

## FINANCIAL STATEMENTS

# 2018

For The Financial Year Ended 30 June 2018

## DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2018.

### Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries, associates and joint venture are disclosed in Notes 13, 14 and 15 to the financial statements respectively.

### Results

	Group RM'000	Company RM'000
Loss for the financial year	<u>(42,535)</u>	<u>(68,757)</u>
Attributable to:		
Owners of the Company	(42,535)	(68,757)
Non-controlling interests	-	-
	<u>(42,535)</u>	<u>(68,757)</u>

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

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the matters as disclosed in Note 2.1 to the financial statements.

## Directors

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

Tan Sri William H.J. Cheng  
Tan Sri Cheng Yong Kim  
Tan Sri Dato' Seri Dr Aseh bin Haji Che Mat  
Dato' Mohamad Kamarudin bin Hassan  
Tan Chee Chai  
Ooi Kim Lai

The Directors who held office in the subsidiaries of the Company during the financial year and up to the date of this report are:

Chan Ho Wai  
Cheng Hui Ya, Serena  
Cheng Theng How  
Cheng Toek Waa  
Chow Kim Ming  
Chuah Say Chin  
Haji Mohamad Khalid bin Abdullah  
Khor Toong Yee  
Koh Yong Heng  
Lee Whay Keong  
Ooi Kim Lai  
Tan Sri William H.J. Cheng  
Tan Sri Cheng Yong Kim  
Wang Wing Ying  
Chai Voon Choy (ceased on 4 June 2018)  
Dato' Kamaruddin @ Abas bin Nordin (ceased on 3 November 2017)  
Yap Chan Mei (ceased on 31 July 2017)

## Directors' benefits

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Directors' benefits (cont'd.)

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown below) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, 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 corporations in which the Director of the Company has a substantial interest as disclosed in Note 34 to the financial statements.

### Directors' remuneration

The Director's remuneration are disclosed in Note 7(a) to the financial statements.

### Indemnity and insurance for Directors and Officers

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

### Directors' interests

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

	I-----Number of ordinary shares-----I			
	1.7.2017	Acquired	Disposed	30.6.2018
<b><u>Direct Interest</u></b>				
Tan Sri William H.J. Cheng	364,586,607	-	-	364,586,607
Tan Sri Cheng Yong Kim	9,841,337	-	-	9,841,337
Ooi Kim Lai	116	-	-	116
<b><u>Deemed Interest</u></b>				
Tan Sri William H.J. Cheng	318,694,862	-	-	318,694,862
Tan Sri Cheng Yong Kim	341,157,070	-	(100,000,000)	241,157,070

### Directors' interests (cont'd.)

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

#### Deemed Interest

Tan Sri William H.J. Cheng

Tan Sri Cheng Yong Kim

	I-----Number of ordinary shares-----I			
	1.7.2017	Acquired	Disposed	30.6.2018
<b>Subsidiary</b>				
LDH Investment Pte Ltd	4,500,000	-	-	4,500,000

Save 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

- (a) 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:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

**Other statutory information (cont'd.)**

- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) Save as disclosed in Note 2.1 to the financial statements, in the opinion of the Directors:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

**Significant events**

Significant events are disclosed in Note 35 to the financial statements.

**Subsequent events**

Subsequent events are disclosed in Note 36 to the financial statements.

### **Auditors' remuneration**

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

The auditors' remuneration are disclosed in Note 7 to the financial statements.

### **Auditors' indemnity**

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been paid to indemnify Ernst & Young for the financial year ended 30 June 2018.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 16 October 2018.

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

**Tan Sri Cheng Yong Kim**  
Managing Director

Kuala Lumpur, Malaysia

## STATEMENT BY DIRECTORS

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

We, **Tan Sri William H.J. Cheng** and **Tan Sri Cheng Yong Kim**, being two of the Directors of **Lion Diversified Holdings Berhad**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 24 to 157 are drawn up in accordance with Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 30 June 2018 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 16 October 2018.

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

**Tan Sri Cheng Yong Kim**  
Managing Director

Kuala Lumpur, Malaysia

## STATUTORY DECLARATION

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

I, **Tan Sri Cheng Yong Kim**, being the Director primarily responsible for the financial management of **Lion Diversified Holdings Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 24 to 157 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **Tan Sri Cheng Yong Kim** at Kuala Lumpur in the Federal Territory on 16 October 2018.

**Tan Sri Cheng Yong Kim**

Before me,

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

Kuala Lumpur

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

### Report on the audit of the financial statements

#### Disclaimer of opinion

We were engaged to audit the financial statements of Lion Diversified Holdings Berhad, which comprise the statements of financial position as at 30 June 2018 of the Group and of the Company, and the statements of profit or loss, 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 24 to 157.

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

#### *Basis for disclaimer of opinion*

- (i) As described in Note 2.1 to the financial statements, the Group and the Company incurred net losses of RM42.5 million and RM68.8 million respectively for the financial year ended 30 June 2018. As at 30 June 2018, the Group's and the Company's current liabilities exceeded their current assets by RM835.9 million and RM241.9 million respectively.

The above indicates a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as going concerns and therefore, the Group and the Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

As described in Note 2.1 to the financial statements, the appropriateness of the application of going concern basis is dependent on continuing support from the lenders and the creditors of the Group and of the Company, disposals of certain property, plant and equipment and contributions from the property and the contract manufacturing services business segments of the Group. However, in view of the uncertainties of continuing support from lenders and creditors, and disposals of certain property, plant and equipment, we were unable to obtain sufficient appropriate audit evidence to determine whether management's use of the going concern basis of accounting was appropriate.

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



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

### Report on the audit of the financial statements (cont'd.)

#### *Basis for disclaimer of opinion (cont'd.)*

- (ii) Due to the shut down of Lion DRI Sdn Bhd's ("Lion DRI") operations since the previous financial years, we were unable to obtain sufficient appropriate audit evidence in relation to the measurement of revenue, and raw materials and consumables used by the Group of RM277.8 million and RM210.5 million respectively and the valuation of inventories of RM28.6 million in the previous financial year and hence our audit opinion on the financial statements for the financial years ended 30 June 2016 and 30 June 2017 were modified. Since the opening inventories values will affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and the opening accumulated losses might be necessary for the financial year ended 30 June 2018.

In the current financial year, Lion DRI's inventories have been written down by RM28.6 million, and we were unable to obtain sufficient appropriate audit evidence in relation to the write-down of inventories.

- (iii) As disclosed in Note 10(f) to the financial statements, the recoverable amount of the Direct Reduced Iron Plant ("DRI Plant") owned by Lion DRI was estimated by an independent professional valuer ("Valuer") using the Cost Approach in the financial year ended 30 June 2016. We were unable to ascertain whether the assumptions used by the Valuer to derive at the recoverable amount were appropriate for the financial year ended 30 June 2016. In the financial year ended 30 June 2017, no independent professional valuer was appointed to assess the fair value of DRI Plant and hence, we were unable to satisfy ourselves as to whether any adjustments to the net carrying amount of DRI Plant were necessary as at 30 June 2017. Accordingly, our audit opinions on the financial statements for the financial years ended 30 June 2016 and 30 June 2017 were modified. In the current financial year ended 30 June 2018, management made an assessment of the recoverable of DRI Plant by referring to an offer price by a potential buyer of DRI Plant, resulted in an impairment of RM43.7 million in the current financial year. We were unable to obtain sufficient appropriate evidence to determine the appropriateness of the offer price and hence, we were unable to satisfy ourselves as to whether any adjustments to the current financial year impairment and net carrying amount of DRI Plant as at 30 June 2018 were necessary. In addition, since the opening balance of the DRI Plant will affect the measurement of the depreciation and impairment loss, we were also unable to obtain sufficient and appropriate evidence to determine whether any adjustments should be made on the depreciation charge and impairment loss during the current financial year.

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

### Report on the audit of the financial statements (cont'd.)

#### *Basis for disclaimer of opinion (cont'd.)*

- (iv) As disclosed in Note 3.2(h) to the financial statements, a subsidiary is contractually bound to acquire freight services from a third party service provider for the importation of iron ore pellets at rates above the current market rates based on a Contract of Affreightment ("COA"). The Company has provided a guarantee for the COA. However, no provision for onerous contract has been made for the COA. Under FRS 137 Provisions, Contingent Liabilities and Contingent Assets, the Group and the Company have a present obligation of approximately RM335.9 million respectively under the COA which exceed the economic benefits expected to be received. Had the provision for onerous contract been made, other expense, net loss for the financial year and shareholders' deficits of the Group and of the Company would have increased by the same amount.

In respect of the ongoing litigation with Classic Maritime Inc. ("Classic") on the claims for the breach of the COA for the 14 unscheduled shipments, the management believe that they have a good defense to the claims. However, we were unable to obtain sufficient appropriate evidence on the likely outcome of the ongoing legal proceedings for these 14 unscheduled shipments.

#### *Independence and other ethical responsibilities*

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

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

### Report on the audit of the financial statements (cont'd.)

#### *Responsibilities of the Directors for the financial statements*

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and of the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

### Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 2016 ("Act") in Malaysia, except for those disclosed in the *Basis for disclaimer of opinion* section, we also report the following:

- (a) the accounting and other records and registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors as disclosed in Note 13 to the financial statements have been properly kept in accordance with the provisions of the Act and that we have not obtained all the information and explanations that we require in relation to the matters as disclosed in the Basis for disclaimer of opinion section.
- (b) the auditor's reports on the financial statements of the subsidiaries were not subject to any material qualification and did not include any comments required to be made under Section 266(3) of the Act except that the auditors' reports of the following subsidiaries which were qualified in respect of matters discussed below:
  - (i) Lion DRI Sdn Bhd – disclaimer opinion on the going concern basis used in the preparation of the financial statements and on the same matter as described in the *Basis for disclaimer of opinion* section Notes (ii) and (iii);
  - (ii) Limbungan Makmur Sdn Bhd – the same matter as described in the *Basis for disclaimer of opinion* section Note (iv); and
  - (iii) Lion Blast Furnace Sdn Bhd – disclaimer opinion on the going concern basis used in the preparation of the financial statements.
- (c) the subsidiaries of which we have not acted as auditors, are disclosed in Note 13 to the financial statements.

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

### Report on other legal and regulatory requirements (cont'd.)

#### Other matters

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

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

Kuala Lumpur, Malaysia  
16 October 2018

**Tseu Tet Khong @ Tsau Tet Khong**  
**No. 03374/06/2020J**  
**Chartered Accountant**

## STATEMENTS OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Revenue	4	<b>285,928</b>	423,381	<b>6,000</b>	12,361
Other income	5	<b>90,057</b>	64,411	<b>4,854</b>	14,801
Changes in inventories		<b>761</b>	(18,683)	-	-
Raw materials and consumables used		<b>(108,975)</b>	(96,215)	-	-
Property development expenditure		<b>(35,224)</b>	(187,091)	-	-
Employee benefits expense	6	<b>(41,180)</b>	(43,306)	<b>(576)</b>	(612)
Depreciation and amortisation		<b>(30,456)</b>	(31,795)	<b>(1)</b>	(54)
Other expenses		<b>(84,610)</b>	(80,480)	<b>(15,931)</b>	(6,476)
		<b>76,301</b>	30,222	<b>(5,654)</b>	20,020
Finance costs	8	<b>(63,816)</b>	(67,992)	<b>(3,737)</b>	(7,563)
Impairment losses on:					
- Property, plant and equipment	10	<b>(43,658)</b>	-	-	-
- Investment in subsidiaries	13	-	-	<b>(17,696)</b>	(45,683)
- Receivables from subsidiaries, net	20	-	-	<b>(41,585)</b>	(95,578)
- Trade and other receivables	20	<b>(239)</b>	(210)	-	-
- Investment securities		-	(2,302)	-	-
Share of results of joint venture		<b>327</b>	997	-	-
Loss before tax	7	<b>(31,085)</b>	(39,285)	<b>(68,672)</b>	(128,804)
Income tax expense	9	<b>(11,450)</b>	(26,605)	<b>(85)</b>	(3,375)
Loss, net of tax		<b>(42,535)</b>	(65,890)	<b>(68,757)</b>	(132,179)
Attributable to:					
- Owners of the Company		<b>(42,535)</b>	(65,890)	<b>(68,757)</b>	(132,179)
- Non-controlling interests		-	-	-	-
		<b>(42,535)</b>	(65,890)	<b>(68,757)</b>	(132,179)

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

## STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Loss, net of tax	<u>(42,535)</u>	<u>(65,890)</u>	<u>(68,757)</u>	<u>(132,179)</u>
<b><u>Other comprehensive (loss)/income</u></b>				
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Foreign currency translations	8,076	2,254	-	-
(Loss)/Gain on fair value changes on available-for-sale financial assets	<u>(10,486)</u>	<u>27,762</u>	<u>(7,349)</u>	<u>19,019</u>
Other comprehensive (loss)/income for the financial year, net of tax, representing items that may be reclassified subsequently to profit or loss	<u>(2,410)</u>	<u>30,016</u>	<u>(7,349)</u>	<u>19,019</u>
Total comprehensive loss for the financial year	<u>(44,945)</u>	<u>(35,874)</u>	<u>(76,106)</u>	<u>(113,160)</u>
Attributable to:				
- Owners of the Company	(44,945)	(35,874)	(76,106)	(113,160)
- Non-controlling interests	-	-	-	-
	<u>(44,945)</u>	<u>(35,874)</u>	<u>(76,106)</u>	<u>(113,160)</u>

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

## STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	314,354	396,298	1	2
Investment properties	11	1,953	2,024	-	-
Land held for property development	12(a)	15,166	15,775	-	-
Investment in subsidiaries	13	-	-	65,668	83,364
Investment in associates	14	-	-	-	-
Investment in joint venture	15	23,575	23,248	-	-
Investment securities	16	27,178	37,905	18,586	25,935
Intangible assets	17	10,484	10,484	-	-
Deferred tax assets	18	5,478	1,026	-	-
		<b>398,188</b>	<b>486,760</b>	<b>84,255</b>	<b>109,301</b>
<b>Current assets</b>					
Property development costs	12(b)	4,527	56,080	-	-
Inventories	19	61,184	51,776	-	-
Investment securities	16	15,243	18,200	-	-
Trade and other receivables	20	178,356	74,807	92,655	162,841
Derivative assets	21	-	19	-	-
Tax recoverable		627	1,668	-	-
Cash and bank balances	22	166,417	341,646	16,066	8,057
		<b>426,354</b>	<b>544,196</b>	<b>108,721</b>	<b>170,898</b>
Non-current assets classified as held for sale	23	-	10,052	-	-
		<b>426,354</b>	<b>554,248</b>	<b>108,721</b>	<b>170,898</b>
<b>Total assets</b>		<b>824,542</b>	<b>1,041,008</b>	<b>192,976</b>	<b>280,199</b>



## STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2018 (Continued)

	Note	Group 2018 RM'000	2017 RM'000	Company 2018 RM'000	2017 RM'000
<b>Equity and liabilities</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	24	1,027,041	1,027,041	1,027,041	1,027,041
Share premium	25	-	-	-	-
Other reserves	26	162,618	159,781	11,670	19,019
Accumulated losses		(1,672,293)	(1,624,723)	(1,196,313)	(1,127,556)
		(482,634)	(437,901)	(157,602)	(81,496)
<b>Non-controlling interests</b>					
		-	-	-	-
		(482,634)	(437,901)	(157,602)	(81,496)
<b>Non-current liabilities</b>					
Loans and borrowings	27	40,000	20,105	-	-
Deferred tax liabilities	18	4,883	34,998	-	-
		44,883	55,103	-	-
<b>Current liabilities</b>					
Trade and other payables	30	1,024,355	1,131,033	350,578	359,164
Provisions	31	53,040	38,000	-	-
Loans and borrowings	27	180,579	246,257	-	-
Derivative liabilities	29	193	121	-	-
Income tax payable		4,126	8,395	-	2,531
		1,262,293	1,423,806	350,578	361,695
<b>Total liabilities</b>		<b>1,307,176</b>	<b>1,478,909</b>	<b>350,578</b>	<b>361,695</b>
<b>Total equity and liabilities</b>		<b>824,542</b>	<b>1,041,008</b>	<b>192,976</b>	<b>280,199</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	← Attributable to owners of the Company →						
	← Non-distributable →						
Group	Share capital RM'000 (Note 24)	Share premium RM'000 (Note 25)	Other reserves RM'000 (Note 26)	Accumulated losses RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
At 1 July 2017	1,027,041	-	159,781	(1,624,723)	(437,901)	-	(437,901)
Total comprehensive loss for the financial year	-	-	(2,410)	(42,535)	(44,945)	-	(44,945)
	1,027,041	-	157,371	(1,667,258)	(482,846)	-	(482,846)
Transfer from deferred tax liabilities	-	-	212	-	212	-	212
Transfer to capital reserve	-	-	5,035	(5,035)	-	-	-
At 30 June 2018	1,027,041	-	162,618	(1,672,293)	(482,634)	-	(482,634)
At 1 July 2016	696,074	330,967	122,334	(1,551,402)	(402,027)	-	(402,027)
Total comprehensive income/(loss) for the financial year	-	-	30,016	(65,890)	(35,874)	-	(35,874)
	696,074	330,967	152,350	(1,617,292)	(437,901)	-	(437,901)
Transfer to capital reserve	-	-	7,431	(7,431)	-	-	-
Transfer arising from Companies Act 2016	330,967	(330,967)	-	-	-	-	-
At 30 June 2017	1,027,041	-	159,781	(1,624,723)	(437,901)	-	(437,901)

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

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	←	Non-distributable		→		
	Share	Share	Other	Accumulated		Total
	capital	premium	reserves	losses		
	RM'000	RM'000	RM'000	RM'000		RM'000
	(Note 24)	(Note 25)	(Note 26)			
At 1 July 2017	1,027,041	-	19,019	(1,127,556)		(81,496)
Total comprehensive loss for the financial year	-	-	(7,349)	(68,757)		(76,106)
At 30 June 2018	1,027,041	-	11,670	(1,196,313)		(157,602)
At 1 July 2016	696,074	330,967	-	(995,377)		31,664
Total comprehensive income/(loss) for the financial year	-	-	19,019	(132,179)		(113,160)
Transfer arising from Companies Act 2016	330,967	(330,967)	-	-		-
At 30 June 2017	1,027,041	-	19,019	(1,127,556)		(81,496)

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

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from operating activities</b>				
Loss before tax	(31,085)	(39,285)	(68,672)	(128,804)
Adjustments for:				
Depreciation and amortisation	30,456	31,795	1	54
Write off of property, plant and equipment	145	18	-	-
Gain on disposal of property, plant and equipment	(23,585)	(16,053)	(40)	(26)
Gain on disposal of non-current assets classified as held for sale	(7,802)	-	-	-
Reversal of impairment losses:				
- Trade and other receivables	(2,586)	(211)	-	-
- Investment securities (unquoted bonds)	(465)	(244)	(465)	(244)
Fair value (gain)/loss on remeasurement of Exchangeable Bonds	(457)	1,831	-	-
Fair value gain on loan	-	(2,034)	-	-
Impairment losses on:				
- Investment in subsidiaries	-	-	17,696	45,683
- Investment securities	-	2,302	-	-
- Property, plant and equipment	43,658	-	-	-
- Receivables from subsidiaries (net)	-	-	41,585	95,578
- Trade and other receivables	239	210	-	-
Fair value loss on derivative instruments	91	5,463	-	-
Inventories written down	29,458	1,058	-	-
Bad debt written off	-	15	-	-
Loss/(Gain) on conversion on Exchangeable Bonds	510	(4,067)	-	-
Waiver of debts	-	-	71	297
Provision for other taxes payable	15,040	-	-	-
Gain on dissolution of subsidiary	(19,124)	-	-	-
Amortisation of premium on held-to-maturity investments	1	-	-	-
Adjustments carried forward	65,579	20,083	58,848	141,342

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from operating activities (cont'd.)</b>				
Adjustments brought forward	<b>65,579</b>	20,083	<b>58,848</b>	141,342
Unrealised foreign exchange (gain)/loss (net)	<b>(5,799)</b>	7,411	<b>6,164</b>	(12,629)
Gain on disposal of investment securities	-	(283)	-	-
Interest expense	<b>63,816</b>	67,992	<b>3,737</b>	7,562
Interest income	<b>(7,810)</b>	(11,843)	<b>(346)</b>	(160)
Dividend income	<b>(84)</b>	(70)	<b>(6,000)</b>	-
Share of results of joint venture	<b>(327)</b>	(997)	-	-
Operating profit/(loss) before working capital changes	<b>84,290</b>	43,008	<b>(6,269)</b>	7,311
Changes in working capital:				
Inventories	<b>(38,866)</b>	14,868	-	-
Receivables	<b>(88,455)</b>	14,483	<b>(8)</b>	-
Payables	<b>(142,737)</b>	(3,008)	<b>(1,127)</b>	1,064
Property development costs	<b>49,155</b>	72,994	-	-
Cash flows (used in)/from operations	<b>(136,613)</b>	142,345	<b>(7,404)</b>	8,375
Interest received	<b>7,810</b>	11,843	<b>346</b>	160
Interest paid	<b>(17,815)</b>	(19,913)	<b>(3,737)</b>	(7,562)
Taxes paid	<b>(48,672)</b>	(37,050)	<b>(2,616)</b>	(844)
Net cash flows (used in)/ from operating activities	<b>(195,290)</b>	97,225	<b>(13,411)</b>	129

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property, plant and equipment	<b>34,932</b>	30,086	<b>40</b>	50
Proceeds from redemption of unquoted bonds (Note 16(c))	<b>465</b>	244	<b>465</b>	244
Purchase of property, plant and equipment (Note 10(c))	<b>(3,607)</b>	(1,491)	-	-
Movements in cash management funds	-	(2,237)	-	-
Proceeds from disposal of investment securities	<b>2,687</b>	4,007	-	-
Proceed from disposal of non-current assets classified as held for sale (Note 23)	<b>17,854</b>	-	-	-
Deferred payment for acquisition of associate (Note 28)	<b>(5,880)</b>	(5,475)	<b>(5,880)</b>	(5,475)
Dividends received from investment securities	<b>84</b>	70	-	-
Advances from subsidiaries	-	-	<b>26,795</b>	112,611
Net cash flows from investing activities	<b>46,535</b>	25,204	<b>21,420</b>	107,430
<b>Cash flows from financing activities</b>				
Movement of deposits with licensed banks and pledge amounts	<b>15,514</b>	127,515	-	-
Repayment of borrowings	<b>(28,000)</b>	(38,159)	<b>(15,000)</b>	(15,000)
Redemption of Exchangeable Bonds	<b>(24,038)</b>	(25,824)	-	-
Drawdown of borrowings	<b>15,000</b>	30,000	<b>15,000</b>	-
Payments of obligations under finance leases	<b>(174)</b>	(376)	-	(72)
Net cash flows (used in)/from financing activities	<b>(21,698)</b>	93,156	-	(15,072)

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Net (decrease)/increase in cash and cash equivalents	(170,453)	215,585	8,009	92,487
Effects of changes in foreign exchange rates	10,738	(4,672)	-	-
Cash and cash equivalents at beginning of financial year	<u>298,579</u>	<u>87,666</u>	<u>8,057</u>	<u>(84,430)</u>
Cash and cash equivalents at end of financial year (Note 22)	<u>138,864</u>	<u>298,579</u>	<u>16,066</u>	<u>8,057</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

### 1. Corporate information

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and the securities of the Company had been delisted from the Official List of Bursa Malaysia Securities Berhad ("Bursa Securities") on 25 April 2018 as detailed in Note 35. The registered office and the principal place of business for the Company are both located at Level 14, Lion Office Tower, No. 1 Jalan Nagasari, 50200 Kuala Lumpur, Wilayah Persekutuan.

The Company is an investment holding company. The principal activities of the subsidiaries, associates and joint venture are disclosed in Notes 13, 14 and 15 respectively. There have been no significant changes in the nature of the principal activities of the Group and of the Company 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 16 October 2018.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRSs") and the requirements of the Companies Act 2016 (the "Act") in Malaysia. At the beginning of the current financial year, the Group and the Company adopted the new and revised FRSs which are mandatory for annual financial periods beginning on or after 1 January 2017 as described fully in Note 2.2.

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

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

The Group and the Company reported the following conditions and events:

- (i) the Group and the Company incurred net losses of RM42.5 million (2017: RM65.9 million) and RM68.8 million (2017: RM132.2 million) respectively for the financial year ended 30 June 2018 and as of that date, the Group's and the Company's current liabilities exceeded their current assets by RM835.9 million (2017: RM869.6 million) and RM241.9 million (2017: RM190.8 million) respectively;



## **2. Summary of significant accounting policies (cont'd.)**

### **2.1 Basis of preparation (cont'd.)**

The Group and the Company reported the following conditions and events: (cont'd.)

- (ii) Lion DRI Sdn Bhd ("Lion DRI"), a wholly-owned subsidiary of the Company, has temporarily ceased its operation since 2016;
- (iii) As disclosed in Note 33(iii), a wholly-owned subsidiary of the Company and the Company have been jointly served with a notice of claims of approximately RM335.9 million for alleged non-performance of a contract. The Company has provided a guarantee in respect of this contract; and
- (iv) As disclosed in Note 22, the cash and bank balances of the subsidiaries in the People's Republic of China ("PRC") amounting to RM134.2 million (2017: RM321.2 million) are subject to the exchange control restrictions and are restricted to be used in the PRC for the subsidiaries' operations. The exchange control restrictions will apply if the monies are to be remitted to countries outside the PRC.

The Directors have concluded that the combination of the circumstances highlighted above indicate material uncertainties that may cast significant doubt over the abilities of the Group and of the Company to continue as going concerns and therefore, may be unable to realise their assets and discharge their liabilities in the normal course of business.

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

The Directors are of the opinion that the Group and the Company will be able to continue in operational existence for the foreseeable future and to realise their assets and settle their liabilities in the ordinary course of business. The appropriateness of the application of going concern basis is dependent on continuing support from the lenders and the creditors of the Group and of the Company, disposals of certain property, plant and equipment, and contributions from the property and the contract manufacturing services business segments of the Group.

## 2. Summary of significant accounting policies (cont'd.)

### 2.2 Changes in accounting policies

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

On 1 July 2017, the Group and the Company adopted the following new and amended FRSs which are effective for annual financial periods beginning on or after 1 January 2017.

#### Description

- FRS 107: *Disclosures Initiatives (Amendments to FRS 107)*
- FRS 112: *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to FRS 112)*
- Annual Improvements to FRSs 2014 - 2016 Cycle -  
*Amendments to FRS 12: Disclosure Interest in Other Entities:*  
*Clarification of the scope of disclosure requirements in FRS 12*

Adoption of the above amendments did not have any material effect on the financial performance or position of the Group and of the Company.

### 2.3 Malaysian Financial Reporting Standards ("MFRS")

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

The Group and the Company have established a project team to plan and manage the adoption of the MFRS Framework. This project consists of the following phases:

#### (a) Assessment and planning phase

This phase involves the following:

- (i) high level identification of the key differences between Financial Reporting Standards and accounting standards under the MFRS Framework and disclosures that are expected to arise from the adoption of MFRS Framework;

## 2. Summary of significant accounting policies (cont'd.)

### 2.3 Malaysian Financial Reporting Standards ("MFRS") (cont'd.)

The Group and the Company have established a project team to plan and manage the adoption of the MFRS Framework. This project consists of the following phases: (cont'd.)

(a) Assessment and planning phase (cont'd.)

This phase involves the following: (cont'd.)

- (ii) evaluation of any training requirements; and
- (iii) preparation of a conversion plan.

The Group and the Company consider the assessment and planning phase to be completed as at the date of these financial statements.

(b) Implementation and review phase

- (i) develop training programs for the staff;
- (ii) formulate new and/or revised accounting policies and procedures for compliance with the MFRS Framework;
- (iii) identify potential financial effects as at the date of transition, arising from the adoption of the MFRS Framework; and
- (iv) develop disclosures required by the MFRS Framework.

The Group and the Company have not completed their assessment of the financial effects of the differences between FRSS and accounting standards under the MFRS Framework. Accordingly, the consolidated and separate financial performance and financial position as disclosed in these financial statements for the financial year ended 30 June 2018 could be different if prepared under the MFRS Framework.

The Group and the Company consider that they are achieving their scheduled milestones and expect to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 30 June 2019.

## 2. Summary of significant accounting policies (cont'd.)

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- (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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if these result in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies to be in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation, except for unrealised losses, which are not eliminated when there are indications of impairment.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.4 Basis of consolidation (cont'd.)**

A change in the ownership of interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date's fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of FRS 139: Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a charge to OCI. If the contingent consideration is not within the scope of FRS 139, it is measured in accordance with the appropriate FRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.4 Basis of consolidation (cont'd.)**

#### **Business combinations and goodwill (cont'd.)**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

### **2.5 Transactions with non-controlling interest**

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to owners of the parent, and are presented separately in statements of profit or loss and within equity in the statements of financial position, separately from equity attributable to owners of the parent.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if it results in a deficit balance.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.6 Current versus non-current classification**

The Group and the Company present assets and liabilities in the statements of financial position based on current/non-current classification. An asset is current when it is:

- (i) expected to be realised or intended to be sold or consumed in normal operating cycle;
- (ii) held primarily for the purpose of trading;
- (iii) expected to be realised within twelve months after the reporting period; or
- (iv) cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- (i) it is expected to be settled in normal operating cycle;
- (ii) it is held primarily for the purpose of trading;
- (iii) it is due to be settled within 12 months after the reporting period; or
- (iv) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group and the Company classify all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### **2.7 Foreign currencies**

The Group's consolidated financial statements are presented in RM, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.7 Foreign currencies (cont'd.)**

#### **(a) Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

#### **(b) Group companies**

On consolidation, the assets and liabilities of foreign operations are translated into RM at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.



## 2. Summary of significant accounting policies (cont'd.)

### 2.8 Property, plant and equipment

Construction in progress, and plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group and the Company depreciate them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Freehold land is measured at fair value. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

Any revaluation surplus is recognised in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the statements of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to accumulated losses is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to accumulated losses.

Leasehold land is measured at cost less accumulated depreciation and accumulated impairment losses. Leasehold land is depreciated based on the period of 99 years.

## 2. Summary of significant accounting policies (cont'd.)

### 2.8 Property, plant and equipment (cont'd.)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings, land improvements and infrastructure	2% - 10%
Plant and machinery	3% - 33%
Motor vehicles	10% - 22%
Office equipment, furniture and fittings	2% - 33.33%
Renovation	10% - 20%

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit and loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 2.9 Investment properties

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

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.10 Land held for property development and property development costs**

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

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

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

#### **(ii) Property development costs**

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

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in 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.

Where 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.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.10 Land held for property development and property development costs (cont'd.)**

#### **(ii) Property development costs (cont'd.)**

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

The excess of revenue recognised in the profit or loss over billings to purchasers is classified as accrued billings within current assets and the excess of billings to purchasers over revenue recognised in profit or loss is classified as progress billings within current liabilities.

### **2.11 Impairment of non-financial assets**

The Group and the Company assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Company estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group and the Company base their impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's and of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.11 Impairment of non-financial assets (cont'd.)**

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statements of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group and the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statements of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

### **2.12 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.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.12 Subsidiaries (cont'd.)**

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.

### **2.13 Investment in associates and joint venture**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associates and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.13 Investment in associates and joint venture (cont'd.)**

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### **2.14 Intangible assets**

#### **Goodwill**

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.15 Financial assets**

#### **Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, the date that the Group and the Company commits to purchase or sell the asset.

#### **Subsequent measurement**

For purposes of subsequent measurement financial assets are classified in four categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- AFS financial assets.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by FRS 139. The Group and the Company have not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statements of profit or loss.



## **2. Summary of significant accounting policies (cont'd.)**

### **2.15 Financial assets (cont'd.)**

#### **Subsequent measurement (cont'd.)**

##### **(a) Financial assets at fair value through profit or loss (cont'd.)**

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statements of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

##### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in statements of profit or loss. The losses arising from impairment are recognised in the statements of profit or loss as finance costs for loans and as cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables.

##### **(c) Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in profit or loss. The losses arising from impairment are recognised in statements of profit or loss as finance costs.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.15 Financial assets (cont'd.)**

#### **Subsequent measurement (cont'd.)**

##### **(d) AFS financial assets**

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statements of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group and the Company evaluate whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group and the Company are unable to trade these financial assets due to inactive markets, the Group and the Company may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statements of profit or loss.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.15 Financial assets (cont'd.)**

#### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

### **2.16 Impairment of financial assets**

The Group and the Company assess, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.16 Impairment of financial assets (cont'd.)**

#### **(a) Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group and the Company first assess whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Company determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statements of profit or loss. Interest income (recorded as finance income in the statements of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statements of profit or loss.

#### **(b) AFS financial assets**

For AFS financial assets, the Group and the Company assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.16 Impairment of financial assets (cont'd.)**

#### **(b) AFS financial assets (cont'd.)**

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statements of profit or loss – is removed from OCI and recognised in the statements of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group and the Company evaluate, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statements of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statements of profit or loss, the impairment loss is reversed through the statements of profit or loss.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.17 Inventories**

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

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

### **2.18 Cash and cash equivalents**

Cash and cash equivalents in the statements of financial position comprise of cash at banks and on hand and short term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statements of cash flows, cash and cash equivalents consist of cash and bank balances, as defined above, net of outstanding bank overdrafts, if any, as they are considered an integral part of the Group's and of the Company's cash management.

### **2.19 Provisions**

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group and the Company expect some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statements of profit or loss, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.20 Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

#### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

##### **(a) 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 are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by FRS 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statements of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in FRS 139 are satisfied. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.20 Financial liabilities (cont'd.)**

#### **Subsequent measurement (cont'd.)**

The measurement of financial liabilities depends on their classification, as described below: (cont'd.)

#### **(b) Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statements of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statements of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

#### **(c) Financial guarantee contracts**

Financial guarantee contracts issued by the Group and the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

#### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statements of profit or loss.



## **2. Summary of significant accounting policies (cont'd.)**

### **2.20 Financial liabilities (cont'd.)**

#### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### **2.21 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **2.22 Employee benefits**

#### **(a) Short term benefits**

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

#### **(b) Defined contribution plans**

The Group and the Company participates in the national pension scheme as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employees Provident Fund in Malaysia, a defined contribution pension scheme. Foreign subsidiaries also make contributions to their country's statutory pension scheme. Contributions to defined contribution pension scheme are recognised as an expense in the period in which the related service is performed.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.23 Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

#### **(a) As lessee**

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group and the Company are classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 recognised in finance costs in the statements of profit or loss.

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statements of profit or loss on a straight-line basis over the lease term.

#### **(b) As lessor**

Leases in which the Group and the Company do not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.24 Non-current assets held for sale**

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets and financial assets) are measured in accordance with FRS 5: Non-current Assets Held for Sale that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

Assets and liabilities classified as held for sale are presented separately as current items in the statements of financial position.

Non-current assets are not depreciated or amortised once classified as held for sale. Additional disclosures are provided in Note 23.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.25 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms payment and excluding taxes or duty. The Group and the Company have concluded that they are the principal in all of their revenue arrangements since they are the primary obligor in all the revenue arrangements, have pricing latitude and are exposed to inventory and credit risk.

The specific recognition criteria described below must also be met before revenue is recognised.

#### **(i) Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

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

Revenue from sale of industrial land and completed properties is recognised upon the transfer of significant risks and rewards of ownership.

#### **(iii) Interest income**

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

#### **(iv) Rental income**

Rental income is recognised on a straight line basis over the term of the lease. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

#### **(v) Sales commission**

Sales commission is recognised upon fulfilment of the terms of the sales contract.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.25 Revenue recognition (cont'd.)**

The specific recognition criteria described below must also be met before revenue is recognised. (cont'd.)

#### **(vi) Dividend income**

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

#### **(vii) 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.

### **2.26 Taxes**

#### **(a) Current income tax**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statements of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **(b) Deferred tax**

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

## 2. Summary of significant accounting policies (cont'd.)

### 2.26 Taxes (cont'd.)

#### (b) Deferred tax (cont'd.)

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

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

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

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

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

## 2. Summary of significant accounting policies (cont'd.)

### 2.26 Taxes (cont'd.)

#### (b) Deferred tax (cont'd.)

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

#### (c) Goods and Services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of assets or services is not recoverable from the tax 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
- when receivables and payables that are stated with the amount of GST included.

The net amount of GST being the difference output and input of GST, payable to or receivable from tax authority at the reporting date, is included in payables or receivables in the statements of financial position.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.27 Contingencies**

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

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

### **2.28 Equity instrument**

#### **Share capital and share issuance expenses**

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

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



## 2. Summary of significant accounting policies (cont'd.)

### 2.29 Fair value measurement

The Group measures financial instruments such as derivatives and non-financial assets such as freehold land at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- |         |   |
|---------|---|
| Level 1 | Quoted (unadjusted) market prices in active markets for identical assets or liabilities.  |
| Level 2 | Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. |
| Level 3 | Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.                      |

## **2. Summary of significant accounting policies (cont'd.)**

### **2.29 Fair value measurement (cont'd.)**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties, unquoted AFS financial assets and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as freehold land, AFS financial assets and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the senior management. Selection criteria of external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, senior management and the Group's external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## **2. Summary of significant accounting policies (cont'd.)**

### **2.30 Derivative financial instruments**

#### **Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The purchase contracts that meet the definition of a derivative under IAS 39 are recognised in the statements of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's and the Company's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

### **3. Significant accounting judgements, estimates and assumptions**

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

#### **3.1 Judgements made in applying accounting policies**

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

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

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

##### **(b) Joint venture**

The Group has interest in investment which it regards as joint venture although the Group owns less than half of the equity interest in the entity. The entity has not been regarded as subsidiary of the Group as management has assessed that the contractual arrangements with the respective joint venture parties have given rise to joint control over the entity in accordance with FRS 11 Joint Arrangements.

### **3. Significant accounting judgements, estimates and assumptions (cont'd.)**

#### **3.2 Key sources of estimation uncertainty**

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

##### **(a) Property development**

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

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.

As disclosed in Note 12(b), approvals are being sought for change of development plan and extension of date of completion for 2 pieces of land with carrying amount of approximately RM15.2 million. Failure to obtain such approvals may result in impairment loss to be recognised.

##### **(b) Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authority of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

### **3. Significant accounting judgements, estimates and assumptions (cont'd.)**

#### **3.2 Key sources of estimation uncertainty (cont'd.)**

##### **(b) Taxes (cont'd.)**

Deferred tax assets are recognised for unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses 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 the level of future taxable profits together with future tax planning strategies.

The Group has unrecognised tax benefits of RM834.1 million (2017: RM785.5 million) in the form of unused tax losses and unabsorbed capital allowances. These tax benefits relate to subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these tax benefits as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets on the unused tax losses and unabsorbed capital allowances.

##### **(c) Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGU to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of goodwill are disclosed in Note 17.

##### **(d) Depreciation, useful lives, residual value and impairment of plant and machinery**

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

### **3. Significant accounting judgements, estimates and assumptions (cont'd.)**

#### **3.2 Key sources of estimation uncertainty (cont'd.)**

**(d) Depreciation, useful lives, residual value and impairment of plant and machinery (cont'd.)**

Management reviews the estimated useful lives and residual values of plant and machinery at each financial year end and adjustments to useful lives are made when considered necessary. Therefore, future depreciation charges could be revised.

The Group has recorded an impairment loss of RM43.7 million on its direct reduced iron ("DRI") plant in the current financial year based on an offer as disclosed in Note 10(f).

**(e) Provision for potential claims**

The Group determines whether a present obligation from potential claims arising from the arrangement entered with contractors in relation to the construction of property, plant and equipment that exist at the reporting date by taking into account all available evidence. On the basis of such evidence, the Directors considered if provisions are required to be recognised in the financial statements and if required, the estimated amounts are provided. Adequate provisions have been made in respect of financial obligations arising from the potential claims from the arrangement entered with certain contractors of the Group as disclosed in Note 31.

**(f) Derivative asset/liability**

The Group measures the derivative asset/liability by reference to the fair value of the derivative asset/liability at reporting date. Estimating fair value of the derivative asset/liability requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the derivative asset/liability. This estimate also requires determining the most appropriate inputs into the valuation model including the expected life of the derivative asset/liability, expected volatility and making relevant assumptions about them. The assumptions and models used for estimating fair value of derivative asset/liability and its carrying amount are disclosed in Notes 21 and 29.

### **3. Significant accounting judgements, estimates and assumptions (cont'd.)**

#### **3.2 Key sources of estimation uncertainty (cont'd.)**

##### **(g) Provision for litigation claim**

The Group entered into a contract of affreightment ("COA") with Classic Maritime Inc. ("Classic"), a third party service provider, to acquire freight service from Classic above the current market rates.

As disclosed in Note 33(iii), Classic had on 7 June 2018 filed a litigation claim against the Group on breach of the COA dated on or about 29 June 2009.

In respect of Classic's claims for the 14 unscheduled shipments, management is of the view that both Limbungan Makmur Sdn Bhd ("Limbungan Makmur") has a fair defence to the outstanding claims.

##### **(h) Provision for onerous contract**

The Group is contractually bound to acquire freight service above the current market rates from a third party service provider as disclosed in Note 3.2(g) above. 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, no provision for onerous contract has been made for the aforementioned cost of freight services.

##### **(i) Impairment of investment securities**

At reporting date, management determines whether the carrying amounts of its investments are impaired. This involves measuring the recoverable amounts which includes fair value less costs to sell and valuation techniques. Valuation techniques include the use of discounted cash flow analysis, considering the current market value indicators and recent arm's length market transactions. These estimates provide reasonable approximations to the computation of recoverable amounts.

In performing discounted cash flow analysis, discount rate and growth rates used reflect, amongst others, the maturity of the business development cycle as well as the industry growth potential. The growth rates used to forecast the projected cash flow for the following year approximate the performances of the respective investments based on the latest available management accounts.



### **3. Significant accounting judgements, estimates and assumptions (cont'd.)**

#### **3.2 Key sources of estimation uncertainty (cont'd.)**

##### **(j) Impairment of loans and receivables**

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

To determine whether there is objective evidence of impairment, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts of the Group's and of the Company's loans and receivables at the reporting date are disclosed in Note 20.

##### **(k) Impairment of investment in subsidiaries**

As at the reporting date, the carrying amounts of investment in subsidiaries mainly comprise subsidiaries engaged in contract manufacturing services and property businesses.

Further impairment could arise, should these subsidiaries are unable to meet their profitability target, which would lead to future impairment of the amount due from these subsidiaries of RM92.6 million (2017: RM162.8 million) as disclosed in Note 20.

##### **(l) Impairment of available-for-sale investments**

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

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

Based on management's review, no further impairment losses (2017: impairment loss of RM2.3 million) is required on the Group's investment securities during the financial year.

### 3. Significant accounting judgements, estimates and assumptions (cont'd.)

#### 3.2 Key sources of estimation uncertainty (cont'd.)

##### (m) Financial guarantee contracts

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

For the financial year ended 30 June 2018, the Group and the Company have assessed the financial guarantee contracts and determined that the guarantees are more likely not to be called upon by the banks. Financial impact of such guarantees is disclosed in Note 33.

### 4. Revenue

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

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Sale of goods	<b>182,793</b>	163,974	-	-
Property development	<b>101,127</b>	258,923	-	-
Sales commission	<b>1,469</b>	38	-	-
Rental income	<b>95</b>	318	-	-
Dividend income from subsidiaries	-	-	<b>6,000</b>	12,361
Others	<b>444</b>	128	-	-
	<b>285,928</b>	423,381	<b>6,000</b>	12,361

## 5. Other income

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest income from short term deposits and others	7,810	11,843	346	160
Dividend income	84	70	-	-
Reversal of impairment losses on:				
- Unquoted bonds	465	244	465	244
- Trade receivables	2,586	211	-	-
Foreign exchange gain:				
- Realised	1,216	709	-	-
- Unrealised	17,831	17,234	4,003	14,371
Gain on disposal of non-current assets held for sale	7,802	-	-	-
Gain on disposal of investment securities	-	283	-	-
Fair value gain on remeasurement of Exchangeable Bonds	457	-	-	-
Gain on disposal of property, plant and equipment	23,585	16,053	40	26
Fair value gain on loan	-	2,034	-	-
Gain on conversion of Exchangeable Bonds	-	4,067	-	-
Gain on dissolution of subsidiary	19,124	-	-	-
Other income	9,097	11,663	-	-
	<b>90,057</b>	<b>64,411</b>	<b>4,854</b>	<b>14,801</b>

## 6. Employee benefits expense

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Wages, salaries and bonuses	32,976	34,318	540	540
Pension costs - defined contribution plans	2,473	2,540	35	65
Other staff related expenses	5,731	6,448	1	7
	<b>41,180</b>	<b>43,306</b>	<b>576</b>	<b>612</b>

Included in employee benefits expense of the Group and of the Company is an executive Director's remuneration as further disclosed in Note 7(a).

## 7. Loss before tax

In addition to other items disclosed elsewhere in the financial statements, the following items have been included in arriving at loss before tax:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration:				
- Current year	531	543	30	30
- Under provision in prior years	1	81	-	-
Directors' remuneration (Note 7(a))	885	916	885	916
Depreciation:				
- Property, plant and equipment (Note 10)	30,385	31,724	1	54
- Investment properties (Note 11)	71	71	-	-
Write off of property, plant and equipment	145	18	-	-
Amortisation of premium on held-to-maturity investments	1	1	-	-
Foreign exchange loss:				
- Realised	2,174	7,593	-	1,803
- Unrealised	12,032	24,645	10,167	1,742
Rental expenses:				
- Equipment	100	176	-	-
- Premises	2,353	4,547	-	-
Waiver of debts	-	-	71	297
Inventories written down	29,458	1,058	-	-
Bad debts written off	-	15	-	-
Loss on conversion on Exchangeable Bonds	510	-	-	-
Fair value loss on remeasurement of Exchangeable Bonds	-	1,831	-	-
Fair value loss on derivative instruments (Notes 21 and 29)	91	5,463	-	-

## 7. Loss before tax (cont'd.)

### (a) Directors' remuneration

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

	<b>Group/Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Executive Director:		
Fees	<b>25</b>	25
Salary and other emoluments	<b>545</b>	545
Pension costs - defined contribution plans	<b>35</b>	65
	<b>605</b>	635
Non-executive Directors:		
Fees	<b>235</b>	235
Other emoluments	<b>45</b>	46
	<b>280</b>	281
	<b>885</b>	916

## 8. Finance costs

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
- Exchangeable Bonds	5,112	7,579	-	-
- Loans and borrowings	27,443	28,478	553	3,600
- Amounts owing to related parties	27,890	27,844	-	63
- Deferred payments (Note 28)	3,184	3,887	3,184	3,887
- Third party financing	165	153	-	-
- Obligations under finance leases	22	51	-	13
	<b>63,816</b>	<b>67,992</b>	<b>3,737</b>	<b>7,563</b>

## 9. Income tax expense

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Statement of profit or loss</b>				
Current income tax:				
- Malaysian income tax	5,118	4,476	85	-
- Foreign income tax	32,004	6,810	-	-
	<b>37,122</b>	<b>11,286</b>	<b>85</b>	<b>-</b>
(Over)/Under provision in respect of previous financial years:				
- Malaysian income tax	(633)	3,573	-	3,375
Deferred income tax (Note 18):				
- Origination and reversal of temporary differences	(34,009)	3,340	-	-
- Under/(Over) provision in respect of previous financial years	15	(34)	-	-
	<b>(33,994)</b>	<b>3,306</b>	<b>-</b>	<b>-</b>
Withholding tax on dividend	8,695	8,440	-	-
Real property gain tax ("RPGT")	260	-	-	-
	<b>8,955</b>	<b>8,440</b>	<b>-</b>	<b>-</b>
Income tax expense recognised in profit or loss	<b>11,450</b>	<b>26,605</b>	<b>85</b>	<b>3,375</b>

## 9. Income tax expense (cont'd.)

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

The reconciliation between tax expense and the product of accounting loss multiplied by the applicable corporate tax rate for the financial years ended 30 June 2018 and 30 June 2017 is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loss before tax	<b>(31,085)</b>	(39,285)	<b>(68,672)</b>	(128,804)
Tax at Malaysian statutory rate of 24% (2017: 24%)	<b>(7,460)</b>	(9,428)	<b>(16,481)</b>	(30,913)
Different tax rates in other countries	<b>(19,797)</b>	(5,560)	-	-
Adjustments:				
Non-deductible expenses	<b>31,944</b>	33,116	<b>19,098</b>	34,373
Income not subject to tax	<b>(11,915)</b>	(11,665)	<b>(2,532)</b>	(3,460)
Under/(Over) provision of income tax in respect of previous financial years	<b>(633)</b>	3,573	-	3,375
Under/(Over) provision of deferred income tax in respect of previous financial years	<b>15</b>	(34)	-	-
Deferred tax assets not recognised in current financial year	<b>11,667</b>	8,446	-	-
Deferred tax assets recognised on previously unrecognised tax losses	-	(44)	-	-
Effect of withholding tax at 10% on dividend from foreign subsidiary	<b>8,695</b>	8,440	-	-
Effect of gain subject to RPGT	<b>(988)</b>	-	-	-
Effect of tax on share of results of joint venture	<b>(78)</b>	(239)	-	-
Income tax expenses for the financial year	<b>11,450</b>	26,605	<b>85</b>	3,375

**9. Income tax expense (cont'd.)**

Domestic current income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the financial year.

Under the relevant PRC income tax law, the PRC companies of the Group were subject to corporate income tax at a rate of 25% (2017: 25%) on their respective taxable income.

Tax savings during the financial year arising from:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Utilisation of previously unrecognised tax losses	<u>-</u>	<u>(44)</u>



## 10. Property, plant and equipment

Group	Freehold land	Leasehold land	Buildings, land improvements and infrastructure	Plant and machinery	Motor vehicles	Office equipment, furniture and fittings	Renovation	Construction in progress	Total
	RM'000	RM'000	RM'000 Note (a)	RM'000 Note (a)	RM'000	RM'000	RM'000	RM'000 Note (e)	RM'000
<b>Cost/valuation</b>									
At 1 July 2017	199,600	3,586	151,122	753,144	5,050	7,967	2,077	464,187	1,586,733
Additions	-	-	57	2,691	275	364	220	-	3,607
Transfer from property development cost (Note 12(b))	-	-	231	-	-	-	-	-	231
Disposals	(6,520)	(491)	(4,971)	(2,889)	(743)	-	-	-	(15,614)
Written off	-	-	-	(2,782)	(792)	(117)	-	-	(3,691)
Exchange differences	-	-	(188)	(2,178)	(91)	(152)	(104)	-	(2,713)
At 30 June 2018	<b>193,080</b>	<b>3,095</b>	<b>146,251</b>	<b>747,986</b>	<b>3,699</b>	<b>8,062</b>	<b>2,193</b>	<b>464,187</b>	<b>1,568,553</b>
Representing items at:									
Cost	-	3,095	146,251	747,986	3,699	8,062	2,193	464,187	1,375,473
Valuation	193,080	-	-	-	-	-	-	-	193,080
	<b>193,080</b>	<b>3,095</b>	<b>146,251</b>	<b>747,986</b>	<b>3,699</b>	<b>8,062</b>	<b>2,193</b>	<b>464,187</b>	<b>1,568,553</b>

## 10. Property, plant and equipment (cont'd.)

Group	Freehold land RM'000	Leasehold land RM'000	Buildings, land improvements and infrastructure RM'000 Note (a)	Plant and machinery RM'000 Note (a)	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Renovation RM'000	Construction in progress RM'000 Note (e)	Total RM'000
<b>Accumulated depreciation and impairment</b>									
At 1 July 2017	-	451	146,685	565,458	4,618	7,027	2,009	464,187	1,190,435
Depreciation charge for the financial year (Note 7)	-	32	88	29,379	193	523	170	-	30,385
Disposals	-	(59)	(592)	(2,873)	(743)	-	-	-	(4,267)
Written off	-	-	-	(2,752)	(703)	(91)	-	-	(3,546)
Impairment loss	-	-	-	43,658	-	-	-	-	43,658
Exchange differences	-	-	(19)	(2,133)	(82)	(133)	(99)	-	(2,466)
At 30 June 2018	-	424	146,162	630,737	3,283	7,326	2,080	464,187	1,254,199
<b>Comprising:</b>									
Accumulated depreciation	-	424	33,621	333,465	3,283	7,326	2,080	-	380,199
Accumulated impairment	-	-	112,541	297,272	-	-	-	464,187	874,000
	-	424	146,162	630,737	3,283	7,326	2,080	464,187	1,254,199
<b>Net carrying amount</b>									
At 30 June 2018	193,080	2,671	89	117,249	416	736	113	-	314,354

## 10. Property, plant and equipment (cont'd.)

Group	Freehold	Leasehold	Buildings, land improvements and infrastructure	Plant and machinery	Motor vehicles	Office equipment, furniture and fittings	Renovation	Construction in progress	Total
	land RM'000	land RM'000	RM'000 Note (a)	RM'000 Note (a)	RM'000	RM'000	RM'000	RM'000 Note (e)	RM'000
<b>Cost/valuation</b>									
At 1 July 2016	199,600	5,796	165,205	751,563	5,366	7,509	1,939	464,187	1,601,165
Additions	-	-	-	1,013	138	316	24	-	1,491
Transfer from property development cost (Note 12(b))	-	-	87	-	-	-	-	-	87
Disposals	-	(2,210)	(14,389)	(105)	(541)	-	-	-	(17,245)
Written off	-	-	-	(1,794)	(20)	(24)	-	-	(1,838)
Exchange differences	-	-	219	2,467	107	166	114	-	3,073
At 30 June 2017	199,600	3,586	151,122	753,144	5,050	7,967	2,077	464,187	1,586,733
Representing items at:									
Cost	-	3,586	151,122	753,144	5,050	7,967	2,077	464,187	1,387,133
Valuation	199,600	-	-	-	-	-	-	-	199,600
	199,600	3,586	151,122	753,144	5,050	7,967	2,077	464,187	1,586,733

## 10. Property, plant and equipment (cont'd.)

Group	Freehold land RM'000	Leasehold land RM'000	Buildings, land improvements and infrastructure RM'000 Note (a)	Plant and machinery RM'000 Note (a)	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Renovation RM'000	Construction in progress RM'000 Note (e)	Total RM'000
<b>Accumulated depreciation and impairment</b>									
At 1 July 2016	-	655	148,816	534,725	4,477	6,319	1,808	464,187	1,160,987
Depreciation charge for the financial year (Note 7)	-	56	359	30,126	501	585	97	-	31,724
Disposals	-	(260)	(2,508)	(16)	(428)	-	-	-	(3,212)
Written off	-	-	-	(1,778)	(20)	(22)	-	-	(1,820)
Exchange differences	-	-	18	2,401	88	145	104	-	2,756
At 30 June 2017	-	451	146,685	565,458	4,618	7,027	2,009	464,187	1,190,435
<b>Comprising:</b>									
Accumulated depreciation	-	451	34,144	311,844	4,618	7,027	2,009	-	360,093
Accumulated impairment	-	-	112,541	253,614	-	-	-	464,187	830,342
	-	451	146,685	565,458	4,618	7,027	2,009	464,187	1,190,435
<b>Net carrying amount</b>									
At 30 June 2017	199,600	3,135	4,437	187,686	432	940	68	-	396,298

**10. Property, plant and equipment (cont'd.)**

	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Total RM'000
<b>Company</b>			
<b>At 30 June 2018</b>			
<b>Cost</b>			
At 1 July 2017	1,000	18	1,018
Disposal	(743)	-	(743)
At 30 June 2018	257	18	275
<b>Accumulated depreciation</b>			
At 1 July 2017	1,000	16	1,016
Charge for the financial year (Note 7)	-	1	1
Disposal	(743)	-	(743)
At 30 June 2018	257	17	274
<b>Net carrying amount</b>			
At 30 June 2018	-	1	1
<b>At 30 June 2017</b>			
<b>Cost</b>			
At 1 July 2016	1,277	18	1,295
Disposal	(277)	-	(277)
At 30 June 2017	1,000	18	1,018
<b>Accumulated depreciation</b>			
At 1 July 2016	1,201	14	1,215
Charge for the financial year (Note 7)	52	2	54
Disposal	(253)	-	(253)
At 30 June 2017	1,000	16	1,016
<b>Net carrying amount</b>			
At 30 June 2017	-	2	2

# **10. Property, plant and equipment (cont'd.)**

- (a) Included in building, land improvements and infrastructure and plant and machinery of the Group is a direct reduced iron ("DRI") plant of a wholly-owned subsidiary, Lion DRI. The DRI plant is constructed on part of two pieces of land leased from Megasteel Sdn Bhd ("Megasteel") for an initial term of thirty (30) years commencing 1 June 2008 and expiring on 31 May 2038, with an option for renewal for a further period of thirty (30) years.
- (b) As at 30 June 2018, the property, plant and equipment of the Group with net carrying amounts of RM109.2 million (2017: RM181.0 million) are pledged for bank borrowings and RM151.7 million (2017: RM155.8 million) are caveated for borrowings from licensed money lenders, as disclosed in Notes 27(b)(i) and 27(b)(ii) respectively.
- (c) Additions of property, plant and equipment were by way of:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash payments	<b>3,607</b>	<b>1,491</b>

- (d) Net carrying amounts of property, plant and equipment held under obligations under finance leases as at the reporting date are as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Motor vehicles	<b>-</b>	<b>133</b>

- (e) Impairment of Blast Furnace Project ("Project")

The intended output from the Project is hot metal, which was to be used by Megasteel as its raw material. The Project has been suspended since 2009 pending efforts to secure financing. A term sheet previously signed with a lender had expired in July 2012.

Due to prolonged suspension of the Project, the Project is fully impaired.

## 10. Property, plant and equipment (cont'd.)

### (f) Impairment of DRI plant ("Plant")

During the financial year, the carrying amount of the Plant was higher than its recoverable amount which is based on the estimated fair value less costs to sell, resulting in an impairment loss of approximately RM43.7 million. The recoverable amount of the Plant was estimated at RM109.0 million, which determined from an offer price from a potential buyer.

In the previous financial years, the recoverable amount of the Plant was determined by an independent professional valuer ("Valuer") using the Cost Approach method.

The Cost Approach considers the cost to replace or reproduce the Plant in accordance with current market prices of similar plants, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. Adjustments are then made to reflect depreciation resulting from physical deterioration and obsolescence to arrive at a reasonable valuation. The Cost Approach generally furnishes the most reliable indication of value of the Plant where direct market evidence is limited or unavailable.

When assessing the impairment that may be required of the Plant, the Valuer had adopted the following significant assumptions to estimate the replacement cost of the Plant.

Significant assumptions used by the Valuer are as follows:

Adjustments made for:

#### (i) Physical obsolescence

It represents the loss in value due to the decreased usefulness of an asset as the asset's useful life expires. This can be caused by factors such as wear and tear, deterioration, physical stresses and exposure to various elements.

#### (ii) Functional obsolescence

It represents the loss in value due to the decreased usefulness of an asset that is inefficient or inadequate relative to other more efficient or less costly replacement assets resulting from technological developments.

## 10. Property, plant and equipment (cont'd.)

### (f) Impairment of DRI plant (cont'd.)

#### (iii) Economic obsolescence

It represents the loss in value due to decreased usefulness of an asset caused by external factors, independent from the characteristics of the asset or how it operated. Increased cost of raw materials, labour or utilities that cannot be offset by an increase in price due to competition or limited demand; as well as change in environmental or other regulations, inflation or higher interest rates, may also suggest the presence of economic obsolescence.

### (g) Revaluation of freehold land

The revalued freehold land consist of four pieces of land all in Mukim of Tanjong Dua Belas, District Kuala Langat, State of Selangor. Management determined that these constitute one class of asset under FRS 13 Fair Value Measurement, based on the nature, characteristics and risks of the freehold land.

Fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. The properties' fair values are based on valuations performed by PPC International Sdn Bhd, an accredited independent valuer who has valuation experience for similar properties in Malaysia.

Fair value measurement disclosures for revalued freehold land are provided in Note 37.

As at 30 June 2018, if freehold land was measured using the cost model, the net carrying amount would be as follows:

	2018 RM'000	2017 RM'000
Net carrying amount	<u>67,185</u>	<u>69,450</u>



## 11. Investment properties

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At the beginning/end of financial year	<u>3,106</u>	<u>3,106</u>
<b>Accumulated depreciation</b>		
At the beginning of financial year	1,082	1,011
Charge for the financial year (Note 7)	<u>71</u>	<u>71</u>
At the end of financial year	<u>1,153</u>	<u>1,082</u>
<b>Net carrying amount</b>		
At the end of financial year	<u>1,953</u>	<u>2,024</u>
Rental income derived from investment properties	95	239
Direct operating expenses	<u>(145)</u>	<u>(146)</u>
<b>Estimated fair value at 30 June</b>		
Apartments	<u>4,182</u>	<u>4,266</u>

Fair value for the investment properties was computed by reference to market evidence of transaction prices for similar properties. The Group has no further restrictions on the realisability of its investment properties.

## 12. Land held for property development and property development costs

### (a) Land held for property development

	Group	
	2018	2017
	RM'000	RM'000
<b>Cost</b>		
At the beginning of financial year	15,775	24,551
Transferred to property development costs (Note 12(b))	-	(11,610)
Additions	-	1,654
Exchange differences	(609)	1,180
At the end of financial year	<u>15,166</u>	<u>15,775</u>

### (b) Property development costs

<b>Cost</b>		
At the beginning of financial year:		
- leasehold land	187,873	179,257
- development cost	659,886	511,341
	<u>847,759</u>	<u>690,598</u>
Cost incurred during the financial year	9,397	112,443
Transferred from land held for property development (Note 12(a))	-	11,610
Transferred to property, plant and equipment (Note 10)	(231)	(87)
Unsold units transferred to inventories (Note 19)		
- leasehold land	(9,072)	-
- development cost	(29,296)	-
Exchange differences	(32,736)	33,195
At the end of financial year	<u>785,821</u>	<u>847,759</u>

### Cumulative costs recognised in profit or loss

At the beginning of financial year	(791,679)	(576,859)
Recognised during the financial year	(20,184)	(187,091)
Exchange differences	30,569	(27,729)
At the end of financial year	<u>(781,294)</u>	<u>(791,679)</u>

### Property development costs as at the end of financial year

<u>4,527</u>	<u>56,080</u>
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**12. Land held for property development and property development costs (cont'd.)**

**(b) Property development costs (cont'd.)**

**Property development in the People's Republic of China**

Pursuant to the provision of the land use right contract and supplemental agreement signed between the Group and the Changshu City Land Resources Bureau, China ("Land Resources Bureau") in March 2008 and October 2011 respectively in relation to the 2 pieces of land located in Changshu City, Jiangsu Province, China, the development of the land was required to be completed by October 2013, failing which, the Land Resources Bureau reserves the right to impose penalty or claim back the said land.

As at the reporting date, these 2 pieces of land with a carrying amount of approximately RM15.2 million (2017: RM15.8 million) are still undeveloped. The Group has applied to the Land Resources Bureau to change the development plan and to extend the date of completion but the approval has yet to be obtained.

### 13. Investment in subsidiaries

	<b>Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares, at cost	<b>651,382</b>	651,382
Less: Accumulated impairment losses	<b>(585,714)</b>	(568,018)
	<b>65,668</b>	83,364

In the previous financial year, the Company subscribed for additional:

- 21,926,356 ordinary shares in Banting Resources Sdn Bhd ("Banting Resources") by way of capitalisation of intercompany balances payable by Banting Resources to the Company.
- 7,195,634 ordinary shares in Viroy Management Services Sdn Bhd ("Viroy Management Services") by way of capitalisation of the intercompany balances payable by Viroy Management Services to the Company.

The unquoted shares of a subsidiary with a cost of RM150 million (2017: RM150 million) is pledged for bank borrowings as disclosed in Note 27(b)(i)(III). The investment has been fully impaired.

The unquoted share of a subsidiary of HK\$1 (equivalent to RM0.50) (2017: HK\$1 (equivalent to RM0.50)) is pledged for trade payables as disclosed in Note 30(a).

The Company had performed impairment assessment on investment in subsidiaries by comparing the carrying amount with the recoverable amount of the investment which is estimated based on the fair value less cost to disposal. A provision for impairment loss of RM17.7 million (2017: RM45.7 million) has been made in the Company's statement of profit or loss in the current financial year. The recoverable amounts of these subsidiaries are estimated at RM0.2 million (2017: RM28.2 million) as compared to their carrying amount of RM17.9 million (2017: RM73.9 million).

Details of subsidiaries are as follows:

<b>Name of subsidiaries</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>Equity interest</b>	
			<b>2018</b>	<b>2017</b>
			<b>%</b>	<b>%</b>
LDH Manufacturing Sdn Bhd	Malaysia	Investment holding	<b>100</b>	100

**13. Investment in subsidiaries (cont'd.)**

Name of subsidiaries	Country of incorporation	Principal activities	Equity interest	
			2018 %	2017 %
Graimpi Sdn Bhd	Malaysia	Investment holding and trading in steel products and related services	100	100
LDH Trading Sdn Bhd	Malaysia	Investment holding	100	100
Lion Subang Parade Sdn Bhd	Malaysia	Investment holding	100	100
Urban Resources Sdn Bhd	Malaysia	Property development	100	100
Megavest Sdn Bhd	Malaysia	Investment holding	100	100
Lion Mahkota Parade Sdn Bhd	Malaysia	Ceased operations	100	100
Likom CMS Sdn Bhd	Malaysia	Provision of electronic manufacturing services especially original equipment manufacturing for the assembly of computer peripherals and electronic box build products	100	100
Likom Caseworks Sdn Bhd	Malaysia	Manufacturing of metal and plastic components including metal stamping, plastic injection moulding and assembly of parts and services	100	100
LDH (S) Pte Ltd *	Singapore	Investment holding	100	100
LDH Investment Pte Ltd *	Singapore	Investment holding	60 <sup>(1)</sup>	60 <sup>(1)</sup>

**13. Investment in subsidiaries (cont'd.)**

Name of subsidiaries	Country of incorporation	Principal activities	Equity interest	
			2018 %	2017 %
Lion DRI Sdn Bhd	Malaysia	Manufacturing and sale of direct reduced iron products	100	100
Well Morning Limited *	Hong Kong SAR	Investment holding	100	100
Excel Step Investments Limited	British Virgin Islands	Investment holding	100	100
Fusion Energy Sdn Bhd (Dissolved on 3.11.2017)	Malaysia	Dormant	-	100
Lion Blast Furnace Sdn Bhd	Malaysia	Manufacturing and trading in steel products	100	100
Ara Seri Bangun Sdn Bhd	Malaysia	Dormant	100	100
Temasek Potensi Sdn Bhd	Malaysia	Ceased operation	100	100
Pioneer Glory International Limited	British Virgin Islands	Investment holding	100	100
Banting Resources Sdn Bhd	Malaysia	Property investment	87.96 12.04 <sup>(2)</sup>	87.96 12.04 <sup>(2)</sup>
Virov Management Services Sdn Bhd	Malaysia	Investment holding and property management	98.29 1.71 <sup>(3)</sup>	98.29 1.71 <sup>(3)</sup>
<b>Subsidiary of LDH Manufacturing Sdn Bhd</b>				
CPB Enterprise Sdn Bhd	Malaysia	Trading in steel products and related services and property management	100	100

**13. Investment in subsidiaries (cont'd.)**

Name of subsidiaries	Country of incorporation	Principal activities	Equity interest	
			2018 %	2017 %
Subsidiary of LDH Trading Sdn Bhd				
LDH Resources Limited	Cayman Islands	Dormant	100	100
Subsidiary of Lion Subang Parade Sdn Bhd				
LDH Management Sdn Bhd	Malaysia	Investment holding and project management	100	100
Subsidiaries of LDH Management Sdn Bhd				
Atlantic Dimension Sdn Bhd (Dissolved on 31.7.2017)	Malaysia	Ceased operations	-	100
Shanghai LDH Management Consultant Co Ltd *	People's Republic of China	Management consulting services	100	100
Subsidiary of Likom Caseworks Sdn Bhd				
Likom Caseworks USA Inc *	United States of America	Sale of enclosure for set top and security/ alarm systems, metal stamping and plastic assemblies for flat televisions, and other related metal stamping and plastic components	100	100

**13. Investment in subsidiaries (cont'd.)**

Name of subsidiaries	Country of incorporation	Principal activities	Equity interest	
			2018 %	2017 %
Subsidiary of Likom Caseworks USA Inc				
Likom de Mexico S.A. de C.V *	Mexico	Manufacturing and assembly for set top and security/alarm systems, metal stamping and plastic assemblies for flat televisions, and other related metal stamping and plastic components	100	100
Subsidiary of Lion DRI Sdn Bhd				
Limbungan Makmur Sdn Bhd	Malaysia	Provision of chartering services	100	100
Subsidiary of Well Morning Limited				
Changshu Lion Enterprise Co Ltd *	People's Republic of China	Property development	100	100
Subsidiary of Excel Step Investments Limited				
Teraju Varia Sdn Bhd	Malaysia	Investment holding	100	100
Subsidiary of Lion Blast Furnace Sdn Bhd				
LBF Enterprise (L) Limited (Dissolved on 25.2.2018)	Malaysia	Dormant	-	100



### 13. Investment in subsidiaries (cont'd.)

Name of subsidiaries	Country of incorporation	Principal activities	Equity interest	
			2018 %	2017 %
<b>Subsidiary of Ara Seri Bangun Sdn Bhd</b>				
Alpha Strategies Sdn Bhd (Dissolved on 30.11.2017)	Malaysia	Dormant	-	100
<b>Subsidiary of Temasek Potensi Sdn Bhd</b>				
Jernih Aktif Sdn Bhd (Dissolved on 25.8.2017)	Malaysia	Dormant	-	100
<b>Subsidiary of Pioneer Glory International Limited</b>				
Fortius Resources (Cambodia) Co Limited (Dissolved on 4.6.2018)	Cambodia	Dormant	-	100

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

- (1) 30% held by the Company and 30% held by LDH Manufacturing Sdn Bhd.
- (2) Held by LDH Trading Sdn Bhd.
- (3) Held by LDH Management Sdn Bhd.

The qualification of the financial statements of the following subsidiaries, which are not covered by the Group's financial statements and is material from the point of view of the Directors of the Company are described below:

- a) Lion DRI
  - i) The preparation of financial statements of Lion DRI using the going concern basis of accounting indicated a material uncertainty that may cast significant doubt on Lion DRI's group's and company's ability to continue as going concerns and therefore may be unable to realise their assets and discharge their liabilities in the normal course of business.

### 13. Investment in subsidiaries (cont'd.)

The qualification of the financial statements of the following subsidiaries, which are not covered by the Group's financial statements and is material from the point of view of the Directors of the Company are described below: (cont'd.)

a) Lion DRI (cont'd.)

- ii) Inability to obtain sufficient appropriate audit evidence in relation to the measurement of revenue, and raw materials and consumables used of RM277.8 million and RM210.5 million respectively in the previous financial year, and in relation to the full write-down of inventories of RM28.6 million in the current financial year, which resulted in inability to obtain sufficient appropriate audit evidence to determine whether adjustments to the results of operations and the opening accumulated losses might be necessary for the financial year ended 30 June 2018.
- iii) Inability to obtain sufficient appropriate audit evidence to determine whether any adjustments should be made on the recoverable amount and consequently, the depreciation charge of the Plant during the current financial year.
- iv) Inability to obtain sufficient appropriate audit evidences on the likely legal outcome of the litigation with Classic Maritime Inc.

b) Limbungan Makmur

- i) The preparation of financial statements of Limbungan Makmur using the going concern basis of accounting indicated a material uncertainty that may cast significant doubt on its ability to continue as going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business.
- ii) Inability to obtain sufficient appropriate audit evidences in relation to the likely outcome of the ongoing legal proceedings for the 14 unscheduled shipments.
- iii) Departure from MFRS as no provision for onerous contract has been made for the COA. Under MFRS 137 Provisions, Contingent Liabilities and Contingent Assets, Limbungan Makmur has a present obligation of approximately RM335.9 million under the COA which exceed the economic benefits expected to be received.

c) Lion Blast Furnace Sdn Bhd

The preparation of financial statements of Lion Blast Furnace Sdn Bhd using the going concern basis of accounting indicated a material uncertainty that may cast significant doubt on its ability to continue as going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### 14. Investment in associates

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Unquoted shares in Malaysia, at cost	<b>344,607</b>	344,607	<b>541,023</b>	541,023
Less: Accumulated impairment losses	<b>(340,324)</b>	(340,324)	<b>(541,023)</b>	(541,023)
Share of post-acquisition reserves	<b>(4,283)</b>	(4,283)	-	-
	<b>-</b>	-	<b>-</b>	-

The Group's share of losses of associates has been recognised to the extent of the carrying amount of the investments. The cumulative unrecognised share of these losses amounted to RM1,490.5 million (2017: RM464.9 million) and the current financial year's unrecognised share of losses amounted to RM1,025.6 million (2017: RM195.6 million).

Name of associates	Country of incorporation	Principal activities	Equity interest	
			2018 %	2017 %
Lion Corporation Berhad ("LCB") <sup>(2)</sup>	Malaysia	Investment holding	<b>7.0<sup>(1)</sup></b>	7.0 <sup>(1)</sup>
Megasteel	Malaysia	Manufacturing of hot rolled coils and cold rolled coils	<b>21.1</b>	21.1

#### Held through subsidiaries:

LCB <sup>(2)</sup>	Malaysia	Investment holding	<b>27.0<sup>(1)</sup></b>	27.0 <sup>(1)</sup>
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All the associates are audited by a firm other than Ernst & Young.

<sup>(1)</sup> The Group holds in total of approximately 34.0% equity interest in LCB, via the Company (7.0%), Graimpi Sdn Bhd (9.6%), Lion DRI (17.4%), LDH Management Sdn Bhd (0.01%) and Teraju Varia Sdn Bhd (negligible). The shares in LCB are pledged for the deferred payments as disclosed in Note 28.

<sup>(2)</sup> LCB had been delisted from the Official List of Bursa Securities on 12 October 2016.

#### 14. Investment in associates (cont'd.)

Summarised financial information of the Group's material associates is set out below. The summarised financial information represents the amounts in the financial statements of the material associates and not the Group's share of those amounts:

	LCB	
	2018	2017
	RM'000	RM'000
(i) Summarised statement of financial position		
Current assets	732,422	315,389
Non-current assets	79,223	2,367,771
Total assets	<u>811,645</u>	<u>2,683,160</u>
Current liabilities	(3,639,347)	(3,476,732)
Non-current liabilities	(1,287,855)	(1,234,208)
Total liabilities	<u>(4,927,202)</u>	<u>(4,710,940)</u>
Net liabilities	<u>(4,115,557)</u>	<u>(2,027,780)</u>
(ii) Summarised statement of profit or loss		
Revenue	92,432	87,167
Loss for the financial year	<u>(1,851,115)</u>	<u>(395,832)</u>
(iii) Group's share of net assets, representing carrying amount of the Group's interest in the associate	<u>-</u>	<u>-</u>
(iv) Group's share of results of the associate	<u>-</u>	<u>-</u>

## 15. Investment in joint venture

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted ordinary shares, at cost	88	88
Share of post-acquisition results	<u>23,487</u>	<u>23,160</u>
	<b>23,575</b>	<b>23,248</b>

Details of the joint venture are as follows:

<b>Name of joint venture</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>Proportion (%) of ownership interest</b>	
			<b>2018</b>	<b>2017</b>
			<b>%</b>	<b>%</b>
Panareno Sdn Bhd ("Panareno")	Malaysia	Property investment and development	<b>35</b>	35

Panareno is audited by a firm other than Ernst & Young.

Summarised financial information of the joint venture is set out below. The summarised financial information represents the amounts in the financial statements of the joint venture and not the Group's share of those amounts:

	<b>Panareno</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) Summarised statement of financial position		
Current assets	<u>85,296</u>	<u>82,017</u>
Total assets	<b>85,296</b>	<b>82,017</b>
Current liabilities	<u>(17,939)</u>	<u>(15,595)</u>
Total liabilities	<b>(17,939)</b>	<b>(15,595)</b>
Net assets	<u><b>67,357</b></u>	<u><b>66,422</b></u>

## 15. Investment in joint venture (cont'd.)

Summarised financial information of the joint venture is set out below. The summarised financial information represents the amounts in the financial statements of the joint venture and not the Group's share of those amounts: (cont'd.)

	<b>Panareno</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) Summarised statement of profit or loss		
Revenue	<b>5,958</b>	7,809
Profit for the financial year	<b>935</b>	2,848
(iii) Group's share of net assets, representing carrying amount of the Group's interest in joint venture	<b>23,575</b>	23,248
(iv) Group's share of results of joint venture	<b>327</b>	997

The joint venture had no other contingent liabilities as at 30 June 2018 and 30 June 2017, other than as disclosed in Note 33(iv).

## 16. Investment securities

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current</b>				
<i>Held-to-maturity investments</i>				
Unquoted:				
- Shares in Malaysia <sup>(a)</sup>	<b>47</b>	48	-	-
<i>Available-for-sale financial assets</i>				
Quoted:				
- Shares in Malaysia	<b>27,131</b>	37,857	<b>18,586</b>	25,935
Total non-current investment securities	<b>27,178</b>	37,905	<b>18,586</b>	25,935

**16. Investment securities (cont'd.)**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Current</b>				
<i>Available-for-sale financial assets</i>				
Cash management funds <sup>(b)</sup>	<b>8,998</b>	11,685	-	-
Quoted:				
- Shares in Malaysia	<b>6,245</b>	6,515	-	-
<i>Held-to-maturity investments</i>				
Unquoted ACB bonds <sup>(c)</sup> :				
- Cost	<b>7,364</b>	7,829	<b>7,364</b>	7,829
- Impairment losses	<b>(7,364)</b>	(7,829)	<b>(7,364)</b>	(7,829)
	<b>-</b>	-	<b>-</b>	-
Total current investment securities	<b>15,243</b>	18,200	-	-
Total investment securities	<b>42,421</b>	56,105	<b>18,586</b>	25,935
Consists of the following:				
Investments in:				
- Related party entities	<b>33,423</b>	44,420	<b>18,586</b>	25,935
- Others	<b>8,998</b>	11,685	-	-
	<b>42,421</b>	56,105	<b>18,586</b>	25,935
Market value of quoted shares:				
- In Malaysia	<b>33,376</b>	44,372	<b>18,586</b>	25,935

The Group's investments in quoted shares in Malaysia with carrying amounts of RM6.2 million (2017: RM6.5 million) are pledged as security for the Exchangeable Bonds, as disclosed in Note 27(a). During the financial year, RM0.5 million of the value of the quoted shares were delivered as disclosed in Note 27(a). In the previous financial year, RM14.1 million of the value of the quoted shares were delivered upon the exchange of the Secured Bonds by the holders of the Exchangeable Bonds.

## 16. Investment securities (cont'd.)

### (a) Held-to-maturity investments - unquoted shares

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares in Malaysia, at cost	<b>15</b>	15
Unquoted preference shares in Malaysia, at cost	<b>38</b>	38
Less: Amortisation of premium*	<b>(6)</b>	(5)
	<b>47</b>	48

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

### (b) Cash management funds

The range of interest rates of cash management funds at the reporting date were as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>
Cash management funds	<b>2.4 - 2.8</b>	2.4 - 3.7

Cash management funds of the Group has average maturity days of 1 day (2017: 1 day).

### (c) Held-to-maturity investments - unquoted bonds

The unquoted bonds bear a yield to maturity which ranges from 4.0% to 4.75% (2017: 4.0% to 4.75%) per annum. The unquoted bonds have been fully impaired by the Group and the Company in the previous financial years and no interest is recognised in the comprehensive income.



## 17. Intangible assets

	Goodwill on consolidation RM'000	Purchased goodwill RM'000	Total RM'000
<b>Group</b>			
<b>Cost</b>			
At 1 July 2017 and 30 June 2018	<u>14,662</u>	<u>18,814</u>	<u>33,476</u>
<b>Accumulated impairment</b>			
At 1 July 2017 and 30 June 2018	<u>(14,662)</u>	<u>(8,330)</u>	<u>(22,992)</u>
<b>Net carrying amount</b>			
At 30 June 2018	<u>-</u>	<u>10,484</u>	<u>10,484</u>
<b>Cost</b>			
At 1 July 2016 and 30 June 2017	<u>14,662</u>	<u>18,814</u>	<u>33,476</u>
<b>Accumulated impairment</b>			
At 1 July 2016 and 30 June 2017	<u>(14,662)</u>	<u>(8,330)</u>	<u>(22,992)</u>
<b>Net carrying amount</b>			
At 30 June 2017	<u>-</u>	<u>10,484</u>	<u>10,484</u>

### Impairment tests for goodwill

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

	Total RM'000
<b>Malaysia</b>	
Contract manufacturing services ("CMS")	
At 30 June 2017/2018	<u>10,484</u>

## 17. Intangible assets (cont'd.)

### Impairment tests for goodwill (cont'd.)

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

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

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
Revenue growth rates	<b>3%</b>	5%
Pre-tax discount rates	<b>8%</b>	8%

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

- (i) Budgeted gross margins and revenue growth rates - Management determines budgeted gross margin based on performance achieved in the past five years and its expectations on market development.
- (ii) Pre-tax discount rates - Discount rates reflect Management's estimate of the risks specific to these entities. In determining appropriate discount rates for each units, consideration has been given to applicable weighted average cost of capital for each unit.

### Sensitivity to changes in assumptions

With regards to the assessment of value-in-use of the respective CGU, Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the CGU to differ materially from recoverable amounts except for the changes in the prevailing operating environment, the impact of which is not ascertainable.

## 18. Deferred tax

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
At the beginning of financial year	(33,972)	(30,629)
Recognised in profit or loss (Note 9)	33,994	(3,306)
Transfer to revaluation reserve (Note 26)	212	-
Exchange differences	361	(37)
At the end of financial year	<u>595</u>	<u>(33,972)</u>

### Presented after appropriate offsetting as follows:

Deferred tax assets	5,478	1,026
Deferred tax liabilities	<u>(4,883)</u>	<u>(34,998)</u>
	<u>595</u>	<u>(33,972)</u>

The Group offsets tax assets and tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

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

### Deferred tax assets of the Group:

	<b>Provisions</b>
	<b>RM'000</b>
At 1 July 2017	1,026
Recognised in profit or loss	10,060
Exchange differences	361
At 30 June 2018	<u>11,447</u>
At 1 July 2016	1,326
Recognised in profit or loss	146
Transfer from deferred tax liabilities	(409)
Exchange differences	(37)
At 30 June 2017	<u>1,026</u>

## 18. Deferred tax (cont'd.)

The components and movements of deferred tax assets and liabilities during the financial year are as follows: (cont'd.)

### Deferred tax liabilities of the Group:

	Property, plant and equipment RM'000
At 1 July 2017	(34,998)
Recognised in profit or loss	23,934
Transfer to revaluation reserve	212
At 30 June 2018	<u>(10,852)</u>
At 1 July 2016	(31,955)
Recognised in profit or loss	(3,452)
Transfer to deferred tax assets	409
At 30 June 2017	<u>(34,998)</u>

The following are unrecognised tax benefits:

	Group	
	2018 RM'000	2017 RM'000
Unused tax losses *	809,461	767,454
Unabsorbed capital allowances *	24,623	18,017
	<u>834,084</u>	<u>785,471</u>

\* The unused tax losses and unabsorbed capital allowances in the previous financial year have been restated upon the finalisation of prior year's tax computation.

Deferred tax assets have not been recognised in respect of the unused tax losses and unabsorbed capital allowances as it is not probable that taxable profit will be available against which the unused tax losses and unabsorbed capital allowances can be utilised, considering that the relevant subsidiaries have been incurring losses and there are no other tax planning opportunities or other evidence of recoverability in the near future.

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the respective subsidiaries are subject to no substantial changes in shareholdings of the respective subsidiaries under the Income Tax Act, 1967 and guidelines issued by the tax authority.

## 19. Inventories

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
Properties held for sale	<b>43,233</b>	4,796
Raw materials	<b>13,021</b>	13,753
Work-in-progress	<b>953</b>	993
Finished goods	<b>2,876</b>	1,827
Spares, supplies and consumables	<b>46</b>	28,708
	<b>60,129</b>	50,077
<b>Net realisable value</b>		
Finished goods	<b>1,055</b>	1,699
<b>Total</b>	<b>61,184</b>	51,776

As disclosed in Note 27(b)(i)(l), inventories of a subsidiary amounting to RM28.7 million in the previous financial year were pledged for bank borrowings. During the financial year, RM108.2 million (2017: RM114.9 million) of inventories were recognised as expenses.

## 20. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Current</b>				
Trade receivables <sup>(a)</sup>				
- Third parties	45,145	51,606	-	-
- Related parties	783,898	716,700	-	-
	<b>829,043</b>	<b>768,306</b>	-	-
Less: Allowance for impairment	(715,461)	(718,068)	-	-
	<b>113,582</b>	<b>50,238</b>	-	-
<b>Other receivables:</b>				
Amounts owing by subsidiaries <sup>(b)</sup>	-	-	1,321,058	1,515,011
Sundry receivables	5,809	6,753	4	2
Deposits <sup>(c)</sup>	57,767	11,448	-	2
Prepayments	1,486	7,056	-	-
Amounts owing by related parties <sup>(d)</sup>	1,603	964	405	398
	<b>66,665</b>	<b>26,221</b>	<b>1,321,467</b>	<b>1,515,413</b>
Less: Allowance for impairment:				
- Sundry receivables	(1,039)	(1,039)	-	-
- Amounts owing by subsidiaries	-	-	(1,228,467)	(1,352,227)
- Amounts owing by related parties	(852)	(613)	(345)	(345)
	<b>(1,891)</b>	<b>(1,652)</b>	<b>(1,228,812)</b>	<b>(1,352,572)</b>
	<b>64,774</b>	<b>24,569</b>	<b>92,655</b>	<b>162,841</b>
Total trade and other receivables	<b>178,356</b>	<b>74,807</b>	<b>92,655</b>	<b>162,841</b>

## 20. Trade and other receivables (cont'd.)

### (a) Trade receivables

The credit period is generally for a period of 7 days, extending up to 180 days (2017: 7 to 180 days).

The Group has a significant concentration of credit risk on its trade receivable, being amount due from Megasteel, constituting approximately 86.1% (2017: 93.2%) of the total gross trade receivables balances as at the reporting date. As at the reporting date, the amount due from Megasteel amounting to RM713.8 million (2017: RM716.1 million) has been fully impaired.

Megasteel has defaulted on its borrowings, hence, indicating significant uncertainty exists over the recoverability of the balance of the amount due from Megasteel.

Except for the amount due from Megasteel, the Group has no other significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

#### Aging analysis of trade receivables

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

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Neither past due nor impaired	<b>27,850</b>	37,479
1 to 30 days past due but not impaired	<b>9,465</b>	7,028
31 to 60 days past due but not impaired	<b>449</b>	3,621
61 to 90 days past due but not impaired	<b>70,107</b>	568
91 to 180 days past due but not impaired	<b>4,320</b>	903
More than 181 days past due but not impaired	<b>1,391</b>	639
Past due but not impaired	<b>85,732</b>	12,759
	<b>113,582</b>	50,238
Impaired	<b>715,461</b>	718,068
	<b>829,043</b>	768,306

#### Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. None of the Group's trade receivables that are neither past due nor impaired have been re-negotiated during the financial year.

## 20. Trade and other receivables (cont'd.)

### (a) Trade receivables (cont'd.)

#### Receivables that are past due but not impaired

The Group has trade receivables amounting to RM85.7 million (2017: RM12.8 million) that are past due but not impaired as at the reporting date. None of the trade receivables have been re-negotiated during the financial year. These receivables are unsecured in nature. Management is confident that these receivables are recoverable as these accounts are still active.

#### Receivables that are impaired

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

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Trade receivables - nominal amounts	715,461	718,068
Less: Allowance for impairment	(715,461)	(718,068)
	<u>-</u>	<u>-</u>

Movement in allowance accounts are as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
At the beginning of financial year	718,068	718,074
Charge for the financial year	-	194
Reversal	(2,586)	(211)
Exchange differences	(21)	11
At the end of financial year	<u>715,461</u>	<u>718,068</u>

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



## 20. Trade and other receivables (cont'd.)

### (b) Amounts owing by subsidiaries

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

During the financial year, the Company made an allowance for impairment loss on the amount owing by subsidiaries amounting to RM41.6 million (2017: RM95.6 million). Recovery of these debts is closely related to the operation of Megasteel. Hence, with the temporary cessation of operation of Megasteel, these debts are fully provided for.

As at 30 June 2018, the amount owing by a subsidiary amounted to RM74.5 million (2017: RM159.1 million) is pledged for trade payables as disclosed in Note 30(a).

### (c) Deposits

As at 30 June 2018, included in deposits of the Group amounted to RM52.0 million is related to trade deposits paid.

### (d) Amounts owing by related parties

The amounts owing by related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Related parties are entities in which certain Directors and/or substantial shareholders of the Company or of its subsidiaries or person connected with such Directors and/or substantial shareholders have interest.

Further details on related party transactions are disclosed in Note 34.

Movement in allowance accounts (other receivables) are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At the beginning of financial year	<b>1,652</b>	1,636	<b>1,352,572</b>	1,256,994
Charge for the financial year	<b>239</b>	16	<b>41,585</b>	95,578
Reversal	-	-	<b>(165,345)</b>	-
At the end of financial year	<b>1,891</b>	1,652	<b>1,228,812</b>	1,352,572

## 21. Derivative assets

	Group		2017	
	2018		2017	
	Contract/ notional amount RM'000	Assets RM'000	Contract/ notional amount RM'000	Assets RM'000
<b>Non-hedging derivative:</b>				
Forward currency contracts	-	-	312	19

The description of forward currency contracts is disclosed in Note 29.

## 22. Cash and bank balances

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances:				
Cash at banks and on hand	<b>36,396</b>	39,385	<b>1,575</b>	857
Deposits with licensed banks	<b>130,021</b>	302,261	<b>14,491</b>	7,200
Total cash and bank balances	<b>166,417</b>	341,646	<b>16,066</b>	8,057
Less: Deposits with licensed banks with maturity of more than three months	<b>(27,553)</b>	(43,067)	-	-
Cash and cash equivalents	<b>138,864</b>	298,579	<b>16,066</b>	8,057

The cash and bank balances of the subsidiaries in the PRC amounting to RM134.2 million (2017: RM321.2 million) at the reporting date are subject to the exchange control restrictions and are restricted to be used in the PRC for the subsidiaries' operations. These balances are available for use by those subsidiaries and the exchange control restrictions will only apply if the monies are to be remitted to countries outside the PRC.

## 22. Cash and bank balances (cont'd.)

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

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Licensed banks	<b>1.8 - 4.6</b>	1.9 - 4.2	<b>3.0 - 3.1</b>	2.9 - 3.0

Deposits of the Group and of the Company have maturity days ranging from 1 to 109 days (2017: 1 to 109 days) and 1 to 7 days (2017: 1 to 30 days) respectively.

## 23. Non-current assets classified as held for sale

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
At the beginning of financial year	<b>10,052</b>	10,052
Disposal (Note 35(ii))	<b>(10,052)</b>	-
At the end of financial year	<b>-</b>	10,052

## 24. Share capital

	<b>Group/Company</b>			
	<b>Number of ordinary shares</b>		<b>Amount</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>'000</b>	<b>'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Issued share capital:</b>				
At the beginning of financial year	<b>1,392,147</b>	1,392,147	<b>1,027,041</b>	696,074
Effect of implementation of the Act	-	-	-	330,967
At the end of financial year	<b>1,392,147</b>	1,392,147	<b>1,027,041</b>	1,027,041

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

## 25. Share premium

	Group/Company	
	2018	2017
	RM'000	RM'000
<b>Issued share capital:</b>		
At the beginning of financial year	-	330,967
Effect of implementation of the Act	-	(330,967)
At the end of financial year	-	-

Share premium relates to the amount that stockholders have paid for the shares in excess of the nominal value. With the Act coming into effect on 31 January 2017, the credit standing in the share premium account of RM330,967,000 has been transferred to the share capital account. Pursuant to subsection 618(3) of the Act, the Company may exercise its right to use the credit amount being transferred from share premium within 24 months from the commencement of the Act.

26. Other reserves

	Fair value adjustment reserve RM'000 (a)	Capital reserves RM'000 (b)	Exchange fluctuation reserves RM'000 (c)	Revaluation reserve RM'000 (d)	Total RM'000
<b>Group</b>					
At 1 July 2017	27,762	15,447	22,395	94,177	159,781
<b>Other comprehensive income/(loss)</b>					
Available-for-sale investments:					
- Loss on fair value changes	(10,486)	-	-	-	(10,486)
Foreign currency translation difference	-	-	8,076	-	8,076
Transfer from deferred tax liabilities	-	-	-	212	212
Transfer from/(to) accumulated losses	-	9,281	-	(4,246)	5,035
At 30 June 2018	17,276	24,728	30,471	90,143	162,618
At 1 July 2016	-	8,016	20,141	94,177	122,334
<b>Other comprehensive income</b>					
Available-for-sale investments:					
- Gain on fair value changes	27,762	-	-	-	27,762
Foreign currency translation difference	-	-	2,254	-	2,254
Transfer from accumulated losses	-	7,431	-	-	7,431
At 30 June 2017	27,762	15,447	22,395	94,177	159,781

## 26. Other reserves (cont'd.)

	Fair value adjustment reserve RM'000 (a)
<b>Company</b>	
At 1 July 2017	19,019
<b>Other comprehensive loss</b>	
Available-for-sale investments:	
- Loss on fair value changes	<u>(7,349)</u>
At 30 June 2018	<u>11,670</u>
At 1 July 2016	-
<b>Other comprehensive income</b>	
Available-for-sale investments:	
- Gain on fair value changes	<u>19,019</u>
At 30 June 2017	<u>19,019</u>

### (a) Fair value adjustment reserve

Fair value adjustment reserve represents the cumulative fair value changes of available-for-sale financial assets.

### (b) Capital reserves

The capital reserves represent:

- (i) the transfer from distributable earnings of a wholly-owned subsidiary arising from its bonus issue of shares; and
- (ii) the reserves maintained by the Group's subsidiary in the PRC in accordance with the regulations in that country and are not available for payment of dividend.

### (c) Exchange fluctuation reserves

The exchange fluctuation reserves represent exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

### (d) Revaluation reserve

The asset revaluation reserve represents the fair value adjustments to the freehold land of the subsidiary.

## 27. Loans and borrowings

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current</b>		
Secured:		
Term loans <sup>(b)</sup>	<b>40,000</b>	20,000
Obligations under finance leases <sup>(c)</sup>	-	105
	<b>40,000</b>	<b>20,105</b>
<b>Current</b>		
Secured:		
Exchangeable Bonds <sup>(a)</sup>	<b>10,007</b>	10,633
Term loans <sup>(b)</sup>	<b>124,089</b>	159,579
Obligations under finance leases <sup>(c)</sup>	<b>105</b>	174
	<b>134,201</b>	<b>170,386</b>
Unsecured:		
Exchangeable Bonds <sup>(a)</sup>	<b>46,378</b>	75,871
	<b>180,579</b>	<b>246,257</b>
<b>Total borrowings</b>		
Exchangeable Bonds <sup>(a)</sup>	<b>56,385</b>	86,504
Term loans <sup>(b)</sup>	<b>164,089</b>	179,579
Obligations under finance leases <sup>(c)</sup>	<b>105</b>	279
	<b>220,579</b>	<b>266,362</b>

The remaining maturities of the loans and borrowings excluding obligations under finance leases as at 30 June 2018 are as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
On demand or within one year	<b>180,474</b>	246,083
More than one year and less than two years	<b>40,000</b>	20,000
	<b>220,474</b>	<b>266,083</b>

## 27. Loans and borrowings (cont'd.)

### (a) Exchangeable Bonds

On 16 November 2007, Excel Step Investments Limited ("Excel Step"), a wholly-owned subsidiary of the Company, had issued USD132,110,000 nominal value 5-year 2.5% Exchangeable Bonds ("Bonds") which are constituted by a Trust Deed dated 16 November 2007 made between Excel Step ("Issuer"), the Company ("Guarantor"), The Bank of New York Mellon, London Branch ("Trustee") and MTrustee Berhad ("Security Trustee") ("Trust Deed").

The Bonds would mature on 16 November 2017 and would then be exchangeable into approximately 45.1 million ordinary shares in Parkson Holdings Berhad ("Parkson") ("Parkson Shares").

The holders of the Bonds had:

- (i) on 21 December 2015, signed a written resolution in relation to the extension of the date of Tenth Scheduled Partial Redemption of USD4.0 million (approximately RM16.1 million) which was due on 16 November 2015 to 31 January 2016; and
- (ii) on 12 February 2016, approved an Extraordinary Resolution relating to the further restructuring of the Bonds which involved, *inter alia*, the following:
  - (a) certain modifications of the terms and conditions of the Bonds and the Trust Deed to implement certain amendments to the Bonds;
  - (b) the release of monies of approximately RM2.2 million held by the Security Trustee under the existing security arrangements under the Bonds for the application of such United States Dollars ("USD") amount in making a partial redemption payment in respect of the Bonds ("Cash Application");
  - (c) the further reduction of the principal amount of the Bonds in exchange for the issue to the beneficial holders pro rata to their holding of the Bonds of USD27.0 million 8% guaranteed unsecured non-exchangeable bonds due 2019 ("Unsecured Bonds") which shall be repayable in eight instalments, with seven principal repayments of USD3.0 million payable on a semi-annual basis commencing on 16 May 2016, and a final payment of USD6.0 million payable on 16 November 2019; and
  - (d) the Bonds written down by the Trustee to an outstanding principal amount of USD12.18 million due 2020 ("Secured Bonds") which are exchangeable into 50,235,202 Parkson Shares and shall mature in a single repayment on 16 November 2020.



## 27. Loans and borrowings (cont'd.)

### (a) Exchangeable Bonds (cont'd.)

Following the rounding adjustment, the Cash Application amounted to USD501,000 and the Secured Bonds had been marked down to USD12.179 million. Upon the above further restructuring of the Bonds, the exchange price is adjusted to RM1.0056 per Parkson Share. The exchange price was further adjusted to RM0.96 per Parkson Share with effective from 29 August 2016.

During the financial year, the Issuer has redeemed USD6.0 million (approximately RM24.0 million) (2017: USD6.0 million (approximately RM25.8 million)) Unsecured Bonds.

As at 30 June 2018, the outstanding Unsecured Bonds and Secured Bonds are approximately USD12.0 million (RM46.4 million) (2017: USD18.0 million (RM75.9 million)) and USD2.5 million (RM10.0 million) (2017: USD2.5 million (RM10.6 million)) respectively.

As at the reporting date, the yield to maturity of the Unsecured Bonds is 8% (2017: 8%) per annum calculated on a quarterly basis.

The Secured Bonds are secured by investment in quoted shares in Malaysia with carrying amounts of RM6.2 million (2017: RM6.5 million) as disclosed in Note 16.

The bondholders have the right to exchange their Secured Bonds into Parkson Shares at any time during the exchange period, at any time on and after 16 February 2016 up to close of business on 16 November 2020.

The number of Parkson Shares to be delivered on exchange of a Secured Bond will be determined by dividing the principal amount of the Bonds to be exchanged (translated into Ringgit Malaysia at a fixed exchange rate of RM4.1473 : USD1.00) by the exchange price. Exchange price has been adjusted to RM0.96 (2017: RM1.0056) on 29 August 2016.

The agreements governing the Bonds contain certain covenants that entitle the bondholders to accelerate repayment should the Company or its subsidiaries default on payments under any other agreements or instruments involving borrowings.

As mentioned in Note 27(b) below, one of the subsidiary has defaulted on payment of its loan during the previous financial year.

## 27. Loans and borrowings (cont'd.)

### (b) Term loans

	Group	
	2018	2017
	RM'000	RM'000
<u>Current</u>		
RM loan at Base Lending Rate ("BLR") + 1.25% per annum <sup>(i)</sup>	104,089	114,579
RM loan from licensed money lenders <sup>(ii)</sup>	20,000	45,000
	<b>124,089</b>	<b>159,579</b>
<u>Non-current</u>		
RM loan from licensed money lenders <sup>(ii)</sup>	40,000	20,000
<b>Total</b>	<b>164,089</b>	<b>179,579</b>

(i) RM loan at BLR + 1.25% per annum

This loan is secured by the following:

- (I) debenture incorporating a fixed and floating charge over all present and future assets and undertaking of a wholly-owned subsidiary, Lion DRI, as follows:

	2018	2017
	RM'000	RM'000
Property, plant and equipment	109,204	181,034
Inventories	-	28,660
Trade and other receivables	21	730
Tax recoverable	-	495
Cash and bank balances	1,904	2,447
<b>Total</b>	<b>111,129</b>	<b>213,366</b>

- (II) irrevocable and unconditional corporate guarantee from the Company;
- (III) first legal charge over the Company's 100% shareholding in Lion DRI;
- (IV) irrevocable and unconditional letter of undertaking from the Company to support the operations of Lion DRI;

## 27. Loans and borrowings (cont'd.)

### (b) Term loans (cont'd.)

#### (i) RM loan at BLR + 1.25% per annum (cont'd.)

This loan is secured by the following: (cont'd.)

- (V) legal assignment on all present and future rights, title, interests and benefits of Lion DRI in and under the Offtake Agreement dated 16 July 2007 entered into between Lion DRI and Megasteel, and of the lease between Lion DRI and Megasteel of all those pieces and parcels of land;
- (VI) legal assignment of all present and future rights, title, interests and benefits of a cash deposit in the sinking fund account (minimum RM45.0 million to be maintained) with the lenders. The Group has utilised the RM45.0 million deposit to partially settle this term loan; and
- (VII) irrevocable and unconditional letter of undertaking from the related party addressed to the lenders and to the subsidiary which the related party has right of way to enable Lion DRI to carry on its operations and business of manufacturing direct reduced iron and hot briquetted iron in the vicinity of the lease of land.

Certain financial covenants requirements of this loan were breached during the previous financial year. However as at the date of this report, no formal event of default notice has been served against the Group and the Company. No value is ascribed on the guarantee provided by the Company to secure the banking facilities as the Directors regard the value of the credit enhancement provided by the guarantee as minimal.

#### (ii) RM loans with licensed money lenders

The loans are secured by a lienholder's caveat over the lands and buildings of the Group with carrying amount of approximately RM151.7 million (2017: RM155.8 million) as disclosed in Note 10(b).

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

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>
Term loans - RM loan at BLR + 1.25% per annum	<b>9.1</b>	9.1
Term loans - RM loan from licenced money lender	<b>13.5</b>	13.5

## 27. Loans and borrowings (cont'd.)

### (c) Obligations under finance leases

The Group has finance leases for motor vehicles as disclosed in Note 10.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Minimum lease payments:</b>		
Not later than one year	123	196
Later than one year and not later than five years	-	123
	<u>123</u>	<u>319</u>
Less: Future finance charges	(18)	(40)
Present value of finance lease liabilities	<u>105</u>	<u>279</u>
<b>Present value of finance lease liabilities:</b>		
Not later than one year	105	174
Later than one year and not later than five years	-	105
	<u>105</u>	<u>279</u>
<b>Analysed as:</b>		
Due within one year	105	174
Due after one year	-	105
	<u>105</u>	<u>279</u>

The obligations under finance leases bear interest at the reporting date at rates ranging from 2.4% to 2.7% (2017: 2.4% to 2.7%) per annum. These obligations are denominated in the respective functional currencies of the relevant entities in the Group.

## 27. Loans and borrowings (cont'd.)

### (d) Changes in liabilities arising from financing activities:

Group	At 1 July 2017 RM'000	Cash flows RM'000	Other RM'000	At 30 June 2018 RM'000
Term loans	179,579	(13,000)	(2,490)	164,089
Obligations under finance leases	279	(174)	-	105
Exchangeable Bonds	86,504	(24,038)	(6,081)	56,385
Total liabilities from financing activities	266,362	(37,212)	(8,571)	220,579

## 28. Deferred payments

	Group/Company 2018 RM'000	2017 RM'000
At the beginning of the financial year	40,086	45,561
Interest expense recognised during the financial year (Note 8)	3,184	3,887
	43,270	49,448
Payments made during the financial year	(9,064)	(9,362)
At the end of the financial year (Note 30)	34,206	40,086

Deferred payments represent the outstanding balance of the purchase consideration for the acquisition by the Company and Teraju Varia Sdn Bhd ("Teraju Varia"), a wholly-owned subsidiary of the Company, of the RM denominated bonds issued by LCB ("LCB Bonds") for a cash consideration of RM400 million on 27 February 2009. On the same date, the Company and Teraju Varia converted these LCB Bonds into 804,460,000 ordinary shares of RM1.00 each in LCB.

The deferred payments bear interest at the rate of 9% (2017: 9%) per annum and as at 30 June 2018. 91,273,241 (2017: 91,273,241) LCB shares are pledged as security for the outstanding deferred payments.

In the previous financial year, the Company proposed to the creditors for a deferment of the repayment of RM40.1 million on or before 31 December 2017. The Company will propose to the creditors for a further deferment of the repayment of RM34.2 million on or before 31 December 2018.

## 29. Derivative liabilities

	Group			
	2018		2017	
	Contract/ notional amount RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Liabilities RM'000
<b>Non-hedging derivatives:</b>				
Embedded derivatives	<b>56,385</b>	<b>193</b>	86,504	121

This represents the exchange feature which is a separate embedded derivative contained in the Bonds as disclosed in Note 27(a). Bondholders are able to exchange the Bonds into the shares of Parkson Holdings Berhad ("Parkson Shares") at a fixed exchange price as disclosed in Note 27(a). This derivative instrument is carried at fair value through profit or loss.

	Group	
	2018 RM'000	2017 RM'000
<b>Exchangeable Bonds:</b>		
At the beginning of financial year	121	(5,333)
Changes in fair value recognised in profit or loss during the financial year	72	5,454
At the end of financial year	<b>193</b>	<b>121</b>
Representing:		
Derivative liabilities	<b>193</b>	121

## 29. Derivative liabilities (cont'd.)

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

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

	2018	2017
Parkson Share price (RM)	0.58	0.57
Exchange price (RM)	0.96	1.01
Expected volatility (%)	32	21
Expected life of exchange feature (years)	2.4	3.4
Risk free rate (% per annum)	3.8	3.7

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

## 30. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Trade payables <sup>(a)</sup>	806,355	742,016	-	-
<u>Other payables</u>				
Sundry payables	80,004	109,318	5	910
Advances from customers	336	65,094	-	-
Deposits	2,277	12,755	-	-
Accruals	94,092	154,733	22,660	22,888
Amounts owing to subsidiaries <sup>(b)</sup>	-	-	289,856	291,435
Amounts owing to related parties <sup>(c)</sup>	7,085	7,031	3,851	3,845
Deferred payments (Note 28)	34,206	40,086	34,206	40,086
	218,000	389,017	350,578	359,164
Total trade and other payables	1,024,355	1,131,033	350,578	359,164

### 30. Trade and other payables (cont'd.)

(a) Trade payables

These amounts are non-interest bearing. The normal trade credit terms granted to the Group range from 30 to 90 days (2017: 30 to 90 days).

Included in trade payables are amounts due to related parties amounting to approximately RM589.1 million (2017: RM565.3 million) arising from transactions as further disclosed in Note 34. These balances bear interest at rates ranging from 9.0% to 9.1% (2017: 9.0% to 9.1%) per annum and RM238.8 million (2017: RM431.0 million) are secured against assets as disclosed in Notes 13 and 20(b).

(b) Amounts owing to subsidiaries

The amounts owing to subsidiaries are unsecured, non-interest bearing and are repayable on demand.

(c) Amounts owing to related parties

Amounts owing to related parties are unsecured, non-interest bearing and are repayable on demand.



### 31. Provisions

	Provision for claims RM'000 (a)	Provision for other taxes RM'000 (b)	Total RM'000
<b>Group</b>			
At 1 July 2017	38,000	-	38,000
Recognised in profit or loss	-	15,040	15,040
At 30 June 2018	<b>38,000</b>	<b>15,040</b>	<b>53,040</b>
At 1 July 2016/ 30 June 2017	38,000	-	38,000

- (a) The provision for potential claims represents the estimated quantum of claims of RM38.0 million (2017: RM38.0 million) by the contractors for the construction of the blast furnace ("the Project") that was suspended as disclosed in Note 11(e). The claims provided are to compensate the losses caused by the delay of the construction of the Project. The Directors are of the opinion that the current provision is adequate to cover the losses incurred. As of the reporting date, no litigation has been initiated by the contractors against the Group. Details of unprovided claims are disclosed in Note 33(i).
- (b) Provision for Land Appreciation Tax ("LAT") represents estimated tax payable by a subsidiary of the Group to the regulator in the People's Republic of China ("China") for the sale of properties in China. The amount will be paid upon the transfer of ownership of the physically completed properties to the buyers.

### 32. Commitments

	Group	
	2018	2017
	RM'000	RM'000
<b>Non-cancellable operating lease commitments</b>		
Future minimum rentals payable:		
Not later than one year	4,605	6,559
Later than one year and not later than five years	6,527	10,808
Later than five years	17,128	17,128
	<b>28,260</b>	<b>34,495</b>

Operating lease payments represent rentals payable by the Group for use of land and buildings.

### 33. Contingent liabilities

#### (i) Claims from contractors

As disclosed in Note 31, contractors for the Project have made claims of RM96.0 million (2017: RM96.0 million) to recover the cost incurred for purchasing parts and components for the Project but not delivered, and the compensation for damages incurred by the contractors due to the delay, of which RM38.0 million (2017: RM38.0 million) has been provided in the financial statements. The remaining claims were not provided as the Management is unable to obtain appropriate and satisfactory evidence to satisfy themselves as to the validity of these claims.

#### (ii) Capital expenditure relating to the Project

The Group is exposed to liabilities on parts purchased from contractors but not delivered to the site due to the delay in construction of the Project as disclosed in Note 10(e). As at the reporting date, the contractors have yet to submit the invoices and proof of claims for parts purchased. The quantum of the liabilities will be determined based on a mutually agreed sum of work done.

Neither the parts nor the liabilities have been recognised in the financial statements as the Directors are of the opinion that the claims from the contractors cannot be reliably measured as at the reporting date.

### 33. Contingent liabilities (cont'd.)

#### (iii) Material outstanding litigations

On 6 July 2016, the Company was served with London High Court of Justice Queen's Bench Division Claim Form by Classic as claimant against (i) Limbungan Makmur, and (ii) the Company ("UK Claim No. CL-2016-000421"). The claims are for the following:

- (a) as against Limbungan Makmur, damages for breach of COA in the sum of USD20,497,332.00 (approximately RM82.8 million) and/or USD431,366.88 (approximately RM1.7 million) and/or USD1,422,534.24 (approximately RM5.7 million) and/or USD171,595.57 (approximately RM0.7 million) and/or such other sums as is/are properly due and owing to Classic arising from alleged non-performance of 7 shipments and for demurrage claim;
- (b) as against the Company, pursuant to a contract of suretyship dated on or about 29 June 2009 pursuant to which the Company guaranteed the performance of Limbungan Makmur's obligations under the COA and/or agreed to pay to Classic on demand any and all amounts accruing to Classic from Limbungan Makmur under COA; and
- (c) as against both Limbungan Makmur and the Company, interest pursuant to Section 35A of the Supreme Court Act 1981, to be assessed.

On 12 April 2017, the London High Court of Justice Queen's Bench Division ("High Court") allowed judgement to be entered against 2 shipments ("2 Index Shipments") whilst dismissing Classic's application for summary judgement for the balance 5 shipments. Assessment of damages for these 2 Index Shipments shall be at the same time as for the balance 5 shipments.

On 13 September 2018, the High Court decided that Classic is not entitled to substantial damages in respect of shipments due for performance after 5 November 2015. The High Court ordered the Company and Limbungan Makmur to pay:

- (a) the sum of USD134,124.46 plus interest in the sum of USD15,846.36 up to and including 13 September 2018, in respect of Index Shipment 1; and
- (b) in respect of the balance 6 shipments, to pay nominal damages of USD1.00 for each shipment.

The High Court has yet to fix a date to hear Classic's alleged claim of USD1,422,534.24 for demurrage.

### 33. Contingent liabilities (cont'd.)

#### (iii) Material outstanding litigations (cont'd.)

In connection with UK Claim No. CL-2016-000421, Classic has commenced legal action in the Superior Court of California, County of Los Angeles, United States of America. On 12 June 2017, Classic filed a verified complaint against the Company ("Complaint") seeking for pre-judgement attachment of assets of Likom Caseworks USA Inc. ("Likom USA"), a wholly-owned subsidiary of the Company. On 11 July 2017, Classic obtained a temporary protective order and corresponding writ of attachment ("Temporary Protective Order") on all shares and assets of Likom USA, located at 17890 Castleton St., Suite 309, City of Industry, California, owned by the Company, whether held by the Company directly, or beneficially through the Company's wholly-owned subsidiary, Likom Caseworks Sdn Bhd. On 14 August 2017, Likom USA received memorandum of garnishee arising from the Temporary Protective Order.

On 23 May 2018, Classic filed amended complaint to the effect Likom USA is now a named party to the US Complaint on the basis of the new 'alter ego' argument, as opposed to being just an alleged garnishee ("Amended Complaint"). The Amended Complaint does not attach, restrain, garnish or otherwise seize any property. On 10 September 2018, the Company and Likom USA filed motions pertaining to substantive and procedural challenges to the Amended Complaint and are set for hearing on 13 December 2018.

On 7 June 2018, the Company was served with another London High Court of Justice Queen's Bench Division Claim Form by Classic as claimant against (i) Limbungan Makmur and (ii) the Company ("UK Claim No. CL-2018-000352"). The claims are for the following:

- (a) USD83,152,218.10 (approximately RM335.9 million) on its primary case arising from alleged non-performance of 14 unscheduled shipments pursuant to the COA dated 29 June 2009;
- (b) alternatively, should Classic's primary case not be upheld, USD82,920,572.14 (approximately RM335.0 million) on its secondary case; or
- (c) alternatively, should Classic's secondary case not be upheld, USD78,363,617.60 (approximately RM316.6 million).

This UK Claim No. CL-2018-000352 is for loss and damages for failure to declare laycans and/or make cargoes available for shipment in respect of the remaining 14 unscheduled shipments pursuant to the COA dated 29 June 2009. There is a large overlap of facts between UK Claim No. CL-2016-000421 and UK Claim No. CL-2018-000352. Management is of the view that the Company and Limbungan Makmur have a fair defence to UK Claim No. CL-2018-000352.

### 33. Contingent liabilities (cont'd.)

#### (iv) Contingent liabilities relating to joint venture

##### Joint venture

A number of contingent liabilities have arisen as a result of the Group's interests in a joint venture. The amount disclosed below represents the aggregate amount of such contingent liabilities before taking into account the Group's proportion of ownership interest.

##### (a) Claims from Crest Builder Sdn Bhd ("Crest Builder")

On 1 March 2013, Crest Builder commenced an arbitration against Panareno Sdn Bhd ("Panareno") on an allegation that Crest Builder is entitled to an extension of time for the completion of the works with an extended completion date of 29 July 2011 and claiming for an amount of RM50,398,443 together with interest thereon for balance sum in the development of project known as Twins, 318 units of serviced residence at Damansara Heights, Kuala Lumpur ("Twins Project"). On 19 April 2013, Panareno had filed a defense and counterclaim of approximately RM77 million against Crest Builder on a declaration that Crest Builder is not entitled to the extension of time and claiming liquidated damages for late delivery and compensation for damages incurred by Panareno due to the delay and rectification works in relation to the Twins Project.

The Arbitration Tribunal has completed the hearing of all the parties' witnesses. However, on 13 March 2015, Crest Builder applied to the Arbitration Tribunal to allow Crest Builder's application to amend its statement of claim. On 15 June 2015, the Arbitration Tribunal allowed Crest Builder's application to amend its statement of claim with costs in the cause. The amendment to the statement of claim is mainly for (i) increasing Crest Builder's original claimed sum of RM50.4 million to RM51.4 million; and (ii) adding new claims amounting to RM2.0 million for matters arising from nominated sub-contract with Regal Link Sdn Bhd.

The Arbitration Tribunal delivered its final award dated 20 August 2018 ("Award") wherein:

- (i) the sum of RM31,343,846 is awarded to Crest Builder for its claim; and
- (ii) the sum of RM30,364,911 is awarded to Panareno for its counterclaim.

### 33. Contingent liabilities (cont'd.)

#### (iv) Contingent liabilities relating to joint venture (cont'd.)

##### Joint venture (cont'd.)

A number of contingent liabilities have arisen as a result of the Group's interests in a joint venture. The amount disclosed below represents the aggregate amount of such contingent liabilities before taking into account the Group's proportion of ownership interest. (cont'd.)

##### (a) Claims from Crest Builder Sdn Bhd ("Crest Builder") (cont'd.)

Panareno is to pay Crest Builder the net principal sum of RM978,935 within 4 weeks from the date of the Award. On 20 September 2018, Panareno applied to the Arbitration Tribunal:

- (i) to correct a computational error, which if allowed, would increase RM1,639,101 in damages awarded to Panareno in its counterclaim; and
- (ii) for additional counterclaim amount of RM550,847 to Panareno which the Arbitration Tribunal may have omitted in the final Award.

##### (b) Claims from Tenaga Nasional Berhad ("TNB")

Panareno had been served with a writ of summon by TNB claiming a sum to be determined by the court, alleging for damage caused to its underground cables. TNB alleged that the cost to change the cables amounted to RM14.9 million. Panareno had since issued Third Party Proceedings against Vital Project Sdn Bhd ("Vital Project"), the main contractor of the water piping works for the Twins Project, seeking indemnity for the TNB's claim. Vital Project had in turn brought in Semantra No-Dig Engineering Sdn Bhd, its sub-contractor into the suit. The court has fixed 6 to 12 December 2017 for trial. The trial has eventually took place on 20 March 2018 and had concluded on 4 June 2018. The parties are now awaiting judgement from the court.

### 34. Significant related party transactions

#### (i) Transactions with related parties

Related Parties	Nature	Group	
		2018 RM'000	2017 RM'000
Amsteel Mills Sdn Bhd	Rental expense	120	456
	Sales	97	60
	Sales commission	551	-
Antara Steel Mills Sdn Bhd	Trade sales	-	2,052
	Sales commission	918	-
Lion Group Management Services Sdn Bhd	Management fees	3,320	4,122
Megasteel	Rental expense	1,206	1,212
Posim Marketing Sdn Bhd	Interest expense	27,890	27,840

Amsteel Mills Sdn Bhd, Antara Steel Mills Sdn Bhd and Lion Group Management Services Sdn Bhd are subsidiaries of Lion Industries Corporation Berhad, a substantial shareholder of the Company.

Megasteel is a subsidiary of LCB, a company in which certain Directors and substantial shareholder of the Company are also directors and/or substantial shareholder.

Posim Marketing Sdn Bhd is a wholly-owned subsidiary of Lion Forest Industries Berhad wherein a Director and substantial shareholder of the Company is also a director and a substantial shareholder.

### **34. Significant related party transactions (cont'd.)**

#### **(i) Transactions with related parties (cont'd.)**

On 16 July 2007, Lion DRI, a wholly-owned subsidiary of the Company, entered into an Offtake Agreement ("Oftake Agreement") with Megasteel, to supply to Megasteel its entire production of 1.54 million metric tonnes per annum of the hot direct reduced iron and/or hot briquetted iron ("Steel Products"), upon the terms and conditions of the Offtake Agreement as follows:

- (a) The selling price of the Steel Products for the 10 years term shall be based on the formula of a cost plus certain margin ("Selling Price");
- (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 at the open market and if Lion DRI shall suffer a loss on such sale, Megasteel shall indemnify Lion DRI for such losses. In the event Lion DRI fails to deliver the Steel Products, Megasteel shall be at liberty to source for alternative equivalent and Lion DRI shall indemnify Megasteel for losses suffered.

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

The Offtake Agreement had lapsed on 15 July 2017.

Information regarding outstanding balances arising from related party transactions as at 30 June 2018 are disclosed in Notes 20 and 30.



### 34. Significant related party transactions (cont'd.)

#### (ii) Compensation of key management personnel

Other than the remuneration of the Directors of the Group and of the Company as disclosed in Note 7(a), the remuneration of the other key management during the financial year was as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Wages, salaries and bonuses	<b>1,306</b>	1,241
Pension costs - defined contribution plans	<b>131</b>	144
	<b><u>1,437</u></b>	<b><u>1,385</u></b>

### 35. Significant events

- (i) The Company had on 24 August 2016 ("First Announcement") announced that it had triggered the prescribed criteria pursuant to Paragraph 8.04 of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("LR") and Paragraph 2.1(a) and 2.1(e) of the Practice Note 17 of the LR ("PN17").

Pursuant to PN17, the Company is required to submit a regularisation plan within 12 months from the date of the First Announcement to the relevant authorities ("Regularisation Plan").

The Company had on 7 August 2017 submitted an application to Bursa Securities for an extension of time from 24 August 2017 to 30 June 2018 for the Company to make the submission of the Regularisation Plan to the relevant authorities.

The Company had on 7 September 2017, announced that Bursa Securities had granted the Company an extension of time of approximately 6 months up to 28 February 2018 to submit a regularisation plan to the regulatory authorities.

Subsequent thereto, the Company had on 9 February submitted an application to Bursa Securities for a further extension of time to 31 October 2018 for the Company to make the submission of the Regularisation Plan to the relevant authorities.

### 35. Significant events (cont'd.)

(i) (cont'd.)

On 14 March 2018, the Board of Directors of the Company announced that Bursa Securities has vide its letter dated 14 March 2018, rejected the Company's application for a further extension of time up to 31 October 2018 for the Company to submit the Regularisation Plan as the Company has not demonstrated to the satisfaction of Bursa Securities any material development towards the finalisation and submission of the Regularisation Plan to the relevant authorities.

Bursa Securities had also vide its letter dated 14 March 2018, informed that the trading in the securities of the Company will be suspended with effect from 22 March 2018 and the securities of the Company will be delisted on 26 March 2018 unless an appeal against the de-listing is submitted to Bursa Securities on or before 21 March 2018 ("Appeal").

The Board of Directors of the Company had on 21 March 2018, announced that the Company had submitted an Appeal to Bursa Securities.

Bursa Securities had vide its letter dated 20 April 2018, informed that after due consideration of all facts and circumstances of the matter including the written representations and oral representations of the Company on 12 April 2018, Bursa Securities had decided to:

- (a) dismiss the Company's Appeal for an extension of time up to 31 October 2018 to submit its regularisation plan to the relevant authorities for approval: and
- (b) delist the securities of the Company from the Official List of Bursa Securities pursuant to paragraph 8.04 of the LR.

In this circumstances, the securities of the Company have been removed from the Official List of Bursa Securities.

### 35. Significant events (cont'd.)

- (ii) CPB Enterprise Sdn Bhd, a wholly-owned subsidiary of the Company, had on 17 March 2017:
  - (a) entered into a sale and purchase agreement ("SPA") with LTB Power Performance (M) Sdn Bhd for the disposal of a piece of leasehold land in Mukim Cheng, Daerah Melaka Tengah, Melaka measuring 1.873 hectares for a cash consideration of RM4.64 million (excluding 6% GST of RM0.28 million) ("Proposed 1st Disposal"); and
  - (b) entered into a SPA with Imponotive Auto Sdn Bhd for the disposal of a piece of leasehold land in Mukim Cheng, Daerah Melaka Tengah, Melaka measuring 2.135 hectares together with a single-storey building erected thereon for a cash consideration of RM13.56 million (excluding 6% GST of RM0.81 million) ("Proposed 2nd Disposal").

(The Proposed 1st Disposal and the Proposed 2nd Disposal shall collectively be referred to as the "Proposed Disposals").

The Company had on 31 July 2017 obtained its shareholders' approval for the Proposed Disposals. All conditions precedent set out in the SPAs in relation to the Proposed Disposals have been fulfilled on 31 July 2017. The Proposed Disposals were completed on 25 October 2017 with a gain on disposal of RM7.8 million.

- (iii) The Company had on 22 November 2017, obtained the approval of its shareholders for Banting Resources Sdn Bhd ("BRSB"), a wholly-owned subsidiary of the Company, to grant to Lion Tin Sdn Bhd ("LTSB"), in consideration of the mining tribute equivalent to 10% of the revenue net of royalty from each type of mineral mined, processed and sold payable by LTSB to BRSB, the sole and exclusive right to carry out mining activities on the six (6) pieces of land in Daerah Kuala Langat, Negeri Selangor.

### 36. Subsequent events

- (i) On 27 July 2018, Likom Caseworks USA Inc ("Likom USA"), a wholly-owned subsidiary of Likom Caseworks Sdn Bhd ("Likom Caseworks") which in turn is a wholly-owned subsidiary of the Company, and Likom Caseworks had entered into:
- (a) a share purchase agreement with Mr Gordon Huang, a nominee of Cloud Network Technology Singapore Pte Ltd ("Cloud Network") and Cloud Network ("Purchasers") in relation to the disposal of the entire 100% equity interest in Likom de Mexico S.A. de C.V ("Likom Mexico") to the Purchasers for a total consideration of USD0.3 million (or equivalent to approximately RM1.21 million) ("Equity Disposal Consideration") ("Proposed Disposal of Likom Mexico");
  - (b) an equipment and tooling purchase agreement with Cloud Network in relation to the disposal of manufacturing equipment physically located at Likom Mexico owned by Likom USA to Cloud Network for a consideration of approximately USD2.7 million (or equivalent to approximately RM10.9 million); and
  - (c) an inventory purchase agreement with Cloud Network in relation to the disposal of certain inventory physically located at Likom Mexico owned by Likom USA to Cloud Network for a consideration to be determined.

(Collectively be referred to as "Disposals")

The Disposals is currently pending completion.

- (ii) The Company had on 30 August 2018 obtained its shareholders' approval for (a) Lion DRI, to dispose of its DRI Plant ("Proposed Disposal of DRI Plant"); or (b) the Company to dispose of its entire 100% equity interest in Lion DRI together with the DRI Plant ("Proposed Disposal of Lion DRI"), to such party which the Directors deemed appropriate ("Purchaser") for a minimum disposal consideration of USD27 million (equivalent to approximately RM109 million), on such arm's length and commercially acceptable terms and conditions as Lion DRI or the Company and the Purchaser shall determine and agree upon.

(The Proposed Disposal of DRI Plant and the Proposed Disposal of Lion DRI shall collectively be referred to as "Proposed Disposals")

The Proposed Disposals are currently pending finalisation.

### 37. Fair value

**(a) Fair value of assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value**

Fair value information has not been disclosed for the Group's investments in unquoted equity instruments that are carried at cost because fair values cannot be measured reliably. These equity instruments represent ordinary shares in companies that are not quoted on any market and does not have any comparable industry peer that is listed.

**(b) Determination of fair value**

**(i) Assets and liabilities measured at fair value**

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

### 37. Fair value (cont'd.)

#### (b) Determination of fair value (cont'd.)

As at 30 June 2018 and 30 June 2017, the Group and the Company held the following assets and liabilities carried at fair values in the statements of financial position:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
<b>Group</b>			
<b>At 30 June 2018</b>			
<b>Assets measured at fair value</b>			
Property, plant and equipment - freehold land	-	-	193,080
Investment securities	33,376	9,045	-
<b>Assets for which fair values are disclosed</b>			
Investment properties	-	-	4,182
<b>Liability measured at fair value</b>			
Derivative liabilities	-	193	-

### 37. Fair value (cont'd.)

#### (b) Determination of fair value (cont'd.)

##### (i) Assets and liabilities measured at fair value (cont'd.)

As at 30 June 2018 and 30 June 2017, the Group and the Company held the following assets and liabilities carried at fair values in the statements of financial position: (cont'd.)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
<b>Group</b>			
<b>At 30 June 2017</b>			
<b>Assets measured at fair value</b>			
Property, plant and equipment - freehold land	-	-	199,600
Investment securities	44,372	11,733	-
Derivative assets	19	-	-
	<hr/>	<hr/>	<hr/>
<b>Assets for which fair values are disclosed</b>			
Investment properties	-	-	4,266
	<hr/>	<hr/>	<hr/>
<b>Liability measured at fair value</b>			
Derivative liabilities	-	121	-
	<hr/>	<hr/>	<hr/>

### 37. Fair value (cont'd.)

#### (b) Determination of fair value (cont'd.)

##### (i) Assets and liabilities measured at fair value (cont'd.)

As at 30 June 2018 and 30 June 2017, the Group and the Company held the following assets and liabilities carried at fair values in the statements of financial position: (cont'd.)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
<b>Company</b>			
<b>At 30 June 2018</b>			
<b>Asset measured at fair value</b>			
Investment securities	<u>18,586</u>	<u>-</u>	<u>-</u>
<b>At 30 June 2017</b>			
<b>Asset measured at fair value</b>			
Investment securities	<u>25,935</u>	<u>-</u>	<u>-</u>

During the financial years ended 30 June 2018 and 30 June 2017, there were no transfers between Level 1, Level 2 and Level 3 fair values measurements.



### 37. Fair value (cont'd.)

#### (b) Determination of fair value (cont'd.)

##### (i) Assets and liabilities measured at fair value (cont'd.)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 30 June 2018 and 30 June 2017 are as shown below:

	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
<b>Group</b>			
<b>Assets for which fair values are disclosed</b>			
Property, plant and equipment - freehold land	Comparison method	Transaction price of comparable property which have been sold or are being offered for sale	5% (2017: 5%) increase/ (decrease) in the transaction price would result in an increase/ (decrease) in fair value by RM9,980,000 (2017: RM9,980,000)
Investment properties	Comparison method	Transaction price of comparable property which have been sold or are being offered for sale	5% (2017: 5%) increase/ (decrease) in the transaction price would result in an increase/ (decrease) in fair value by RM209,100 (2017: RM213,300)

### 37. Fair value (cont'd.)

#### (b) Determination of fair value (cont'd.)

- (ii) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value are disclosed in the following notes:

	<b>Note</b>
Trade and other receivables	20
Cash and bank balances	22
Loans and borrowings	27
Trade and other payables	30

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short term nature or that they are floating rate instruments that are repriced to market interest rates on or near the reporting date or due to the insignificant impact of discounting except as discussed below.

- (iii) Amounts due from/(to) subsidiaries, related parties and joint venture

It is not practical to estimate the fair values of the amounts due from/(to) subsidiaries, related parties and joint venture due principally to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs.

- (iv) 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.

- (v) Financial guarantees

The fair values of financial guarantees are determined based on the probability weighted discounted cash flows method. The probability has been estimated and assigned for the following key assumptions:

- the likelihood of the guaranteed party defaulting within the guaranteed period;
- the exposure on the portion that is not expected to be recovered due to the guaranteed party's default; and
- the estimated loss exposure if the party guaranteed were to default.

### **38. Financial risk management objectives and policies**

#### **(a) 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 interest rate risks (both fair value and cash flow), foreign currency risk, market price risk, liquidity risk and credit risk. The Board reviews and agrees on policies for managing each of these risks and they are summarised below.

#### **(b) Credit risk**

The Group's credit risk is primarily attributable to trade and other receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

##### Exposure to credit risk

Information regarding the Group's exposure to credit risk is disclosed in Note 20.

##### Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 20.

Deposits with licensed banks and quoted investments are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Information regarding financial assets that are either past due or impaired is disclosed in Note 20.

### 38. Financial risk management objectives and policies (cont'd.)

#### (c) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group'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.

#### Analysis of financial instruments by remaining contractual maturities

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

	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
<b>2018</b>				
<b>Group</b>				
<b>Financial liabilities</b>				
Trade and other payables	1,024,355	-	-	1,024,355
- Interest	3,098	1,394	-	4,492
Loans and borrowings				
- Principal	180,579	40,000	-	220,579
- Interest	34,651	3,430	-	38,081
Derivative liability	193	-	-	193
Total undiscounted financial liabilities	<u>1,242,876</u>	<u>44,824</u>	<u>-</u>	<u>1,287,700</u>
<b>Company</b>				
<b>Financial liabilities</b>				
Trade and other payables	350,578	-	-	350,578
- Interest	3,098	1,394	-	4,492
Total undiscounted financial liabilities	<u>353,676</u>	<u>1,394</u>	<u>-</u>	<u>355,070</u>

### 38. Financial risk management objectives and policies (cont'd.)

#### (c) Liquidity risk (cont'd.)

##### Analysis of financial instruments by remaining contractual maturities (cont'd.)

	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
<b>2017</b>				
<b>Group</b>				
<b>Financial liabilities</b>				
Trade and other payables	1,024,355	-	-	1,024,355
- Interest	3,642	-	-	3,642
Loans and borrowings				
- Principal	246,257	20,105	-	266,362
- Interest	24,341	1,117	-	25,458
Derivative liability	121	-	-	121
Total undiscounted financial liabilities	<u>1,298,716</u>	<u>21,222</u>	<u>-</u>	<u>1,319,938</u>
<b>Company</b>				
<b>Financial liabilities</b>				
Trade and other payables	359,164	-	-	359,164
- Interest	3,642	-	-	3,642
Total undiscounted financial liabilities	<u>362,806</u>	<u>-</u>	<u>-</u>	<u>362,806</u>

#### (d) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

### 38. Financial risk management objectives and policies (cont'd.)

#### (d) Interest rate risk (cont'd.)

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

##### Exposure to interest rate risk

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at end of the reporting date was:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Fixed rate instruments</b>		
Financial assets	8,998	11,685
Financial liabilities	<u>(56,385)</u>	<u>(86,504)</u>
	<u>(47,387)</u>	<u>(74,819)</u>
<b>Floating rate instruments</b>		
Financial liabilities	<u>(164,194)</u>	<u>(179,858)</u>

##### Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the Group's loss net of tax would have been RM0.12 million (2017: RM0.14 million) lower/higher, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

#### (e) Foreign currency risk

The Group and the Company are exposed to foreign currency exchange risk as a result of the foreign currency transactions entered into by the Group and the Company in currencies other than its functional currency. As these transactions are mainly denominated in USD, the Group's and the Company's foreign currency exchange risk is primarily due to USD. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

### 38. Financial risk management objectives and policies (cont'd.)

#### (e) Foreign currency risk (cont'd.)

The Group and the Company maintain 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 their investments.

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

	Group Net financial liabilities/(assets) held in non-functional currencies USD		Company Net financial liabilities/(assets) held in non-functional currencies USD	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Functional currency	<u>(69,028)</u>	<u>(65,982)</u>	<u>-</u>	<u>42</u>

#### Sensitivity analysis for foreign currency risk

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

		Group Loss, net of tax RM'000	Company Loss, net of tax RM'000
<b>2018</b>			
USD/RM	- strengthened 3%	(2,071)	-
	- weakened 3%	<u>2,071</u>	<u>-</u>
<b>2017</b>			
USD/RM	- strengthened 3%	(1,979)	1
	- weakened 3%	<u>1,979</u>	<u>(1)</u>

### 38. Financial risk management objectives and policies (cont'd.)

#### (f) Market price risk

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

The Group and the Company are exposed to equity price risk arising from their investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Main Market of Bursa Securities. These instruments are classified as available-for-sale financial assets.

To manage its market price risk arising from investments in quoted equity instruments, the Group and the Company diversify and manage their portfolio in accordance with established guidelines and policies.

#### Sensitivity analysis for equity price risk

At the reporting date, if the Group's and the Company's quoted investments listed on the Bursa Securities had been 2% higher/lower, with all other variables held constant, the Group's other reserve in equity would have been RM0.7 million (2017: RM0.9 million) and RM0.7 million (2017: RM0.9 million) higher/lower respectively, arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale.



### 38. Financial risk management objectives and policies (cont'd.)

#### (g) Categories of financial instruments

In addition to the financial instruments classified as held-to-maturity investments, AFS financial assets and financial assets and liabilities at fair value through profit or loss disclosed in their respective notes, the table below provides an analysis of financial instruments categorised as follows:

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

	Note	Carrying amount RM'000	L&R RM'000	OL RM'000
<b>At 30 June 2018</b>				
<b>Group</b>				
<b>Financial assets</b>				
Trade and other receivables	20	178,356	178,356	-
Cash and bank balances	22	166,417	166,417	-
		<u>344,773</u>	<u>344,773</u>	<u>-</u>
<b>Financial liabilities</b>				
Loans and borrowings	27	(220,579)	-	(220,579)
Trade and other payables	30	(1,024,355)	-	(1,024,355)
		<u>(1,244,934)</u>	<u>-</u>	<u>(1,244,934)</u>
<b>Company</b>				
<b>Financial assets</b>				
Other receivables	20	92,655	92,655	-
Cash and bank balances	22	16,066	16,066	-
		<u>108,721</u>	<u>108,721</u>	<u>-</u>
<b>Financial liability</b>				
Other payables	30	<u>(350,578)</u>	<u>-</u>	<u>(350,578)</u>

### 38. Financial risk management objectives and policies (cont'd.)

#### (g) Categories of financial instruments (cont'd.)

In addition to the financial instruments classified as held-to-maturity investments, AFS financial assets and financial assets and liabilities at fair value through profit or loss disclosed in their respective notes, the table below provides an analysis of financial instruments categorised as follows: (cont'd.)

	Note	Carrying amount RM'000	L&R RM'000	OL RM'000
<b>At 30 June 2017</b>				
<b>Group</b>				
<b>Financial assets</b>				
Trade and other receivables	20	74,807	74,807	-
Cash and bank balances	22	341,646	341,646	-
		<u>416,453</u>	<u>416,453</u>	<u>-</u>
<b>Financial liabilities</b>				
Loans and borrowings	27	(266,362)	-	(266,362)
Trade and other payables	30	(1,131,033)	-	(1,131,033)
		<u>(1,397,395)</u>	<u>-</u>	<u>(1,397,395)</u>
<b>Company</b>				
<b>Financial assets</b>				
Other receivables	20	162,841	162,841	-
Cash and bank balances	22	8,057	8,057	-
		<u>170,898</u>	<u>170,898</u>	<u>-</u>
<b>Financial liabilities</b>				
Other payables	30	<u>(359,164)</u>	<u>-</u>	<u>(359,164)</u>

### 39. Capital management

The primary objective of the Group's and of the Company's capital management is to ensure that it maintains the Group's and the Company's stability and liquidity to meet the demands of creditors and lenders.

The Group and the Company regularly review and manage their capital structure and make adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2018 and 30 June 2017.

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loans and borrowings (Note 27)	<b>220,579</b>	266,362	-	-
Trade and other payables (Note 30)	<b>1,024,355</b>	1,131,033	<b>350,578</b>	359,164
Less: Cash and bank balances (Note 22)	<b>(166,417)</b>	(341,646)	<b>(16,066)</b>	(8,057)
Net debts (A)	<b>1,078,517</b>	1,055,749	<b>334,512</b>	351,107
Equity attributable to owners of the Company (B)	<b>(482,634)</b>	(437,901)	<b>(157,602)</b>	(81,496)
Total capital and net debts (C = A+B)	<b>595,883</b>	617,848	<b>176,910</b>	269,611
Gearing ratio (A/C)	<b>181%</b>	171%	<b>189%</b>	130%