarial Communications Sdn Bhd	Malaysia	100.00	100.00	Secretarial and share registration services
<b>Subsidiary of Lyn (Pte) Ltd</b>				
Logic Furniture (S) Pte Ltd *	Republic of Singapore	100.00	100.00	Ceased operations
<b>Subsidiaries of Megasteel Sdn Bhd</b>				
Megasteel Harta (L) Limited *	Malaysia	100.00	100.00	To issue and manage bonds pursuant to its parent company's debt financing exercise
Secomex Manufacturing (M) Sdn Bhd *	Malaysia	100.00	100.00	Manufacturing and marketing of industrial gases
<b>Subsidiary of Lion Construction &amp; Engineering Sdn Bhd</b>				
PMB Building System Sdn Bhd	Malaysia	100.00	100.00	Investment holding

16. INVESTMENT IN SUBSIDIARIES (continued)

The subsidiaries are as follows: (continued)

Name of Company	Country of Incorporation	Holding in Equity		Principal Activities
		2016 %	2015 %	
<b>Subsidiary of PMB Building System Sdn Bhd</b>				
PMB Jaya Sdn Bhd	Malaysia	100.00	100.00	Ceased operations
<b>Subsidiary of Lion Steelworks Sdn Bhd</b>				
Lion Fichet Sdn Bhd	Malaysia	100.00	100.00	Ceased operations
<b>Subsidiary of Total Triumph Investments Limited</b>				
Bright Steel Sdn Bhd	Malaysia	100.00	100.00	Manufacturing, sale and distribution of steel and iron products
<b>Subsidiaries of Bright Steel Sdn Bhd</b>				
B.A.P. Industries Sdn Bhd	Malaysia	100.00	100.00	Ceased operations
Bright Steel Service Centre Sdn Bhd	Malaysia	100.00	57.10	Processing and sale of steel coils and sheets
Bright Enterprise (Sdn.) Berhad	Malaysia	100.00	100.00	Ceased operations
Century Container Industries Sdn Bhd	Malaysia	100.00	100.00	Ceased operations
Omali Corporation Sdn Bhd	Malaysia	100.00	100.00	Investment holding
<b>Subsidiary of LCB Harta (L) Limited</b>				
Pancar Tulin Sdn Bhd	Malaysia	100.00	100.00	Property development

Note:

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

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

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

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<b>Accumulated balances of non-controlling interests:</b>		
- Material non-controlling interest: Megasteel Sdn Bhd	(393,973)	(274,055)
- Immaterial non-controlling interest	-	8,011
	<u>(393,973)</u>	<u>(266,044)</u>
<b>Loss allocated to non-controlling interests:</b>		
- Material non-controlling interest: Megasteel Sdn Bhd	(119,917)	(133,081)
- Immaterial non-controlling interest	11	(548)
	<u>(119,906)</u>	<u>(133,629)</u>

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

	<b>Megasteel Sdn Bhd</b>	
	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<b>Summarised Statement of Profit or Loss:</b>		
Revenue	557,065	1,907,137
Loss for the year	<u>(553,568)</u>	<u>(615,922)</u>
<b>Summarised Statement of Financial Position:</b>		
Non-current assets	2,402,088	2,520,907
Current assets	125,131	251,305
Non-current liabilities	(186,670)	(458,977)
Current liabilities	<u>(4,440,072)</u>	<u>(3,859,190)</u>
Net liabilities	<u>(2,099,523)</u>	<u>(1,545,955)</u>
<b>Summarised cash flow information:</b>		
Operating	(31,184)	35,340
Investing	824	(7,288)
Financing	<u>(6,532)</u>	<u>(36,771)</u>
Net decrease in cash and cash equivalents	<u>(36,892)</u>	<u>(8,719)</u>

17. INVESTMENT IN ASSOCIATES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Quoted Shares outside Malaysia</b>				
- at cost	95,994	95,994	-	-
- accumulated impairment losses	(52,457)	(52,005)	-	-
	<b>43,537</b>	<b>43,989</b>	-	-
<b>Unquoted Shares</b>				
- at cost	844,786	844,786	1,540	393,343
- accumulated impairment losses	(447,512)	(447,512)	(1,540)	(393,343)
	<b>397,274</b>	<b>397,274</b>	-	-
	<b>440,811</b>	<b>441,263</b>	-	-
Share of post-acquisition results and reserves	(420,161)	(418,304)	-	-
	<b>20,650</b>	<b>22,959</b>	-	-
Market value of quoted shares:				
- quoted outside Malaysia	<b>19,936</b>	<b>42,226</b>	-	-
Represented by:				
Share of net assets other than goodwill	<b>60,945</b>	<b>64,840</b>		

The associates are as follows:

Name of Company	Country of Incorporation	Holding in Equity		Principal Activities
		2016 %	2015 %	
ACB Resources Berhad	Malaysia	- # 47.66	24.67 # 22.99	Investment holding
Lion Plantations Sdn Bhd	Malaysia	30.00	30.00	Investment holding
Lion Insurance Company Limited	Malaysia	# 36.28	# 36.28	Captive insurance business
Lion Asiapac Limited	Republic of Singapore	# 29.98	# 29.98	Investment holding

# Held by subsidiaries



17. INVESTMENT IN ASSOCIATES (continued)

The summarised financial information of the associates is as follows:

	2016 RM'000	2015 RM'000
<b>Assets</b>		
Current assets	477,803	577,717
Non-current assets	226,230	230,582
Total assets	<u>704,033</u>	<u>808,299</u>
<b>Liabilities</b>		
Current liabilities	(1,895,249)	(1,760,520)
Non-current liabilities	(3,288)	(5,450)
Total liabilities	<u>(1,898,537)</u>	<u>(1,765,970)</u>
<b>Results</b>		
Revenue	105,606	115,684
Loss for the year	<u>(159,877)</u>	<u>(342,993)</u>

The Group's share of losses of the associates has been recognised to the extent of the carrying amount of the investments. The cumulative unrecognised share of losses amounted to RM679.5 million (2015: RM605.8 million) and current year's unrecognised share of losses amounted to RM73.7 million (2015: RM103.3 million).

18. INVESTMENT SECURITIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) <b>Non-Current</b>				
<b>Available-for-sale Investments</b>				
Quoted Shares in Malaysia				
- at fair value	360	479	104	198
Unquoted Shares				
- at cost	1,243	393	-	-
- accumulated impairment losses	(305)	(305)	-	-
	<u>938</u>	<u>88</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>1,298</u>	<u>567</u>	<u>104</u>	<u>198</u>
Market value of quoted shares	<u>360</u>	<u>479</u>	<u>104</u>	<u>198</u>

18. INVESTMENT SECURITIES (continued)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>(b) Current</b>				
<b>Held-to-maturity Investments</b>				
- unquoted bonds (c)	<u>20,262</u>	<u>20,418</u>	<u>-</u>	<u>-</u>

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

	Group	
	2016 RM'000	2015 RM'000
At 1 July	20,418	23,199
Exchange difference	1,470	4,085
Accreted interest	934	1,136
Redemption during the year	(3,105)	(5,738)
	<u>19,717</u>	<u>22,682</u>
Reversal of impairment/(Impairment losses)	545	(2,264)
	<u>20,262</u>	<u>20,418</u>
At 30 June	(20,262)	(20,418)
Receivable within one year	-	-
	<u>-</u>	<u>-</u>

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

The terms of the ACB SPV Debts are as follows:

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

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

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

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

19. DEFERRED TAXATION

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 July	372,044	368,509	(102)	(836)
Recognised in profit or loss (Note 11)	4,906	3,535	102	734
At 30 June	<u>376,950</u>	<u>372,044</u>	<u>-</u>	<u>(102)</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	378,483	373,914	-	-
Deferred tax liabilities	(1,533)	(1,870)	-	(102)
At 30 June	<u>376,950</u>	<u>372,044</u>	<u>-</u>	<u>(102)</u>

(a) Deferred Tax Assets of the Group

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 July 2014	346,007	23,338	369,345
Recognised in profit or loss	4,569	-	4,569
At 30 June 2015	<u>350,576</u>	<u>23,338</u>	<u>373,914</u>
Recognised in profit or loss	4,569	-	4,569
At 30 June 2016	<u>355,145</u>	<u>23,338</u>	<u>378,483</u>

(b) Deferred Tax Liabilities of the Group

	RCSLS RM'000	Accelerated Capital Allowances RM'000	Total RM'000
At 1 July 2014	(836)	-	(836)
Recognised in profit or loss	734	(1,768)	(1,034)
At 30 June 2015	<u>(102)</u>	<u>(1,768)</u>	<u>(1,870)</u>
Recognised in profit or loss	102	235	337
At 30 June 2016	<u>-</u>	<u>(1,533)</u>	<u>(1,533)</u>

**19. DEFERRED TAXATION (continued)**

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

	<b>RCSLS RM'000</b>
At 1 July 2014	(836)
Recognised in profit or loss	734
	<hr/>
At 30 June 2015	<b>(102)</b>
Recognised in profit or loss	<b>102</b>
	<hr/>
At 30 June 2016	-
	<hr/> <hr/>

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

	<b>Group</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Unused tax losses	<b>1,769,080</b>	1,262,971
Unabsorbed capital allowances	<b>148,717</b>	124,937
Unutilised reinvestment allowances	<b>47,154</b>	42,471
Other deductible temporary differences	<b>97,066</b>	153,852
	<hr/>	<hr/>
	<b>2,062,017</b>	1,584,231
	<hr/> <hr/>	<hr/> <hr/>

The unused tax losses and unabsorbed capital allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective subsidiaries.

## 20. INVENTORIES

	Group	
	2016 RM'000	2015 RM'000
<b>At Cost:</b>		
Properties held for sale	3,265	6,886
Raw materials	790	16,089
Work-in-progress	1,975	1,155
Finished goods	12	11,769
Spares, supplies and consumables	104,464	102,051
	<b>110,506</b>	137,950
<b>At Net Realisable Value:</b>		
Raw materials	5,412	51,412
Work-in-progress	-	296
Finished goods	12,100	98,718
Spares, supplies and consumables	1,631	1,834
	<b>19,143</b>	152,260
Total	<b>129,649</b>	290,210

The inventories in relation to the product financing liabilities as disclosed in Note 33, where titles are with other parties are as follows:

	Group	
	2016 RM'000	2015 RM'000
<b>Finished Goods:</b>		
- with related parties	-	60,413
- with external parties	-	7,629
<b>Total</b>	<b>-</b>	<b>68,042</b>

During the year, inventories recognised as an expense in the income statement of the Group was RM608.7 million (2015: RM1,710.4 million).

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

Inventories of the Group amounting to RM105.8 million (2015: RM138.1 million) are secured by way of a floating charge for certain borrowings as disclosed in Note 28.

## 21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade receivables	37,636	92,422	–	–
Impairment losses (a)	(13,031)	(11,823)	–	–
	<b>24,605</b>	80,599	–	–
Other receivables	23,424	17,106	144	127
Impairment losses (b)	(6,804)	(5,874)	–	–
	<b>16,620</b>	11,232	<b>144</b>	127
Prepayments	980	16,191	–	–
Deposits	4,746	3,775	1	1
	<b>46,951</b>	111,797	<b>145</b>	128

Included in receivables of the Group and of the Company are related parties balances of which RM2.1 million (2015: RM2.0 million) and RM Nil (2015: RM Nil) respectively are in trade receivables and RM0.6 million (2015: RM2.7 million) and RM0.1 million (2015: RM0.1 million) respectively are in other receivables.

The Group's normal trade credit terms range from 5 days to 60 days (2015: 5 days to 60 days). Interest on overdue trade balances are charged at a rate of 6% to 16% (2015: 6% to 16%) per annum. They are recognised at their original invoice amounts which represent their fair values on initial recognition. Other credit terms are assessed and approved on a case-by-case basis.

### Ageing analysis of trade receivables

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

	Group	
	2016 RM'000	2015 RM'000
Neither past due nor impaired	16,690	63,869
1 to 30 days past due not impaired	3,668	12,414
31 to 60 days past due not impaired	872	795
61 to 90 days past due not impaired	350	875
91 to 180 days past due not impaired	1,436	447
More than 180 days past due not impaired	1,589	2,199
	<b>7,915</b>	16,730
Impaired	<b>13,031</b>	11,823
	<b>37,636</b>	92,422

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

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

	Group	
	2016 RM'000	2015 RM'000
At 1 July	11,823	12,711
Additions	1,253	646
Reversal	(15)	(1,534)
Written off	(30)	–
At 30 June	13,031	11,823

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

	Group	
	2016 RM'000	2015 RM'000
At 1 July	5,874	3,956
Additions	1,063	2,417
Written off	(133)	(499)
At 30 June	6,804	5,874

Receivables that are neither past due nor impaired

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

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM7.9 million (2015: RM16.7 million) that are past due at the reporting date but not impaired.

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

Receivables of the Group amounting to RM17.9 million (2015: RM32.0 million) are secured by way of a floating charge for certain borrowings as disclosed in Note 28.

## 22. AMOUNT DUE FROM/TO SUBSIDIARIES

	Company	
	2016 RM'000	2015 RM'000
Amount due from subsidiaries	1,178,009	1,176,917
Impairment losses	(1,173,564)	(571,700)
	<u>4,445</u>	<u>605,217</u>
Amount due to subsidiaries	<u>95,658</u>	<u>44,329</u>

Movement of the impairment account is as follows:

	Company	
	2016 RM'000	2015 RM'000
At 1 July	571,700	2,613,000
Additions	601,864	18,700
Written off	-	(2,060,000)
At 30 June	<u>1,173,564</u>	<u>571,700</u>

The amount due from/to subsidiaries which arose mainly from inter-company advances and payments made on behalf are unsecured and repayable on demand. The amount due from subsidiaries is interest free (2015: bear a weighted average interest rate of 6% per annum) and the amount due to subsidiaries is interest free (2015: interest free).

## 23. DEPOSITS WITH FINANCIAL INSTITUTIONS

The deposits of the Group and the Company carry a weighted average interest rate as at the reporting date of 3.0% (2015: 2.8%) and 3.2% (2015: 3.1%) per annum respectively and have varying periods of between 1 day and 275 days (2015: 1 day and 365 days) and 1 day and 12 days (2015: 1 day and 14 days) respectively.

Included in deposits of the Group is an amount of RM0.3 million (2015: RM0.2 million) which is pledged as a bank guarantee to certain subsidiaries.

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

	Group	
	2016 RM'000	2015 RM'000
Reclassified from property, plant and equipment (Notes 13 and 41(e))	<u>17,268</u>	<u>-</u>

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

The said disposal was completed on 30 September 2016.



25. SHARE CAPITAL

	Group and Company	
	2016	2015
	RM'000	RM'000
<b>Ordinary Shares of RM1.00 each</b>		
<b>Authorised:</b>		
At 1 July/30 June	<u>3,000,000</u>	<u>3,000,000</u>
<b>Issued and Fully Paid:</b>		
At 1 July/30 June	<u>1,316,199</u>	<u>1,316,199</u>

26. RESERVES

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<b>Non-Distributable:</b>				
Asset revaluation reserve	264,859	264,859	–	–
Capital reserves	44,115	43,702	3,046	3,046
Foreign currency translation reserve	26,376	22,625	–	–
Fair value adjustment reserve	178	(113)	178	178
Equity component of RCSLS	8,990	8,990	8,990	8,990
Warrant reserve	3,673	3,673	3,673	3,673
	<u>348,191</u>	343,736	<u>15,887</u>	15,887
Share premium	97,685	97,685	97,685	97,685
	<u>445,876</u>	441,421	<u>113,572</u>	113,572
Accumulated losses	<u>(2,998,779)</u>	(2,555,568)	<u>(2,616,201)</u>	(1,951,618)
	<u>(2,552,903)</u>	(2,114,147)	<u>(2,502,629)</u>	(1,838,046)

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

(a) **Asset Revaluation Reserve**

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

(b) **Capital Reserves**

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

## 26. RESERVES (continued)

### (c) Foreign Currency Translation Reserve

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

### (d) Fair Value Adjustment Reserve

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

### (e) Equity Component of RCSLS

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

### (f) Warrant Reserve

Warrant reserve is pertaining to the issuance of 36,734,534 warrants as consideration for the conditional take-over offer of the remaining ordinary shares of RM1.00 each in ACB ("ACB Share") on the basis of one new warrant of the Company ("LCB Warrant") for every ten ACB Shares held.

The details of LCB Warrants are as follows:

- (i) Each warrant entitles its registered holder to subscribe for one new LCB Share. In conjunction with the capital reconstruction undertaken by the Company in the previous financial years, the exercise price of the LCB Warrant has been adjusted from RM1.00 to RM5.00. The LCB Warrants may be exercised at any time commencing from 21 April 2009 but not later than 20 April 2019 (both dates inclusive).
- (ii) The new LCB Shares to be issued pursuant to the exercise of the LCB Warrants will upon allotment and issue, rank *pari passu* in all respects with the then existing issued and paid-up LCB Shares, save that they will not be entitled to any dividend, right, allotment and/or other distribution, the entitlement date of which is on or before the new LCB Shares are credited into the securities account of the holder maintained with Bursa Malaysia Depository Sdn Bhd ("Bursa Depository").
- (iii) No LCB Warrants were converted into new LCB Shares during the financial year. As of the reporting date, the total number of warrants which remained unexercised amounted to 36,734,534 warrants. Any warrant which has not been exercised at the date of maturity will lapse and cease to be valid for any purpose.

**27. PREFERENCE SHARES**

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

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Authorised:</b>		
At 1 July/30 June		
Preference "E" Shares of RM0.01 each	<b>110</b>	110
Preference "G" Shares of RM0.01 each	<b>1,000</b>	1,000
	<b>1,110</b>	1,110
	<b>1,110</b>	1,110
<b>Issued and paid-up:</b>		
At 1 July/30 June		
Preference "E" Shares of RM0.01 each	<b>110</b>	110
Preference "G" Shares of RM0.01 each	<b>1,000</b>	1,000
	<b>1,110</b>	1,110
	<b>1,110</b>	1,110
<b>Share premium:</b>		
At 1 July/30 June		
Preference "E" Shares of RM0.99 each	<b>10,890</b>	10,890
Preference "G" Shares of RM0.99 each	<b>99,000</b>	99,000
	<b>109,890</b>	109,890
	<b>109,890</b>	109,890
Total	<b>111,000</b>	111,000
	<b>111,000</b>	111,000

## 27. PREFERENCE SHARES (continued)

### Terms of Preference "E" Shares

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

- (i) The Preference "E" Shares shall be issued at a par value of RM0.01 with a premium of RM0.99 per Preference "E" Share;
- (ii) The Preference "E" Shares shall carry the right to preference dividend (cumulative) of RM0.05 per Preference "E" Share after the Preference "G" Shares but in priority to the Preference "D" Shares, the Preference "F" Shares and the ordinary shares in Megasteel;
- (iii) The Preference "E" Shares shall rank both as regards dividend and return of capital after the Preference "G" Shares but in priority to the Preference "D" Shares, the Preference "F" Shares and the ordinary shares in Megasteel;
- (iv) The Preference "E" Shares shall not be entitled to any right of voting at any general meeting of Megasteel nor receipt of any notices of meetings of Megasteel;
- (v) The Preference "E" Shares shall be subordinated to (a) the Syndicated Term Loans of Megasteel; and (b) the full redemption of the Preference "G" Shares;
- (vi) The Preference "E" Shares shall be redeemed at the par value of RM0.01 with a premium of RM0.99 per Preference "E" Share, at the option of Megasteel in priority to the Preference "D" Shares and the Preference "F" Shares subject to the full settlement of the Syndicated Term Loans of Megasteel and the full redemption of the Preference "G" Shares; and
- (vii) The Preference "E" Shares shall be transferable but not convertible.

### Terms of Preference "G" Shares

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

- (i) The Preference "G" Shares shall be issued at a par value of RM0.01 with a premium of RM0.99 per Preference "G" share;
- (ii) The Preference "G" Shares shall carry the right to a fixed cumulative preference dividend of RM0.05 per share per annum, subject to the availability of profits;
- (iii) The Preference "G" Shares shall rank in priority to the ordinary shares and the existing Preference "D", "E" and "F" Shares of Megasteel in the event of liquidation, dissolution, winding-up or other repayment of capital of Megasteel and dividends declared (if any) provided that there shall be no further right to participate in the surplus assets or profits of Megasteel;
- (iv) The Preference "G" Shares shall be subordinated to the existing Syndicated Term Loans of Megasteel and in the event of a refinancing of the existing Syndicated Term Loans, the Preference "G" Shares shall be subordinated up to the amount utilised to repay the existing Syndicated Term Loans from the proceeds of the refinancing ("Subordination"). The Preference "G" Shares shall rank *pari passu* with all other present and future indebtedness;
- (v) The Preference "G" Shares shall be for an initial tenure of five years ("Initial Tenure"). On the fourth anniversary of the date of issue, Megasteel has the option to extend the tenure of the Preference "G" Shares for a further five years from the maturity date of the Initial Tenure ("Extended Tenure").

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

## 27. PREFERENCE SHARES (continued)

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

- (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; and

- (d) Mandatory Redemption

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

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

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

28. LOANS AND BORROWINGS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Short Term Borrowings</b>				
Secured:				
RCSLS (Note 29)	–	–	–	–
Syndicated Term Loans	807,874	710,713	–	–
Other term loans	23,477	21,658	–	–
Bills payable	39,678	66,015	–	–
Revolving credits	33,176	33,000	–	–
Bank overdrafts	45,259	9,800	–	–
Finance lease liabilities (Note 30)	92	92	–	–
	<b>949,556</b>	<b>841,278</b>	–	–
Unsecured:				
Bills payable	441	50,344	–	–
Bank overdrafts	–	7,178	–	–
	<b>441</b>	<b>57,522</b>	–	–
	<b>949,997</b>	<b>898,800</b>	–	–
<b>Long Term Borrowings</b>				
Secured:				
RCSLS (Note 29)	281,498	278,356	281,498	278,356
Finance lease liabilities (Note 30)	176	270	–	–
	<b>281,674</b>	<b>278,626</b>	<b>281,498</b>	<b>278,356</b>
<b>Total Borrowings</b>				
RCSLS (Note 29)	281,498	278,356	281,498	278,356
Syndicated Term Loans (Note A)	807,874	710,713	–	–
Other term loans	23,477	21,658	–	–
Bills payable	40,119	116,359	–	–
Revolving credits	33,176	33,000	–	–
Bank overdrafts	45,259	16,978	–	–
Finance lease liabilities (Note 30)	268	362	–	–
	<b>1,231,671</b>	<b>1,177,426</b>	<b>281,498</b>	<b>278,356</b>

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

## 28. LOANS AND BORROWINGS (continued)

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

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
RCSLS	5.8	5.8	5.8	5.8
Term loans	12.4	11.7	–	–
Bills payable	10.4	9.1	–	–
Revolving credits	10.9	9.9	–	–
Bank overdrafts	9.4	9.4	–	–

### (A) Syndicated Term Loans

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

	Group	
	2016 RM'000	2015 RM'000
RM Term Loan	355,664	315,946
USD Term Loan	452,210	394,767
	<b>807,874</b>	<b>710,713</b>

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

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

The Syndicated Term Loans facility is secured against:

- property, plant and equipment of Megasteel Group as disclosed in Note 13, including any future additions;
- floating assets of Megasteel Group; and
- charge over certain investment in subsidiaries.

## 28. LOANS AND BORROWINGS (continued)

### (A) Syndicated Term Loans (continued)

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

#### (i) Sale of certain quoted investment in an associate (“Pledged Shares”)

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

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

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

- (a) Megasteel shall enter into a sale and purchase agreement with a bona fide purchaser for the sale of certain of its property, plant and equipment no later than 30 June 2010 or such extended date as may be agreed by the Syndicated Term Loans Lenders whose loans represent more than 75% of the aggregate value of the RM Term Loan and USD Term Loan inclusive of principal, interests, commission, fees or expenses respectively as defined in the provisional Term Sheet;
- (b) The sale of the property, plant and equipment shall be subjected to the approvals of shareholders of the Company and other requisite approvals from relevant authorities;
- (c) Proceeds from the sale of the property, plant and equipment shall be received by 30 September 2010. In the event the sale cannot be completed by 30 September 2010, Megasteel shall have the option to extend the completion date for a further 3 months; and
- (d) Proceeds (net of transaction costs) from the sale of the property, plant and equipment shall be utilised to prepay or repay the principal and/or interest due in chronological order of maturity.

Due to the weak market condition, the realisation of the planned disposal of the Group’s assets required by the Restructured Scheme of the Syndicated Term Loans has been delayed. As at 30 June 2016, the Group has not entered into any sale and purchase agreement for the sale of the property, plant and equipment.

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

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



## 28. LOANS AND BORROWINGS (continued)

### (A) Syndicated Term Loans (continued)

On 14 July 2014, Megasteel sent out Term Sheet to the Lenders outlining the principal terms and conditions of the Proposed Restructuring Scheme. Subsequently, on 20 November 2014, Megasteel sent out a Revised Term Sheet to the Lenders outlining the principal terms and conditions of the Proposed Restructuring Scheme. The Proposed Restructuring Scheme was expected to be completed by 31 December 2014.

The Proposed Restructuring Scheme involves the following:

- moratorium period granted in respect of the repayment of the principal amount outstanding up to 30 September 2017;
- no changes in interest rates (“Interest Rates”);
- interest will be paid on a semi-annual basis;
- Interest Payment Rates ranges from fixed rates of 4% for RM Term Loan and 2% for USD Term Loan from 1 July 2014 to 30 September 2017, up to 5% + COF/LIBOR in the later years till 31 March 2022;
- the interest difference between Interest Rates and Interest Payment Rates shall be paid as Back-End Interest Payment;
- unpaid default interest of 2% per annum up to 30 June 2014 is proposed to be paid upon full repayment of the principal; and
- in the event Megasteel achieves an adjusted profit after tax which exceeds the projected profit after tax in any financial year (“Super Profit”), Megasteel shall utilise 50% of the Super Profit as follows:
  - (i) the Lenders are entitled to an additional interest payment of up to 1% per annum; and
  - (ii) the balance of the Super Profit shall be applied to repay the principal amount owing under the Term Loans on a pro-rata basis.

Megasteel has obtained consent from all its RM Term Loan Lenders as at the date of the financial statements (some of which are with certain conditions). However, only two out of the seven USD Term Loan Lenders have given their consent while one has commenced legal proceedings, as further disclosed in Note 35(c).

Meanwhile, Megasteel continues to remain under the purview of the CDRC whilst it works toward finalising the debt restructuring scheme with its professional advisers.

## 29. REDEEMABLE CONVERTIBLE SECURED LOAN STOCKS

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

- (a) RM294,747,299 nominal value of LCB Class B(a) Bonds with present value of RM286,834,000 into RM286,834,000 nominal value of LCB Class B(a) RCSLS;
- (b) RM200,000,000 nominal value of LCB Class B(b) Bonds with present value of RM178,769,000 into RM178,769,000 nominal value of LCB Class B(b) RCSLS; and
- (c) RM5,252,701 nominal value of LCB Debts with present value of RM5,130,000 into RM5,130,000 nominal value of LCB Class B(c) RCSLS.

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

Salient terms of the RCSLS are as follows:

(i) The tranches of RCSLS are as follows:

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

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

(ii) Conversion right and rate

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

(iii) Conversion period

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

(iv) Redeemability

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

- Mandatory Early Redemption - to redeem in chronological order of the redemption date in the event the surplus in the Redemption Account is RM5,000,000 or more on a pro rata basis with the LCB Bonds, LCB Debts and RCSLS.
- Redemption Upon Maturity - all outstanding RCSLS and not converted on the expiry of the conversion period will be redeemed for cash at RM1.00 per RCSLS.
- Mandatory Redemption
  - (a) the Company shall redeem 20% of the total RCSLS issued at every redemption date as follows:
    - 31 December 2011;
    - 31 December 2012;
    - 31 December 2013;
    - 31 December 2014; and
    - 31 December 2015
  - (b) all outstanding RCSLS shall be redeemed upon the occurrence of a shareholders' or creditors' winding up of the Company or upon the declaration of the event of default.

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

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

Salient terms of the RCSLS are as follows: (continued)

(v) Security

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

(vi) Ranking of New Shares

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

As at 30 June 2016, RM487,871,000 nominal value of RCSLS remained outstanding.

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

	<b>Group and Company</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Liability component at 1 July	<b>278,356</b>	271,327
Interest expenses recognised during the year (Note 10)	<b>15,675</b>	18,441
Repayment during the year	<b>(12,533)</b>	(11,412)
	<hr/>	<hr/>
Liability component at 30 June	<b>281,498</b>	278,356
	<hr/> <hr/>	<hr/> <hr/>

The RCSLS are redeemable over the following periods:

	<b>Group and Company</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Within 1 year	–	–
From 1 to 2 years	–	–
From 2 to 5 years	–	–
After 5 years	<b>281,498</b>	278,356
	<hr/>	<hr/>
	<b>281,498</b>	278,356
	<hr/> <hr/>	<hr/> <hr/>

Included in the RCSLS are amount of RM253.5 million (2015: RM250.6 million) due to a related party.

**30. FINANCE LEASE LIABILITIES**

	Group	
	2016 RM'000	2015 RM'000
Minimum lease payments:		
Not later than 1 year	105	111
Later than 1 year and not later than 2 years	105	105
Later than 2 years and not later than 5 years	87	194
	297	410
Future finance charges	(29)	(48)
	268	362
Present value of finance lease payments:		
Not later than 1 year	92	92
Later than 1 year and not later than 2 years	93	86
Later than 2 years and not later than 5 years	83	184
	268	362
Analysed as:		
Due within 12 months	92	92
Due after 12 months	176	270
	268	362

The finance lease liabilities carry interest rates at the reporting date at rates ranging from 2.3% to 3.7% (2015: 2.3% to 3.7%) per annum.

**31. BONDS AND DEBTS**

	Group and Company	
	2016 RM'000	2015 RM'000
<b>Non-Current</b>		
Secured:		
- LCB Bonds	784,375	774,596
- LCB Debts	5,082	4,780
	789,457	779,376
<b>Total</b>		

### 31. BONDS AND DEBTS (continued)

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

	Group and Company	
	2016 RM'000	2015 RM'000
Within 1 year	–	–
From 1 to 2 years	–	–
From 2 to 5 years	–	–
After 5 years	789,457	779,376
	<b>789,457</b>	<b>779,376</b>

Included in the Bonds and Debts is an amount of RM743.6 million (2015: RM739.6 million) due to a related party.

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

On 27 February 2009, the Company had:

- (i) fully redeemed its LCB Class A Bonds amounting to RM35.9 million;
- (ii) converted RM900,000,000 nominal value of LCB Class B(b) Bonds with a present value of RM804,460,000 into 804,460,000 new ordinary shares of RM1.00 each; and
- (iii) converted a portion of its LCB Class B Bonds and LCB Debts into RCSLS (Note 29).

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

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

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

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

### 31. BONDS AND DEBTS (continued)

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

- (ii) The Security Trustee holds the following securities (“Securities”) for the benefit of the holders of the LCB Bonds and LCB Debts:
- (a) The assets included in the Proposed Divestment Programme (“PDP”) for the Group. If there is an existing security on any such assets, the Security Trustee will take a lower priority security interest;
  - (b) The LDHB Inter-Co Repayment received by the Company;
  - (c) Entire/Partial investment in Lion Plate Mills Sdn Bhd, Bright Steel Sdn Bhd, Megasteel Sdn Bhd, LCB Harta (L) Limited and certain investment in associates;
  - (d) The Residual Assets, if any;
  - (e) Dividends upstreaming from Lion Plate Mills Sdn Bhd and Bright Steel Sdn Bhd;
  - (f) The excess, if any, of the ACB SPV Debts and proceeds of the Property Development Project known as Mahkota Cheras Project;
  - (g) All rights, title and interest of the Company and Limpahjaya under the Deed of Undertaking;
  - (h) Proceeds from the disposal of 66,666,667 ordinary shares of RM1.00 each in Megasteel;
  - (i) 33,333,333 ordinary shares of RM1.00 each in Megasteel;
  - (j) Shares and assets in Pancar Tulin Sdn Bhd (including the property development project);
  - (k) Shares in LCB Harta (L) Limited;
  - (l) Such other securities as may be provided from time to time to the Security Trustee for the benefit of the Bondholders, RCSLS Holders and the Lenders; and
  - (m) The Redemption Account and the General Escrow Account held by the Company. The Redemption Account will capture the LCB Dedicated Cash Flows.

Dedicated Cash Flows means cash flow from the following sources:

- net surplus proceeds from the disposal of any assets in the PDP for the Group over which there is presently a security, if applicable;
- net proceeds from the disposal of any assets in the PDP for the Group over which there is presently no security;
- proceeds of the LDHB Inter-Co Repayment received by the Company (including any loyalty payment received following the full repayment of LDHB Inter-Co Repayment);
- dividends or cash flow from the Deed of Undertaking;
- subject to the proportions allocated pursuant to the Trust Deed, dividends and disposal proceeds from Bright Steel Sdn Bhd and Lion Plate Mills Sdn Bhd;
- repayment proceeds from the ACB SPV Debts and proceeds from the Property Development Project; and
- proceeds from the disposal of 11.1% of the issued and paid-up share capital of Megasteel.

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

### 31. BONDS AND DEBTS (continued)

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

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

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

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

### 32. DEFERRED LIABILITIES

	Group	
	2016 RM'000	2015 RM'000
Unfunded defined benefit plan (a)	3,350	3,151
Deferred creditor (b)	–	272,307
	3,350	275,458
	3,350	275,458

#### (a) Unfunded Defined Benefit Plan

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

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

	Group	
	2016 RM'000	2015 RM'000
<b>Non-Current</b>		
At 1 July	3,151	2,878
Charged to profit or loss (Note 7)	332	311
Benefit paid	(133)	(38)
	3,350	3,151
At 30 June	3,350	3,151

The amount recognised is analysed as follows:

- Present value of unfunded defined benefit obligations	3,350	3,151
	3,350	3,151

The expenses recognised in profit or loss are analysed as follows:

- Current service cost	166	160
- Interest cost	166	151
	332	311
	332	311

### 32. DEFERRED LIABILITIES (continued)

#### (a) Unfunded Defined Benefit Plan (continued)

The principal actuarial assumptions used are as follows:

	Group	
	2016 %	2015 %
Discount rate	5	5
Expected rate of salary increase	5	5

#### (b) Deferred Creditor

In April 2014, Megasteel Sdn Bhd (“Megasteel”) and Tenaga Nasional Berhad (“TNB”) have mutually agreed to settle a RM305.6 million claim (“Consent Judgement Sum”) made by TNB for the supply of electricity to Megasteel. A consent judgment had been recorded at the High Court of Malaya, stating that Megasteel has been given a 12-month moratorium from April 2014 to pay the amount and that it shall commence the scheduled payment of the Consent Judgement Sum by 24 monthly instalments from April 2015. Additionally, the supply of electricity by TNB shall be on an advance payment basis effective April 2014.

Thereafter, TNB agreed to grant Megasteel a further moratorium period wherein the 24 monthly instalments shall commence from April 2016 instead of April 2015. On 7 August 2015, with the consent of TNB, the Court has allowed Megasteel’s application to record by way of a consent order that TNB has granted Megasteel new terms to pay the Consent Judgment Sum and that Megasteel shall commence the scheduled payment of the Consent Judgment Sum from April 2016. Megasteel has defaulted in the instalment payment since April 2016. Therefore, the entire amount has been reclassified to current liabilities.

### 33. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM’000	2015 RM’000	2016 RM’000	2015 RM’000
Trade payables	1,886,488	1,487,714	–	–
Other payables	220,645	160,060	20,428	19,837
Security deposits received from customers	8,791	12,328	–	–
Product financing liabilities	91,934	124,451	–	–
Accruals	123,914	139,037	16,379	16,377
Project payables	4,041	4,257	–	–
	<u>2,335,813</u>	<u>1,927,847</u>	<u>36,807</u>	<u>36,214</u>

Included in payables of the Group and of the Company are related parties balances of which RM1,479.8 million (2015: RM1,287.1 million) and RM Nil (2015: RM Nil) respectively are in trade payables, RM109.4 million (2015: RM100.4 million) and RM20.4 million (2015: RM19.8 million) respectively are in other payables and RM65.8 million (2015: RM90.2 million) and RM Nil (2015: RM Nil) respectively are in product financing liabilities.

Certain of the related parties balances bear interest rates ranging from 7.9% to 9.1% (2015: 7.9% to 9.1%) per annum.

The entire security deposits received from customers bear interest rates ranging from 6.5% to 10.0% (2015: 6.5% to 10.0%) per annum.



### 33. TRADE AND OTHER PAYABLES (continued)

Product financing liabilities are the liabilities arising from the trade financing arrangements with parties where titles to the inventories pertaining to these arrangements are legally with these parties, and of which the Group has the obligation to purchase. The obligation to purchase ranges from 90 days to 120 days with interest rates ranging from 6% to 9% (2015: 6% to 9%) per annum. The inventories under such arrangements are disclosed in Note 20. All other normal credit terms granted to the Group in trade payables range from 30 days to 120 days.

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

In previous financial years, a subsidiary of the Company has entered into a Settlement Scheme to settle the long outstanding amounts due to certain of its unsecured creditors accumulated until 30 April 2011, whereby RM748.8 million was settled via the issuance of 936,009,129 new ordinary shares of RM1.00 each in the Company. Included in the amounts settled under the Settlement Scheme were amounts due to related parties of RM577.8 million.

As at 30 June 2016, the Group has an amount outstanding of RM99.0 million (2015: RM99.6 million) under the Settlement Scheme which is due for payment and is non-interest bearing. Included in the Settlement Scheme are amounts due to related parties of RM74.2 million (2015: RM74.2 million).

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

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

### 34. COMMITMENTS

#### (a) Capital Commitments

As at end of the financial year, the Group has the following capital commitments:

	Group	
	2016 RM'000	2015 RM'000
Capital expenditure for property, plant and equipment:		
- approved and contracted for	8,058	8,714
- approved but not contracted for	41,279	42,501
	49,337	51,215
	49,337	51,215

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

	Group	
	2016 RM'000	2015 RM'000
<b>As Lessor</b>		
Future minimum rentals receivable:		
Not later than one year	1,353	1,353
Later than one year and not later than five years	5,343	5,343
Later than five years	19,875	21,204
	26,571	27,900
	26,571	27,900

### 35. CONTINGENT LIABILITIES

	Company	
	2016	2015
	RM'000	RM'000
(a) Guarantees in respect of loans and facilities granted to subsidiaries - unsecured	<b>110,258</b>	108,072

- (b) On 1 November 2013, the Malaysia Competition Commission (“MyCC”) had issued its Proposed Decision on Megasteel Sdn Bhd (“Megasteel”), a 79%-owned subsidiary of the Company. In its Proposed Decision, MyCC is of the view that Megasteel had breached the provision of Section 10(1) of the Competition Act 2010 in that it had abused its dominant position by charging or imposing a price for its hot rolled coil that amounts to a margin squeeze that produces anti-competitive effects in the cold rolled coil market (“Proposed Decision”). A financial penalty of RM4.5 million is imposed by MyCC on Megasteel.

Pursuant to a notice of finding of non-infringement from MyCC dated 15 April 2016, MyCC had determined that there is no infringement by Megasteel of Section 10(1) of the Competition Act 2010 as stipulated in the Proposed Decision (“Finding of Non-Infringement”). In arriving at the Finding of Non-Infringement, MyCC had concluded that Megasteel did not abuse its dominant position nor practise margin squeeze in the relevant domestic markets. The above Finding of Non-Infringement was made after careful reassessment of the case with more detailed information obtained through written and oral representations submitted by Megasteel as well as further analysis made by MyCC.

Melewar Industrial Group Berhad (the complainant upon whose complaint MyCC had initiated investigation against Megasteel) then had on 13 May 2016, filed a notice of appeal to the Competition Appeal Tribunal against the Finding of Non-Infringement (“Appeal”).

Subsequently on 21 June 2016, Melewar Industrial Group Berhad withdrew the Appeal. Following the withdrawal of the Appeal, the above case against Megasteel was closed and the Finding of Non-Infringement was final.

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

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

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

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

Woodgrove has applied for leave to appeal to the Federal Court. Leave to appeal was fixed for hearing on 25 May 2016. Hearing did not proceed on 25 May 2016 as Megasteel has obtained a restraining order on 5 May 2016 as disclosed in Note 41(c). The Federal Court has fixed 2 November 2016 for case management.

As disclosed in Note 41(c), Woodgrove has subsequently applied to intervene the restraining order on 14 July 2016.

### 36. RELATED PARTY TRANSACTIONS

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

Significant transactions undertaken with related parties are as follows:

Name of Company	Type of Transactions	Group	
		2016 RM'000	2015 RM'000
<b>(i) With ACB Resources Berhad ("ACB") Group</b>			
Lion Tooling Sdn Bhd	Trade purchases	<b>1,009</b>	3,348
<b>(ii) With Lion Asiapac Limited ("LAP") Group</b>			
Compact Energy Sdn Bhd	Trade purchases	<b>7,671</b>	14,900
	Rental income	<b>438</b>	274
<b>(iii) With Other Related Parties</b>			
Amsteel Mills Sdn Bhd	Trade sales	<b>10,577</b>	64,017
	Trade purchases	<b>1,725</b>	61,130
	Rental income	<b>52</b>	487
	Rental expenses	<b>744</b>	744
Antara Steel Mills Sdn Bhd	Trade sales	–	7,456
Amsteel Mills Marketing Sdn Bhd	Trade purchases	<b>2,545</b>	5,296
Lion Waterway Logistics Sdn Bhd	Logistic services	<b>6,407</b>	12,924
Posim Petroleum Marketing Sdn Bhd	Trade purchases	<b>382</b>	2,089
Posim Marketing Sdn Bhd	Trade sales	<b>118,757</b>	–
Singa Logistics Sdn Bhd	Logistic services	<b>3,612</b>	18,015
Lion DRI Sdn Bhd	Trade sales	<b>19,889</b>	36,834
	Trade purchases (Note (iv))	<b>303,539</b>	1,015,097
	Operating lease expense	<b>33,664</b>	44,844
	Rental income	<b>1,142</b>	1,142
Grainpi Sdn Bhd	Interest expense on product financing	<b>374</b>	1,953
Mitsui & Co Ltd	Trade purchases	<b>9,062</b>	56,565
Lion Holdings Pte Ltd	Product financing facilities	–	67,075
	Interest expense on product financing	–	5,194
Ributasi Holdings Sdn Bhd	Product financing facilities	–	44,000
	Interest expense on product financing	<b>2,183</b>	1,477

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

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

### 36. RELATED PARTY TRANSACTIONS (continued)

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

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

Lion Holdings Pte Ltd and Ributasi Holdings Sdn Bhd are companies in which certain Directors of the Company have interests.

#### (iv) Offtake Agreement

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

- (a) the selling price of the Steel Products for the 10-year term shall be based on the formula of cost plus certain margin ("Selling Price");
- (b) in the event the average scrap price for 3 months' period is higher than the Selling Price, Lion DRI shall invoice Megasteel the Selling Price together with 50% of the price difference;
- (c) Megasteel shall settle the invoice within 30 days of the invoice falling which, interest at the rate of 2.25% above Malayan Banking Berhad's base lending rate per annum shall be payable on the outstanding sum from the due date to date of settlement; and
- (d) Lion DRI shall be free to dispose of the Steel Products not taken up by Megasteel in the open market and if Lion DRI shall suffer a loss on such sale, Megasteel shall indemnify Lion DRI for such losses. In the event Lion DRI fails to deliver the Steel Products, Megasteel shall be at liberty to source for alternative equivalent and Lion DRI shall indemnify Megasteel for losses suffered.

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

### 37. SEGMENTAL ANALYSIS

The Group is organised into four major business segments:

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

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

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

37. SEGMENTAL ANALYSIS (continued)

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

37. SEGMENTAL ANALYSIS (continued)

	Steel RM'000	Property RM'000	Furniture RM'000	Others RM'000	Elimination RM'000	Group RM'000
<b>Group 2015</b>						
<b>Revenue</b>						
External	1,997,954	61,781	27,552	221	–	2,087,508
Inter-segment	6,770	–	–	15	(6,785)	–
	<u>2,004,724</u>	<u>61,781</u>	<u>27,552</u>	<u>236</u>	<u>(6,785)</u>	<u>2,087,508</u>
<b>Results</b>						
Segment results	(383,999)	35,812	1,964	5,079	–	(341,144)
Interest income	1,064	1,524	92	2,313	–	4,993
Loss from operations						(336,151)
Finance costs						(267,062)
Impairment losses on investments						(2,578)
Share in results of associates						(39,290)
Loss before taxation						(645,081)
Taxation						(11,513)
Net loss for the financial year						<u>(656,594)</u>
Segment assets	2,598,167	158,921	25,946	34,155	–	2,817,189
Investment in associates						22,959
Unallocated corporate assets						373,996
Consolidated total assets						<u>3,214,144</u>
Segment liabilities	3,074,483	23,551	4,889	110,452	–	3,213,375
Unallocated corporate liabilities						1,064,761
Consolidated total liabilities						<u>4,278,136</u>
<b>Other information</b>						
Capital expenditure	10,304	–	725	–	–	11,029
Depreciation	142,195	12	311	1	–	142,519

### 38. STATEMENTS OF CASH FLOWS

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Impairment and waiver losses on amount due from subsidiaries	–	–	601,864	304,057
Debt waiver from a subsidiary	–	–	(2,449)	–
Bad receivables written off	–	405	–	–
Dividend income	–	–	–	(53,225)
Loss/(Gain) on disposal of property, plant and equipment	1,794	(81)	–	–
Impairment losses/(Reversal of impairment) on:				
- investment in an associate	452	–	–	–
- investment in securities	(135)	2,578	94	82
- receivables	2,301	1,529	–	–
- property, plant and equipment	–	5,914	–	–
Interest expenses	251,564	267,062	63,790	67,509
Interest income	(3,650)	(4,993)	(121)	(66,285)
Inventories written down	1,514	26,627	–	–
Depreciation	142,159	142,519	–	–
Property, plant and equipment written off	–	2	–	–
Provision for defined benefit plan	332	311	–	–
Share in results of associates	1,617	39,290	–	–
Unrealised loss on foreign exchange	21,129	71,247	311	716
	<b>419,077</b>	<b>552,410</b>	<b>663,489</b>	<b>252,854</b>

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

	Group	
	2016 RM'000	2015 RM'000
Aggregate cost of purchase (Note 13)	6,003	11,029
Purchase by means of:		
- hire purchase	–	(282)
- deferred payment	(4,385)	(1,149)
Purchase by cash	<b>1,618</b>	<b>9,598</b>

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and bank balances	74,810	118,792	599	518
Deposits with financial institutions	26,528	14,578	3,165	3,981
Bank overdrafts (Note 28)	(45,259)	(16,978)	–	–
	<b>56,079</b>	116,392	<b>3,764</b>	4,499
Fixed deposits pledged to licensed banks	(261)	(247)	–	–
	<b>55,818</b>	116,145	<b>3,764</b>	4,499

Cash and bank balances and deposits with financial institutions of the Group amounting to RM1.5 million (2015: RM2.9 million) are secured by way of a floating charge for borrowings as disclosed in Note 28.

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

	Group	
	2016 RM'000	2015 RM'000
Bank balances	38,535	100,002
Deposits with financial institutions	20,861	4,097
	<b>59,396</b>	104,099

Included in bank balances of a subsidiary is an amount of RM37.5 million (2015: RM98.9 million) held pursuant to Section 7A of the Housing Development (Control and Licensing) Act, 1966 and therefore restricted from use for other operations.

### 39. FINANCIAL INSTRUMENTS

#### Financial Risk Management Objectives and Policies

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

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

#### Foreign Currency Risk

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



**39. FINANCIAL INSTRUMENTS (continued)**

**Foreign Currency Risk (continued)**

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

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

	USD RM'000	Euro RM'000	Others RM'000	Total RM'000
<b>Group</b>				
<b>2016</b>				
Trade and other receivables	1,411	–	–	1,411
Trade and other payables	42,868	–	5,800	48,668
Loans and borrowings	452,210	–	–	452,210
Bonds and debts	5,082	–	–	5,082
<b>2015</b>				
Trade and other receivables	793	–	66	859
Trade and other payables	96,135	14,461	5,472	116,068
Loans and borrowings	394,767	–	–	394,767
Bonds and debts	4,780	–	–	4,780
<b>Company</b>				
<b>2016</b>				
Bonds and debts	5,082	–	–	5,082
<b>2015</b>				
Bonds and debts	4,780	–	–	4,780

### 39. FINANCIAL INSTRUMENTS (continued)

#### Sensitivity analysis for foreign currency risk

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

Group	Profit net of tax	
	2016 RM'000	2015 RM'000
USD/RM - strengthened 3%	(11,371)	(11,135)
- weakened 3%	11,371	11,135
	<hr/> <hr/>	<hr/> <hr/>
<b>Company</b>		
USD/RM - strengthened 3%	(116)	(108)
- weakened 3%	116	108
	<hr/> <hr/>	<hr/> <hr/>

#### **Interest Rate Risk**

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

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

#### Sensitivity analysis for interest rate risk

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

#### **Credit Risk**

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

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

The Company provides unsecured financial guarantees in respect of facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayment made by the subsidiaries. As at end of the reporting date, there was no indication that any subsidiary would default on repayment other than as disclosed in Notes 32(b) and 41(d). The financial guarantees have not been recognised since the fair value on initial recognition was not material.

### 39. FINANCIAL INSTRUMENTS (continued)

#### Credit Risk (continued)

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

#### Market Risk

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

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

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

#### Liquidity and Cash Flow Risks

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

The Group manages its debt maturity profile, operating cash flow and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As mentioned in Note 2, as at 30 June 2016, the Group's current liabilities exceeded its current assets by RM2.92 billion.

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

	On demand RM'000	Less than 12 months RM'000	1 to 5 years RM'000	After 5 years RM'000	Total RM'000
<b>2016</b>					
<b>Group</b>					
Trade and other payables	651,352	1,684,461	–	–	2,335,813
Loans and borrowings	–	950,011	192	487,870	1,438,073
Bonds and debts	–	–	–	1,686,448	1,686,448
	<u>651,352</u>	<u>2,634,472</u>	<u>192</u>	<u>2,174,318</u>	<u>5,460,334</u>
<b>2016</b>					
<b>Company</b>					
Trade and other payables	–	36,807	–	–	36,807
Amount due to subsidiaries	95,658	–	–	–	95,658
Loans and borrowings	–	–	–	487,870	487,870
Bonds and debts	–	–	–	1,686,448	1,686,448
	<u>95,658</u>	<u>36,807</u>	<u>–</u>	<u>2,174,318</u>	<u>2,306,783</u>

39. FINANCIAL INSTRUMENTS (continued)

Liquidity and Cash Flow Risks (continued)

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

	On demand RM'000	Less than 12 months RM'000	1 to 5 years RM'000	After 5 years RM'000	Total RM'000
<b>2015</b>					
<b>Group</b>					
Trade and other payables	251,990	1,683,080	–	–	1,935,070
Loans and borrowings	–	898,819	299	506,407	1,405,525
Bonds and debts	–	–	–	1,739,289	1,739,289
Deferred creditor	–	–	303,425	–	303,425
	<u>251,990</u>	<u>2,581,899</u>	<u>303,724</u>	<u>2,245,696</u>	<u>5,383,309</u>
<b>2015</b>					
<b>Company</b>					
Trade and other payables	–	36,214	–	–	36,214
Amount due to subsidiaries	44,329	–	–	–	44,329
Loans and borrowings	–	–	–	506,407	506,407
Bonds and debts	–	–	–	1,739,289	1,739,289
	<u>44,329</u>	<u>36,214</u>	<u>–</u>	<u>2,245,696</u>	<u>2,326,239</u>

Fair Values

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

	Carrying amount RM'000	Group Fair value RM'000
<b>2016</b>		
<b>Financial Liabilities</b>		
Finance lease liabilities	<u>268</u>	<u>382</u>
<b>2015</b>		
<b>Financial Liabilities</b>		
Finance lease liabilities	<u>362</u>	<u>442</u>

### 39. FINANCIAL INSTRUMENTS (continued)

#### Fair Values (continued)

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

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

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

- (ii) Quoted investments

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

- (iii) Unquoted investments

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

- (iv) Loans and borrowings

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

#### Fair Value Hierarchy

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

- (i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- (iii) Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>2016</b>				
<b>Group</b>				
<b>Financial Assets</b>				
Available-for-sale investments	360	–	–	360
	<u>360</u>	<u>–</u>	<u>–</u>	<u>360</u>
<b>2016</b>				
<b>Company</b>				
<b>Financial Assets</b>				
Available-for-sale investments	104	–	–	104
	<u>104</u>	<u>–</u>	<u>–</u>	<u>104</u>

39. FINANCIAL INSTRUMENTS (continued)

Categories of Financial Instruments

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

- (i) Loans and receivables (“L&R”)
- (ii) Other liabilities (“OL”)

	Carrying Amount RM'000	L&R RM'000	OL RM'000
<b>2016</b>			
<b>Group</b>			
<b>Financial Assets</b>			
Trade and other receivables	45,971	45,971	-
Deposits with financial institutions	26,528	26,528	-
Cash and bank balances	74,810	74,810	-
	<u>147,309</u>	<u>147,309</u>	<u>-</u>
<b>Group</b>			
<b>Financial Liabilities</b>			
Trade and other payables	2,335,813	-	2,335,813
Loans and borrowings	1,231,671	-	1,231,671
Bonds and debts	789,457	-	789,457
	<u>4,356,941</u>	<u>-</u>	<u>4,356,941</u>
<b>Company</b>			
<b>Financial Assets</b>			
Trade and other receivables	145	145	-
Amount due from subsidiaries	4,445	4,445	-
Deposits with financial institutions	3,165	3,165	-
Cash and bank balances	599	599	-
	<u>8,354</u>	<u>8,354</u>	<u>-</u>
<b>Company</b>			
<b>Financial Liabilities</b>			
Trade and other payables	36,807	-	36,807
Amount due to subsidiaries	95,658	-	95,658
Loans and borrowings	281,498	-	281,498
Bonds and debts	789,457	-	789,457
	<u>1,203,420</u>	<u>-</u>	<u>1,203,420</u>

39. FINANCIAL INSTRUMENTS (continued)

Categories of Financial Instruments (continued)

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

	Carrying Amount RM'000	L&R RM'000	OL RM'000
<b>2015</b>			
<b>Group</b>			
<b>Financial Assets</b>			
Trade and other receivables	95,606	95,606	-
Deposits with financial institutions	14,578	14,578	-
Cash and bank balances	118,792	118,792	-
	<u>228,976</u>	<u>228,976</u>	<u>-</u>
<b>Group</b>			
<b>Financial Liabilities</b>			
Trade and other payables	1,927,847	-	1,927,847
Loans and borrowings	1,177,426	-	1,177,426
Bonds and debts	779,376	-	779,376
Deferred creditor	272,307	-	272,307
	<u>4,156,956</u>	<u>-</u>	<u>4,156,956</u>
<b>Company</b>			
<b>Financial Assets</b>			
Trade and other receivables	128	128	-
Amount due from subsidiaries	605,217	605,217	-
Deposits with financial institutions	3,981	3,981	-
Cash and bank balances	518	518	-
	<u>609,844</u>	<u>609,844</u>	<u>-</u>
<b>Company</b>			
<b>Financial Liabilities</b>			
Trade and other payables	36,214	-	36,214
Amount due to subsidiaries	44,329	-	44,329
Loans and borrowings	278,356	-	278,356
Bonds and debts	779,376	-	779,376
	<u>1,138,275</u>	<u>-</u>	<u>1,138,275</u>

#### 40. CAPITAL MANAGEMENT

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

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. No changes were made in the objective, policies or processes during the financial years ended 30 June 2016 and 2015.

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans and borrowings	1,231,671	1,177,426	281,498	278,356
Bonds and debts	789,457	779,376	789,457	779,376
Trade and other payables	2,335,813	1,927,847	36,807	36,214
Deferred creditor	–	272,307	–	–
Less: Deposits with financial institutions	(26,528)	(14,578)	(3,165)	(3,981)
Cash and bank balances	(74,810)	(118,792)	(599)	(518)
Net debt (A)	<b>4,255,603</b>	4,023,586	<b>1,103,998</b>	1,089,447
Equity attributable to owners of the Company	<b>(1,236,704)</b>	(797,948)	<b>(1,186,430)</b>	(521,847)
Capital and net debt (B)	<b>3,018,899</b>	3,225,638	<b>(82,432)</b>	567,600
Gearing ratio (A/B)	<b>141%</b>	125%	<b>N/A</b>	192%

#### 41. SIGNIFICANT EVENTS

- (a) Megasteel has temporarily ceased its operations since March 2016 following the Government's decision not to impose safeguard duties on imports of hot rolled coils. Subsequently, Megasteel has failed to repay Tenaga Nasional Berhad ("TNB") outstanding electricity bill for February 2016 amounting to RM8.5 million. Since then, TNB has disconnected power supply to Megasteel. Megasteel is currently negotiating with TNB regarding the payment terms of the outstanding sum under a Scheme of Arrangement (as defined in (c)(i) below).
- (b) Following the event in Note 41 (a) above, Megasteel has only retained certain key employees from operation, manufacturing, finance and payroll departments. Remaining employees have either been retrenched or laid off.



**41. SIGNIFICANT EVENTS (continued)**

- (c) The High Court of Malaya (“High Court”) had on 5 May 2016 granted Megasteel the following:
- (i) an order (“Order”) pursuant to Section 176(1) of the Companies Act, 1965 (“Act”) that separate meetings (“Scheme Meetings”) of the creditors of Megasteel or any class of them (“Scheme Creditors”) be summoned within a period of ninety (90) days effective from 5 May 2016 for the purposes of considering and, if thought fit, approving with or without modification, the schemes of arrangement and compromise proposed between Megasteel and the Scheme Creditors (collectively “Schemes of Arrangement”); and
  - (ii) a Restraining Order (“RO”) pursuant to Section 176(10) of the Act whereby all proceedings and/or further proceedings in any action or proceeding against Megasteel and/or the Company and/or their assets (wherever located, and whether held by Megasteel or any trustee in whole or in part, directly or indirectly, as principal or as agent, beneficially or otherwise), be and is hereby forthwith restrained and stayed except by leave of the High Court, for a period of ninety (90) days effective from 5 May 2016.

(collectively referred to as the “5 May 2016 Court Order”).

On 2 August 2016, the High Court has granted Megasteel an ad-interim extension of the 5 May 2016 Court Order pending the decision of the High Court on:

- (i) Megasteel’s application for the 5 May 2016 Court Order to be extended for a period of 180 days from the date of the court order for extension;
- (ii) Tenaga Nasional Berhad’s application dated 28 June 2016 to intervene in these proceedings and to set-aside the 5 May 2016 Court Order; and
- (iii) Woodgrove Investments Pte Ltd’s application dated 14 July 2016 to intervene in these proceedings and to set-aside the 5 May 2016 Court Order.

(hereinafter referred to as “Pending Court Applications”).

An extension of the 5 May 2016 Court Order was applied for in order to allow Megasteel to have sufficient time to formalise the Schemes of Arrangement for the approval of its scheme creditors.

The Pending Court Applications are fixed for hearing on 15 and 16 November 2016.

Megasteel is currently working with its professional adviser on the finalisation of the Schemes of Arrangement. On 19 July 2016, the secured lenders of Megasteel as disclosed in Note 28 has been presented with a draft restructuring scheme, proposing a revised repayment terms and details. An independent valuer will be appointed by the secured lenders to carry out a valuation of the assets for the purpose of the proposed debt restructuring exercise.

#### 41. SIGNIFICANTS EVENTS (continued)

- (d) Megasteel has failed to settle a banker's acceptance which fall due on 23 September 2015 and this has resulted in an event of default by Megasteel. There were subsequent defaults announced thereafter. The agreement for the following facilities contained cross default provisions:
- (i) Non-syndicated term loan from Bank Pembangunan Malaysia Berhad with principal amount outstanding of approximately RM23 million;
  - (ii) Syndicated term loan (both RM loan and USD loan) with principal amount outstanding of approximately RM784.5 million; and
  - (iii) Working capital facilities agreements:
    - Banker's acceptance agreements with amount outstanding of RM32.4 million;
    - Revolving credit with amount outstanding of RM33.2 million; and
    - Trust receipt with amount outstanding of RM12.7 million.

Up to the reporting date, none of the above lenders have called upon an event of default.

- (e) The Company had on 18 May 2016 announced that Bright Steel Service Centre Sdn Bhd, a wholly-owned subsidiary of Bright Steel Sdn Bhd, which is in turn a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement and business assets acquisition agreement with Axis Development Sdn Bhd, for the disposal of the following for a total cash consideration of RM64 million:
- (i) a piece of leasehold land measuring 453,500 square feet located in Shah Alam, Selangor together with a one-storey factory building with a two-storey annexed office building, and a one-storey factory building with an office and ancillary buildings erected thereon for a cash consideration of RM61 million; and
  - (ii) cranes and shearing/slitting machineries for a cash consideration of RM3 million.

The said disposal was completed on 30 September 2016.

#### 42. SUBSEQUENT EVENT

On 30 September 2016, the Board of Directors of the Company announced that Bursa Securities has vide its letter dated 29 September 2016 ("Letter") decided to reject the Company's application for a further extension of time up to 30 November 2016 for the Company to submit the Regularisation Plan ("Decision") as there is no material development towards the finalisation and submission of the Regularisation Plan to the regulatory authorities.

Bursa Securities has in the Letter also informed that the securities of the Company will be de-listed on 12 October 2016 unless an appeal against the de-listing is submitted to Bursa Securities on or before 7 October 2016 ("Appeal").

The Board of Directors of the Company had on 4 October 2016 announced that the Company has resolved that the Company will not be submitting the Appeal in view that all material developments in relation to the Regularisation Plan have been disclosed to Bursa Securities for their deliberation in arriving at the Decision.

Pursuant to paragraph 8.04(5) of the Bursa Securities' Main Market Listing Requirements, the trading in the securities of the Company will be suspended with effect from 10 October 2016 and the securities of the Company will be de-listed from the Main Board of Bursa Securities on 12 October 2016.

## 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 CORPORATION BERHAD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 12 to 96 are drawn up in accordance with Financial Reporting Standards in Malaysia and the requirements of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2016 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 4 October 2016.

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

**TAN SRI CHENG YONG KIM**  
Director

Kuala Lumpur, Malaysia

## STATUTORY DECLARATION

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

I, **TAN SRI WILLIAM H.J. CHENG**, being the Director primarily responsible for the financial management of **LION CORPORATION BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 12 to 96 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **TAN SRI WILLIAM H.J. CHENG** at Kuala Lumpur in the Federal Territory on 4 October 2016.

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

Before me

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

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

### Report on the Financial Statements

We have audited the financial statements of LION CORPORATION BERHAD, which comprise the statements of financial position as at 30 June 2016 of the Group and of the Company, and the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 12 to 96.

#### *Directors' Responsibility for the Financial Statements*

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is 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 judgment, including the assessment of the risks of material misstatements 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 accounting policies used and the reasonableness of accounting estimates made by management, 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 adverse audit opinion.

#### *Basis for Adverse Opinion*

- i) As described in Note 2 to the financial statements, the Group incurred a net loss attributable to owners of the Company of RM441 million (2015: RM523 million) for the financial year ended 30 June 2016. As at 30 June 2016, the Group's current liabilities exceeded its current assets by RM2,921 million (2015: RM2,249 million).

On 23 September 2015, Megasteel Sdn Bhd ("Megasteel") had defaulted on its borrowing obligation and gave rise to a cross-default with all other lenders. There were subsequent defaults announced thereafter.

As disclosed in Notes 41(a) and 41(b) to the financial statements, Megasteel has temporarily ceased its operations and retrenched and laid off its employees.

In addition, for transactions during the year, Megasteel has not been paying its creditors (including an energy supplier) on due dates, and the credit terms with most of the suppliers are on cash-on-delivery terms.

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

Basis for Adverse Opinion (continued)

As described in Note 2 to the financial statements, the Group has continued to prepare the financial statements on a going concern basis, the appropriateness of the application of going concern basis is dependent on the outcome of the restructuring scheme.

After considering management's assessment on the Group's ability to continue as going concerns and future plans, we are in the opinion that the preparation of financial statements using the going concern basis is inappropriate and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business as we are unable to obtain sufficient audit evidence to support management's assessment and the evidences obtained from our other audit procedures do not support the appropriateness of the management's assessment.

- ii) Notwithstanding that the Group has consistently recorded losses in recent years, the Group has continued to recognise deferred tax assets of approximately RM378 million (2015: RM374 million) as at the reporting date. Such recognition constitutes a departure from FRS 112 *Income Taxes*. The Group should have derecognised the entire deferred tax assets of RM378 million and this would have increased the tax expense for the year, net loss for the year and shareholders' deficits of the Group.
- iii) As at reporting date, the Group did not make any provision for onerous contract in relation to an Offtake Agreement dated 16 July 2007. Pursuant to the Offtake Agreement as mentioned in Note 36(iv) to the financial statements, Megasteel is liable to make good any losses suffered by a related party for the production and supply of hot briquetted iron and hot direct reduced iron. Due to the cessation of operations by both Megasteel and the related party, we are unable to assess the extent of the adjustments required, if any, to the financial statements in relation to the provision for onerous contract.
- iv) Due to the event disclosed in Note 41(b) to the financial statements and the resulting constraints, we were unable to obtain sufficient appropriate audit evidences in relation to the measurement of the Group's revenue of RM484 million, other income of RM3 million, changes in inventories of finished goods of RM74 million, raw materials and consumables used of RM338 million, other operating expenses of RM91 million, and the reasonableness of the provision balances within trade payables of RM3 million and provision for quantity discount balances within trade receivables of RM0.7 million.
- v) No impairment assessment has been carried out on the property, plant and equipment of the Group despite existence of indications of impairment. Consequently, we were unable to satisfy ourselves as to whether the carrying value of property, plant and equipment and the related revaluation reserve is appropriate.
- vi) As at 30 June 2016, certain of the inventories comprise spares, supplies and consumables of RM104 million which have indications that the cost of inventories may not be recoverable. However, management has not performed assessment on the net realisable value of the inventories. Consequently, we are unable to obtain sufficient and appropriate audit evidences as to whether these inventories are carried at the lower of cost and net realisable value.

Adverse Opinion

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not give a true and fair view of the financial position of the Group as at 30 June 2016 and of the financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report on 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.
- (b) We have considered the financial statements and the independent auditors' reports of all the subsidiaries which we have not acted as auditors, which are indicated in Note 16 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations as required by us for those purposes.
- (d) Except for Megasteel Sdn Bhd and Secomex Manufacturing (M) Sdn Bhd which have an adverse opinion, the independent auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

### **Other Matters**

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.

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

Kuala Lumpur  
4 October 2016

**LIM KOK BENG**  
**588/02/17(J)**  
**Chartered Accountant**